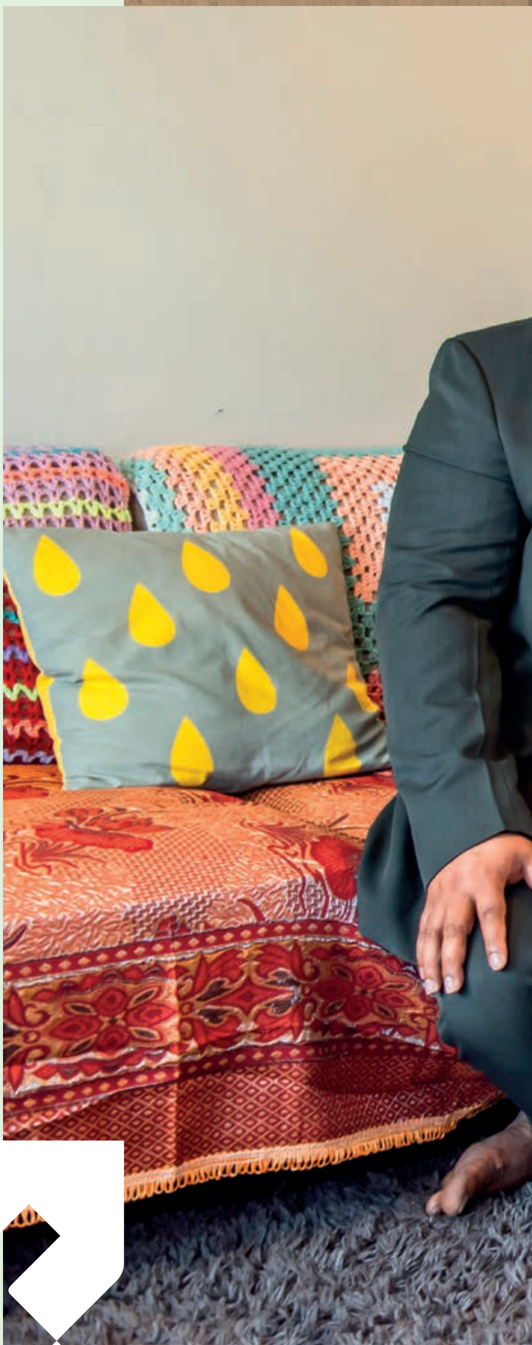
Tauākī Whāinga Mahi
Statement of Performance Expectations

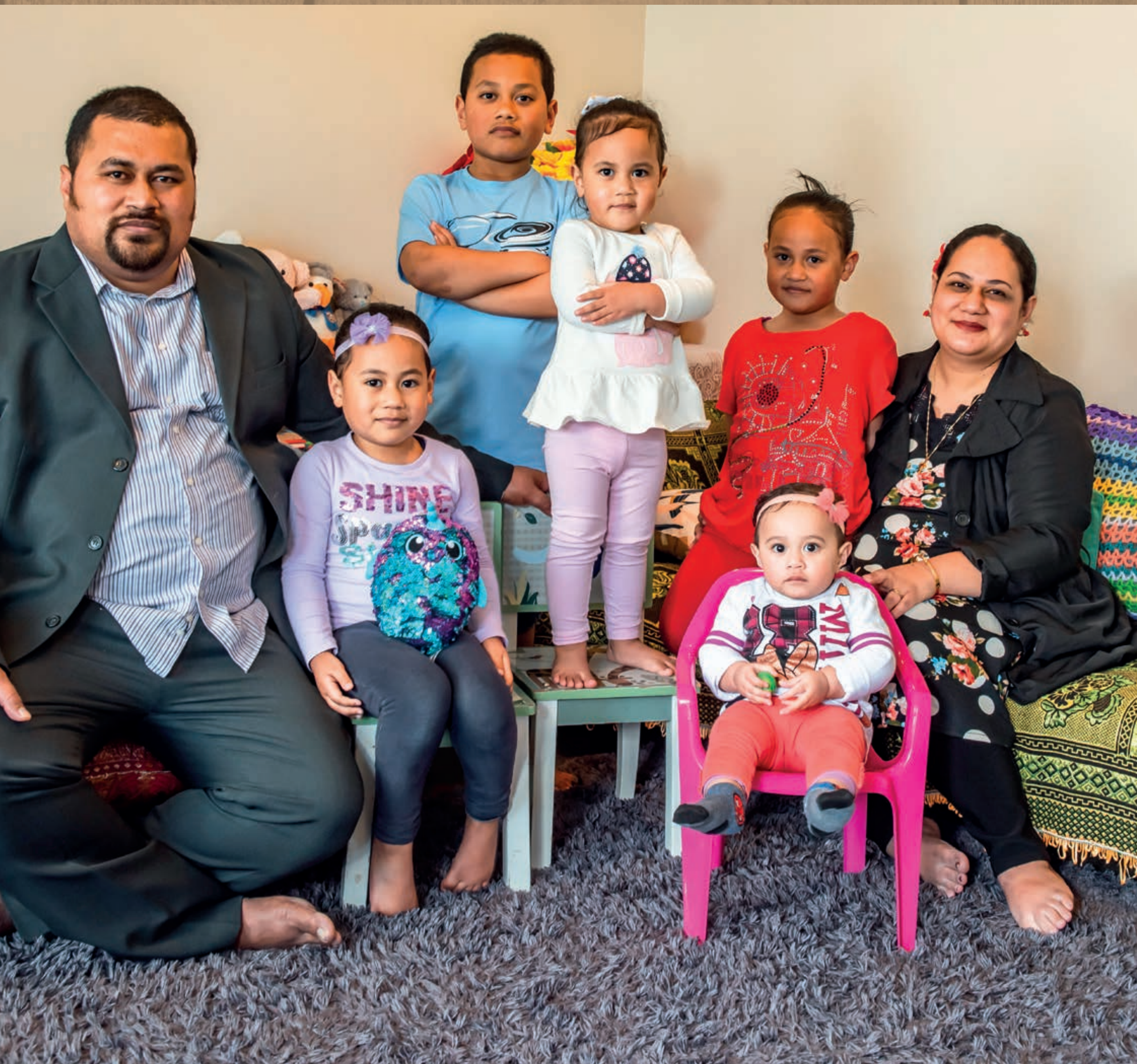
2019 ▸ 2020

Kāinga Ora
Homes and Communities

Kāinga Ora – Homes and Communities is the country's largest residential landlord.

Approximately 180,000 people live in our homes – almost 4 percent of New Zealand's resident population.




SHINE

Contents

Tauākī Whakamaunga Atu
Statement of responsibility

Kāinga Ora – Homes and Communities is a Crown entity operating in accordance with the Kāinga Ora –Homes and Communities Act 2019 and the Crown Entities Act 2004. It has two subsidiaries, Housing New Zealand Limited and Housing New Zealand Build Limited, which are limited liability companies required to comply with the Companies Act 1993.

The information contained in the 2019/20 Statement of Performance Expectations for Kāinga Ora – Homes and Communities has been prepared in accordance with the Crown Entities Act 2004.

In signing this statement, we acknowledge our responsibility for the information contained in it, and confirm the appropriateness of the assumptions underlying the prospective operations and financial statements of Kāinga Ora – Homes and Communities.

The information contained in this Statement of Performance Expectations is consistent with existing appropriations.

Signed:

Vui Mark Gosche
Chair on behalf of the Board
7 February 2020

Countersigned:

John Duncan
Deputy Chair
7 February 2020

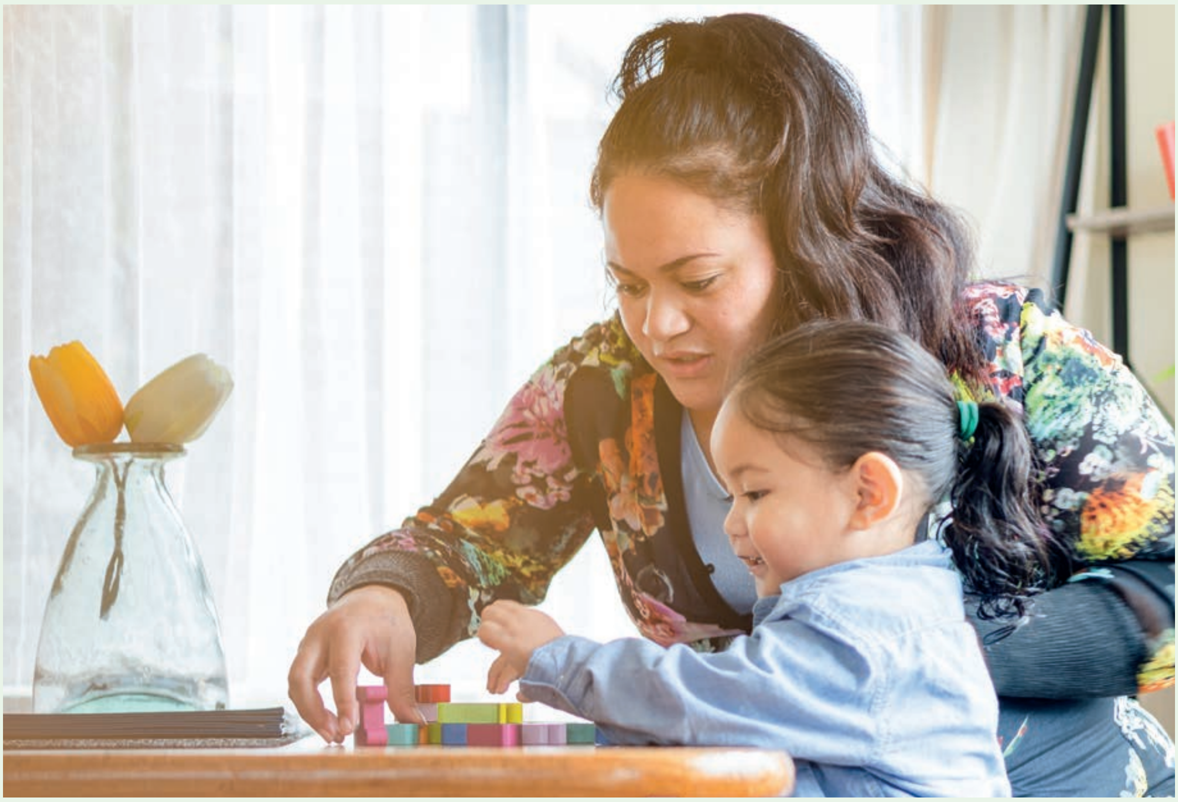
Introduction

Kāinga Ora – Homes and Communities was established on 1 October 2019, bringing together the functions of the previous key housing delivery agencies – Housing New Zealand (including its subsidiary HLC) and KiwiBuild.

Kāinga Ora's first Statement of Performance Expectations (SPE) sets out our operational and financial performance expectations for the 2019/20 financial year from the date of the organisation's establishment.

This document has been produced to meet Kāinga Ora's legislative requirement outlined in the Crown Entities Act to prepare an SPE "as soon as practicable" after establishment as a new entity, and its ministerial requirement to produce an SPE within four months of the disestablishment of Housing New Zealand.

Our SPE is a companion document to our four-year Statement of Intent (SOI). Our SOI outlines in greater detail our role and the key factors influencing the way we will operate over the medium term. Our SPE provides an annual view of performance expectations against the medium-term intentions in our SOI.



About Kāinga Ora

Kāinga Ora is a new Crown agency established on 1 October 2019.

Kāinga Ora brings together the people, capabilities and resources of the KiwiBuild Unit, Housing New Zealand and its development subsidiary HLC. The new entity will provide a more joined-up approach to delivering the Government's housing and urban development priorities.

The establishment of Kāinga Ora represents the biggest institutional and legislative change to housing and urban development for a generation. It follows on from the recent establishment of the Ministry of Housing and Urban Development (HUD) to bring together fragmented responsibilities and resourcing and provide a single point of accountability for housing and urban development within central government.

In recent years there have been significant changes across the housing sector. Our legacy agencies have managed these changes through a strategy-driven and outcomes-focused approach to delivery.

We will build on this work through our broad role to deliver a step change in housing and urban development. This ensures we are equipped to deliver on the Government's ambitious housing priorities, with the right capabilities to tackle New Zealand's current and future housing challenges.

We are well set up to deliver on the Government's priorities and our commitments and have solid foundations on which to build Kāinga Ora's future success.

The Ministers' expectations for 2019/20

The Minister of Housing's Letter of Expectations, and the Minister of Finance and Minister of State Services' Enduring Letter of Expectations for Statutory Crown Entities set out the Government's direction for Kāinga Ora.

They embed a focus on wellbeing, taking a whole of government approach, looking at intergenerational outcomes and moving beyond narrow measures. Key expectations are that Kāinga Ora will:

Support Government's key priorities

- Provide world class public housing to ensure good quality, warm, dry and healthy rental housing.
- Place tenants, their whānau and families at the centre of what we do, treating them with respect, integrity and honesty, and supporting them to be well connected to their communities.
- Prevent and reduce homelessness and reduce reliance on motels as emergency housing.
- Deliver quality state houses in line with Budget 2018 decisions and play a key role in implementing the Government's build programme, to deliver more affordable housing and to make affordable housing more widely available through additional support to households.
- Facilitate large urban development projects to deliver homes where they are needed and where they are not being provided by the private market, to ensure a diverse mix of public, affordable and market housing.
- Work through partnerships and collaboration and play the role expected of a Treaty partner to protect and enhance Māori interests.
- Build partnerships and collaborate with others to deliver on housing and urban development opportunities, including working with iwi, Māori land owners, community housing providers, private developers, and local councils.

Build the foundations for future success

- Develop a strong working partnership with HUD and ensure our strategies and operating model are in full alignment with the Government's housing priorities.
- Work with HUD to review our current and long-term funding and financing requirements to ensure we will deliver the Government's housing priorities.

Further direction will be issued to Kāinga Ora via an updated Letter of Expectations in 2020. This will guide development of our next set of accountability documents, including our Statement of Performance Expectations 2020/21.

Our priorities for 2019/20

We will respond to the Government's expectations

The Minister of Housing's expectations for Kāinga Ora frame the context of our priorities as a new entity for the 2019/20 financial year. During our first year of operation we will focus on getting up and running as a new entity and laying the foundations to become a world-class public housing provider and a leader in urban development.

We will work in close partnership with HUD and a range of government and community agencies to address the increasing number of people who are homeless. Kāinga Ora will play a critical role in supporting the Government's goal of ending homelessness, collaborating to design prevention initiatives to stop homelessness from occurring, and ending reliance on motels as emergency housing.

We will deliver an increased supply of quality state, transitional and supported houses and will play a key role in implementing the Government's build programme, to increase the supply of and access to affordable housing. This includes delivering to the Governments public housing build target, and maintaining momentum on existing large scale housing and urban development projects.

We will build strong partnerships and collaborate with others to identify and deliver on housing and urban development opportunities and priorities, including local communities, councils, Māori and mana whenua, private developers, community housing providers, infrastructure providers and others.

A key priority will be to build our capabilities to partner with and for Māori. Through partnerships we will contribute to protecting Māori interests and enabling Māori aspirations in housing and urban development.

Across all areas of our work we will embed a wellbeing approach to contribute to the economic, social and cultural wellbeing of our tenants, whānau and families, and contribute to sustainable, inclusive and thriving communities.

We will honour our commitments

Together with our Minister's expectations, we will focus on achieving our short to medium term commitments, which reflect our intention to improve the outcomes for our customers and communities as well as to increase the pace and scale of public housing. We will look at these in the coming year to ensure they reflect the Government's priorities and direction for Kāinga Ora. For the 2019/20 year these commitments are:

- increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions
- increase the pace and scale of land and housing supply
- reduce our cost of building and, in turn, ensure our financial sustainability
- optimise the management, maintenance and renewal of our homes
- strengthen the performance of the housing sector
- be a high-performing organisation.

