

The Treasury Annual Report

2009/10

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New Zealand Government

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Chief Executive's Introduction

In 2009/10, the Treasury was focused on assisting the Government to manage New Zealand's recovery out of recession and to building the foundations necessary for a stronger, more balanced economy in the future.

Meeting these challenges required a step-up in performance from across the economic, financial and regulatory teams and organisational changes within the Treasury designed to strengthen the way that we conduct our work and deliver value to the Ministers whom we serve.

Recovery is under way, but at a slower pace than in previous upturns.

Supporting a Stable and Sustainable Macroeconomic Environment

The Government is committed to rebalancing the economy towards more sustainable growth and the Treasury assisted the achievement of this goal by providing timely fiscal and macroeconomic advice and by maintaining best practice debt management and Crown financial reporting standards.

Highlights of the year included the work that went into ensuring the successful launch of the Government's fiscal strategy to set the annual operating allowance within a lower maximum cap of \$1.1 billion starting in Budget 2010 and thereafter.

This involved ongoing engagement with departments and ministries to ensure the public sector was assisting the Government to achieve its priorities within a significantly more constrained fiscal operating environment. It also involved working across the public sector to ensure the smooth introduction of the Baseline Alignment Proposal (BAP) process. Our cross-agency work also assisted the Government to redirect \$1.8 billion over four years to frontline services. Reducing the costs of providing public services helps to limit the amount the Government needs to borrow.

Improving New Zealand's Overall Economic Performance

The Government is committed to narrowing the income gap between New Zealand and other rich developed economies and the Treasury provided policy advice on how to raise New Zealand's productivity performance.

This involved advancing policy options designed to strengthen the drivers of higher per capita economic growth.

Highlights of the work in this area included the analytical work provided to the Government and to the Tax Working Group ahead of the decisions that were announced in Budget 2010. The most significant tax reform package in over a generation, Budget 2010's changes to the tax system aim to improve incentives to work, invest and save, reduce tax biases in favour of property investment and strengthen the coherence and integrity of the taxation system.

The National Infrastructure Unit (NIU) was responsible during the year for driving improvements in New Zealand's infrastructure planning and investment and for leading a strengthening in the public sector's management of its infrastructure assets. The work of the Unit forms a critical part of efforts to assist New Zealand to gain bigger economic dividends from its capital investments in the years ahead. The Unit published the first *National Infrastructure Plan* in March 2010¹.

¹ The first *National Infrastructure Plan* is available on the National Infrastructure Unit's website: <http://www.infrastructure.govt.nz/plan>

During the year, the Government closed the Crown Wholesale Guarantee Facility while the Crown Deposit Guarantee Scheme was extended on tighter terms and conditions until 31 December 2011. The original scheme (which will close on 12 October 2010) was amended with regard to controls from 1 January 2010.

Improving State Sector Performance

The Government is committed to delivering better, smarter frontline public services funded primarily from within public agencies' existing operating baselines.

The Treasury assisted the achievement of this goal by working across the public sector to achieve greater efficiencies and improved financial performance, including from State-Owned Enterprises (SOEs) and Crown Financial Institutions (CFIs).

The Treasury, working closely with the Department of Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC), made progress on implementing the Performance Improvement Framework (PIF), setting the context for State sector pay negotiations consistent with the Government's fiscal and economic strategy and supporting the creation of much stronger financial and operational performance information.

Enhancing Organisational Efficiency

A new leadership structure, with implementation beginning in November, included the establishment of a smaller, tighter Executive Leadership Team (ELT) with the appointment of two new Deputy Chief Executives – one primarily responsible for the quality and coherence of our policy advice and one primarily responsible for the quality and coherence of our operational functions, but both with a collective cross-Treasury mandate as well. The new structure included the creation of the new positions of Chief Economist and Chief Accountant to drive the strengthening in the quality of our analytical work and our external leadership, and the appointment of Result Leaders.

The purpose of the leadership changes is to ensure that our organisation is positioned effectively to meet the fiscal and economic challenges in which the public sector operates and the rising performance expectations that Ministers have of us. The aim is also to ensure that we have the flexible mechanisms in place to encourage strategic thinking across the Treasury's outcome and result priority areas.

We have a responsibility to ensure that Ministers receive joined-up, forward-looking and solutions-focused advice at all times.

In September 2010, three non-executive directors were appointed to join the three ELT members on an expanded Board. The Board's role is to provide additional scrutiny, challenge and discipline to strategic choices – where our organisation should be heading and how it is going to get there. Having non-executive members on the Board will bring an external perspective and create a stronger performance discipline on senior management. The Chief Executive remains fully accountable for all Board decisions and retains his role and responsibilities under the State Sector and Public Finance Acts. The Treasury was careful to consult with the SSC in establishing the Board to ensure consistency with public sector legislative requirements. The Board will meet the Minister of Finance periodically with a focus on understanding the Minister's priorities and ensuring the Treasury's priorities are aligned with them.

Another significant structural change was that the former Crown Company Monitoring Advisory Unit (CCMAU) ceased to be a semi-autonomous body. All Treasury and CCMAU ownership monitoring, appointments and governance functions were brought together into a consolidated, separately branded, unit of the Treasury called the Crown Ownership Monitoring Unit (COMU).

This change will raise the bar in the monitoring of all Crown-owned entities, both through direct monitoring of some entities and via indirect levers for other entities, and it has also allowed us to better incorporate commercial expertise and capability within other parts of our business. These moves will strengthen the quality of advice to Ministers while also providing savings in the way the new group is supported.

During the year, the Treasury led and participated in the benchmarking work under the Better Administration and Support Services (BASS) programme and the all-of-government procurement reform. Assessments arising out of these processes have assisted, and will continue to assist, us to measure ourselves against best practices.

The Treasury's Budget 2010 BAP reprioritised expenditure within its core programmes as a continuation of changes commenced in Budget 2009 to ensure we are well placed to advise Ministers on medium-term and longer-term challenges and priorities.

Work also began on developing a *People Capability Strategy* and a *Medium-term Financial Strategy* for the Treasury. Steps completed include agreement to move towards a new remuneration framework and the implementation of detailed out-year budgets, identification of key future costs pressures and identification of options on rationalisation. A number of other management initiatives are also underway and the Treasury is looking forward to participating in the second tranche of assessments under the PIF. I anticipate this will provide further information to help us raise our performance as we build on the contributions that the Treasury's talented and committed staff are making.



John Whitehead

Secretary to the Treasury

What the Treasury Does

The Treasury's overall vision is to be a world-class Treasury working for higher living standards for New Zealanders. We aim to raise the country's capacity to deliver on people's aspirations for a better quality of life, through making an impact on the issues that are important to New Zealand's economic performance and State sector management.

Guiding the Treasury's work is our focus on achieving three main outcomes, all of which are necessary to attaining higher living standards for New Zealanders:

- ▶ a stable and sustainable macroeconomic environment
- ▶ improved economic performance, and
- ▶ improved State sector performance.

The Treasury also has six core roles that underpin what we do:

- ▶ **Economic role** – concentrates on issues with policy implications that may have a significant and therefore pervasive impact on the performance of the economy as a whole, including the NIU.
- ▶ **Financial role** – concentrates on issues that have significant fiscal implications both now and in the longer term, and financial management and standards (including financial probity issues).
- ▶ **Regulatory role** – concentrates on improving the quality of government regulation with a particular focus on removing the barriers to growth and improving productivity.
- ▶ **Central Agency role** – concentrates on helping the Government develop its overall strategy and manage significant issues that emerge.
- ▶ **Operational role** – concentrates on core operational functions such as those carried out by the New Zealand Debt Management Office (NZDMO), the New Zealand Export Credit Office (NZECO) and the Guarantee Scheme.
- ▶ **Performance monitoring** – concentrates on ownership monitoring, appointments and governance functions relating to SOEs and Crown Research Institutes (CRIs).

