TĀMAKI REGENERATION

STATEMENT OF PERFORMANCE EXPECTATIONS

2016 - 2017

Tāmaki is a strong and welcoming community, where people thrive and prosper, celebrated for its distinct history and vibrant future

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PURPOSE OF STATEMENT OF PERFORMANCE EXPECTATIONS

We are pleased to present the Statement of Performance Expectations (SPE) for the Tāmaki Redevelopment Company Limited (TRC).

This SPE is submitted by the Board of Directors of TRC pursuant to the Crown Entities Act 2004. It sets out the performance expectations of TRC for the year ending 30 June 2017.

STATEMENT OF RESPONSIBILITY

The Board is responsible for the statements contained in TRC's Statement of Performance Expectations and for the appropriateness of the assumptions as well as the relevant disclosures made in them.

The Board of TRC has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

Signed on behalf of the Board:

Brian Donnelly Chair	Dr. Susan Macken Deputy Chair
30 June 2016 Date	30 June 2016 Date

ABOUT TĀMAKI REDEVELOPMENT COMPANY

Tāmaki is located southeast of Auckland's CBD. It consists of the suburbs of Glen Innes, Point England and Panmure. The area is characterised by an outstanding natural environment, culturally diverse community (47% Pacific, 23% Maori, 10% Asian), a young population (29% under the age of 15), close proximity to the CBD, and strong community networks. There are also significant challenges within the area, including a large number of people seeking work and a high number of residents receiving support from the Government.

Tāmaki Redevelopment Company (TRC) has been mandated by its shareholders, New Zealand Government and Auckland Council, to lead on urban regeneration activity in Tāmaki to achieve four equally important objectives - social transformation, economic development, placemaking and housing resources.

Under this programme, on 31 March 2016 all the Housing New Zealand (HNZ) properties in Tāmaki were transferred to TRC. From this date, TRC are responsible for both managing the approximately 2,800 existing social housing properties and for leading on housing redevelopment in Tāmaki.

Through its shareholders, TRC has been mandated to replace around 2,500 social houses with a minimum of 7,500 mixed tenure houses over a period of 10-15 years. TRC will achieve this by:

- Engaging with a consortium comprising of a large scale development partner and a long term owner of the redeveloped social housing; and
- Maintaining momentum of Catalyst projects over the next three to five years to deliver approximately 800 new homes. These developments will be an opportunity to test, refine and benchmark the outcomes expected of large scale development.

Engagement of large scale development and investment partners is a critical move to meeting the following additional objectives:

- Efficiencies in the redevelopment process to improve affordability outcomes, enable the Crown to maximise value capture, and speed up the redevelopment
- Attraction of developers that could bring innovative approaches and unlock new supply chains and technologies that could reduce costs across the construction sector in New Zealand
- Opportunities for private sector involvement in the long-term finance and ownership of social houses.

In undertaking our redevelopment programme our shareholders also expect TRC to:

- meet the government commitment that those who are impacted by the redevelopment and are still in need of social housing will have the opportunity to remain within the community;
- help address housing affordability so that residents can pathway from the need for social housing to more independent living; and
- transfer the ownership of newly developed social houses in Tāmaki to third parties by 31 March 2018

It is important to acknowledge that this approach would not be the same as if development was undertaken by a private company who would seek to maximise the financial return. It is recognised that to maximise the economic and social returns likely requires trading off some financial return for TRC.

To enable it to perform its responsibilities from 1 April, the TRC has established the "Tāmaki Housing Association" (THA), which is a Community Housing Provider (CHP) and provides tenancy and property management services for social tenants.

The transfer of social houses from HNZ to TRC is part of the Government's Social Housing Reform Programme, which was established to encourage the social housing sector to diversify and be more responsive to tenants' needs. A specific aim of this programme is to grow the participation of CHPs within the market. To support this aim, TRC will engage with CHP partners in the delivery of services.

TRC will work constructively with a range of entities across Crown, Council, community and the private sector to develop a range of social and economic regeneration initiatives to advance the social and economic outcomes for Tāmaki residents.