We are committed to innovation

To achieve the above, we are committed to innovation across many areas of our business. The scale of Kāinga Ora's land holdings, property portfolio, financial resources, and investment programme also provides a significant opportunity to encourage innovation and improve efficiency in the wider housing and urban development sectors through our longer-term investment horizons.

Off-site manufacturing, an innovative construction method adopted as part of our Innovate, Partner, Build programme, is one area where we can have greater impact. The use of proven manufacturing techniques will allow faster, safer and more predictable procurement, and save time and cost of delivery. Through building our off-site manufacturing capability and capacity, we can in turn positively influence growth in the construction sector and lower construction-based carbon emissions. A more regional approach to our build programme will help contribute to regional economic development.

As a partnership-focused organisation, we will also leverage our influence and resources to enable a step change in the scale of the Government's housing and urban development programme.

Our focus on building sustainable, inclusive and thriving communities will see us lead by example in the transition to a clean and sustainable economy. Our leadership and practices, underpinned by a commitment to innovation, will improve outcomes for our customers, whānau, and communities, making a positive impact on the wider housing and urban development sector.

Our activity for 2019/20 to achieve our commitments is described in greater detail in the following pages.

Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions

For our customers to live well with dignity and stability in their homes, it is essential for us to focus on understanding their needs and take a tailored, customer-focused approach to tenancy management. Kāinga Ora – Homes and Communities will put customers' diverse needs at the centre of our decisions and actions. Understanding our current and future customers will shape the decisions we make today about the types of homes and communities we build, and the way we deliver services. We acknowledge the role the community and other social services play in supporting our customers to live well in, and connect with, their communities.

What will we do in 2019/20?

Contribute to the prevention of homelessness

Kāinga Ora plays a critical role in supporting the Government's goal of ending homelessness through its provision of public and transitional housing supply. We are working collaboratively as part of the cross-agency homelessness working group to identify supply options to reduce the reliance on motels as emergency accommodation and design prevention initiatives to stop homelessness from occurring.

Kāinga Ora will increase the supply of quality transitional or public housing in the six identified hotspot locations – Northland, Auckland, Hamilton, Rotorua, Napier/Hastings and Wellington. Work is underway to identify additional supply options for delivery for winter 2020. This includes evaluating land options that can be used to build temporary housing villages and identifying potential property acquisitions.

We will work with funders and service providers to increase the number of supported housing places available to high-need customers.

'Supported housing' refers to housing that is integrated with social and health support services to enable customers to live well in their homes. This includes through:

- single-site supported housing for specific target groups (such as chronic and episodic homeless)
- Community Group Housing
- transitional housing (including for ex-prisoners who are reintegrating into the community, and at-risk youth).

TYPES OF SUPPORTED HOUSING

Single-site supported housing

Single-site supported housing is a successfully proven model that combines housing with services that assist people with a history of homelessness to sustain their tenancy and address the underlying causes of their homelessness. All of the supported housing and support services are located in one building, which promotes increased access and contact between tenants and staff, peer support, and efficient service delivery.

There is a supply shortage of single-site supported housing in New Zealand, but Kāinga Ora is taking steps to grow a portfolio in Wellington and Auckland, where there are high levels of homelessness compared with other parts of New Zealand. There are currently up to 270 single-site permanent supported housing units in the construction pipeline:

- 139 Greys Avenue redevelopment and Lower Greys Avenue (existing building) in Auckland's city centre, which is estimated to deliver up to 250 apartments (up to 80 for chronic and episodic homeless) by the end of 2022
- A multi-unit development in Rolleston Street, Wellington, which is estimated to deliver 20 units by 2021.

Community Group Housing

Our Community Group Housing (CGH) provides housing solutions to eligible groups in New Zealand such as organisations that provide residential community housing to people with specialised housing needs. These groups work with people who experience mental illness; people who have physical and intellectual disabilities; women, men and children seeking refuge; families, including those with emergency housing needs; youth and children at risk; ex-prisoners reintegrating into society; and people who require residential alcohol and drug services.

The groups are responsible for managing their residents and their day-to-day needs. Kāinga Ora makes sure the properties remain fit for purpose for the duration of a group's tenancy and stays in regular contact with groups to ensure they can continue providing their service from their tenancy.

Transitional housing

We are a member of the Government's cross-agency Transitional Housing Programme, led by HUD, which aims to ensure there is a sufficient supply of transitional housing across the country. Our role in this cross-agency team is to supply a portion of the additional transitional housing required in specific locations across the country. The housing we supply provides a place for families to stay while their needs can be understood and addressed, and longer-term sustainable accommodation can be found.

We lease the properties to service providers who are contracted by HUD to manage the properties and the people living in them. Service providers work with the families living in transitional homes to put in place tailored support services to help them move forward. This can include budgeting advice or social services, depending on identified need. This support can last for up to three months while they are living in the transitional home and a further three months once they are placed into permanent housing.

Improve outcomes for Māori

We have a diverse cultural and ethnic customer base and a significant proportion of our customers identify themselves as Māori. We engage with iwi as a key part of supporting the Crown's commitment to the Treaty of Waitangi. To improve outcomes for Māori customers and their whānau, as well as iwi across New Zealand, we will:

- participate in Right of First Refusal in accordance with the standard operating procedure for Kāinga Ora, including upholding Iwi Right of First Refusal where it has been granted over Kāinga Ora land
- have early and repeated engagement with iwi and consultation with relevant agencies where our activity intersects with iwi and Māori interests
- protect and enable Māori rights, interests and aspirations through our urban development activities
- enable the development of the whenua in accordance with Māori aspirations while protecting heritage and the natural environment
- work with HUD to develop a Māori Work Plan, including a refreshed Māori Housing Strategy, which will inform our engagement with local Māori, iwi and hapū groups
- work with HUD and Te Puni Kōkiri to help deliver the Government's objectives for Māori housing, including exploring solutions for home ownership on Māori-owned land
- consider ways to ensure our property designs take cultural sensitivities into account
- work with the Papaioea Housing Alliance and Te Puni Kōkiri to provide home ownership opportunities to whānau in the Te Tihi pilot through Te Ara Mauwhare – Pathways to Home Ownership
- work with agencies and community groups to address key barriers to housing for Māori and identify opportunities to improve overall wellbeing of whānau in our homes through a range of initiatives in communities around New Zealand
- use our family link specialists to find suitable potential apprentices to connect to providers in an apprenticeship pilot for Māori youth living in our homes
- refine and deliver a Māori Opportunities Model, which will allow us to work with our mana whenua partners to articulate collective goals for Māori housing, and urban and community development, and work in partnership towards these.

Partner with other social sector agencies to enhance performance

Strengthening our relationships with agencies that play a key role in our customers' communities will allow us to deliver good outcomes for our customers and demonstrate best practice in the housing sector. In 2019/20 Kāinga Ora will develop a partnering and engagement strategy to ensure we succeed in our role and fulfil the Government's priorities for housing and urban development.

We will look for opportunities to partner and collaborate with social sector agencies that can help our customers, and will strengthen existing relationships, or create new relationships, with:

- Oranga Tamariki
- Ministry for Pacific Peoples
- Ministry of Health
- Accident Compensation Corporation (ACC)
- Department of Corrections
- New Zealand Police
- Local Government New Zealand
- Royal New Zealand College of General Practitioners
- Commission for Financial Capability
- Electricity Retailers' Association of New Zealand
- Society for the Prevention of Cruelty to Animals (SPCA).

Implement our Customer Programme

- **Through our Customer Programme we will develop and begin implementing a new service model to:**
  - improve the services and support we provide to our customers and work more closely with communities
  - develop appropriate approaches to support customers with different types of needs. For example, we will investigate alternative housing designs for large or intergenerational families and continue to provide our Intensive Tenancy Management service.
- **Evaluate our Intensive Tenancy Management service, Te Waka Urungi**

  Our Intensive Tenancy Management service, Te Waka Urungi, will work with customers with high and complex needs to help them access the support they need to live well in their homes and communities. In 2019/20 we will evaluate its effectiveness and use this information to improve our approach to helping customers to sustain their tenancies.

- **Align our operational policies with our Customer Strategy and other organisational objectives**
  In 2019/20 we will translate our Customer Strategy and other organisational objectives into our operational-level policies to support our customers to sustain their tenancies. This includes work in the operational policy areas of:
  - **Addiction and drug-related harm**
    We view drug use as primarily a health and addiction issue and are developing a policy that supports our customers to achieve wellbeing outcomes rather than penalising them. In 2019/20 we will extend existing work on dealing with methamphetamine to other drug and alcohol addiction issues, to develop a clear operational policy and guidelines for our people.
  - **Pets**
    We are taking an empathetic approach to pet ownership and will allow customers to have a pet in their homes subject to certain conditions. In 2019/20 we will monitor the impact of this and provide any further training needed for our frontline people in this area.
  - **Accessibility**
    We understand the importance of physical accessibility in homes for our customers with mobility issues. In 2019/20 we will:
    - finalise an accessibility policy for Kāinga Ora's public homes, and start implementing it, monitoring it and engaging on it regularly with customers and stakeholders
    - set appropriate targets for the number of our homes that meet universal design standards incorporating features that suit more people for longer
    - apply findings from our Retrofit pilot to develop an appropriate approach to accessibility issues for our existing properties
    - work with funders for modification and provide bespoke solutions to our Community Group Housing tenants
    - improve information about customer needs and the accessibility of our properties.
  - **Complaints**
    We are reviewing our approach to managing complaints and feedback and will create a standard framework across all types of complaints and all areas of the business. This means developing a complaints policy and processes that align with best practice and are effective for both customers and staff.

Develop and implement our Community Strategy

Kāinga Ora has a significant impact on how communities function through the way we serve our customers, particularly in concentrated clusters of high-deprivation communities, and also through the scale of our redevelopment and asset regeneration programmes. At the same time, communities can play a significant role in helping us to support our customers to live stable and connected lives.

During 2019/20 we will begin to implement a Community Strategy that will promote wellbeing by contributing to communities being thriving and resilient, where people live safe, empowered and connected lives. The strategy will guide our level of service and investment in communities.

Offer MyKāingaOra

We want to support our customers' sense of independence by giving them access to their personal information anytime, and increasing their contact choices by providing another channel to interact with us. We have developed a tool called MyKāingaOra, which will allow customers to complete basic queries and functions online. MyKāingaOra will free up our Customer Support Centre to make more proactive care calls and offer increased tenancy services.

In 2019/20 we will add more functionality to the tool to allow for information sharing on a wider range of services for our customers.

Over the longer term, MyKāingaOra will enable us to participate in the digital transformation across government agencies to deliver better services to New Zealanders.

Increase the pace and scale of land and housing supply

Housing demand remains high and affordability is still a challenging issue in New Zealand. In response, we are making it a priority to increase our supply of new housing and release land, particularly in areas with significant affordability challenges, to deliver state housing and enable affordable housing. We will achieve this by delivering our Innovate, Partner, Build programme and our long-term strategic asset and financial planning activities. We will enhance community outcomes as part of our large-scale redevelopment programmes. We are also looking to use highly efficient construction methods to contract with build partners in ways that will support delivery at scale.

What will we do in 2019/20?

Increase the pace and scale of delivery

- **Implement multi-year construction partnering agreements**

  Kāinga Ora is signing up to 'construction partnering agreements' with suppliers – giving them multi-year contracts to build a set number of homes each year, rather than contracting from project to project. Providing greater certainty of future work will give the firms we work with a sound basis on which to innovate and expand their operations to match our growing build programme.

- **Use offsite manufacturing**

  'Offsite manufacturing' refers to the manufacture of building components or buildings away from the final building site. We have developed a clear process for offsite manufacturing as a construction method. This will allow faster, safer and more predictable procurement, and save time and cost of delivery.

  We will look for potential partners and develop the capacity and capability of the 'Offsite Manufactured Solutions Panel' from which we source our supply.

  We will use robust criteria and evaluation mechanisms to ensure the building materials and methods we select match our requirements and meet building codes in all respects.

- **Work with councils to streamline consent processes**

  Kāinga Ora has achieved Qualified Partner status with the Auckland Council, and this is streamlining our consenting process in the Auckland region. We are making progress on a medium-term initiative to streamline the building consent process, including for offsite manufactured buildings and building components. This will enable a faster approval process for our standardised products.

Deliver large-scale work through a master-planned approach

Kāinga Ora is leading large-scale development projects on behalf of the Crown, including those in Auckland and Porirua. In Auckland, we will deliver more homes in Point England, Panmure and Glen Innes in partnership with Tāmaki Regeneration Company, as well as assisting with and consulting on other large-scale redevelopment projects, such as the development on land formerly owned by Unitec.

Large-scale programmes include:

- Northcote
- Mt Roskill
- Eastern Porirua
- Hobsonville Point
- Roskill South
- Owairaka
- Oranga
- Mangere
- Tamaki

This work is not just about numbers of homes. These projects will create improved infrastructure and amenities and will strengthen and connect neighbourhoods and communities. In 2019/20 Kāinga Ora will:

- refine and deliver comprehensive place-making and community development strategies
- work with our Alliance Partner, Piritahi, in delivering large-scale civils and infrastructure and site remediation work in Auckland
- refine our spatial delivery strategy and carry out comprehensive community surveys to help us articulate the impact of redevelopment activities on residents' and communities' wellbeing.

OUR STORIES

What is happening in Porirua?

Eastern Porirua

Kāinga Ora will be leading the regeneration of Eastern Porirua to replace approximately 2,000 outdated state houses with around 4,000 homes, including state, affordable and market homes.

We will be working alongside the community, the Porirua City Council and the local iwi, Ngāti Toa Rangatira, to achieve positive shared outcomes for the community, such as improved infrastructure, more connected neighbourhoods, increased opportunities for home ownership, and better amenities.

Up to $1.5 billion in government funding is expected to be spent over the project life on making Eastern Porirua a better place to live, work and raise a family. A full business case for the Eastern Porirua Regeneration Project will be developed by the end of 2019/20.

Western Porirua

Kāinga Ora and Ngāti Toa have entered into a 25-year lease arrangement for Western Porirua properties. This will enable Ngāti Toa to establish themselves as a community housing provider, to deliver the tenancy and property management services for that area.

Continue our large-scale redevelopment programmes

We have a number of large-scale housing developments underway across different parts of the country. Our largest and most notable redevelopment projects are in Auckland and include Northcote, Mt Roskill, Mangere, Greys Avenue in central Auckland, and McLennan in Papakura. These programmes will deliver a combination of state, affordable and market homes.

Support the delivery of affordable housing

Kāinga Ora will support the Government's housing agenda by increasing land supply for affordable and market housing. We will support the delivery of affordable housing through the KiwiBuild programme, including through underwriting the construction of affordable homes. KiwiBuild homes will be delivered both by the private sector and by building directly on Kāinga Ora land (as with our McLennan development in Papakura, for example). The focus for the provision of KiwiBuild homes will be Auckland and other centres of high demand. We will provide land in appropriate areas and housing that aligns with market demand.

Supply transitional housing

In addition to delivering our own build programmes, we will acquire and build new homes as part of the Government's cross-agency Transitional Housing Programme led by HUD.