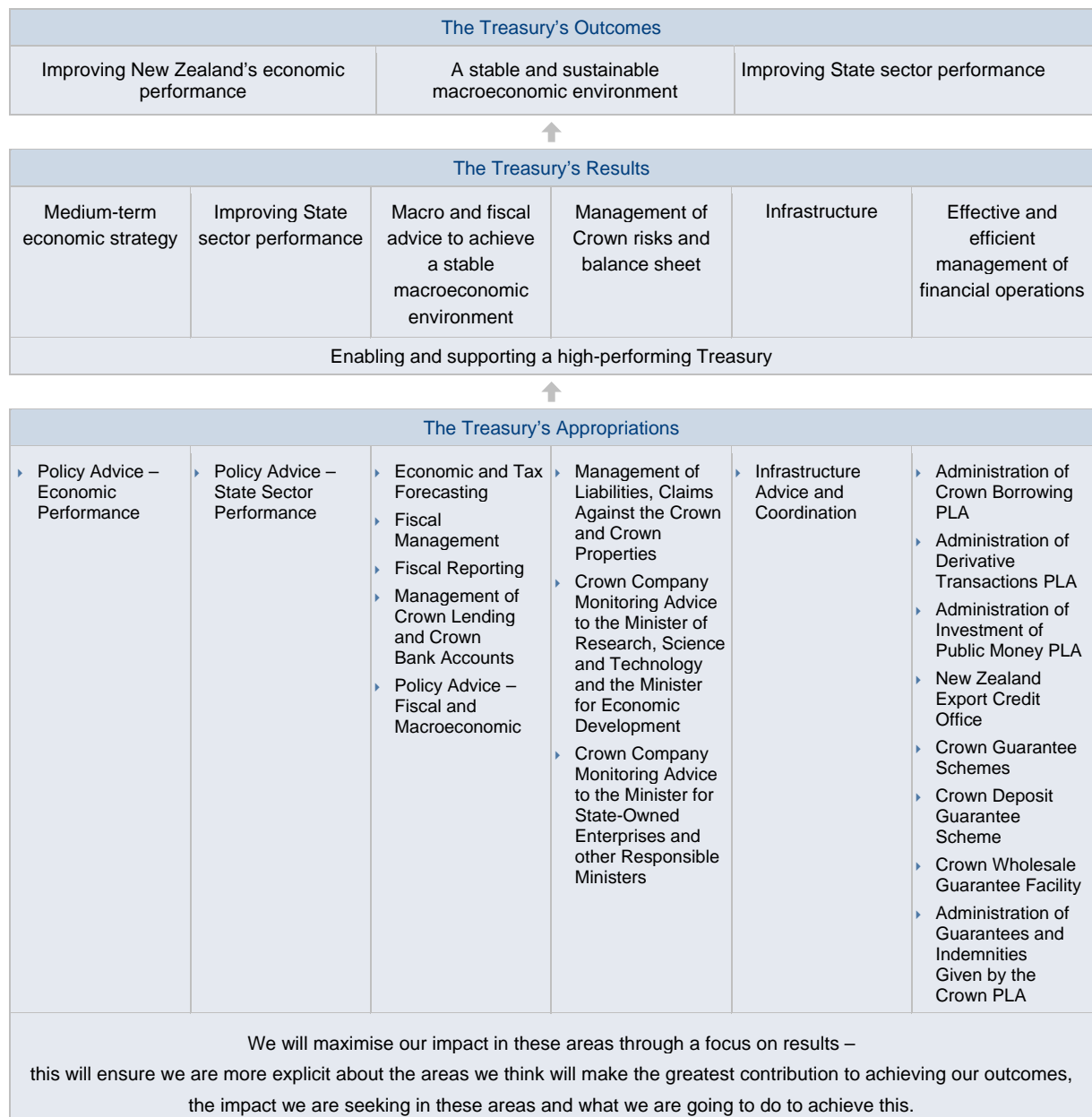
As these roles suggest, the Treasury is uniquely placed to provide the Government with advice that integrates economic and financial perspectives including interests in institutions, macroeconomic performance and structural policy issues. We bring it together in a way that helps the Government focus on what really matters to raise living standards. We operate in partnership with other agencies that have more specific responsibilities, as well as our fellow Central Agencies to ensure that the public service overall is well placed to fulfil the Government's priorities.

The Treasury's Performance Framework

This section reports on progress we made in our three outcome areas: a stable and sustainable macroeconomic environment; improved overall economic performance; and improved State sector performance. These outcomes reflect those areas where we feel we can have most influence towards achieving the Government's goals.

The Treasury's main output, or service, is policy advice. This policy advice, as well as the other services we provide, is delivered through 19 appropriations. These appropriations contribute directly to results we want to achieve. Our result areas are selected because they represent the areas where we can have the greatest impact, and our aim in focusing on them is to maximise the impact that we have and to enhance our effectiveness as a department. In turn, each of these results contributes to our progress with one or more of the three outcomes.

Success in achieving our portfolio of results involves engaging effectively, both internally and with our key external customers, providing good-quality policy advice and operations and being flexible in our approach so that we can respond to changes in our operating environment.



Our Outcome Performance for 2009/10

The Treasury focuses its efforts on progressing three outcomes: a stable and sustainable macroeconomic environment; improved overall economic performance; and improved State sector performance. These outcomes are aligned with the Government's priorities.

Outcome: A Stable and Sustainable Macroeconomic Environment

The Government is committed to rebalancing the economy towards more sustainable growth than has been recorded in recent years.

The Treasury assists the achievement of this goal by providing accurate and timely fiscal and macroeconomic advice and by maintaining best international practice debt management and Crown financial reporting standards.

Stable and sustainable macroeconomic settings are critical for individuals' and businesses' investment, spending and savings planning and are vital, therefore, to efforts to deliver higher per capita economic growth and higher living standards for New Zealanders.

At the beginning of the 2009/10 financial year, as the world was tentatively emerging from the global financial crisis and New Zealand had just commenced its recovery, the Crown's operating balance was projected to remain in deficit for about a decade. Priority outputs for the Treasury covered under this outcome, therefore, were focused on finding ways to strengthen the Crown's fiscal position and to thereby diminish the extent to which the Crown was adding to national dissaving.

To achieve this result, work progressed in four broad areas:

1. Fiscal and Macroeconomic Policy Advice

The global financial crisis, combined with increased baseline spending and tax cuts over the previous few years, meant that in Budget 2009 the Crown's operating balance was projected to be in deficit for about the next 10 years. The Treasury provided advice on how to advance the return to surplus and why that would help to reduce New Zealand's economic and financial vulnerabilities while supporting stronger economic growth in the future.

Other related outputs included:

▶ *Long-term Fiscal Statement*

In October 2009, the Treasury published a report entitled *Challenges and Choices*. This was the second *Long-term Fiscal Statement* to be prepared since the Public Finance Act 1989 was amended to require the Treasury to report to Parliament at least once every four years with 40-year projections of key fiscal indicators including revenue, expenses, the operating balance and debt. The report outlined several options for keeping the Crown's finances stable and sustainable over the long term.