OUR STRATEGIC FRAMEWORK

Our Strategic Objectives

TRC's Company Purpose is to pursue the following four regeneration objects, which are outlined in the company's Constitution:

SOCIAL TRANSFORMATION: Supporting Tāmaki residents and families to gain the skills, knowledge and employment opportunities to progress their lives;

ECONOMIC DEVELOPMENT: Strengthening the local economy and unlocking the potential of the Tāmaki area to enable a prosperous community and deliver better value for money to the Crown (with a focus on increasing the return on investment and realising the potential value from state and council-owned housing);

PLACE MAKING: Creating safe and connected neighbourhoods that support the social and economic development of Tāmaki and its community; and

HOUSING RESOURCES: Optimising the use of land and existing housing stock to effectively support and deliver social and economic results, including progressing private housing development and better public housing options for Tāmaki.

These four equally important objectives contribute to Crown and Council's wider strategic goals and the wider social and economic objectives for the region, all described below.

Contribution to the social housing reform programme

- Ensure that people who need housing support can access it and receive social services that meet their needs.
- Ensure that social housing is of the right size and configuration, and in the right areas, for those households that need it.
- Help social housing tenants to independence, as appropriate.
- Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities.
- Help increase the supply of affordable housing, especially in Auckland.

Contribution to Auckland Council's vision of "The World's most liveable city" and in particular the following transformational shifts

- Strongly commit to environmental action and green growth.
- Move to outstanding public transport within one network.
- Radically improve the quality of urban living.
- Substantially raise the living standards and focus on those most in need.

Contribution to wider regeneration objectives

The Tāmaki Redevelopment Company will work alongside community, Council and social sector agencies to develop the Tāmaki Outcomes Framework and align services to better meet the wider social and economic objectives in the Tāmaki region. The Framework will contribute to a range of broader outcomes including those found in the following documents:

- Better Public Services
- The Auckland Plan
- Maungakiekie-Tāmaki Local Board Plan
- Orakei Local Board Plan
- Auckland Maori Plan
- Government's Māori Economic Development Strategy
- Auckland Economic Development Strategy
- Social Housing Reform Programme
- Housing Affordability Programme
- Housing Strategic Action Plan
- Agenda for Children

LONG TERM OBJECTIVE – SOCIAL TRANSFORMATION

Tāmaki residents and families have the skills, knowledge and employment opportunities to progress their lives

Strategic Framework	Link
Contributes to Social Housing Reform Programme and Auckland Council's Transformational Shifts	• Ensure that people who need housing support can access it and receive social services that meet their needs • Help social housing tenants to independence, as appropriate • Substantially raise the living standards and focus on those most in need
Our objectives What we are aiming to deliver by 2017	• Provide opportunities for education and employment • Tāmaki residents understand and support the regeneration programme as it affects them • Families are linked to appropriate and better services which enable them to be more independent • Tenants impacted by redevelopment have the option to remain in Tāmaki

Outputs - Desired results

How will we know we're making progress

Measure	2016/17
Number of Tāmaki residents employed through TRC partners (cumulative)	10
Percentage of Tāmaki residents who understand and support the regeneration programme as it affects them	75%
Percentage of Tāmaki residents affected by the redevelopment that have a rehousing plan	100%
Percentage of social housing tenants provided with an opportunity to stay in Tāmaki	100%

Outputs - Enabling project milestones What we need to do to support our objectives	• Procurement of Intensive Support Services - Procure provider to deliver intensive support services to families with high complex needs - Implement Intensive Support Services via re-housing process • Tāmaki Outcomes and Evaluation Framework for regeneration programme - Contribute to the completion of evaluation framework and plan - Contribute to implementation of evaluation plan • Service Alignment - Contribute to completion of population segmentation & service mapping - Agree common agenda / outcomes framework with agencies & community - Contribute to defining the Collective Impact Framework - Contribute to implementation of a new model of service integration via Intensive Support Services

Revenue and Output Expenses

	2016/17 Prospective Unaudited
Revenue	
Crown	798
Other	-
Total Revenue	**798**
Expenses	4,027
Net Surplus/(Deficit)	**(3,229)**

LONG TERM OBJECTIVE – ECONOMIC DEVELOPMENT

Strengthening the local economy and unlocking the potential of the Tāmaki area to enable a prosperous community and deliver better value for money to the Crown