Seek financing through bond issuance

To raise finance to develop new homes across the country, we issue bonds to wholesale investors. In December 2019 the Minister of Housing and the Minister of Finance agreed to increase the debt limit of Kāinga Ora from $3.7 billion to $7.1 billion to enable its forecast activities through to June 2021. While we do not anticipate any additional increase in debt limit being required to meet costs associated with our 2019/20 programme, we are currently working with HUD and Treasury officials on our medium-long term funding and financing arrangements for each of our main areas of activity. This is to enable the Ministers to make decisions on our medium-term debt limit and profile over time, and to ensure a sustainable level of debt relative to the asset base and projected income levels. We plan to present this advice to the Ministers before the end of the 2019/20 financial year.

OUR STORIES

What is happening in Greys Ave?

Kāinga Ora is redeveloping 139 Greys Avenue in central Auckland. The existing building on the site is now at the end of its life and no longer meets the needs of our customers, but is ideally located for its connection to support services in Auckland's city centre. It will be redeveloped between now and 2022 to create a supportive and connected inner-city housing environment consisting of 276 apartments, with at least 200 retained as state homes. The building will also include 24/7 onsite wrap-around support services for our customers.

During 2019/20 we plan to complete the demolition of the existing building and commence construction of the new building. We are working closely with key government agencies, non-profit organisations and international experts, as well as our customers and neighbours as our plans for Greys Avenue progress.

Reduce the cost of building and, in turn, ensure our financial sustainability

While pressure on housing affordability continues, we need to focus on working more efficiently to ensure the scale of change required to our housing stock is financially viable and sustainable over the long term. Reducing our construction costs is vital for our investment in new homes to meet the required return rates and sustain our build activities. This priority also helps us demonstrate to the sector how to achieve cost and other efficiencies, providing an opportunity to partner with the sector to find the best ways of achieving asset delivery at scale and pace. We will drive down our build costs through the Innovate, Partner, Build programme. This includes exploring new and innovative solutions so we are well positioned to contribute to the overall stock of housing.

What will we do in 2019/20?

Reduce build costs and promote innovation

We will focus on leveraging the scale of our build programme to reduce cost and promote innovation in the design, procurement and delivery of homes.

- **Use standardised design**

  We are currently using our standardised designs in new home development, particularly as part of the construction partnering agreements. The next step will be to develop our approach towards standardised designs for walk-ups and apartments.

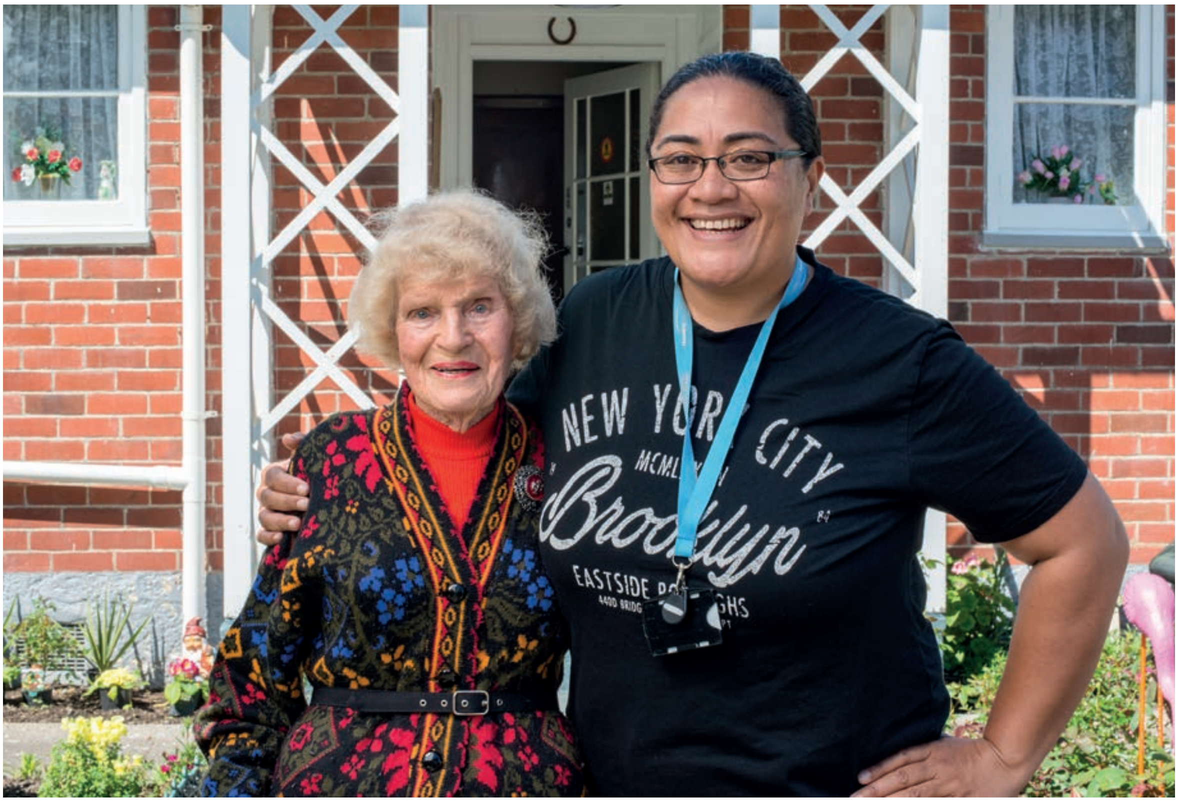
- **Reduce cost through volume contracts for materials**

  We have commenced market sounding with materials suppliers and will look to move to high-volume contracts for key materials based on our long-term build programme. We will also encourage our material suppliers to grow in capacity, capability and innovation.

- **Build better homes through technology and innovation**
  - Experience has shown that hybrid cross-laminated timber (CLT) technology, has significant advantages over some conventional building systems, particularly in terms of health and safety, and delivery times. We will pilot well-established, mature technologies, such as CLT and closed wall panel systems in our Rehmix R&D programme, to meet our overall technical and commercial requirements.
  - Our Rehmix R&D programme aims to optimise the amenity, design, delivery and lifecycle outcomes of our CLT buildings through the use of Design for Manufacture and Assembly (DfMA) methodologies, digital collaboration processes and built environment modelling tools. We are working closely with the industry to deliver the programme collaboratively. During 2019/20 demonstration pilots will be used to test the outcomes from the research.
  - We will investigate the feasibility of using manufactured bathrooms for various typologies in our build programme and plan to pilot the use of this modern method of construction.
  - We will refresh and enhance the suite of tools available to staff when scoping, designing and delivering projects where there are poor ground conditions and lightweight buildings, and will adopt innovative new foundation systems.
  - We will also identify other innovative products and building technologies.

Maximise the potential of our build cost data

Over 2019/20 we will learn more about the build cost information we are able to capture, and will develop performance reporting and benchmarking to help us understand various cost drivers and assist with delivery decisions. The information may also support knowledge transfer across the wider housing industry.



Optimise the management, maintenance and renewal of our homes

As one of the public sector's largest asset holders, we need to manage our homes effectively to ensure they are financially sustainable and well matched to our customers' needs. This means maintaining and renewing our homes so they are warm, safe and dry for our customers and aligned with the Government's housing standards. The way we manage our homes also needs to keep up to date with our customers' changing needs to improve the efficiency of our operations.

What will we do in 2019/20?

Comply with new healthy homes standards

On 1 July 2019 the Government's new healthy homes standards to ensure rental properties in New Zealand are warm and dry for tenants became law. Kāinga Ora and community housing providers must comply with the standards by 1 July 2023. The new standards exceed the building code in some areas, such as heating. As New Zealand's biggest public housing provider it is critical that we lead the sector by example and we have a significant work programme in place starting in 2019/20 to bring our portfolio up to the new standards.

As part of this, we will work to ensure our homes are capable of achieving the World Health Organization standard of 18°C for indoor air temperature.

Implement Maintenance 2020

We want to ensure our maintenance programmes are efficient and allow greater flexibility to meet the needs of our customers. Our Maintenance 2020 programme will provide an effective maintenance and repair service to our customers to ensure our homes are warm, dry, safe and well maintained. This will be developed over the 2019/20 year, ready for delivery in mid-2020.

Comply with the Residential Tenancies Act

We will implement any changes required by the Residential Tenancies Amendment Bill No 2, and will provide input to agencies as they develop broader legislative reform of the Residential Tenancies Act.

Roll out our Retrofit programme

Our Retrofit programme seeks to sustainably retrofit our homes, effectively resetting their lifecycle at a lower initial cost than a complete rebuild. This programme also includes service-level upgrades, particularly focused on making the thermal performance of the properties as close as possible to the new build and Homestar 6 standards, to be able to maintain an indoor air temperature in line with the World Health Organization's recommendation and ensure the sustainability of our homes.

Stage One of the programme will cover 1,500 to 2,000 homes over the next three years. We will evaluate the lessons learned from retrofitting these homes before rolling out our programme more broadly across the country. Expenditure has been approved for 2019/20 and we are currently considering the role of the Retrofit programme as part of Kāinga Ora's interim Long Term Investment Plan. This will require consideration by our Ministers.

Improve fire safety in homes

We are investigating ways to improve fire safety in our homes. A Memorandum of Understanding signed with Fire and Emergency New Zealand is allowing us to work more closely together, underpinning our mutual interest and commitment to wellbeing and safety in relation to fires.

We are working to ensure that we have comprehensive data on fire incidents at Kāinga Ora properties and can use this information to improve our training and awareness programmes. Qualitative research will be conducted to understand the experience of customers who have had fires in their homes and identify what else we can do to support them to be safe in their homes.

In addition, we are working with Fire and Emergency New Zealand to identify the next generation of fire safety interventions and to assess potential options for Kāinga Ora properties.

Explore new technologies to improve management and maintenance

- Smart homes

  We have piloted the use of sensors in our properties to measure their humidity, temperature and air quality performance. The sensors will assist in evaluating and understanding the impact of specific interventions and the effectiveness of new technology in our homes. We are looking to increase the number of properties with sensors installed so we can gather sufficient data to allow us to compare the results of different interventions, and understand customer groupings so we can target interventions more effectively.

- Asset information management

  Kāinga Ora recognises the importance of quality asset data for both new and existing assets through our Asset Information Management project, which focuses particularly on land and building information. This will provide better information for our investment decisions when maintaining, managing and renewing our homes and includes best practice approaches by:

  - ensuring the data and information required to make good asset investment decisions are up to date and accurate
  - developing a Quality Assurance and Governance Framework to ensure ongoing data integrity and provide a confidence rating for our data that supports our Asset Management Framework.

Strengthen the performance of the housing sector

As the largest public housing provider in New Zealand, we have a key role to play in helping the housing sector to grow and succeed. With our scale, expertise and a clear government mandate, we are well positioned to show leadership in the housing sector, and support and help shape the Government's policy and direction for the housing sector. We need to work with the sector, and champion best practice, to achieve the right outcomes for New Zealanders and boost overall sector capacity.

What will we do in 2019/20?

Increase sector capacity by leveraging volume contracts

We have signed construction partnering agreements with some of our build partners and intend to offer further agreements to additional partners in 2019/20. We have begun market sounding with materials suppliers with a view to moving towards high-volume contracts for materials. We expect these initiatives to encourage our construction partners and material suppliers to grow capacity, capability and innovation.

Match our build solutions to medium-density demand

We will work collaboratively with trusted designers, manufacturers, assemblers and product suppliers to optimise our designs in the three to six-level building categories. Medium-density development will help make the best use of scarce land in an existing urban infill situation, while balancing quality public and private space in greenfield situations. Our approach will help facilitate capacity growth in our high-priority typologies such as one- to two-bedroom apartments and walk-up units near existing urban centres.

Support skills training and stimulate apprenticeships to grow the building sector

We have initiated an apprenticeship pilot programme and placed apprentices with build partners or their subcontractors. The employment of apprentices has been integrated into the construction partnering agreements with our build partners and associated key performance indicators have been included to enable us to track and monitor how these arrangements are progressing. During 2019/20 we will expand the programme to other build partners and subcontractors.

We are looking at how our customers can connect with these opportunities and at expanding the type of work to cadetships and work experience. We are also working with the Department of Corrections to find out how ex-prisoners who have undertaken construction training can connect with these opportunities. This involves developing a framework and consistent set of practices to ensure we have a sustainable supply of work and support structures for apprentices and our build partners.

Kāinga Ora will deliver the Construction Plus programme for connecting locals with employment and training opportunities in infrastructure, civils and construction to produce better long-term economic and wellbeing outcomes in the communities that are experiencing redevelopment.

Partner with the community housing sector

To support the growth of the community housing sector, we are focusing on building a collaborative relationship with both Community Housing Aotearoa (CHA) and the wider community housing provider sector. By working with the sector's peak body we will use our experience, influence and skills to increase the capacity and capability of the wider housing sector to deliver and manage public homes.

This includes working closely with HUD to support and collaborate with community housing providers (CHPs), improving engagement practices and opportunities with CHPs and identifying areas where we can work together on specific initiatives. We will work in partnership with Ngāti Toa to offer our support as they establish themselves as a new community housing provider for Western Porirua.

Offer financial ownership products

We also address housing demand pressure in the wider housing sector by administering financial home ownership products. In 2019/20 we will proactively manage these products that we administer on behalf of the Government, such as the First Home Grant and First Home Loan, which help New Zealanders to purchase their first home.

Be a high-performing organisation

Being a high-performing organisation is fundamental in ensuring the delivery of our strategic priorities. This focus is about strengthening our organisational foundations by ensuring we have the right capabilities to fulfil our broad role and maintain momentum across our core functional areas.

For Kāinga Ora, this means we need to be strategy driven, attract and retain highly capable and engaged people, strive for operational excellence and drive efficiency.

Underpinning this commitment is an ongoing focus on: effective risk management and assurance; good financial and resource management; operating with transparency; health, safety and security; our behaviours and attitudes; and managing our reputation. Each of these areas is fundamental to the way we operate, and requires a deliberate and ongoing focus.

What will we do in 2019/20?

Set ourselves up for success

The establishment of Kāinga Ora represents a significant institutional and legislative change to housing and urban development.

We have prioritised the safety and wellbeing of our people during a period of significant change. We have also focused on ensuring our people feel a sense of connection and belonging to Kāinga Ora, helping them feel inspired by our purpose and engaged with our new organisation.

Kāinga Ora has solid organisational foundations and highly capable people. We will build on these strengths by taking a number of key steps to strengthen our foundations and set ourselves up for future success.

We are committed to a systematic approach to identify opportunities for ongoing improvements for all facets of our services and our work. We will continually make regular, small improvements to our business and customer experience. This approach puts our people at the centre of the initiatives, and provides a range of training, tools and collegial support.

We will work in close partnership with HUD and other agencies to ensure we are well set up to deliver on the Government's housing priorities.

Developing our Māori capability

A key focus during the year is on ensuring the organisation is well placed to meet its Treaty obligations, and to achieve the Māori interest provisions within the Kāinga Ora – Homes and Communities Act 2019.

A dedicated Māori function will be established in the third quarter of 2019/20 under the leadership of a Chief Advisor Maori. This function will work with the Kāinga Ora Board and across the organisation, in particular with our Partnerships and Community Engagement and Strategy and Investment groups, to ensure that Kāinga Ora can effectively engage with Māori, understand the perspectives of Māori, and understand, support, and enable the aspirations of Māori in relation to urban development.

In parallel with the establishment of the dedicated Māori function, a range of organisational development work is underway to lift the underlying capability of all staff over time.

Plan our financial and asset management for the long term

To support our investment decision making, we have developed a comprehensive asset planning framework which ensures we can provide fit-for-purpose homes and communities for our customers in a sustainable manner. This framework is based on National Asset Management Support (NAMS) Steering Group best practice and signals our intention to operate in a business-like manner within our current settings. Our key functional strategies that support our financial and asset management for the long term are our Long Term Investment Plan (LTIP) and our Asset Management Strategy (AMS).