▶ *Changing the long-term fiscal objective in the Fiscal Strategy Report (FSR)*

The Minister of Finance released his 2010 FSR in May 2010, along with the 2010 Budget. The 2010 FSR amended the Government's long-term net debt target by bringing forward the time when net debt would be brought back to below 20% of Gross Domestic Product (GDP) to the early 2020s. The Treasury assisted the Minister to produce the FSR by providing analytical advice and the 2010 FSR projects net core Crown debt to commence a downward trend in about five years' time and to stand below 15% of GDP by 2025.

▶ The “Fiscal Anchor”

The Treasury provided advice on the benefits of setting numerical objectives for fiscal measures other than net debt, such as net worth. While net debt has been maintained as the primary fiscal anchor, Ministers also consider movements in other fiscal measures (eg, net worth, operating balance) when weighing-up policy options.

▶ Best practice approaches to managing Crown spending

The Minister of Finance asked the Treasury to advise on the potential benefits of adopting a cap on total spending and whether or not such a cap would help the Government to meet its fiscal objectives by complementing its annual net new operating allowance. The Treasury devised a potential spending cap proposal and advised the Minister on its costs and benefits within the context of a critical assessment of the evolution and performance of New Zealand's fiscal framework. This work is informing the Treasury's ongoing advice to the Government on best practice approaches to managing Crown spending.

2. Fiscal Management

The Treasury assists the Government by managing the annual budget process and advising on expenditure and revenue decisions that contribute to the Government's fiscal objectives, its economic and other priorities (including its commitment to achieving value for money from expenditure) while raising public sector productivity levels.

For Budget 2010, the Government's fiscal strategy committed it to deliver from within operating and capital allowances of up to a maximum of \$1.1 billion and \$1.45 billion respectively. These allowances were considerably smaller than the budget allowances during much of the past decade.

The process was modified to enable the Government to deliver its budget from within the stated allowances while advancing its policy priorities. The main changes were:

- ▶ at an early stage of the budget process, allocating almost all of the available operating allowance to the Government's priorities, and
- ▶ inviting Vote Ministers to better utilise baseline funding to provide resources to higher-priority applications.

This helped the Government to meet its fiscal objectives with the beneficial economic side-effect of providing efficiency gains, reducing the number of budget initiatives from over 700 in Budget 2008 and Budget 2007 to around 30.

The reduction in the number of budget bids is evidence that departments are looking for savings within their baselines. The Treasury assists the Government to raise the value for money from expenditure by assisting departments to focus on their baseline spending. With budget allowances set to tighten further, this work will take on still greater significance as departments will need to find further savings from within their baselines.

3. Economic Forecasting, Tax Forecasting and Fiscal Reporting

The Treasury produced forecasts for the economic and fiscal outlook in December 2009 and in May 2010. Budget Ministers used these forecasts as key inputs to their decision-making, especially for Budget 2010. The Treasury also provided Ministers with alternative economic and fiscal scenarios around various economic and policy options to assist them to make evidence-based decisions.

The variance from forecast for the one-year-ahead 2009 Budget tax revenue forecast was –1.4%, which was within the target variance of less than $\pm 3\%$. Forecast variances for the major economic aggregates forecast by the

Treasury (eg, real and nominal GDP growth, Consumer Price Index (CPI) inflation), were generally smaller than the rolling, five-year averages (as at March 2010).

The Treasury published the Financial Statements of the Government of New Zealand for the year ended June 2009, the Financial Statements for the three months ended September 2009 and then published monthly statements every month from September 2009 onwards, as planned. Publishing accounts informs the Government on how it is progressing towards its fiscal objectives, provides a base for its forecasts and informs the public on the Crown's income and spending.

The Treasury sent weekly and monthly commentaries on local and international economic developments to Budget Ministers, and provided Ministers with one-off evaluations of major international economic developments.

4. Debt Management

The operations of NZDMO aim to work towards a stable and sustainable macroeconomic environment by minimising the cost of borrowing, and by managing financial assets to maximise long-term returns, within an appropriate risk management framework.

The annual cost of new borrowing in 2009/10 was 4.15%, lower than the long-run average cost of just over 6%. This reflects continued strong demand for New Zealand government securities and relatively low domestic interest rates during the period.

In 2009/10, NZDMO continued its policy of prefunding, revising the target for its 2009/10 bond programme up twice from NZ\$8.5 billion to NZ\$12.5 billion. Prefunding is expected to save money for New Zealand taxpayers, as sovereign borrowing costs are expected to increase in the future as a result of the significant volume of global sovereign debt needing to be raised. There is also likely to be further pressure on borrowing costs arising from the current focus on some European governments' credit risk.

Throughout 2009/10, NZDMO introduced further measures aimed at increasing demand, and thus reducing the cost of the Crown's borrowing, including:

- ▶ the bond tranche size was increased from \$6 billion to \$8 billion
- ▶ reintroducing the one-year treasury bill, providing investors with an additional short-term government security and increasing the range of funding options available to NZDMO, and
- ▶ announcing two initiatives under active consideration: reintroduction of inflation-indexed debt, and participation by NZDMO in the secondary market for New Zealand government securities.

Further information on NZDMO's operations can be found on pages 115 to 126 of this report.

Outcome: Improved Overall Economic Performance

The Government is committed to narrowing the income gap between New Zealand and other rich developed economies, such as Australia.

The Treasury assists the achievement of this goal by providing policy advice on how to raise New Zealand's productivity performance relative to other rich economies so that we can lift our potential growth rate and our living standards in the years ahead.

An economy's productivity performance is a measure of the degree of efficiency with which its firms and organisations, including those in the public sector, turn inputs (labour and capital) into outputs (goods and

services). New Zealand's productivity performance has lagged that of other developed nations over a timeframe of several decades.

In the year under review, the Treasury provided advice on the future direction of the Government's Economic Growth Agenda to support the goal of closing the income gap with Australia. This involved coordinating advice across the public sector, leading the development of progress reports to Cabinet, as well as advancing a number of work streams that will increase our understanding of the challenges facing the New Zealand economy, and therefore the future directions for policy. This included work on cross-cutting issues affecting our economic performance, such as the determinants of New Zealand's interest rate premium relative to the rest of the world, the drivers of New Zealand's exchange rate cycle and the implications of economic geography for policy advice. The Treasury also served as the secretariat for the 2025 Taskforce, providing analytical support for the Taskforce's first report in November 2009 and ahead of its next report (due in November 2010).

While the Treasury helped the Government manage the recovery out of the 2008/09 international economic and financial crisis we also worked to ensure that short-term measures adopted to support New Zealanders were consistent with the need to lift the productivity performance of the New Zealand economy in the years ahead.

The Government's economic strategy is based around six drivers of economic growth:

- ▶ investment in productive infrastructure
- ▶ removing red tape and improving regulation
- ▶ supporting business innovation and trade
- ▶ improving education and lifting skills
- ▶ lifting productivity and improving services in the public sector, and
- ▶ strengthening the tax system.

As the Government developed its economic strategy, the Treasury shifted away from the strategic result areas identified in its *2009-2012 Statement of Intent* to focus more on the six drivers of economic growth. In 2009/10 we contributed directly to four of the drivers:

▶ **Investment in productive infrastructure**

The NIU drove improvements in the Government's approach to infrastructure policy through the development of the first *National Infrastructure Plan*, published in March 2010. The Plan set out the Government's strategy, priorities and planned infrastructure investments, heralding a new transparency which will facilitate more informed public and private sector investment planning and decision-making in the years ahead.

▶ **Removing red tape and improving regulation**

We improved both the stock and the flow of regulation by helping the Government reform the institutional arrangements for the development of regulation and by contributing to a set of major regulatory reviews.

▶ **Lifting productivity and improving services in the public sector**

We helped the Government redirect \$1.8 billion over four years to frontline services. (See the Improved State Sector Performance outcome on pages 12 to 17 for further details.)