<table>
<tr><th>Strategic Framework</th><th colspan="2">Link</th></tr>
<tr><td>Contributes to
Social Housing Reform Programme and Auckland Council’s Transformational Shifts</td><td colspan="2">• Help social housing tenants to independence, as appropriate
• Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities
• Help increase the supply of affordable housing, especially in Auckland
• Substantially raise the living standards and focus on those most in need</td></tr>
<tr><td>Our objectives
What we are aiming to deliver by 2017</td><td colspan="2">• Help address housing affordability so that residents can pathway from the need for social housing to more independent living
• Leverage opportunities for social enterprise, economic development and employment opportunities
• Improve town centres
• Maximise return to the Crown</td></tr>
<tr><td rowspan="3">Outputs - Desired trends
How will we know we’re making progress</td><td>Measure</td><td>2016/17</td></tr>
<tr><td>Number of Tāmaki residents who progress along the housing continuum</td><td>5</td></tr>
<tr><td>Operating within Business Case and agreed commercial model</td><td>√</td></tr>
<tr><td>Outputs - Enabling project milestones
What we need to do to support our objectives</td><td colspan="2">• Affordable Housing
  - Crown role defined in affordable housing
• Economic Development Plan
  - Deliver 2016-2017 priorities
• Skills Pathways to Employment
  - Implement skills pathways to employment within Catalyst redevelopment programme
• Pathways to Housing Independence
  - Implementation of delivery framework (pathways to housing independence)
• Social Enterprise
  - Implementation of social enterprise programme
• Glen Innes Town Centre reference plan complete</td></tr>
</table>

Revenue and Output Expenses		2016/17 Prospective Unaudited
	Revenue	
	Crown	319
	Other	-
	Total Revenue	**319**
	Expenses	1,846
	Net Surplus/(Deficit)	**(1,527)**

LONG TERM OBJECTIVE - PLACEMAKING

Creating safe and connected neighbourhoods that support the social and economic development of Tāmaki and its community

Strategic Framework	Link
Contributes to Social Housing Reform Programme and Auckland Council's Transformational Shifts	• Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities • Strongly commit to environmental action and green growth • Move to outstanding public transport within one network • Radically improve the quality of urban living
Our objectives What we are aiming to deliver by 2017	• Develop quality neighbourhoods through urban design to support cohesion, safety, connected transport and environmental enhancement • Deliver local facilities and amenities identified and supported via neighbourhood engagement
Outputs - Desired trends How will we know we're making progress	**Measure**: Percentage of newly developed neighbourhoods that meet agreed minimum standards within the Quality Neighbourhood Framework — **2016/17**: 100%
Outputs - Enabling projects What we need to do to support our objectives	• Social Infrastructure Plan complete • Early Childhood Education strategy - Deliver 2016-2017 priorities

Revenue and Output Expenses

	2016/17 Prospective Unaudited
Revenue	
Crown	160
Other	-
Total Revenue	**160**
Expenses	1,451
Net Surplus/(Deficit)	**(1,291)**

LONG TERM OBJECTIVE – HOUSING RESOURCES

Optimising the use of land and existing housing stock to effectively support and deliver social and economic results, including progressing private housing development and better public housing options for Tāmaki.

Strategic Framework	Link
Contributes to Social Housing Reform Programme and Auckland Council's Transformational Shifts	• Ensure that social housing is of the right size and configuration, and in the right areas, for those households that need it • Encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities • Help increase the supply of affordable housing, especially in Auckland • Strongly commit to environmental action and green growth • Radically improve the quality of urban living
Our objectives What we are aiming to deliver by 2017	• Provide new houses to agreed topography and mix • Catalyse private sector development and investment in Tāmaki • Continue with Catalyst projects over the next three to five years to deliver approximately 800 new homes • Successfully manage 2800 social tenancies • Maintain rental income by ensuring houses are occupied, vacancy rates minimised and rental income debt minimised • Houses are maintained to a defined minimum standard • Engage CHP partners in the delivery of tenancy management / property management and support services • Establish long term partnership with private sector through procurement of development and investment partners for the redevelopment and ownership of social housing

Outputs - Desired trends

How will we know we're making progress

Measure	2016/17
Percentage of social housing tenants who are satisfied with our service	75%
Occupancy Rate for available properties	95%
Percentage of houses that meet minimum agreed standard	60%
Rental debt (older than 7 days as a % of monthly income)	2%
Annual provision of new houses to agreed topography and mix *(Note: See Capital Work Programme)*	86