Our LTIP outlines the investment objectives and the funding and financing needed to ensure the long-term financial sustainability of the organisation. A 30-year horizon is modelled, since the majority of our assets will reach major lifecycle decision points within the next 30 years. This period also encompasses our significant reconfiguration and growth challenge, and enables us to deliver an investment programme that will be sustainable beyond the 30-year mark.

Our AMS articulates the strategic decisions on where, and how, we will deliver our asset programmes in a sustainable manner over the next 10 years for our customers. It articulates how, as a long-term asset owner, we will manage the varying lifecycle requirements of our existing assets to provide warm, dry and safe homes for our customers so that they can operate within their means, and to safeguard the Crown's investment. It also sets out how we will align our portfolio to meet the needs of our existing and future customers. The AMS provides the operational parts of our business with a clear decision-making framework for managing our assets, and a strategic framework for delivering our Investment Plans and Asset Management Plan in accordance with our LTIP.

In 2019/20 we will use our AMS and LTIP to deliver on the Government's and the Board's expectations for the state housing portfolio until new settings are agreed for Kāinga Ora.

Embed strategic directions set in investment plans

We have developed investment plans that translate the strategic direction set out in the AMS and the LTIP. The plans articulate the demand, levels of service, approach and associated operational budgets for these portfolios and broadly set out the planned activity across the country. The Regional Investment Plan responds to unprecedented demand in the regions.

Auckland and Wellington Investment Plans will be developed following the development of Kāinga Ora's strategic settings. We will embed the directions set by these documents into operational decision making and prioritisation to ensure our asset decisions are aligned with our strategic intentions.

Implement our Environment Strategy

We understand the importance of being environmentally sustainable. Our Environment Strategy identified the key impacts and areas of influence we have over the natural environment. We have identified opportunities to improve our impact and to use our influence to improve environmental outcomes in New Zealand and support the transition to a low emissions economy. We are currently investigating how we can use these opportunities, what the impacts will be on our organisation, and their timeframes.

Initiatives underway include:

- delivering energy efficient homes by setting Homestar 6 as the minimum standard for new single- and double-storey state housing builds (except apartments) under contract with us from 1 July 2019
- investigating the ability of renewable energy generation, micro-grid technology and on site energy storage systems to reduce greenhouse gas emissions and improve the resilience of our homes
- developing initiatives to reduce demolition, retrofit and construction waste through reduction, reuse or recycling of materials as part of a national waste reduction programme
- partnering with other organisations to investigate how better access to non-car transport can minimise transport emissions related to our homes.

We will work towards improving environmental outcomes over the 2019/20 year.

Employ our Technology Strategy

Our 2019 Technology Strategy describes the overarching direction for technology at Kāinga Ora until 2021. The strategy is shaped by a number of drivers, opportunities and business strategies, where technology plays a role as a key enabler for our people, partners, customers and homes into the future.

Kāinga Ora's Technology Strategy has the following themes:

- Digital Core Architecture – retain current core systems and integrate new capabilities
- Digital Service Channels – create smart online services that make it easier for our customers to engage with us and live well in their homes; this includes increased functionality of MyKāingaOra and new digital services for customers
- Empowered Workforce – leverage modern tools that optimise the capabilities of our people and partners
- Connected Government – work with partners, community and related agencies to improve social outcomes for our customers
- Invest in Intelligence – information-driven, fact-based insights support our strategic and operational decisions

All of these will be underpinned by our efforts towards operational excellence, governance and maturity, supporting our people and customers with secure and relevant services, and understanding and implementing measures that ensure the credibility of technology into the future.

Maintain continuous improvement

Our Continuous Improvement programme focuses on making regular, small improvements to our business and customer experience. The approach puts our people at the centre of the initiatives, and provides a range of training, tools and collegial support. Continuous improvement has a place in any reliably high-performing organisation. Our Continuous Improvement programme will generate both cultural and technical benefits which will support efficiency gains over the year.

In 2019/20 we will provide training and coaching to 25 percent of our people by the end of the financial year. Specialised stakeholder management sessions will be developed to give our leaders the knowledge to support their people with the adoption of continuous improvement.

Enhance our investment management capability

Our investment activity is delivered through project portfolios, programmes and projects, in line with our desired outcomes and strategic objectives. In 2019/20 we will make sure our investment management documentation and capability reflect the broad scale and role of Kāinga Ora. This will ensure that Kāinga Ora's investment activity is delivered in line with expectations for capital-intensive public agencies, and that our Board and leaders have clear oversight of activity underway.

Kāinga Ora has established an Investment Management Office function that will lead the coordination of activity across the business to improve our investment management capability. These efforts are also supported by technology and business change improvements underway to embed project-portfolio management tools, GIS, and information management. We will report on our progress to improve our investment management capability as a part of our quarterly reporting.

Undertake regular housing research

Kāinga Ora is part of a wider, more complex housing sector. Recently we have seen a significant amount of change – in government and operational policy and regulation, in the demand for public housing, and in the types of public housing services we deliver. Our approach in placing our customers at the centre of our decision making requires us to have an in-depth understanding of the people who live in our homes and to know that our services contribute to positive social outcomes and improved lives.

To achieve this, we undertake research on key priority areas as well as evaluations of our services, pilots and trials. Our research and evaluation models vary from conducting primary research through internal or external researchers, and working collaboratively with agencies, research organisations and universities, to providing insight and advice on external research focused on our tenant population or public housing. We also regularly scan the wider research environment and attend seminars and presentations to learn about research findings that are of interest to our work.

We will be working with HUD and other Crown agencies to develop and implement a housing sector work plan. This will include collaborative work on joint projects where appropriate.

In 2019/20 our general areas of focus for research and evaluation include:

Research

- The characteristics, needs and service use of our customers using administrative data in the Integrated Data Infrastructure (IDI)
- Outcomes from urban regeneration on individual and collective wellbeing, and urban sustainability
- Mixed tenure communities
- Productivity in the construction industry
- Lived experiences of children in different housing tenures
- Energy usage in homes

Evaluation

- Evaluation of the Healthy Homes Initiative – in collaboration with other agencies and organisations
- Evaluation of Te Waka Urungi, our Intensive Tenancy Management service model.

Planning for our people

Our people are our greatest asset. We need to anticipate and prepare for changes in our current workforce and have confidence that our approach to workforce and capability planning keeps pace with changes in our sector and environment.

In 2019/20 we will build our knowledge and application of workforce planning tools, to give leadership teams across Kāinga Ora more insight into our existing workforce opportunities and challenges so they can plan and prepare for any anticipated changes.

We will be doing regular pulse check surveys with our people as we build our new organisation. This will alert us to areas that need attention and ensure our people have a say in making Kāinga Ora a great organisation to work for.

Be a good employer – He kura te tangata

Part of being a high-performing organisation is being a good employer. The table below outlines how we will develop and maintain a brilliant and engaged culture.

Leadership, accountability and culture	We recognise the importance of quality leadership to ensure we are a world-class housing provider. Our leadership programmes will support and drive a positive workplace culture. We will review our core people frameworks and processes to ensure they reflect the values and behaviours important to Kāinga Ora.
Recruitment, selection and induction	As an equal opportunities employer, we value diversity and ensure our policies, practices and processes are fair, consistent and equitable for all job applicants and employees. We are committed to recruiting new talent fairly based on merit, and enhancing the hiring experience for our candidates and people leaders.
Employee development, promotion and exit	Developing our people is fundamental to the success of our organisation. We will provide an environment that supports our people to develop their potential and, to the best of their ability, contribute to the achievement of our goals.
Flexibility and work design	We will address work-life balance with flexible work practices wherever feasible.
Remuneration, recognition and conditions	We support a culture of shared purpose, trust and collaboration by paying our people fairly for their expected contribution and in a way that minimises opportunity for unconscious bias. No person working for Kāinga Ora is paid less than the living wage.
Prevention of harassment and bullying	Our aim is to provide a workplace environment that is a safe, engaging, caring place to work, free from harassment and workplace bullying. We will foster a positive workplace environment.
Staff safety, health and wellbeing	As an employer, it is Kāinga Ora's obligation to prevent work-related harm to the physical and mental health and safety of the people who work for us, both employees and contractors. We have identified the top health and safety risks for Kāinga Ora and are exploring the context and our response. We will complete a similar review to help our contractors to stay informed and take the right actions to keep their own people safe. Professional supervision has commenced to support the objectives of our health and wellbeing plan.

Ensure financial sustainability

We have one of the largest asset holdings in New Zealand. In delivering the Crown's social objectives of providing housing and services related to housing, we operate in a financially responsible manner, delivering these services to ensure the financial sustainability of the organisation, and ensuring we plan well for future needs.

We do this by focusing on long-term objectives, and building our performance measures around the expectations for the organisation. We regularly review our financial and operational performance and test our assumptions.

During 2019/20 we will improve our investment decision-making processes by embedding our refreshed Financial Investment Manual and reviewing our wider Housing Investment Framework and its supporting documentation.

Capital investment

We manage approximately $28.6 billion worth of assets. Over the next four years Kāinga Ora is forecast to invest $6.6 billion (comprising rental property additions and upgrades, and management of infrastructure assets). The following table highlights spending and funding assumptions over the coming financial year.

Rental infrastructure capital additions	Actual* 2018/19 $m	Budget 2019/20 $m
Buy-ins	298	394
Redevelopment and new builds	1,074	838
Upgrades and improvements	135	242
Infrastructure	23	28
Total	**1,530**	**1,502**
Funded by		
Sales	19	43
Appropriations	6	6
Borrowing	884	1,297
Cash from operations	621	156
Total funding	**1,530**	**1,502**

* All financial result comparatives for 2018/19 are from the Annual Report for Kāinga Ora's legacy agency Housing New Zealand.

Operational expenditure

During 2019/20 we will collect close to $1.4 billion in revenue from rents and rental subsidies and we will invest $386 million in maintaining our existing housing portfolio. Because of the scale of this investment, it is vital that we make sound financial decisions to ensure the Government has the greatest impact for the investment it has made.

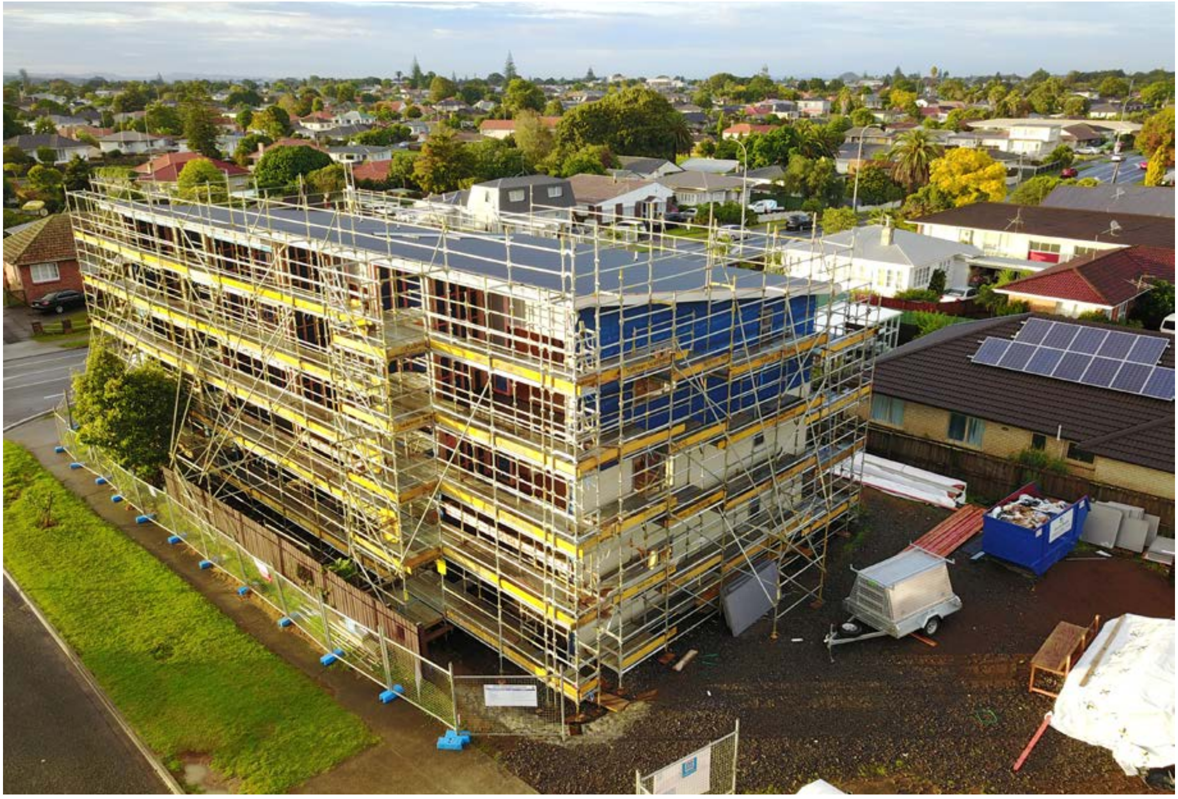
	Actual* 2018/19 $m	Budget 2019/20 $m
Revenue comes from		
Rental income from tenants	417	448
Rental income from income-related rent subsidy	884	944
Crown appropriation income	102	128
Interest realised gains and other income	48	225
Total revenue	**1,451**	**1,745**
Where revenue goes to		
Repairs and maintenance	366	386
Rates	160	171
Third-party rental leases	51	50
Depreciation – rental properties	265	276
Depreciation and amortisation – infrastructure assets	22	15
Personnel	162	173
Interest costs	106	142
Impairment, write-offs and loss on sales	66	74
Grants	84	91
Other expenses	133	359
Total expenses	**1,415**	**1,737**
Surplus before tax	**36**	**8**

* All financial result comparatives for 2018/19 are from the Annual Report for Kāinga Ora's legacy agency Housing New Zealand.

The key financial indicators used by Kāinga Ora to monitor overall financial sustainability or financial performance at a strategic level are included in the following table.

Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
$12,018	Net operating costs of managing our housing portfolio per housing unit (excludes depreciation)	$12,604	$12,749	$13,147
37%	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) as a percentage of total income*	33%	34%	33%
5.00	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) to interest costs *	3.62	4.02	3.58

* For the purpose of this calculation EBITDA excludes affordable products contribution and asset write-offs for Forecast 2018/19 and Standard 2019/20.



Asset performance

Our housing portfolio

The following asset performance measures apply to both Kāinga Ora's owned and leased assets in our housing portfolio. Targets quoted are those agreed either elsewhere in this Statement of Performance Expectations or in our Statement of Intent.

Measure	Indicator	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual	2019/20 Target
Percentage of homes that are let	Utilisation	97.2%	98.2%	97.5%	98.1%	97.5%
Average number of days from a house becoming vacant to being 'ready to let'	Utilisation	24 days	19 days	18 days	16 days	18 days
Percentage of surveyed lettable properties that meet or exceed the baseline standard	Condition	89%	93%* (90%)	89%	93%	90%
Percentage of our customers who are satisfied with their Kāinga Ora home	Condition	85%	79%	85%	79%	85%
Homes meet tenant bedroom requirements	Functionality	>76% By June 2021	76%	>76% By June 2021	75%	75%

* The 2017/18 desktop results were restated, using an improved desktop model, more accurately reflecting actual property condition. This is the restated 2017/18 result.

Our information communication and technology (ICT) asset portfolio

The following asset performance measures apply to both Kāinga Ora's owned and leased information communication and technology assets.