▶ **Strengthening the tax system**

The Treasury and the Inland Revenue Department (IRD) advised the Government ahead of the decisions announced in Budget 2010 which heralded the most significant package of tax reform in over a generation. The tax package will improve the incentives to work, invest and save, as well as reduce tax biases in favour of property investment.

We also worked with other agencies to support business innovation and trade, improve education and lift skills.

Some of the work programmes we undertook to assist the Government to improve economic performance included:

Infrastructure

The NIU assisted the improvement of the public sector's management of infrastructure assets by leading cross-government work on the use of better capital asset management techniques, systems to improve rigor in decision-making and public private partnerships (PPPs) to introduce contestability in procurement decisions. The NIU has published guidance on PPPs, and two PPP projects have now been approved by Cabinet.

Regulatory Quality

The Treasury advised the Government on options for reform to the institutional arrangements around the development of regulation, including the strengthening of the Regulatory Impact Assessment regime and requiring government agencies to scrutinise the existing stock of regulation. We have supported the taskforce that is taking forward the Regulatory Responsibility Bill, and led policy development on the establishment of a New Zealand Productivity Commission, which will provide the Government with independent advice on how to lift productivity. Policy teams around the Treasury contributed to the major regulatory reviews launched by the Government covering legislation such as the Resource Management Act 1991, Securities Act 1978 and Building Act 2004. Our advice on these reviews is intended to help the Government develop good-quality regulation and sound, durable institutions that foster trust and confidence among stakeholders.

Tax Strategy

The Treasury assisted the Tax Working Group's independent assessment of the New Zealand tax system through the provision of technical papers, presentations and secretariat services. Our major output was the delivery of the Budget 2010 Tax Package in conjunction with IRD. The Tax Package constituted the largest tax reform in 25 years and included a change in the tax mix from income tax to GST, various efficiency-enhancing base broadening measures, compensation measures for vulnerable groups in society and measures designed to increase the integrity of the tax system. The Treasury provided policy, technical, costing and distributional analysis for Ministers. The Tax Package announced by the Government was widely accepted by stakeholders as a growth-positive step change which was also fair and equitable.

Natural Resource Management

The Treasury was closely involved in the work to develop New Zealand's climate change targets for the United Nations Climate Change Conference at Copenhagen in December 2009, and is now working with other government agencies to prepare for the next Climate Change Conference at Cancun. We have also been involved in finalising policy for the domestic Emissions Trading Scheme (ETS), which was amended in November 2009 and came into force for the stationary energy, industrial processes and liquid fossil fuels sectors on 1 July 2010. We have contributed to the Government's resource management reforms, with a particular focus

on freshwater management and the review of the Resource Management Act 1991. We focused our efforts on the development of policy that will encourage the productive use of New Zealand's natural resources.

Skills

The Treasury worked with Ministers and the Ministry of Education (MOE) to ensure a broad focus on lifting the achievement of all school leavers, as reflected in decisions on the initial implementation of the Youth Guarantee and Trades Academies initiatives. We also worked with Ministers and agencies to identify the system changes needed to give effect to the Government's *Tertiary Education Strategy*, issued in December 2009, which places an emphasis on young people and on getting more people through the system at higher levels. These changes, including recent decisions to publish performance information from providers, introduce performance-linked funding and link eligibility for student loans to passing courses, are intended to lift the performance of both students and providers. Our work has also contributed to the rationalisation of a number of special funds that were poorly linked to educational or research outcomes, freeing up resources for extra places and cost pressures. We anticipate that these decisions will collectively result in higher student achievement over time – with more young people achieving better school-level qualifications and completing higher-level tertiary qualifications – and that these higher skills should help drive higher labour productivity and living standards in the future.

International Connections

The Treasury contributed to improving the cross-border flow of people, capital, ideas and trade through our work on reviewing the Overseas Investment Act 2005 to remove unnecessary impediments to overseas investment in New Zealand, agreeing arrangements with Australia to allow the portability of retirement savings and advancing negotiations with Australia on an investment protocol to make it easier for residents in one country to invest in the other. We also participated in the Trans-Pacific Partnership free trade negotiations and the review of New Zealand's offshore network, began identifying the next steps for the future development of the Single Economic Market with Australia and undertook research on factors influencing trade and performance in the services sector.

Enterprise and Innovation

The Treasury advised the Government on how to support a competitive business environment that rewards business investment, innovation and enterprise. This included joint advice with the Ministry of Research, Science and Technology (MoRST) and the Ministry of Economic Development (MED) on initiatives to increase firms' expenditure on research and development and policies to support the transfer of knowledge between our public research organisations and firms. We advised on the governance and structures of public sector agencies involved in innovation policy and delivery and on how to maximise the contribution of CRIs to New Zealand's economic performance through our participation in the Crown Research Institute Taskforce. We also provided advice on the value for money of government expenditure on innovation and enterprise.

Crown Balance Sheet Risk Management

In 2009/10, we undertook development work on measuring and understanding Crown risk. In particular, we: developed a new Crown risk model; provided advice on how to think about Crown risk overall, culminating in a set of reports to Ministers covering both aggregate and commercial portfolio risk; included more discussion of risk and the balance sheet in Budget 2010 documents including the 2010 FSR.

New Zealand Export Credit Office

As part of the response to the global financial crisis, the Government decided to expand the range of NZECO's products in two key areas: NZECO entered the short-term trade credit insurance market to complement private sector provision and the Crown provided NZECO with additional capacity of \$200 million to meet increased demand. NZECO has supported \$172 million of exports through bond guarantees and \$382 million of exports through short-term trade credit guarantees. In addition to transactions underwritten with the private sector, NZECO issued a total of 122 short-term trade credit guarantees covering transactions in 43 countries across a range of industries. Overall, in supporting export growth, NZECO also continued to generate premium in excess of its costs, including the cost of paying its first claim, with net income from insurance operations totalling \$0.639 million.

Guarantee Schemes

During the recent global economic and financial crisis and its aftermath, we advised the Government on the appropriate macroeconomic policy settings in response to the evolving macroeconomic context, including the implications for New Zealand of the European sovereign debt crisis. With the domestic and global economies recovering, our attention in 2009/10 shifted from crisis management to the appropriate pace of unwinding fiscal policy stimulus. During the year under review, we also made a number of adjustments to the policies introduced as temporary crisis measures in 2008. The original Crown Deposit Guarantee Scheme was extended on tighter terms and conditions until 31 December 2011. The original scheme (which will close on 12 October 2010) was amended with regard to controls from 1 January 2010. The Government closed the Crown Wholesale Guarantee Facility on 30 April 2010 as the institutions using the facility were again able to access wholesale funding markets without a Crown guarantee.

Outcome: Improved State Sector Performance

The Government is committed to delivering better, smarter frontline public services funded primarily from within public agencies' existing operating baselines as part of its commitment to rebalance and strengthen the economy.

The Treasury assists the achievement of this goal by seeking the following changes in the State sector:

- ▶ greater effectiveness (by better achieving the outcomes that the Government has prioritised)
- ▶ increased efficiencies (by achieving better or equivalent results at lower cost), and
- ▶ improved financial performance from the Crown's portfolio of companies, including SOEs and CFIs.

In the year under review, the Treasury focused its efforts to make progress in five broad areas.

Improving the Effectiveness of the State Sector Model

This model enables Ministers to specify their performance requirements and requires chief executives to deliver and report on these requirements. The model includes an annual cycle of direction setting; allocating and prioritising resources; agreeing price, quantity and qualitative standards; and monitoring the performance of agencies. This cycle has given the Treasury opportunities during the past year to help Ministers achieve the results they are seeking within a focus on driving efficiency, effectiveness, within affordable budgets.