Outputs - Enabling projects What we need to do to support our objectives	• Procurement of tenancy and property management CHP partners (partial completion) • Procurement for Large Scale Development (partial completion, refer development schedule) • Delivery of Catalyst and quick start projects (partial completion, refer development schedule) • Infrastructure funding agreement complete • Investment model for Income Related Rent Subsidy agreed • Strategic Land Procurement (Refer to the Development Projects section)

Revenue and Output Expenses

	2016/17 Prospective Unaudited
Revenue	
Crown	1,914
Other	136,223
Total Revenue	**138,137**
Expenses	200,494
Net Surplus/(Deficit)	**(62,357)**

WORK PROGRAMME TO DELIVER ON STRATEGIC OBJECTIVES

The following key enabling projects will support the delivery of our strategic objectives:

Project/Initiative	Project / Initiative Description
Procurement of Intensive Support Services	Engage with partners to deliver intensive support services for families with high complex needs via the re-housing process.
Tāmaki Outcomes and Evaluation Framework	Support the work of Treasury and Superu in the development of an evaluation framework and plan to assess the success of the Regeneration Programme over time by delivering the evaluation framework and plan in 2016/17.
Service Alignment	Work with relevant agencies and the community to align services to meet the need of Tāmaki residents, ensuring that learning about collective impact, social investment, and urban regeneration programmes is transferrable to other areas. Continue to build community capacity and seek community engagement. In 2016/17 this work will be advanced via the delivery of resident population segmentation, service mapping, the agreement to a common outcomes and collective impact framework and via a delivery pilot.
Skills Pathways to Employment	Work with relevant agencies to develop training pathways to employment for Tāmaki residents and support this by implementing the design solution for skills pathways to employment within the catalyst projects in 2016/17.
Affordable Housing	Develop the definition and principles for Affordable Housing. Agree the Crown's investment in Affordable Housing.
Economic Development Plan	Encourage business investment and growth within Tāmaki by implementing the 2016/17 economic development plan priorities as well as advancing the skills, knowledge and employment opportunities for Tāmaki residents (see skills pathways to employment.)
Pathways to Housing Independence	Support local Tāmaki residents to progress along the housing continuum, support this via the supply of affordable homes in Tāmaki and the implementation of the pathways to housing independence framework in 2016/17.
Social Enterprise	Support local Tāmaki residents to start up and operate their own businesses in a sustainable manner, by implementing year one of the social enterprise programme in 2016/17.
Social Infrastructure Reference Plan	Develop a Social Infrastructure Reference Plan to align amenities and services to the housing development.
Early Childhood Education Strategy and Delivery Plan	Continue implementation of Early Childhood Education strategy and delivery plan with relevant agencies and the community.
Procurement of Tenancy and Property management services	Engage Community Housing Provider partners in the delivery of tenancy management / property management and support services.
Procurement for Large Scale Development	Procurement of consortium comprising of a large scale development partner and investors. EOI & RFP stages to be completed in 2016/17.

Infrastructure Funding Agreement	Infrastructure Funding Agreement with Council approved by July 2016.
Investment model for Income Related Rent Subsidy	Investment model for Income Related Rent Subsidy approved by July 2016.
Strategic Land Procurement	Procurement of strategic land holdings to support the first precinct development.

DEVELOPMENT PROJECTS

The following development projects will support the delivery of our Housing objective:

Project/Phase	Houses Delivered
	2016/17
Northern Glen Innes	30
Fenchurch	56

CAPITAL APPROPRIATIONS

TRC is delivering regeneration in Tāmaki on behalf of Crown and Council. Crown has provided capital appropriations for 2016/17 in addition to the revenues identified per output classes above. These are outlined below. Drawdown of loan will include social housing buy-back, development expenditure, and strategic land purchases.