Measure	Indicator	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual	2019/20 Target
Percentage of incidents resolved on first contact by ICT Service Desk	Condition	>80.00%	87.36%	>80.00%	85.41%	>80.00%
Priority 1 incidents per 100 ICT users	Condition	<7.0	3.3	<7.0	1.5	<7.0
Core systems availability – Kotahi	Availability	>99.90%	99.91%	>99.90%	99.75%	>99.90%
Core systems availability – Oracle EBS	Availability	>99.90%	99.87%	>99.90%	99.36%	>99.90%
Core systems availability – websites	Availability	>99.90%	99.97%	>99.90%	99.70%	>99.90%
Infrastructure as a service resource utilisation	Utilisation	>90.00%	93.00%	>90.00%	96.00%	>90.00%

Statement of non-financial performance expectations

Our functions and outputs

Our activities and investments are split across the following areas:

Sustaining tenancies and managing our homes (Output Class 1)

Undertaking activities associated with tenancy and property management, including:

- establishing and managing tenancies, and ensuring our customers are linked with specialist support services where this is appropriate to help them to sustain their tenancies
- managing and maintaining our existing homes so customers have access to warm, dry and safe homes that they can operate within their means, while we ensure the value and overall quality of our homes are maintained
- managing and maintaining homes for Community Group Housing and transitional housing providers.

New state housing supply (Output Class 2)

Undertaking asset development and reconfiguration programmes to ensure our homes are of the right type, and in the right places, to meet demand for state homes and improving the quality and longevity of state housing supply through renewal programmes. This output class also includes new supply provided to Community Group Housing and transitional housing providers.

Public accountability and ministerial support (Output Class 3)

Providing ministerial services to the Minister of Housing and the Associate Ministers of Housing.

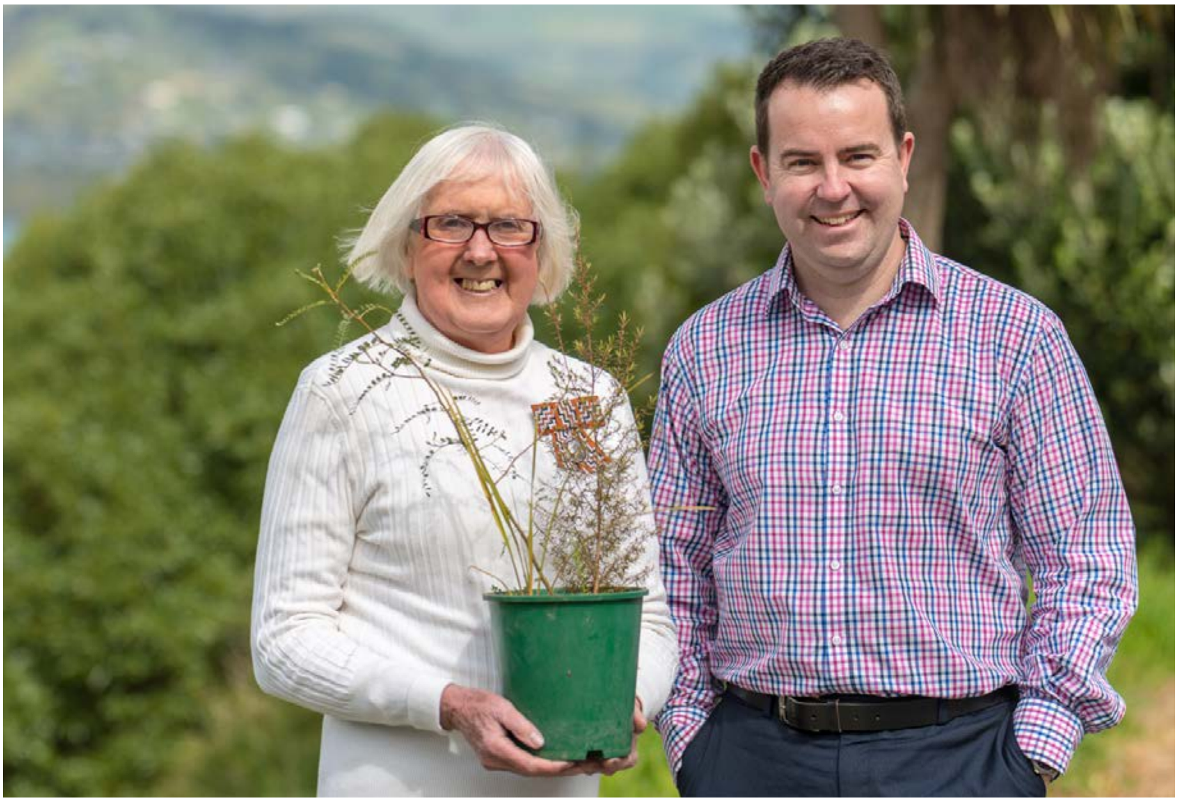
Enabling housing supply and home ownership (Output Class 4)

Undertaking activities associated with the release of surplus Kāinga Ora land or land owned by third parties that enables or facilitates the development of affordable and market housing. It also includes managing financial home ownership products that assist individuals and households to purchase their first home. These include HomeStart Loans and Kāinga Whenua loans, and the HomeStart grant (Crown appropriated) as well as assisting first home ownership through the sale of Kāinga Ora's homes under the Tenant Home Ownership and First Home Ownership schemes.

Development services provided to the housing agency account (Output Class 5)

Undertaking property development and management services on behalf of the Crown. This relates to land and buildings that have been transferred to direct Crown control. Most activity within this output class relates to the services provided by Kāinga Ora in the management and development of Hobsonville Point (under control of the Housing Agency Account), a large-scale integrated urban development project in northwest Auckland on land formerly used by the New Zealand Defence Force. When completed, Hobsonville Point will have over 3,500 homes, supported by two new schools, community facilities, amenities, public transport facilities and neighbourhood centres.

It also includes activity where Kāinga Ora is required to buy and sell properties that cannot be sold by developers within KiwiBuild criteria.



Reporting to Ministers

- We will provide a quarterly report to the appropriate Ministers, which will present an accurate and relevant picture of performance over the previous three months, including:
  - commentary on contextual information such as activities undertaken in the quarter, progress made against the Minister's Letter of Expectations, and emerging risks or opportunities
  - performance indicators designed to provide a view of operating and financial performance, including the costs of building and our management of vacant properties
  - progress against our investment plans and significant asset development programmes of work
  - a summary set of financial reports.

We will report on progress of our contribution to the growth of the public housing sector. We will also consult with Ministers on the progress against our build activity in Auckland and portfolio redevelopment around the rest of New Zealand. This will include significant capital expenditure* in line with the consultation process set out in the Treasury Owner's Expectations Manual.

* The threshold for ministerial consultation is currently set at $50 million.

Sustaining tenancies and managing our homes

▸ OUTPUT CLASS 1

We support our customers to sustain their tenancies and move towards independence where possible

We renew our existing portfolio of homes

Description

Under this output class, Kāinga Ora establishes and manages state housing tenancies of individuals and households, while ensuring these homes are well maintained.

As a public housing provider, we not only collect rent, but also inspect and maintain our homes. We work with our customers to reduce any debt they may have incurred with us, and link them with specialist support services, where appropriate, to sustain their tenancies.

Management and maintenance of our homes are critical to ensuring our customers have access to warm, dry and safe homes that they can operate within their means. This also ensures the overall quality and value of our housing portfolio is maintained for future generations.

Scope

The scope of this output class is limited to the allocation and management of state housing tenancies and maintenance of these homes, including Community Group Housing, and the management of housing provided for transitional housing. The output class relates to properties owned by Kāinga Ora, or where Kāinga Ora holds a lease for privately-owned properties or to third party housing providers.

Activities

- Working with the Ministry of Social Development to place eligible applicants from the public housing register into Kāinga Ora homes and sustain these tenancies
- Managing existing tenancies
- Undertaking planned maintenance programmes and improving amenities
- Ensuring repairs and maintenance are undertaken in response to customers' requests
- Undertaking debt collection activities for overdue rent, property damage, and residual income-related rent arrears
- Setting and reviewing market rents
- Responding to Government health and safety objectives
- Linking customers with specialist support services if they require support

Sustaining tenancies and managing our homes

Four of our six commitment areas are relevant to this output class.

1	4	5	6
Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions	Optimise the management, maintenance and renewal of our homes	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
1.1	83%	Customer satisfaction with Customer Support Centre	85%	78%	85%
1.2	N/A	Percentage of Customer Support Centre calls answered in two minutes	80%	83%	80%
1.3	N/A	Percentage of customers who are not in rental arrears	93%	92%	93%
1.4	98.2%	Percentage of homes that are let (occupied days)	97.5%	98.1%	97.5%
1.5	19 days	Average number of days from a home becoming vacant to being 'ready to let'	18 days	16 days	18 days
1.6	90%	Percentage of lettable properties that meet or exceed the baseline standard	89%	93%	90%
1.7	67%	Percentage of customers satisfied with repairs and maintenance	75%	71%	75%
1.8	2.8 hours	Average time to respond to urgent health and safety queries	4 hours	2.1 hours	4 hours
1.9	68%	Percentage of repairs and maintenance spend on planned activity	70%	60%	65%*

*This target has been reduced to 65% as we no longer include our Retrofit programme budget as planned expenditure. Retrofit is considered part of our renewal activity. We have also reduced the budget required for our methamphetamine reinstatement programme as a result of the revised contamination standards for residential properties leading to fewer meth reinstatements being required.

Revenue and output expenses

Description	Actual 2018/19 $m*	Budget 2019/20 $m	Comment
Revenue Crown	897.3	957.6	The revenue and expenses of this output class are in relation to management of the property portfolio. It includes all rent revenue and administration, maintenance and tenant servicing expense for state and Community Group Housing, and revenue and ownership expense for transitional housing. It includes net interest expense.
Revenue Other	415.8	472.1	
Expenses	1,135.4	1,241.9	
Net surplus/(deficit)	**177.7**	**187.8**	

*The actual 2018/19 expenditure comparison figures relate to Kāinga Ora's legal agency Housing New Zealand.

Output class revenue and expense tables may have rounding differences.

New state housing supply

▸ OUTPUT CLASS 2

We deliver the right volume of quality state housing in the right places and matched to customer needs

Description

Under this output class, Kāinga Ora redevelops our current properties, builds new homes, purchases properties and purchases land for building homes. We also improve the quality and longevity of our existing homes through our renewal programmes to meet the changing needs of our state housing customer base for homes in the right place and of the right size.

Kāinga Ora will provide 7,140 (gross) newly built state homes over the four-year period 2019/20 to 2022/23. Kāinga Ora will play a significant role in preparing land for many of these homes, ensuring a cohesive master-planning approach to community development.

Over the four-year period 2019/20 to 2022/23 Kāinga Ora will contribute on average 1,100 net additional state homes and grow our total portfolio to just over 68,000 houses. Our intention is that building homes will deliver the vast majority of the additions to our portfolio, rather than buy-ins or leasing. This will contribute to the growing number of houses in New Zealand as well as to better financial outcomes.

The table adjacent provides a breakdown of the types of activities Kāinga Ora uses to manage the growth of our state housing portfolio. The table also shows the breakdown of our key delivery performance measures 2.1 and 2.2 included in the service performance on the next page. We will provide the Minister and the Ministry of Housing and Urban Development with regular reporting on this breakdown and our development pipeline to ensure complete transparency of our delivery programme. We will provide the final delivery breakdown in our 2019/20 Annual Report.

Kāinga Ora also provides some housing that is not supported by income-related rent subsidies. This includes Community Group Housing, transitional housing and housing for the Department of Corrections. Kāinga Ora will also provide regular updates to the Minister and HUD on our delivery of these homes.

Scope

The scope of this output class is limited to activities associated with asset development and reconfiguration programmes aimed at increasing the supply of state housing owned or leased by Kāinga Ora in areas of demand, and improving the quality and longevity of housing supply through renewal programmes. This output class also includes new supply provided to Community Group Housing, transitional housing and housing for specific target groups.

Activities

- Purchasing existing homes, building new homes, leasing privately-owned homes, and purchasing and leasing land for building homes that meet the current and forecast demand
- Delivering housing developments on greenfield and brownfield sites

Kāinga Ora asset growth activity	Reference
Building activity	
New state homes built on Kāinga Ora land (redevelopment)	
+ New state homes built on land purchased by Kāinga Ora (new build)	
= Gross Kāinga Ora newly built state homes (SPE 2.1)	A = (SPE 2.1)
– State homes demolished	
= Total net Kāinga Ora newly built state homes	B
Transactional activity	
Existing homes purchased from the private market for state housing use	
– (Kāinga Ora state homes sold to the private housing market + intra-company transfers for other social uses)	
= Net acquisitions	C
Leasing activity	
New and renewed leases of homes for state housing use	
– Expired state home leases	
= Net leased state homes	D
Total net growth in Kāinga Ora state homes (SPE 2.2)	B+C+D= (SPE 2.2)

New state housing supply

Four of our six commitment areas are relevant to this output class.

2	3	5	6
Increase the pace and scale of land and housing supply	Reduce the cost of building and, in turn, ensure our financial sustainability	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
2.1	838*	Number of newly constructed state houses (gross)**	>1,380	1,461	>1,500
2.2	435	Increase the overall number of Kāinga Ora's state housing managed stock	>1,100	1,223	>1,175

*This was not an SPE measure in the 2017/18 year; however, these are the equivalent actuals for the 2017/18 performance year. Also note that during this year the delivery actuals included Community Group and transitional housing – these were not included from 2018/19 onwards.

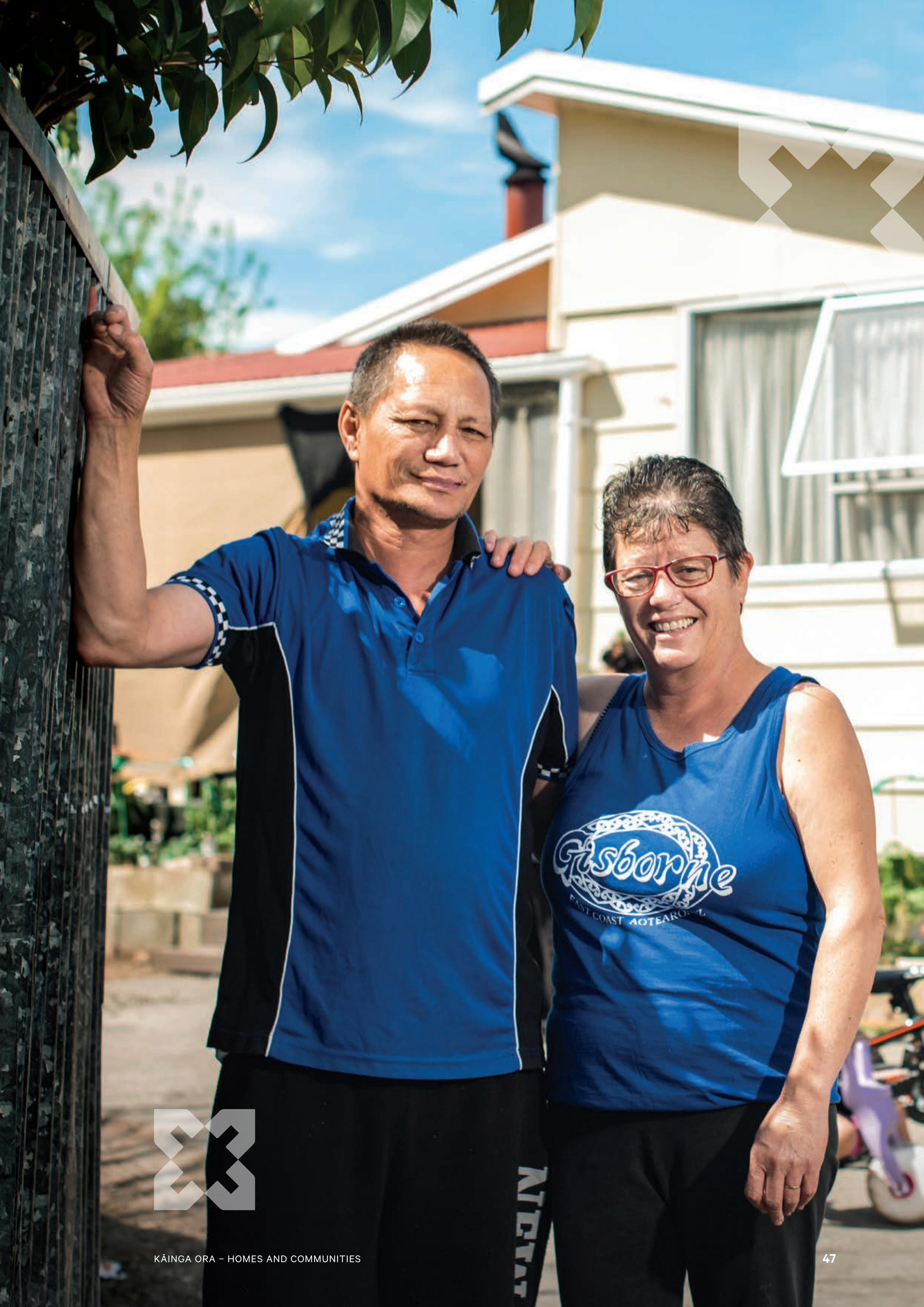
**A newly constructed home is defined as a home that is newly built and has not previously been occupied before its use for state housing purposes.