The 2009/10 year was a period of investment work intended to assist Ministers to deliver on the Government's fiscal strategy and to get more traction on overall management of the State sector. To date, our impact has been in giving Ministers a better sense of how current initiatives are working, both individually and as a set, which has led to some changes, such as removing the need for separate reporting on Performance Improvement Actions

and increasing our efforts in looking at baseline relativities. In particular, the “toolkit” approach to supporting conversations between Ministers and chief executives to engender better performance information is delivering greater transparency. Advice on ensuring that the model is understood, and that opportunities are taken to give effect to Government’s desired objectives, such as increasing contestability in public services, has been well received.

The Treasury expects that the investment work will pay off, in particular through the better aligning of expenditure and priorities work. There is a risk that the focus becomes overly short term, at the expense of continuing to invest time in thinking about the longer-term direction. Keeping the right balance between short-term deliverables and analysis of more fundamental questions about the scope, scale and configuration of public service provision (which is increasingly the focus of policy attention overseas) will be important.

Over the year, the Treasury advanced measures to improve State sector input management, such as through the BASS and MED procurement initiatives. While measurable productivity gains can be achieved through the reconfiguration of back office services, most of the value from State sector reform will lie in the redesign of front line services, reduction in the size of the State sector and the removal of low-value programmes. It will be critical to the success of these efforts to remain clear on the respective roles and responsibilities of chief executives, the three Central Agencies and of Ministers.

On 6 April 2010, the Treasury established a Cross Agency Programme Management Office (CAPMO) to assist Ministers on all-of-government and cross-agency initiatives and to facilitate and encourage all-of-government activity where it provides a greater return on investment than individual action. The CAPMO assisted MED in establishing the funding mechanism for the ongoing operation of the Procurement Reform Programme and released draft guidance on the Cross Agency Initiatives Process, a mechanism to encourage and facilitate greater collaboration across the State sector. The CAPMO also assisted SSC in establishing the Chief Executives’ Group to oversee Government Business Reform (CEG GBR) in July 2010. This group, which is chaired by the Chief Executive of the SSC, Iain Rennie, will be key in driving the reform agenda across government.

The purpose of the group is to provide alignment, coherence and strategic leadership for all-of-government and significant sector business reform initiatives. It has a mandate to oversee the full range of business reform initiatives, ensure communication is coherent and consistent, advise on the alignment of new initiatives and provide direction on specific all-of-government initiatives where needed.

Providing Advice on Priority Issues and Sectors

The Treasury initially identified tertiary education and schooling, the justice sector, health funding and defence as key sectors. During the year, Accident Compensation Corporation (ACC), the benefit system, Treaty of Waitangi settlements and housing also emerged as significant areas of focus to improve State sector performance.

Tertiary education

The Treasury assisted Ministers to make decisions about the reprioritisation of expenditure in the tertiary education sector to deal with enrolment and cost pressures, including the growing cost of the student loan scheme and to remove low-value expenditure. It provided Ministers with advice on the financial performance of the polytechnic sector, given the challenges some institutions in the sector have faced with financial viability. The Treasury also worked with MOE, IRD and the Ministry of Social Development (MSD) to develop options for improving the governance of the student loan scheme which involves significant roles for each agency. The Treasury also contributed to the introduction of performance-linked funding and streamlining of the provision of Levels 1-3 courses.

Schooling

The Treasury worked with Ministers and the MOE to make system and policy changes to deliver improved education outcomes within a sustainable fiscal track. Changes to the budget treatment of Vote Education (including forecast changes) mean that the Ministry is managing cost pressures within a clearer funding envelope. This has driven an explicit process of reprioritisation to better reflect government priorities and policy decisions to address key cost drivers – Cabinet’s Expenditure Control Committee and the Ministry’s Performance Improvement Actions – and in particular to align funding with the Government’s target for 80% qualified teachers in early childhood education.

The Treasury and the NIU continued to work with Ministers and the Ministry on a PPP for a new school which offers significant opportunities to improve value for money (eg, through improvements to the procurement model) and also education outcomes.

Health sector

During the year, the Treasury influenced health sector performance in four related ways:

- ▶ The Treasury led initial advice on how the Government should respond to the Ministerial Review Group’s July 2009 recommendations, and worked with the Ministry of Health (MOH) on more detailed implementation issues. Through this work, the Treasury assisted Ministers to redesign the system of leadership for the health sector. The changes included establishing the National Health Board and other new advisory bodies to oversee health sector capital planning, workforce, information technology and quality and safety; and restructuring within the MOH, including the creation of a National Health Board business unit.
- ▶ The Treasury’s advice assisted Ministers to implement a budget package that delivered on the Government’s health priorities while constraining new spending at significantly lower levels than in previous years and reprioritising within baselines to manage within fiscal constraints.
- ▶ The Treasury’s October 2009 *Long-term Fiscal Statement* included an analysis of health sector challenges and choices including the need to lift productivity and adopt more cost-effective models of care. The impact of this on front-line health services will take time to assess. However, initial sector response to budget signals and the longer-term analysis has included an increased focus by District Health Boards (DHBs) on achieving sustainable financial performance, and greater collaboration between DHBs and other health providers in planning and delivering health services.
- ▶ The Treasury also helped the MOH to establish a new health capital process that will include higher-quality analysis of capital expenditure proposals and a more consistent whole-of-government approach to capital asset management.

Justice sector

Initiatives to explore and design a new approach to justice sector performance management undertaken in 2009/10 have the potential to drive significant change across the sector. Maintaining the momentum of this effort will require clear focus in coming years.

The Treasury also supported the general direction of the Policing Excellence work. This work has the capacity to generate enduring performance improvements, provided that the planned changes are implemented at an adequate pace and scale.

The Treasury continued to work with the Department of Corrections on a PPP for a new prison at Wiri, which offers significant opportunities to improve value for money and also prison outcomes.

Defence

The Treasury worked with the Ministry of Defence and other Central Agencies on the Defence assessment, reflecting the strong commitment from agencies to expedite the completion of the Defence White Paper process. This process is likely to generate key choices and decisions for Ministers over the next three to four months, particularly once the Defence value-for-money review is completed. The work in 2009/10 means that the Treasury is well placed to advise Ministers in this area.

Accident Compensation

The Treasury was involved in the stock-take of ACC accounts established by the Government, which included consideration of the introduction of competition into aspects of the scheme, a value-for-money project run by the Corporation, advice on levy setting, budget proposals and analytical work into better understanding what has driven increases in the size of the ACC liability in recent years.

Benefit system

The Treasury worked closely with Ministers and the MSD on proposals to reform the benefit system which led to legislative changes and to the establishment of the Welfare Working Group, to which the Treasury has also made a significant contribution.

Progressing Treaty of Waitangi settlements

This area emerged as a priority sector during the year and our focus was on large settlements with the potential to set precedents. We expect a number of settlements to meet major milestones in 2010/11.