	2016/17 Prospective Unaudited $000's
Loan Facility	51,700

PROSPECTIVE FINANCIAL INFORMATION

Statement of Prospective Comprehensive Revenue and Expense

For the year ending 30 June 2017

	2017 Prospective Unaudited
Revenue	**$000's**
Crown appropriation income	3,190
Interest revenue	100
Rental income from tenants	17,728
Rental income from income-related rental subsidy	40,898
Sale of Goods	77,497
Total revenue	**139,413**
Expenditure	
Personnel costs	9,122
Directors fees	655
COGS	85,248
Programme and operational expenditure	4,517
Depreciation and amortisation expense	61,431
Tenancy management costs	8,395
Property management costs	15,060
Transition expenditure	3,574
Interest expense	1,243
Loss on sale of Inventory	5,688
Doubtful debts expense	553
Development project expenses	9,275
Other expenses	3,057
Total expenditure	**207,818**
(Deficit) before tax	**68,405**
Tax expense	-
Net (deficit) for the year	**68,405**
Other comprehensive revenue and expense	-
Total comprehensive (loss)	**68,405**

Statement of Prospective Financial Position

As at 30 June 2017

	2017 Prospective Unaudited $000's
ASSETS	
Current assets	
Cash and cash equivalents	14,892
Trade and other receivables	65,529
Inventory	37,257
Prepayments	181
Total current assets	117,859
Non-current assets	
Property, plant and equipment	1,479,502
Intangible assets	152
Total non-current assets	1,479,654
Total assets	**1,597,513**
LIABILITIES	
Current liabilities	
Creditors and other payables	(1,483)
Employee entitlements	(216)
Total current liabilities	(1,699)
Non-current liabilities	
Loan from Crown	(60,200)
Total non-current liabilities	(60,200)
Total liabilities	**(61,899)**
Net assets	**1,535,614**
EQUITY	
Equity attributable to Crown	1,636,161
Equity attributable to Council	3,500
Retained earnings	(104,047)
Total equity	**1,535,614**

For and on behalf of the Board who authorise the issue of the prospective financial statements on 30 June 2016.

Director
30 June 2016

Director
30 June 2016

Statement of Prospective Changes in Equity

For the year ending 30 June 2017

	2017 Prospective Unaudited $000's
Opening balance 1 July 2016	**1,639,661**
Retained earnings	
Total comprehensive (loss)	(104,047)
Balance	(104,047)
Owners' transactions	
Issue of preference shares	-
Closing balance 30 June 2017	**1,535,614**

Statement of Prospective Cash Flows

For the year ending 30 June 2017

	2017 Prospective Unaudited $000's
Cash flows from operating activities	
Cash provided from:	
Crown appropriation income	3,190
Rental income from tenants	17,728
Rental income from income-related rental subsidy	40,898
Sale of inventory	36,759
Interest received	100
Total cash provided	**98,674**
Cash applied to:	
Payments to suppliers	(74,964)
Payments to employees	(9,029)
interest paid	(1,243)
Total cash applied	**(85,235)**
Net cash from operating activities	**13,439**
Cash flow from investing activities	
Cash applied to:	
Purchase of property, plant, and equipment	(55,840)
Purchase of intangible assets	(117)
Total cash applied	**(55,957)**
Net cash applied to investing activities	**(55,957)**
Cash flow from financing activities	
Cash provided from:	
Loan from crown	51,700
Net cash from financing activities	**51,700**
Net increase in cash and cash equivalents	**9,182**
Opening cash and cash equivalents	5,711
Closing cash and cash equivalents	**14,893**

Notes to the Prospective Financial Statements (Unaudited)

For the year ending 30 June 2017

Statement of Accounting Policies

REPORTING ENTITY

Tāmaki Redevelopment Company Limited (TRC) is owned by Auckland Council (Council) and the New Zealand Government (Crown). TRC operates with the objectives of housing, economic development, social renewal, and spatial regeneration in the Tāmaki area. The ultimate parent of TRC is the Crown.

TRC is a Crown entity and is therefore principally governed by the Crown Entities Act 2004. TRC is a Schedule 4A entity under the Public Finance Act 1989 and is incorporated in New Zealand under the Companies Act 1993.

TRC wholly owns and controls THA GP Ltd and Tāmaki Housing Association Limited Partnership. TRC wholly owns but does not control Tāmaki Regeneration Limited. These prospective financial statements are for the legal group which includes Tāmaki Regeneration Limited. PBE IPSAS 6 *Consolidated and Separate Financial Statements* states that consolidated financial statements shall include all controlled entities of he controlling entity. In this respect alone these financial statements not reflect New Zealand General Accounting Practice (NZGAAP).