Revenue and output expenses

Description	Actual 2018/19 $m*	Budget 2019/20 $m	Comment
Revenue Crown	0.0	0.0	The revenue and expenses of this output class are in relation to housing supply, housing divestment and land development.
Revenue Other	0.0	0.0	
Expenses	123.8	163.8	
Net surplus/(deficit)	**(123.8)**	**(163.8)**	

*The actual 2018/19 expenditure comparison figures relate to Kāinga Ora's legacy agency Housing New Zealand.

Output class revenue and expense tables may have rounding differences.


Gisborne
EAST COAST AOTEAROA

Public accountability and ministerial support

▸ OUTPUT CLASS 3

We lead with quality advice and innovation that positively influence results and decision making to achieve the Government's housing objectives

Description

This output class includes services that Kāinga Ora provides to our Ministers and for our public accountability requirements. Kāinga Ora does not receive an appropriation from the Government to provide these services; they are funded from Kāinga Ora's resources.

Scope

The scope of this output class includes ministerial services provided to the Minister of Housing and the Associate Ministers of Housing.

Activities

- Maintaining relationships with Ministers, the Ministry of Social Development, the Ministry of Housing and Urban Development, Te Puni Kōkiri, Te Arawhiti, the Treasury, the Ministry of Business, Innovation and Employment, iwi, community housing providers, and other stakeholders
- Working with key government agency stakeholders on joint initiatives (eg, Corrections, Te Puni Kōkiri, and the Ministry of Health)
- Contributing to the development of policy, strategic and legislative initiatives led by other agencies
- Providing ministerial services, supporting select committee appearances, and providing external reporting
- Providing Board and executive support
- Answering Official Information Act requests and drafting ministerial responses

Public accountability and ministerial support

Three of our six commitment areas for the year are related to our contribution to this output class.

1	5	6
Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
3.1	99.5%	Ministerial correspondence, parliamentary questions and Official Information Act requests delivered meet the agreed deadline	95%	98%	95%
3.2	100%	Ministerial services delivered meet the quality criteria	95%	100%	95%

Revenue and output expenses

Description	Actual 2018/19 $m*	Budget 2019/20 $m	Comment
Revenue Crown	0.0	0.0	The revenue and expenses of this output class are in relation to the costs associated with ministerial services and government accountability functions.
Revenue Other	0.0	0.0	
Expenses	19.1	23.2	
Net surplus/(deficit)	**(19.1)**	**(23.2)**	

*The actual 2018/19 expenditure comparison figures relate to Kāinga Ora's legacy agency Housing New Zealand.

Output class revenue and expense tables may have rounding differences.

Enabling housing supply and home ownership

▸ OUTPUT CLASS 4

We contribute to the affordability and accessibility of housing through innovation and leadership, leveraging our land and scale and administering effective, affordable home ownership products

Description

This output class includes Kāinga Ora's contribution to supporting the development of affordable and market housing, and improving housing affordability generally. This will be achieved through a combination of increasing the supply of land for affordable and market housing, where appropriate on land formerly owned by Housing New Zealand or Kāinga Ora or on land owned by third parties. Kāinga Ora also delivers a suite of financial home ownership products that assist individuals and households to purchase their first home.

Over a five-year period from 2019/20 to 2023/24 Kāinga Ora will enable or build 3,600 new homes on land owned or previously owned by Housing New Zealand or Kāinga Ora for affordable and market housing. At least 20 percent of these homes will be produced at affordable price points.

Scope

The scope of this output class is limited to activities associated with the release of surplus Kāinga Ora land or on land owned by third parties that enables or facilitates the development of affordable and market housing. It also includes the management of financial home ownership products that assist individuals and households to purchase their first home.

Activities

Activities associated with increasing general and affordable housing supply include:

- releasing land to enable or facilitate affordable and general housing supply in areas of high demand
- selling land or housing assets that are no longer required
- administering the KiwiBuild programme on behalf of the Crown.

Activities also include the proactive management of financial home ownership products that assist individuals and households to purchase their first home, and administering the following programmes on behalf of the Crown and Kāinga Ora-initiated programmes:

- First Home Loan and Kāinga Whenua loans (Crown appropriated)
- First Home Grant (Crown appropriated)
- Kāinga Ora Tenant Home Ownership Scheme.

Enabling housing supply and home ownership

Five of our six commitment areas are relevant to this output class.

1	2	3	5	6
Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions	Increase the pace and scale of land and housing supply	Reduce the cost of building and, in turn, ensure our financial sustainability	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
4.1	259	Number of new homes enabled or constructed for sale on land owned or previously owned by Housing New Zealand or Kāinga Ora	>270	294	>500
4.2	N/A	Affordable* homes enabled or constructed for sale as a percentage of total homes enabled or constructed in 4.1 above	>20%	54%	>40%
4.3	86%	Proportion of enabled homes under construction by third parties within agreed timeframes**	95%	67%	95%
4.4	3.9 working days	Average number of days taken to assess a completed First Home Grant application***	5 working days	2.8 working days	5 working days

*For the purpose of this measure, affordable means homes produced for sale at KiwiBuild price points or other affordable housing products produced at KiwiBuild price points.

**Note that this measure in 2018/19 was the 'Proportion of homes delivered by third parties within agreed timeframes'. It has now been changed to 'under construction' in line with development agreements.

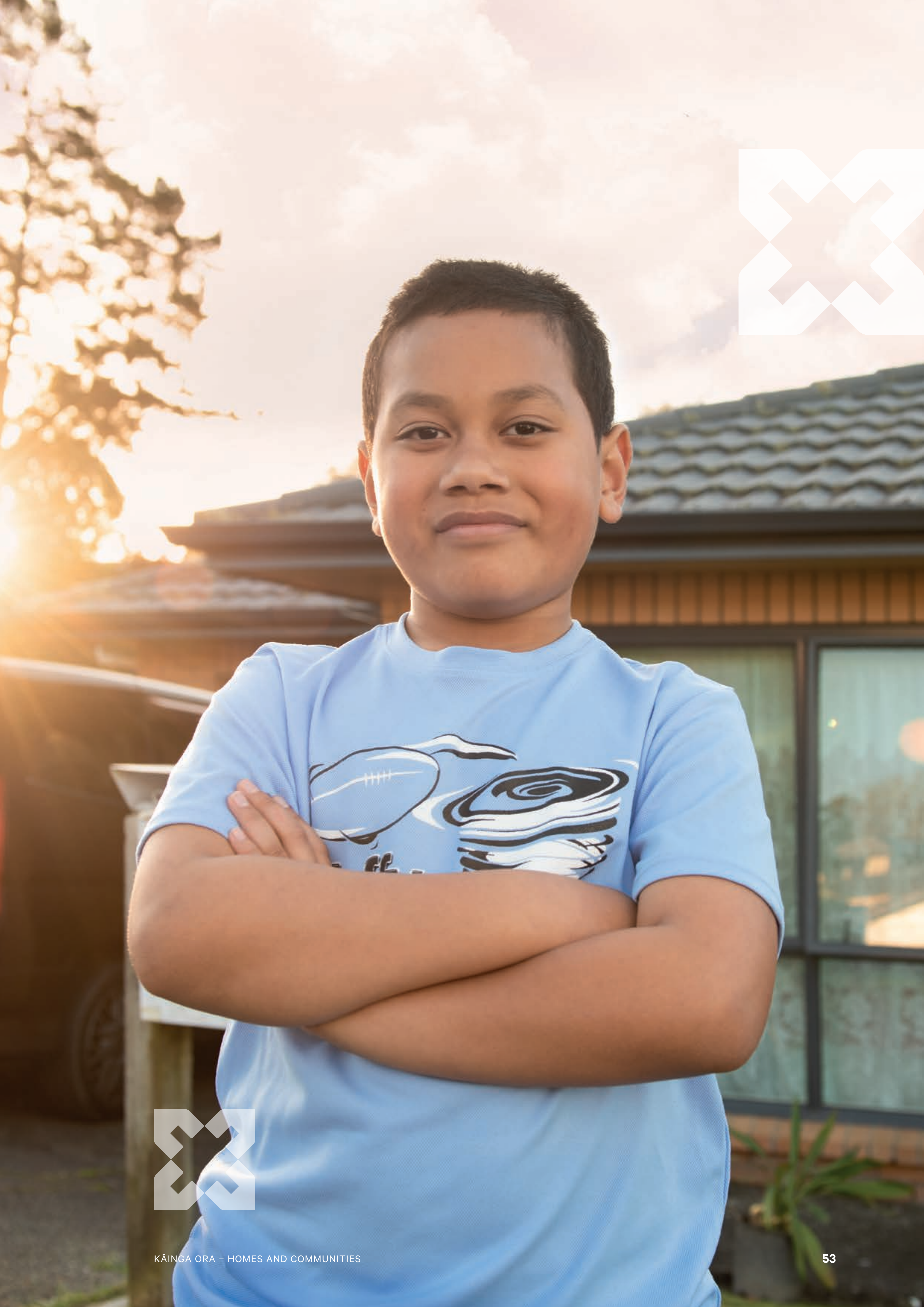
***During 2017/18 Housing New Zealand received 36,414 KiwiSaver applications and approved 17,699. This compared with 31,731 applications received in 2016/17, of which 16,712 were approved.

Revenue and output expenses

Description	Actual 2018/19 $m*	Budget 2019/20 $m	Comment
Revenue Crown	93.4	111.5	The revenue and expenses of this output class relate to activities associated with increasing general and affordable housing supply and home ownership products that are managed on behalf of the Crown.
Revenue Other	36.2	206.1	
Expenses	126.2	310.3	
Net surplus/(deficit)	3.4	7.3	

*The actual 2018/19 expenditure comparison figures relate to Kāinga Ora's legacy agency Housing New Zealand.

Output class revenue and expense tables may have rounding differences.



Development services provided to the Housing Agency Account

▸ OUTPUT CLASS 5

Description

This output class relates to management and development services for properties that have been transferred to Crown control.

Scope

This output class is limited to property management and development services on behalf of the Crown in relation to land and buildings that have been transferred to direct Crown control, and are accounted for within the Crown's Housing Agency Account. The services are provided by Kāinga Ora to the Housing Agency Account under the specific authority and requirements set out in the Housing Act 1955 and the Housing Agency Accountability Agreement between Housing Zealand and the Minister who was responsible for Housing New Zealand at that time.

Activities

- Most activity within this output class relates to the services provided by Kāinga Ora for the management and development of Hobsonville Point (under control of the Housing Agency Account). The project is a large-scale, integrated urban development project in northwest Auckland on land formerly used by the New Zealand Defence Force.
- Kāinga Ora is responsible for facilitating housing development at Hobsonville Point, with at least 20 percent of the housing constructed over the next 10 years to be sold as affordable housing.
- It also includes activity where Kāinga Ora is required to buy or sell properties as part of the KiwiBuild Buying Off the Plans Initiative. The transaction and financial recognition will be processed within the HAA Account, not within the Kāinga Ora Group.
- The remaining activity relates to properties managed by Kāinga Ora that are held within the Crown's Housing Agency Account.

Development services provided to the Housing Agency Account

Three of our six commitment areas are relevant to this output class.

1	5	6
Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions	Strengthen the performance of the housing sector	Be a high-performing organisation

How we assess our service performance

Ref:	Actual 2017/18	Measure	Standard 2018/19	Actual 2018/19	Standard 2019/20
5.1	$53 million	Revenue generated from land sales	>$29 million	>$31.2 million	>$20 million
5.2	$21 million	Value of HAA capex projects delivered	>$29 million	> $14.0 million	> $2 million
5.3	25%	Units delivered that are long-term rental or affordable housing as a percentage of total units delivered	>20%	>23.4%	>20%
5.4	89%	Percentage of residents satisfied with the overall living experience at Hobsonville Point	>75%	>93%	>75%

Revenue and output expenses

Description	Actual 2018/19 $m*	Budget 2019/20 $m	Comment
Revenue Crown	0.0	0.0	The revenue and expenses of this output class are in relation to management and development services for Crown-controlled land and property.
Revenue Other**	3.0	14.9	
Expenses**	3.0	14.9	
Net surplus/(deficit)	**0.0**	**0.0**	

*The actual 2018/19 expenditure comparison figures relate to Kāinga Ora's legacy agency Housing New Zealand.

**Note that these expenses have been corrected from the Housing New Zealand 2019/20 SPE, to reflect only HAA items not wider Kāinga Ora urban master-planning activity.

Output class revenue and expense tables may have rounding differences.

Forecast financial statements

Forecast financial highlights for 2019/20

Kāinga Ora manages a portfolio of approximately 65,800 houses*. The value of the owned portion of the portfolio was $28.4 billion at 30 June 2019. This is an increase of $1.8 billion on the portfolio's previous valuation of $26.6 billion as at 30 June 2018. Another portfolio valuation is due to be completed by 30 June 2020.

The 2019/20 forecast operating surplus before tax is $8 million, with no surplus distribution to the Crown.

In 2019/20 we expect to receive $1,745 million in income, comprising:

- $1,392 million in rental income
- $128 million in other operational funding for Crown programmes
- $201 million in affordable housing and land development revenue (included in Other Income)
- $24 million in interest and other income.

In 2019/20 we expect to incur $1,663 million in operating expenses. These expenses are mainly made up of:

- $386 million in repairs and maintenance (compared with $343 million budgeted in 2018/19)
- $291 million in depreciation and amortisation
- $221 million in property leases and rates
- $142 million in interest costs
- $91 million in grant payments, primarily from the KiwiSaver scheme
- $201 million in affordable housing and land development expenses (included in Other Expenses)
- $331 million in personnel and other expenses.

We also expect to incur $74 million of write-offs, driven by redevelopment activity. The accounting treatment of valuation of land for sale is still to be resolved.