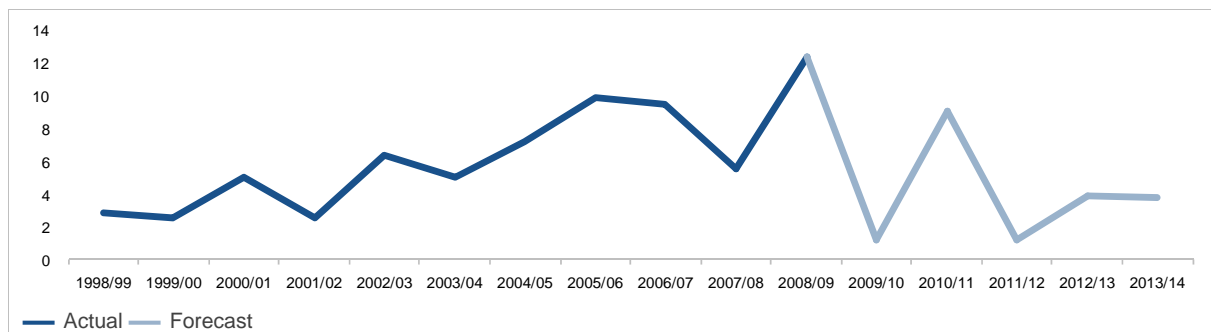
Housing

Housing was another area where we provided in-depth advice during the year. The Treasury worked closely with Ministers, Central Agencies, the Department of Building and Housing and Housing New Zealand Corporation to drive better value for money in social housing. This has been reflected through the Corporation's letter of expectations and statement of intent and is being pursued further through the work of the Housing Shareholders' Advisory Group.

Managing Overall State Sector Expenditure within a Sustainable Fiscal Track

Budget 2010 was underpinned by a strong cross-Treasury effort to align the Government's spending and revenue plans with its fiscal strategy. Maintaining ongoing constraint in spending is likely to become more challenging in future budgets.

Figure 1 below shows that the (annual) growth rate of core Crown operating expenditure, which peaked at over 12% in 2008/09, is expected to slow to 4% by the end of the forecast period. These figures include expenditure growth from all sources, not just that from new policies. The 9% increase forecast for 2010/11 includes some significant increases owing to one-off items that are not part of the operating allowance. This spike in 2010/11 is not expected to be repeated in following years, with much lower spending growth further out.

Figure 1: Core Crown Operating Expenditure Growth²

Commercial Portfolio Performance

The monitoring role of the Treasury's COMU during the year under review was aimed at improving the financial performance of the Crown's portfolio of companies, including SOEs and CFIs.

In particular, in 2009/10 we:

- ▶ implemented a continuous disclosure regime covering the nine largest SOEs
- ▶ developed, consulted with SOEs on, and then introduced a set of standardised financial performance measures for SOEs, for inclusion in 2010/11 *Statements of Corporate Intent*
- ▶ ran valuation models for the three electricity generator-retailers, and commissioned and published independent valuations
- ▶ worked with shareholding Ministers to more clearly identify the skills that boards require and to seek out suitable candidates with such skills
- ▶ supplied governance training activities to emphasise the focus on performance and to support an influx of "new blood" in the director candidate pool, and
- ▶ since November 2008, provided advice and other support to Ministers around the appointment and/or reappointment of 23 chairs and 123 directors or members.

The overall performance of the portfolio has improved slightly over the year in review.

Working with Other Central Agencies

During the year, the Treasury worked closely with our Central Agency partners (the DPMC and the SSC), recognising that all three agencies are jointly responsible for leading performance improvements within and across the State sector, albeit with distinctive roles and perspectives.

Central Agencies worked together on improving the State sector model and addressing the sectors and issues addressed above and, in addition, we made joint progress in three particular areas:

- ▶ Implementing the PIF: the Treasury has been working in close collaboration with other Central Agencies to progress this programme. Central Agencies have engaged several departments during 2009/10 and completed assessments of the Department of Conservation, the Ministry of Foreign Affairs and Trade and Te Puni Kōkiri. The reviews and the resulting action plans will be published on the SSC website³ on

² Forecast information has been used in this graph for the 2009/10 year. Actual data for the 2009/10 financial year will be published in the Financial Statements of the Government of New Zealand which will be published in October 2010.

³ www.ssc.govt.nz

completion. Central Agencies will monitor the progress that agencies make against their action plans. Early evidence suggests PIF is likely to be an effective tool for lifting agency performance.

- ▶ **Managing State sector industrial relations:** In conjunction with SSC, we helped Government set the context for State sector pay negotiations and monitor the performance of agencies, holding significant talks during the year. Settlements have been subsequently reached with police, nurses (and significant proportions of the health sector workforce), border agencies and a number of smaller agencies. These settlements have been consistent with the Government's fiscal and economic strategy and the Government's expectations for pay and employment conditions in the State sector. There has been restraint in State sector wage settlements compared with recent years: public sector settlements are now no longer ahead of private sector settlements and all settlements have been funded from within baselines.
- ▶ **Supporting performance information:** Jointly with SSC, we developed a "toolkit" aimed at supporting conversations between Ministers and departmental chief executives about getting better financial and performance information. Feedback from Ministers suggests that this is a useful way to encourage better performance information. We have continued to work with other Central Agencies to provide advice to Ministers on ensuring the public sector is well placed to meet future challenges.

Meeting our performance measures

As indicated above, Central Agencies have piloted and refined a PIF to enable a more comprehensive review of agency and sector performance than has been possible to date. This was one of our key success indicators during the year. The aim is to deliver a measurable strengthening in performance as agencies implement action plans arising out of the PIF process. The Treasury views the success of this project as an ongoing priority and will continue to monitor progress. Another is the rate of growth of public sector expenditure. Our broad work ahead of Budget 2010 assisted the Government to meet its objective to curb the rate of spending growth.

Organisational Health and Capability

Changes in our Organisational Strategic Direction

Over 2009/10 we have made significant changes to the way we work, the way we are organised and how we exercise leadership to better manage and accommodate the changes in our environment.

In 2009, the Treasury conducted a review of our leadership functions, positions and structure, with the aim of lifting overall organisational performance. The context that prompted the review included: (a) an external environment that had undergone radical changes – global financial crisis and a new Government with new requirements; (b) a recognition that the nature of our business functions had changed; (c) a need to keep making progress on the change objectives raised in our 2006 “Stepping Up” review; and (d) a desire to position the Treasury for the future and develop future leaders.

The main changes arising from the leadership review were:

- ▶ having a smaller, tighter ELT, with the appointment of two Deputy Chief Executives to work with the Secretary to the Treasury and to act as a Treasury Board
- ▶ mechanisms to bring together strategic thinking across the Treasury’s three outcomes so that Ministers receive advice that is joined-up, forward-looking, innovative and solutions-focused
- ▶ mechanisms to promote more flexible prioritising of the Treasury’s resources across all its outcome and result areas, so that it is agile and responsive to Ministers’ needs
- ▶ ways to make the Treasury a more integrated organisation that effectively leverages its own skills and expertise, as well as its external relationships, in order to achieve results for its customers
- ▶ a focus on behavioural change to promote accountability, consistency (“one Treasury”) and influence
- ▶ greater clarity around decision-making and advisory responsibilities
- ▶ establishment of two new positions to assist in building economics skills internally (Chief Economist); and the financial capability within the public sector (Chief Accountant)
- ▶ initiatives to incorporate more commercial expertise and disciplines into key areas of its work; for example, on State sector performance, on management of the Crown’s balance sheet, ownership monitoring and on operational service delivery
- ▶ integration of the CCMAU’s functions within the Treasury, to create a single unit that provides ownership monitoring and performance advice to Ministers, and
- ▶ consolidation of CCMAU and the Treasury’s monitoring functions.

We will continue developing the organisation so that it demonstrates the responsiveness and adaptability that we expect of all State sector agencies.

Leadership and Management

The leadership review in the first half of the year defined key Treasury behaviours that are crucial to us achieving our organisational goals. The Treasury's managers created a leaders' charter and a programme of work commenced to support leaders to act in ways that will create a culture that will more effectively deliver us our results.