These prospective financial statements for the year ending 30 June 2017 were approved by the Board on 30 June 2016.

PROSPECTIVE FINANCIAL STATEMENTS

These prospective financial statements have been prepared for the express purpose of meeting legislative requirements set out under the Crown Entities Act 2004 and the use of these statements for any other purpose may not be appropriate. The description of the principal activities and current operations of TRC including those activities and operations expected to be undertaken during the period covered by these prospective financial statements are outlined in section 2 of this document. The actual financial results achieved for the year ending 30 June 2016 are likely to vary from these prospective financial statements and the variations could be material.

BASIS OF PREPARATION

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

Statement of Compliance

Except for the presentation issue identified above, the prospective financial statements of TRC have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with NZ GAAP.

TRC is a non-publicly accountable and non-large public benefit entity (PBE) as defined by the External Reporting Board. For that reason, TRC has elected to prepare its prospective financial statements in accordance with Tier 2 PBE accounting standards. This enables TRC to apply the Reduced Disclosure Regime.

These prospective financial statements comply with PBE accounting standards; Prospective Financial Statements (PBE FRS 42).

Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of TRC is New Zealand dollars (NZ$).

Measurement base

The prospective financial statements have been prepared on a historical cost basis except for:

- freehold land and rental properties which are revalued on a regular basis and carried at fair value; and
- debtors and short-term receivables which are measured at their fair value; and
- bank deposits and other investments which are measured at their fair value

SIGNIFICANT ACCOUNTING POLICIES

Revenue

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

Revenue from non-exchange transactions:

Revenue from non-exchange transactions is recognized only when TRC obtains control of the transferred asset (cash) and the transfer is free from conditions to refund or return the asset if the conditions are not fulfilled.

Crown appropriation income

Crown appropriation income is restricted in its use for the purpose of TRC meeting its objectives as specified in the Statement of Intent. Crown appropriation income is recognised as revenue when earned and is reported in the financial period to which it relates. The fair value of Crown appropriation income has been determined to be equivalent to the amounts due in the funding agreement.

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

Rental income from income-related rent subsidy is recognised on a straight-line basis over the lease term.

Donations

Revenue from donations is recognised when received and all associated obligations have been met.

Revenue from exchange transactions:

Interest revenue

Interest revenue is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Rental income from tenants at market rent

Rental income from tenants is recognised on a straight-line basis over the lease term.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term. Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Debtors and other receivables

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Collectability of debtors are reviewed on an ongoing basis. Impairment of a receivable is established when there is objective evidence that TRC will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Investments

Bank deposits

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment. For bank deposits, impairment is established when there is objective evidence that TRC will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into receivership or liquidation, and default in payments are considered indicators that the deposit is impaired.

Property, plant, and equipment

Property, plant, and equipment consist of the following asset classes: freehold land, rental properties, capital work in progress, leasehold improvements, office equipment and computer equipment. All assets classes are measured at cost less accumulated depreciation and impairment losses except for freehold land and rental properties which are measured at fair value.

Additions

The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to TRC and the cost of the item can be measured reliably. Work in progress is recognised at cost less impairment and is not depreciated. In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to TRC and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Leasehold improvements	The shorter of the period of the lease or estimated useful life	
Office equipment	5 years	20%
Computer equipment	5 years	20%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Freehold land and rental properties held by TRC are categorised on purchase or construction at cost. Such costs include the cost of repairs and renewals that are eligible for capitalisation. All other repairs and maintenance costs are recognised in the net surplus/(deficit) for the year.

Revaluations
Each year, freehold land and rental properties are revalued, on a class basis, to fair value. Fair value is determined by reference to market-based evidence and is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

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

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

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

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

Depreciation
Depreciation is calculated on a straight-line basis over the estimated useful life of the building as follows: Rental properties 1 - 60 years

Intangible assets
Software acquisition and development
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of TRC's website are recognised as an expense when incurred.

Website development
Costs that are directly associated with the structural development of the website are recognised as an intangible asset. These costs include application and infrastructure development and testing.

Website content development and operating costs are recognised as an expense when incurred.