In 2019/20 Kāinga Ora expects to spend $1,716 million on rental housing asset purchases and improvements, and expects to receive $43 million from the sale of state housing assets.

In 2019/20 Kāinga Ora expects to make payments to the Crown of up to $169 million consisting of income tax of $91 million and interest costs of $78 million.

* As at 31 January 2020, this includes State, Community Group and Transitional housing.

Forecast statement of comprehensive revenue and expense

	Group Actuals 2019 $m	Group Budget 2020 $m
Revenue		
Revenue from non-exchange transactions		
Crown appropriation revenue	102	108
Rental income from income related rent subsidy (IRRS)	880	940
Rental income from tenants receiving IRRS	368	397
Rent Relief Fund revenue	4	4
Crown Income - KiwiBuild appropriation income	–	11
Revenue from exchange transactions		
Rental income from tenants at market rent	49	51
Interest revenue	14	8
Mortgage insurance scheme	10	9
Proceeds of Sales by HNZ build	15	–
Other revenue	9	217
Total revenue	**1,451**	**1,745**
Expenses		
Repairs and maintenance	366	386
Rates	124	135
Water Rates	36	36
Third-party rental leases	51	50
Depreciation - rental properties	265	276
Depreciation and amortisation - infrastructure assets	22	15
Personnel	152	173
Interest expense	106	142
Grants	84	91
Other expenses	143	359
Total expenses	**1,349**	**1,663**

Forecast statement of comprehensive revenue and expense (cont.)

	Group Actuals 2019 $m	Group Budget 2020 $m
Other gains/(losses)		
Gain/(loss) on disposal of assets	(6)	–
Loss on asset write-offs	(60)	(74)
Total other gains/(losses)	**(66)**	**(74)**
Surplus/(deficit) before tax	**36**	**8**
Current tax expense	89	91
Deferred tax expense/(benefit)	(113)	(68)
Income tax expense/(benefit)	**(24)**	**23**
Net surplus/(deficit) after tax	**60**	**(15)**
Other comprehensive revenue and expense		
Revaluation reserve gains/(losses)	616	327
Impairment of assets	–	–
Hedging reserve gains/(losses)	(22)	–
Income tax on items of other comprehensive revenue and expense	(49)	(70)
Other comprehensive revenue and expense net of tax	**545**	**257**
Total comprehensive revenue and expense net of tax	**605**	**242**

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

Forecast statement of financial position

	Group Actuals 2019 $m	Group Budget 2020 $m
Assets		
Current assets		
Cash and cash equivalents	296	2
Mortgage advances	3	1
Receivables and prepayments from exchange transactions	13	38
Receivables from non-exchange transactions	8	11
Prepayment	10	–
Short-term investments	35	14
Properties for sale	–	5
Total current assets	**365**	**71**
Non-current assets		
Property, plant and equipment	28,410	29,980
Properties under development	144	55
Property held awaiting development	27	–
Mortgage advances	30	34
Interest rate derivatives	–	1
Intangible assets	20	17
Long-term receivable from exchange transactions	–	–
Total non-current assets	**28,631**	**30,087**
Total assets	**28,996**	**30,158**

Forecast statement of financial position (cont.)

	Group Actuals 2019 $m	Group Budget 2020 $m
Liabilities		
Current liabilities		
Rent in advance	33	35
Accounts payable and other liabilities from exchange transactions	185	239
Income tax payable	17	5
Crown loans	252	159
Market debt - commercial paper	250	150
Provisions	1	1
Employee entitlements	11	8
Interest rate derivatives	29	35
Total current liabilities	**778**	**632**
Non-current liabilities		
Crown loans	1,734	1,863
Market debt - bonds	1,300	2,560
Deferred tax liability	2,141	2,208
Interest rate derivatives	85	60
Mortgage insurance scheme unearned premium reserve	32	32
Provisions	1	1
Employee entitlements	1	1
Total non-current liabilities	**5,294**	**6,725**
Total liabilities	**6,072**	**7,357**
Net assets	**22,924**	**22,801**
Equity		
Equity attributable to the parent	3,555	3,551
Retained earnings	712	702
Revaluation reserve	18,739	18,614
Hedging reserve	(82)	(66)
Total equity	**22,924**	**22,801**

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

Forecast statement of changes in equity

	Group Actuals 2019 $m	Group Budget 2020 $m
Total equity at 1 July	22,319	22,561
Revaluation of property, plant and equipment		
Revaluation reserve gains/(losses)	616	327
Impairment of assets	–	–
Deferred tax on property, plant and equipment revaluations	(55)	(70)
Financial assets at fair value through other comprehensive revenue		
Hedging reserve gains/(losses)	(22)	–
Deferred tax on hedging reserve gains/(losses)	6	–
Net surplus/(deficit) for the year after tax	60	(15)
Total comprehensive revenue and expense for the period	605	242
Contributions from and distributions to the Crown		
Net capital contributions (to)/from the Crown	–	(2)
Payment of dividends to the Crown	–	–
Total contributions from and distributions to the Crown	–	(2)
Total changes in equity	605	240
Total equity at 30 June	22,924	22,801
Equity attributable to the Crown		
Opening balance	3,555	3,553
Net capital contributions (to)/from the Crown	–	(2)
Closing equity attributable to the Crown	3,555	3,551
Retained earnings		
Opening retained earnings	596	649
Net surplus/(deficit) for the year after tax	60	(15)
Net transfers from asset revaluation reserve on disposal of properties	56	68
Annual distribution	–	–
Closing retained earnings	712	702

Forecast statement of changes in equity (cont.)

	Group Actuals 2019 $m	Group Budget 2020 $m
Revaluation reserve		
Opening revaluation reserve	18,234	18,425
Asset revaluations on property, plant and equipment	616	327
Impairment of assets	–	–
Deferred tax on property, plant and equipment	(55)	(70)
Net transfers from asset revaluation reserve on disposal of properties	(56)	(68)
Closing revaluation reserve	**18,739**	**18,614**
Hedging reserve		
Opening hedging reserve	(66)	(66)
Fair value gains/(losses)	(22)	–
Deferred tax on derivative fair value movement	6	–
Closing hedging reserve	**(82)**	**(66)**
Total equity at 30 June	**22,924**	**22,801**

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

Forecast cash flow statement

	Group Actuals 2019 $m	Group Budget 2020 $m
Cash flows from/(used in) operating activities		
Rent receipts - tenants	410	444
Rent receipts - income-related rent subsidy	880	940
Rent relief fund income	4	4
Other receipts from Crown	101	143
Mortgage insurance scheme income	10	11
Interest received from customers and investments	12	8
Other receipts	47	216
Payments to suppliers and employees	(992)	(1,129)
Income tax paid	(77)	(91)
Interest paid	(101)	(143)
Net cash flows from/(used in) operating activities	**294**	**403**
Cash flows from/(used in) investing activities		
Sale of rental properties and management assets	19	43
Mortgage and other lending repayments	7	–
Purchase of rental property assets	(1,523)	(1,716)
Purchase of other property, plant and equipment	(12)	(20)
Purchase of intangible assets	(11)	(8)
Net short-term investments (made)/realised	113	3
Intercompany	3	–
Net cash flows from/(used in) investing activities	**(1,404)**	**(1,698)**
Cash flows from/(used in) financing activities		
Net capital contributions (to)/from the Crown	(1)	(2)
Net funds from borrowings	884	1,297
Other debt increase/(repayment)	–	–
Net cash flows from/(used in) financing activities	**883**	**1,295**
Net cash flows	(227)	–
Opening cash and cash equivalents	523	2
Closing cash and cash equivalents	**296**	**2**

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

Statements of underlying assumptions

These statements have been compiled on the basis of current Government policy. They comply with Public Benefit Entity Financial Reporting Standard (PBE FRS 42 "Prospective Financial Statements"). They are presented to fulfil the statutory obligations of Kāinga Ora – Homes and Communities under the Crown Entities Act 2004.

In this section, Kāinga Ora refers to Kāinga Ora – Homes and Communities and its subsidiaries. The principal subsidiary of Kāinga Ora is Housing New Zealand Limited, which owns and manages state housing.

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

Opening balances of the Statement of Financial Position are actual figures derived from the audited closing balances at 30 June 2019.

Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Judgements and estimates are derived from historical experience and reasonable current assumptions. Actual results may differ from these estimates under different assumptions and conditions, which may materially affect the financial results or the financial positions reported in future periods.

The significant forecasting assumptions used in developing the financial forecasts in the Statement of Performance Expectations are detailed in the table below:

Forecasting Assumption	Risk	Financial Effect/ Action Taken	Net Level of Uncertainty
Expected interest rates on investments Interest rates on investments are consistent with the three-month term deposit rate.	Actual interest rates may differ significantly from those estimated.	Kāinga Ora manages any significant change in interest rates through the term of investment and/ or the type of investment.	Low

Forecasting Assumption	Risk	Financial Effect/ Action Taken	Net Level of Uncertainty
Expected interest rates on borrowings Interest rates on Crown debt are based on projected borrowing rates from the Crown, depending on the expected maturity of the debt, and taking into account the existing fixed rates locked in on the debt. Interest rates on debt issued by the market are based on projected market borrowing rates, depending on the expected maturity of the debt.	Actual interest rates may differ significantly from those estimated.	Kāinga Ora has an interest rate hedging policy that minimises any significant change to interest rates on projected borrowings.	Low
Credit risk – Welcome Home Loans (Mortgage Insurance Scheme) The Mortgage Insurance Scheme insures low-equity mortgage lending with terms averaging 28 years. Premiums for this product are received upfront but the risks of default are greatest over the first 15 years of the loan. Part of the premium received is moved to reserves to be recognised in future years in proportion to the risk of default.	The cash reserve is insufficient to meet subsequent defaults.	External actuaries assess the adequacy of held reserves every six months.	Low
Revenue from rents A rent growth rate is applied in line with current market expectation.	Market rent is outside the control of Kāinga Ora.	Variance to forecast rent has the largest potential impact on operating surplus.	Medium

Forecasting Assumption	Risk	Financial Effect/ Action Taken	Net Level of Uncertainty
Maintenance expense Maintenance spend is based on expected volumes and run rates for maintenance expenses.	Actual maintenance work completed may be different from that forecast.	Kāinga Ora has significant influence over maintenance programmes and expenditure.	Low
Price adjustors (cost indices) Larger expense items such as rates and personnel have been inflated for externally driven cost movement expectations.	Actual inflation may differ from that projected.	Kāinga Ora will regularly monitor future financial information and assess its impact on the projected financial position.	Low
Asset revaluations Property values change in line with current market expectation.	Property values can be volatile. Revaluation movements may be significantly different from forecast.	The impact of volatility on Kāinga Ora's operating surplus and comprehensive income could be significant.	Medium

Assumptions

	2019/20 %
Financing indices	
Average overall rate	3.3
Price adjustors	
Rent growth	3.3
Rates	5.0
Maintenance (underlying)	4.0
Taxation adjustors	
Goods and Services Tax (GST)	15
Income tax	28
Deductibility of depreciation on housing assets	0
Property revaluations	
Rental properties	1.3

Cost allocation policy

All costs are classified into responsibility cost centres. Most costs are able to be charged directly to output classes on either cost code alone or cost code in combination with cost centre. Remaining costs are charged to output classes by way of an allocation process based on cost drivers and related activity use.

Managing the Crown's investment

Kāinga Ora is forecast to have total assets of $30.2 billion at 30 June 2020, funded by liabilities of $7.4 billion and equity of $22.8 billion.

Value of the Crown's investment

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

The equity figure in the table below is based on estimates of property revaluation.

Equity as at 30 June 2020 $m
22,801

All current capital appropriations are drawn down in the ratio of 22:78 debt to equity.

Aside from capital appropriations, Kāinga Ora's capital expenditure programme is funded by cash flows generated from operations and private sector borrowings.

Business diversification

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

Agreements that result in compensation from the Crown

Kāinga Ora may enter into contractual arrangements with the Crown as required from time to time. Such arrangements would include compensation for the difference between market rent and income-related rent. All contractual arrangements will be identified in the Annual Report.

Kāinga Ora and the Crown have agreed, under section 7 of the Public and Community Housing Management Act 1992, that Kāinga Ora will be compensated for any difference between market rents and income-related rents. This is because Kāinga Ora is required to charge qualifying tenants an income-related rent rather than a market rent.

Statement of accounting policies

Corporate information

Kāinga Ora – Homes and Communities (Kāinga Ora) is a Crown entity as defined by the Crown Entities Act 2004) and is domiciled and operates in New Zealand. The relevant legislation governing the operations of Kāinga Ora and its subsidiaries is the Crown Entities Act 2004 and the Kāinga Ora–Homes and Communities Act 2019.

The objective of Kāinga Ora – Homes and Communities is to contribute to sustainable, inclusive, and thriving communities that –

- provide people with good quality, affordable housing choices that meet diverse needs; and
- support good access to jobs, amenities, and services; and
- otherwise sustain or enhance the overall economic, social, environmental, and cultural wellbeing of current and future generations.

In order to achieve one of its objectives of providing people with good quality, affordable housing choices that meet diverse needs, Kāinga Ora manages an asset portfolio of approximately 65,800 residential properties across New Zealand. Accordingly, its principal activities are:

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

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

The registered office of Kāinga Ora – Homes and Communities is Level 10, 80 Boulcott Street, Wellington.

Summary of significant accounting policies

(a) Basis of preparation

The prospective financial information is prepared based on PBE FRS 42 *Prospective Financial Statements* as appropriate for PBEs reporting under Tier 1 of the PBE Standards. The financial statements constitute a projection for the year ending 30 June 2020. As a projection, the financial information is prepared on the basis of one or more hypothetical but realistic assumptions, which reflect possible courses of action for the prospective financial information period as at the date this information has been prepared. The prospective financial information may vary from actual results. The financial information is forward looking and should be read in conjunction with the assumptions set out on pages 64 to 67. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied in forward-looking financial statements.

Kāinga Ora – Homes and Communities was established on 1 October 2019. Accordingly the forecasts represent the best estimates for this entity to 30 June 2020. The audited actual figures for the year ended 30 June 2019 represent the activities of Housing New Zealand Corporation (HNZC) for the year ended 30 June 2019. The main difference in the activities of these two entities is that Housing New Zealand Corporation did not include any KiwiBuild activities. The HNZC actuals have been included as the best comparator for Kāinga Ora's activities to 30 June 2019.

The financial statements have been prepared on a historical cost basis, except for rental properties, freehold land, derivative financial instruments, actuarially assessed provisions, available-for-sale financial assets, and financial assets at fair value through net surplus/(deficit) that are measured at fair value.

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

(b) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which include the requirement to comply with Generally Accepted Accounting Practice in New Zealand.

(c) Basis of the Kāinga Ora Group

The Kāinga Ora financial statements comprise the financial statements of Kāinga Ora – Homes and Communities (the Parent) and its subsidiaries, being Housing New Zealand Limited (HNZL) and Housing New Zealand Build Limited (HNZB) as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. All inter-entity balances and transactions have been eliminated in full.

(d) Property, plant and equipment

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

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

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

(e) Rental property land and buildings

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

Subsequent to initial recognition, land and buildings are revalued to fair value at the end of each year and recognised at their revalued amounts. Buildings are depreciated during the year through to the next revaluation.

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

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

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

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

An item of property is derecognised upon disposal or when no future economic benefit or service potential is expected to arise from the continued use of this asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of an asset is included in the net surplus/(deficit) for the year, in the period the item is derecognised. Gain or loss on derecognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of the buildings and their components, including chattels, as follows:

Rental properties	10-60 years

(f) Work in progress

Construction work in progress is recognised at cost. On completion, the property will be either held by the same entity and accounted for as rental property or sold, with any relevant work in progress transferred to cost of goods sold.