Our intention in 2009/10 to create measures to gauge improvement in leadership and management was delayed as we implemented the outcomes of the leadership review. As a result of the implementation of this review, our senior leaders have a new emphasis and we have commenced using specific and targeted survey tools to create measures of leadership impact.

Two new learning programmes were designed and delivered to build the Leadership and Management Foundations Programme for new managers and the Emerging Leaders Programme for emerging technical and programme management leaders and people leaders outside formal management roles.

In early September, the Secretary announced the appointment of three non-executive directors to the Board. The trio, Paul Baines, Susan Macken and Joan Withers, are experienced company directors who will bring a great deal of governance and commercial wisdom to the Treasury's top table. The Treasury has worked closely with the SSC in establishing the Board.

Strategy and Policy

In 2009/10 we introduced advisory forums, which are an opportunity to debate strategic issues across the Treasury. The forums develop advice for the ELT (and the Treasury Board that is being established). The forums are a means to generate greater cross-Treasury discussion and resolution of issues. This work is assisted by a Strategic Policy Advisor, whose role is to pull together and drive strategic policy thinking across the Treasury.

We continue to use the Treasury Quality Standards for Policy Advice as a key component in staff training and setting expectations in individual work plans. The focus for the future will be to continue to use the learning from quality reviews to further develop the expertise, tools and systems we need to deliver the best advice to Ministers that we can. In 2010/11 we intend to conduct a second external review of the quality of a selection of our written advice to formally assess our performance against the Quality Standards, following on from a similar review in 2008/09.

External Engagement

Effective external engagement is an important component of the work that the Treasury does. In 2009/10, we adopted a more systematic and deliberate approach to our external engagement. The appointment of the two new Deputy Chief Executives, and the redefinition of the Deputy Secretaries' roles, has lifted the effectiveness of the Treasury's external engagement.

By building relationships with a range of stakeholders we aim to encourage an informed two-way flow of information and to significantly strengthen our understanding of real-time economic trends, and emerging views among different sectors operating in the economy. Through this engagement with Ministers, government agency leaders, business leaders, local government and community organisations, sector representatives, unions, commentators, financial sector leaders and others, the Treasury fulfils its responsibility to encourage and to facilitate evidence-based discussion and decision-making in both the public and private sectors.

During the 2009/10 year the organisation introduced a Customer Relationship Management-type model for managing its interactions with external stakeholders, and it is providing the basis for a better-informed, better-connected Treasury. A lot of this engagement is low-key and informal, taking the form of one-on-one meetings or boardroom presentations. But during the year the Treasury also delivered a number of important presentations and keynote speeches. The Secretary to the Treasury made a key address in July 2009 on public sector performance in which he challenged the sector to get out of its comfort zone. There were also addresses to manufacturing, employer, banking, legal and other audiences which provided an opportunity to set out the critical issues facing the New Zealand economy.

Value for Money and Organisational Efficiency

The Treasury is committed to managing in a value-for-money manner.

The Treasury continued to ensure we provide efficient and effective services to Ministers through the year by:

- ▶ ensuring our support structures were delivered efficiently and effectively
- ▶ investing in people and systems to develop the skills needed to deliver
- ▶ continuing to improve the efficiency of our processes and systems to reduce cost of our services, and
- ▶ reviewing the Treasury's organisational structure alignment to better meet the future needs of Ministers.

For example, one of the changes was to implement Cabinet's agreement that the CCMAU would no longer be a semi-autonomous body. This allowed the Treasury to bring together all Treasury and CCMAU monitoring, appointments and governance functions into a consolidated unit called the Crown Ownership Monitoring Unit (COMU) as well as to make savings in the way the group is supported. This change, which supports elements of a number of work programmes from across the Treasury's three outcomes, allows the Treasury to increase its flexibility in responding to changing priorities and ensure it is efficient and effective, and recognises the need to think about the longer-term positioning of the public sector management system, its overall public sector productivity agenda and create synergies between the commercial and non-commercial areas of the public sector.

The Treasury has been participating in the benchmarking work under the BASS programme and the all-of-government procurement reform. Ongoing assessments arising out of these projects will assist us to adopt best practices across our operations.

During the year the Treasury continued to reprioritise its expenditure within its core programmes, building on changes made in Budget 2009, to ensure that it is well placed to advise Ministers on medium-term and longer-term challenges and priorities.

Work also began on developing a medium-term financial strategy for the Treasury and this work will continue in 2010/11. Steps already completed include the implementation of detailed out-year budgets, identification of key future costs pressures and identification of options on rationalisation.

Our People

A major focus for the year has been the development of a five-year *People Capability Strategy* for the Treasury. The Strategy sets out principles for the capability we need to deliver our business across all our roles and functions and what this means for us in the future, consistent with fiscal parameters. It then details the approach we will take to our people management levers such as attracting, acquiring, deploying and utilising, leading,

developing and demanding performance. The objective is to ensure the Treasury has the capability to deliver on our outcomes and results over the next five years by ensuring all our efforts are mutually supporting a clear and coherent vision.

The *People Capability Strategy* will be signed off and communicated in early 2010/11 and new work streams started, with a focus on detailed workforce planning and review of performance management. However, during 2009/10 a number of initiatives to implement the Strategy have been progressing in tandem with strategy development:

- ▶ We have reviewed our remuneration framework and adopted a more flexible approach which allows targeting our remuneration spend to support our organisational goals and finance strategy.
- ▶ We have become sharper and more responsive about deploying our people to areas of highest priority, moving them in a more flexible way and increasingly adopting a project approach to major pieces of work.
- ▶ As part of the leadership review, we created the new roles of Chief Economist and Chief Accountant in order to increase our depth of professional leadership and external influence in these areas.
- ▶ We have made significant investment in talent mapping with a view to identifying and developing our high potential senior analysts and creating viable and rewarding career pathways for people. This programme will expand to other roles in 2010/11.

The Treasury surveyed staff to assess their engagement in July 2009 and achieved a participation rate 94%. The results were positive compared with the NZ State Sector database, with engagement at the 62nd percentile. The information gained from the survey has supported the development of greater alignment of individual workplans with organisational results for 2010. The Treasury will be running the survey again in 2010/11.

Key people metrics for 2009/10				
As at 30 June	2010	2009	2008	2007
	Staff Numbers			
Total full-time equivalent	341	343	324	312
Full-time staff	306	310	298	278
Part-time staff	47	46	35	46
Total headcount	353	356	333	324
Gender distribution	All Staff			
Women	49%	52%	51%	50%
Men	51%	48%	49%	50%
	Ethnicity Distribution (self-identified, multiple responses possible)			
NZ European	69%	72%	73%	72%
NZ Māori	4%	5%	6%	5%
Pacific Islander	2%	2%	2%	2%
Asian	6%	6%	5%	4%
Other European	14%	11%	10%	13%
Other ethnic groups	3%	1%	1%	1%
Undeclared	2%	3%	3%	3%
Turnover	13%	11.1%	22.2%	18.9
Average length of service (yrs):	6.4	6.5	6.4	6.2

Equal Employment Opportunities

The Treasury continued to participate in processes and surveys to inform Equal Employment Opportunities (EEO) approaches including contributing to New Zealand's 2010 report on Convention on the Rights of Persons with Disabilities and initiatives from SSC. The Treasury continues to focus on equal opportunity and diversity through assessing core processes for recruitment, selection and development initiatives for fairness. This year the Treasury's staff set up a Senior Women's network to increase the ability to share ideas and support for initiatives such as mentoring. The Treasury delivered several development programmes focused on Māori engagement, implications for policy advice and language.