Amortisation
The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3 years	33.3%
Developed computer software	4 years	25%

Inventories

Inventories include unlet freehold land and rental properties due to be sold for the purposes of redevelopment. These are reclassified from property, plant and equipment into inventories in accordance with paragraph 83 of PBE IPSAS 17: Property, plant and equipment. Upon reclassification from property, plant and equipment to inventories, the amount of the revaluation reserve relating to the reclassified asset is transferred to retained earnings.

Inventories are measured at the lower of cost or net realisable value.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in surplus or deficit in the period of the write-down.

Impairment of property, plant, and equipment, intangible assets and inventories

TRC does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return through the provision of goods and/or services to external parties. TRC's primary objective from its non-financial assets is to provide Social Housing and not to generate commercial returns.

Non-cash-generating assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the assets ability to generate net cash inflows and where TRC would, if deprived of the asset, replace its remaining future economic benefit or service potential. If an assets carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. For assets not carried at a revalued amount, the total impairment loss is recognised in surplus or deficit. For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Borrowings

Loan from Crown

Loan from Crown is a $200m drawdown facility that Crown has provided to TRC. TRC initially recognises all drawdowns on the loan at fair value plus transaction costs. After initial recognition, the loan is measured at amortised cost using the effective interest method. The loan is classified as a non-current liability. Interest on the loan, calculated using the effective interest method is included in surplus or deficit in the period to which it relates.

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, and sick leave.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements
Annual leave and bonuses are classified as a current liability.

Superannuation schemes

Defined contribution schemes
The obligation for contributions to Kiwisaver is accounted for as defined contribution superannuation schemes and is recognised as an expense in surplus or deficit as incurred. TRC's liability is limited to the value of contributions only.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future 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 the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:
• retained earnings; and
• share capital.

Goods and services tax

All items in the prospective financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the prospective statement of financial position. The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the prospective statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

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

Under PBE IAS 12 Income Taxes, the initial recognition exemption (IRE) applies, and deferred tax is not required to be recognised, if, on acquisition of an asset, the accounting and tax bases differ (provided it is not part of a business combination). As the tax depreciation rate for buildings is 0 percent, the tax base of the TRC'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.

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

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

Critical accounting estimates and assumptions

In preparing these prospective financial statements, TRC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating useful lives and residual values of property, plant, and equipment
At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by TRC, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. TRC minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second hand market prices for similar assets; and
- analysis of prior asset sales.

TRC has not made significant changes to past assumptions concerning useful lives and residual values.

Critical judgements in applying accounting policies
Management has exercised the following critical judgements in applying accounting policies:

Leases classification
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 TRC. Judgement is required on various aspects that include, but are not limited to, the 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 is recognised in the prospective statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised. TRC has exercised its judgement on the appropriate classification of equipment leases, and has determined that there are no finance leases.

Assumptions, risks and uncertainties underlying the prospective financial statements

The prospective financial statements are unaudited. The main assumptions underlying the prospective figures are as follows:

- The Large Scale Development procurement EOI and RFP will be carried out to plan.
- The company will earn rental income from tenants and from income-related rental.
- The amount of the loan drawdown for the 2017 financial year is based on the strategic land purchases taking effect and an assumed development programme being adhered to.
- The company will undertake strategic land purchases during the 2016/17 financial year and will prepare for development to occur on this land. Professional fees incurred in preparing for development will be capitalised as work-in-progress if they meet the recognition criteria under PBE IPSAS 17: Property, Plant and Equipment.
- Operating costs are based on historical experience adjusted for the expected increase in capacity required for the company to be prepared for the change in the operating model.
- The following economic assumptions will eventuate:

Assumption (source: Treasury)	Level of uncertainty	Risk	Financial impact
Average change in CPI: +1.6%	Moderate	That actual inflation is higher than forecast inflation	Movements in market prices will impact the Company's operating and transition costs as well as interest revenue.

The actual results achieved for the period covered by the prospective figures are likely to vary from actual results for the year 2016/17, and these variances could be material.

Factors that could lead to material differences between the prospective financial statements and the 2016/17 actual financial statements, in addition to the sources of uncertainty mentioned above, include decisions being made that alter the assumptions made above. It is intended that these prospective financial statements be updated subsequent to publication once the detailed planning assessments have been undertaken and the company's operating model and strategic direction are finalised.