(g) Property held for sale

Properties identified as meeting the criteria for recognition as held for sale are reclassified as properties held for sale. This classification is used where the carrying amount of the property will be recovered through sale or transfer, the property is available for immediate sale in its present condition and a sale or transfer is highly probable.

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

(h) Properties under development

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

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

(i) Borrowing costs

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

(j) Intangible assets

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

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

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

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

(k) Impairment of plant and equipment and intangible assets

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

Non-cash-generating plant and equipment and intangible assets

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

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

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

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

(l) Investments and other financial assets

Investments and financial assets within the scope of PBE IPSAS 9 "Financial Instruments":

Under PBE IFRS 9, financial instruments are classified as at amortised cost, fair value through surplus or deficit (FVSD), or fair value through other comprehensive revenue and expense (FVOCRE).Classification is driven by Kāinga Ora's business model for managing the financial assets and its contractual cash flow characteristics.

The assessment of HNZC's business model for its financial assets was made as of the date of initial application, 1 July 2018.

The assessment of whether contractual cash flows on debt instruments comprise solely of principal and interest (SPPI test) was made based on the facts and circumstances as at the initial recognition of the assets.

The following financial assets were originally accounted for as loans and receivables and under PBE IFRS 9 have moved to the 'at amortised cost' classification. The measurement of these assets has not changed (except for impairment testing as outlined below) and they will continue to be measured using the amortised cost method:

- Cash and cash equivalents and exchange receivables
- Non-exchange receivables (contractual)
- Mortgage advances (short and long term)
- Short-term investments.

The short-term investments meet the SPPI test. Further, Kāinga Ora has determined that the short-term investments meet the business model test of holding to collect the contractual cash flows and thus have been classified at amortised cost.

The following financial assets were previously recognised at fair value through surplus or deficit (unless they are designated in a hedging relationship) and under PBE IFRS 9 will continue to be accounted as such:

- Investments – Shared equity loan scheme

Shared Equity Loan scheme loans do not meet the SPPI test and will continue to be classified at fair value through net surplus/(deficit) (FVSD).

- Derivative financial instruments

Derivative instruments fail the SPPI test and are required to be measured at FVSD unless they are designated in a hedge relationship. All of HNZC's derivative financial instruments are in hedge relationships.

There are no changes in classification and measurement for HNZC's financial liabilities previously measured at amortised cost.

Recognition and derecognition

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

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

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

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

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

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

(m) Mortgages and housing-related lending

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

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

(n) Trade and other receivables

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

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

(o) Long-term receivables

Long-term receivables represent the present value of debts that are expected to be settled beyond the next 12 months and are subsequently measured at amortised cost using the effective interest rate method.

(p) Cash and cash equivalents

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

(q) Accounts payable and other liabilities

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

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

(r) Interest-bearing borrowings

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

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

(s) Mortgage insurance liabilities

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

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

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

Kāinga Ora holds, at all times, short-term investments, equivalent to at least the total value of the Mortgage Insurance Scheme liabilities, to meet any claims under the scheme.

(t) Provisions

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

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

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

(u) Leases

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

(i) Kāinga Ora as a lessee

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

(ii) Kāinga Ora as a lessor

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

(v) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to Kāinga Ora and the revenue can be reliably measured.

(i) Revenue from exchange transactions

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

The following represents the revenue of Kāinga Ora for exchange transactions:

Revenue from tenants at market rent

Revenue received from the tenants paying market rent is recognised on a straight-line basis over the term of the lease.

Mortgage Insurance Scheme revenue

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

Interest revenue

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

Management fees

Kāinga Ora receives management fees, on a recovery basis, from the Housing Agency Account for managing the development of land.

(ii) Revenue from non-exchange transactions

Revenue from non-exchange transactions is where Kāinga Ora receives value from another entity for which it provides either no, or below-market, consideration, directly in return or when the consideration received by Kāinga Ora directly in return for its services is below market. Revenue from non-exchange transactions is recognised when initial control over the resources is gained as a result of a past event, receipt of future economic benefits or service potential from those resources is expected, there are no conditions attached to the resources gained, and the fair value of the assets can be measured reliably.

Revenue generated from non-exchange transactions is represented below:

Income-related rental revenue from tenants and income-related rent subsidies

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

Crown operating appropriations

Kāinga Ora receives revenue from the Crown as operating appropriations. Crown appropriation revenue is received to subsidise third-party revenue to equate market value (eg, mortgage insurance premiums and interest subsidies), to pay for services provided to the Crown (eg, government relations, research and evaluation), or to reimburse Kāinga Ora for expenses incurred by operating various programmes (eg, First Home Loans). All Crown appropriation revenue is recognised when the right to receive the asset is established, whether in advance of, or subsequent to, provision of the services relating to the appropriation.

(w) Contingent assets

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

(x) Income tax

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

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

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

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

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

(y) Other taxes

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

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

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

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

(z) Derivative financial instruments

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

(i) Fair value

Kāinga Ora carries its interest rate swaps at fair value through net surplus/(deficit), unless they are in a hedge relationship, calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of derivative financial instruments is determined by referencing to current rates for similar instruments with similar maturity profiles, and is calculated as the net discounted estimated cash flows of the instrument and based on the New Zealand dollar swap borrowing curve, as reported by Thomson Reuters, which is an active market interest rate benchmark.

(ii) Hedge accounting

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

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

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

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

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

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

(ab) Financial guarantees

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

(ac) Employee benefits

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

Critical judgements, assumptions and estimates in applying accounting policies

(a) Judgements

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

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

Kāinga Ora manages approximately 63,500* residential properties, from each of which it receives revenue based on a level of rent equivalent to that which the property could be expected to generate in the open rental market. In most circumstances a portfolio of rental properties would be classified as investment properties. The Crown, however, subsidises the balance between the level of market rent and that deemed affordable from the tenant based on the tenant's level of income. Management therefore considers the prime strategic purpose for holding rental properties is for public housing, and as such, according to PBE IPSAS 16 Investment Property, they are to be accounted for under PBE IPSAS 17 Property, Plant and Equipment.

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

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

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

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

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

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

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

* This excludes Community Group and Transitional housing.

(v) Classification of leases as operating or finance leases – Kāinga Ora as lessor

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

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

Kāinga Ora has exercised its judgement on the appropriate classification of all its leases, and determined that they are all operating leases.

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

(i) Fair value of rental properties

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

Kāinga Ora manages approximately 63,500 residential properties around New Zealand. In performing the valuation, the entire portfolio has not been individually inspected due to its size. A market indexation approach has been adopted for the remaining uninspected portfolio due to the homogeneous nature of the portfolio. Properties are valued based inherently on their 'highest and best use'.

Fair value of derivative financial instruments

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

(ii) Mortgage guarantee provision

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

(iii) Impairment of non-financial assets

As at each balance date, all assets are assessed for impairment by evaluating conditions specific to Kāinga Ora and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations, as the primary objective is to provide services for community or social benefit rather than financial return. If an impairment trigger exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

(iv) *Taxation*

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

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

(v) *Estimation of useful lives of assets*

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

Kāinga Ora applies the following estimates of economic lives to the components of its rental properties:

Buildings	40-60 years
Improvements	25 years
Chattels	10 years

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

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

(vi) *Recoverability of loans and receivables*

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

Appropriations – output tables

The following tables set out the appropriated funding Kāinga Ora expects to receive from the Crown in 2019/20. This funding is shown by appropriation and programme, and is aligned with Kāinga Ora's output classes.

Output Table: Operating Appropriations 2019/20

		Kāinga Ora Output Classes				
Appropriation and Programme	$m	Sustaining Tenancies and Managing our Homes	New State Housing Supply	Public Accountability and Ministerial Support	Enabling Housing Supply and Home Ownership	Services to the Housing Agency Account
Kāinga Ora Housing Support Services						
Mortgage Insurance Scheme (First Home Loan)	8.700	–	–	–	8.700	–
KiwiSaver Housing Deposit Subsidy – Administration	2.998	–	–	–	2.998	–
Total Kāinga Ora Housing Support Services	11.698	0.000	0.000	0.000	11.698	0.000
Housing Assistance						
Community Owned Rural Rental Housing Loans Interest Subsidy	0.091	–	–	–	0.091	–
Housing Innovation Fund Interest Subsidy	0.700	–	–	–	0.700	–
Other Legacy Loan Costs	0.370	–	–	–	0.370	–
Nat/WPT Portfolio – Loss of Interest SPOB	0.010	–	–	–	0.010	–
SHAZ Bridging Finance	0.001	–	–	–	0.001	–
Total Housing Assistance	1.172	0.000	0.000	0.000	1.172	0.000

Housing Assistance is exempt from Crown performance reporting as it is less than $5m.

Appropriation and Programme	$m	Kāinga Ora Output Classes: Sustaining Tenancies and Managing our Homes	New State Housing Supply	Public Accountability and Ministerial Support	Enabling Housing Supply and Home Ownership	Services to the Housing Agency Account
Purchase of Housing and Related Services for Tenants Paying Income-Related Rent*	939.694	939.694	0.000	0.000	0.000	0.000
This performance measure is reported by the Ministry of Social Development in its Annual Report.						
KiwiSaver Deposit Subsidy	90.734	0.000	0.000	0.000	90.734	0.000
KiwiSaver Deposit is exempt from Crown performance reporting as the information is unlikely to be informative.						
KiwiBuild Unit Operating	10.758	0.000	0.000	0.000	10.758	0.000
The Crown performance reporting for this KiwiBuild appropriation is under review.						
Total Operating Appropriations	1,054.056	939.694	0.000	0.000	114.362	0.000

* The Income-Related Rent Subsidy (IRRS) budget value is based on a different set of assumptions from those used by the Ministry of Social Development for the IRRS Crown appropriation budgets, creating a difference from the values reported by the Ministry of Social Development.

Output Table: Multi-Category Appropriations (MCA) 2019/20

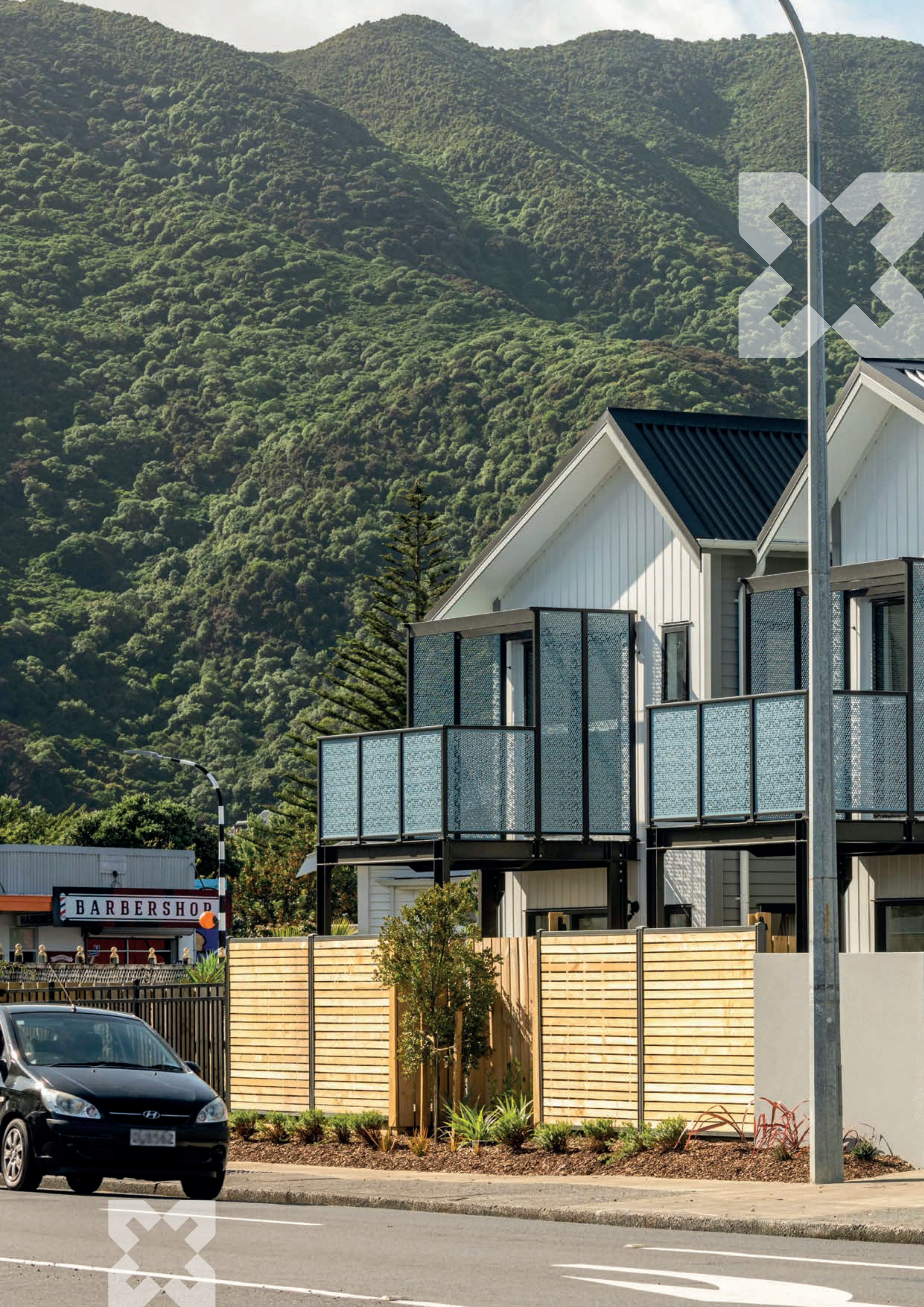
Appropriation and Programme	$m	Kāinga Ora Output Classes: Sustaining Tenancies and Managing our Homes	New State Housing Supply	Public Accountability and Ministerial Support	Enabling Housing Supply and Home Ownership	Services to the Housing Agency Account
Community Group Housing MCA						
Community Group Housing Market Rent Top-Up	14.791	14.791	–	–	–	–
Community Housing Rent Relief	4.104	4.104	–	–	–	–
Acquisition and Improvement of Community Group Housing Properties – Non-Departmental Capital Expenditure	5.800	–	5.800	–	–	–
Total Multi-Category Expenses and Capital Expenditure	**24.695**	**18.895**	**5.800**	**0.000**	**0.000**	**0.000**

MCA performance is reported by the Ministry of Social Development in its Annual Report.

Market Rent Top-Up is exempt from Crown performance reporting as the information is unlikely to be informative. Rent Relief is exempt from Crown performance reporting as it is less than $5 million and Capital Expenditure is exempt from Crown performance reporting as it is less than $15 million.

Output Table: Capital Appropriations 2019/20

Appropriation and Programme	$m	Kāinga Ora Output Classes: Sustaining Tenancies and Managing our Homes	New State Housing Supply	Public Accountability and Ministerial Support	Enabling Housing Supply and Home Ownership	Services to the Housing Agency Account
Refinancing of Kāinga Ora and HNZL Debt	251.683	0.000	251.683	0.000	0.000	0.000
Performance is reported by the Minister of Finance and appended to the Treasury's Annual Report.						
Total Kāinga Ora Capital Appropriations	251.683	0.000	251.683	0.000	0.000	0.000


BARBERSHOP

Kāinga Ora
Homes and Communities

New Zealand Government

Kāinga Ora – Homes and Communities

Tauākī Whāinga Mahi **Statement of Performance Expectations 2019/20**