Risk Management

The Treasury's risk management practices use an approach modelled on the Joint Australian/New Zealand International Risk Management Standard. Risk management in the Treasury is implemented through business processes such as strategic and operational planning and project management. Risk management functions, roles and frameworks also exist in specific operational areas including NZDMO and NZECO.

We oversee and manage our overall set of risks through a Risk and Audit Committee, which includes experienced external members who provide independent perspectives. Our intention is for this committee to become an official sub-committee of the Board. We will review and revise, if required, its specific roles and functions to align with the Board's charter.

We are currently improving our strategic risk management approach to ensure there is systematic and regular assessment and monitoring of key strategic risks facing the Treasury. The first stage of this approach was a facilitated workshop with our senior leaders to identify our key strategic risks and agree their priority ranking. These risks will regularly be monitored, reviewed and reported, by being integrated into regular performance reporting.

A Risk Advisor has recently been appointed, with responsibility for further developing and maintaining an appropriate enterprise-wide risk management approach, including further refinement of strategic risk management assessment, monitoring and reporting.

Statement of Responsibility

Pursuant to sections 45 and 45C of the Public Finance Act 1989, the Secretary to the Treasury is responsible for the preparation of the Department's financial statements and non-departmental supplementary schedules, and the judgements made in the process of producing these financial statements and supplementary schedules.

The Department's internal control procedures provide reasonable assurance as to the integrity and reliability of its financial reporting.

In the opinion of the Secretary to the Treasury:

- ▶ The Department's financial statements and statements of service performance fairly reflect its financial position and operations for the financial year ended 30 June 2010.
- ▶ The supplementary schedules fairly reflect the assets, liabilities, contingencies and commitments managed by the Treasury on behalf of the Crown as at 30 June 2010 and revenues and expenses managed by the Treasury on behalf of the Crown for the year ended on that date.



John Whitehead
Secretary to the Treasury

30 September 2010



Fergus Welsh
Chief Financial Officer
(countersigned)

30 September 2010

The Treasury's Output Expense Performance

Statement of Objectives and Service Performance

Section 45A of the Public Finance Act 1989

This section provides information about the outputs (services and activities) that the Treasury provided through 19 output appropriations during the 2009/10 year. The following pages provide information on the Treasury's most significant work undertaken during the year and the standards that applied to some of that work. Two of the 19 appropriations were originally delivered by the CCMAU, a semi-autonomous unit of the Treasury, but were integrated into the Treasury's main work programme in November 2009.

The following table provides an overview of the linkages between the Treasury's outcomes and objectives, the impacts we seek to have and the appropriations through which we are funded.

Outcomes and Objectives	Impacts	Appropriations
Vote Finance Service Performance		
A stable and sustainable macroeconomic environment	Contributing to budget decisions that are conducive to achieving short-term macroeconomic stability and meeting long-term fiscal challenges.	<ul style="list-style-type: none"> ▶ Economic and Tax Forecasting⁴ ▶ Fiscal Management⁴ ▶ Fiscal Reporting⁴ ▶ Management of Crown Lending and Crown Bank Accounts⁴ ▶ Policy Advice – Fiscal and Macroeconomic⁴
	Managing and issuing Crown debt in a way that minimises borrowing costs, and managing the financial assets under the control of NZDMO in a way that maximises long-term returns, all within an appropriate risk management framework.	<ul style="list-style-type: none"> ▶ Administration of Crown Borrowing PLA ▶ Administration of Derivative Transactions PLA ▶ Administration of Investment of Public Money PLA
Improved overall economic performance	Achieving policies that promote economic growth, with a focus on increasing productivity.	▶ Policy Advice – Economic Performance ⁵
	Increasing the level of export activity within the bounds of the Government's financial risk parameters set out in the delegation agreement.	▶ New Zealand Export Credit Office ⁵
	Maintaining a robust and efficient financial sector.	<ul style="list-style-type: none"> ▶ Crown Guarantee Schemes ▶ Crown Deposit Guarantee Scheme⁵ ▶ Crown Wholesale Guarantee Facility⁵ ▶ Administration of Guarantees and Indemnities Given by the Crown PLA
	Enhancing national infrastructure planning and ensuring higher-quality asset management.	▶ Infrastructure Advice and Coordination

⁴ These appropriations are included in the Macroeconomic Policy Advice and Management Multi Class Output Appropriation (MCOA).

⁵ These appropriations form the State Sector and Economic Performance Policy Advice and Management MCOA.

Outcomes and Objectives	Impacts	Appropriations
Improved State sector performance	Ensuring the work of the State sector represents value for money in achieving the Government's priorities and generating the maximum possible benefit for taxpayers for a given level of expenditure.	<ul style="list-style-type: none"> ▸ Policy Advice – State Sector Performance⁶
To meet Crown liabilities and manage Crown asset management	Minimising Crown financial risk within the bounds of government objectives.	<ul style="list-style-type: none"> ▸ Management of Liabilities, Claims Against the Crown and Crown Properties⁶
Crown Research Institutes Service Performance		
CCMAU ⁷ provides valuable ownership, performance monitoring and governance advice to Ministers	CRIs, Research and Education Advanced Network New Zealand Ltd (REANNZ) and New Zealand Venture Investment Fund (NZVIF) build and retain scientific capability in New Zealand that contributes to economic growth.	<ul style="list-style-type: none"> ▸ Crown Company Monitoring Advice to the Minister of Research, Science and Technology and the Minister for Economic Development
State-Owned Enterprises Service Performance		
CCMAU ⁷ provides value ownership, performance monitoring and governance to Ministers	Government appoints, or reappoints, directors of the highest calibre; sets clear, unambiguous expectations for SOEs; improves the levels of disclosure, analysis and feedback to SOEs; better leveraging of Crown company balance sheets; reduces regulatory business and simplifies government processes; focuses on portfolio as well as company performance.	<ul style="list-style-type: none"> ▸ Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and other Responsible Ministers

⁶ These appropriations form the State Sector and Economic Performance Policy Advice and Management MCOA.

⁷ This function is now performed by the COMU in the Treasury following restructuring in 2009.

Vote Finance Output Expense Performance

Macroeconomic Policy Advice and Management MCOA

This includes work under the following appropriations:

- ▶ Economic and Tax Forecasting
- ▶ Fiscal Management
- ▶ Fiscal Reporting
- ▶ Policy Advice: Fiscal and Macroeconomic, and
- ▶ Management of Crown Lending and Crown Bank Accounts.

The following table shows the overall cost of this MCOA.

Cost – Macroeconomic Policy Advice and Management MCOA				
	Macroeconomic Policy Advice and Management MCOA			Policy Advice and Management: Macroeconomic
	2009/10 Actual \$000	Supplementary Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	13,839	14,316	13,654	12,380
<i>Funded by:</i>				
Revenue Crown	13,596	14,080	13,403	12,150
Other Revenue	243	236	251	230

In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures.

The MCOA also now includes the Management of Crown Lending and Crown Bank Accounts output class which formed part of the Debt and Related Financial Asset Management output class in 2008/09.

Economic and Tax Forecasting

Scope of Appropriation

This output class is limited to the preparation of economic and tax forecasts, and monitoring of and reporting on economic and tax conditions.

Significant Work Completed During 2009/10

- ▶ Provided the Minister of Finance with regular weekly and monthly economic updates. During the year, we changed the focus of the monthly updates from reporting on data released to include more interpretation of macro and fiscal developments. This has helped to stimulate public debate on the New Zealand economy, as witnessed by media coverage and comment that the release of these monthly updates has generated.
- ▶ Provided the Minister of Finance with previews and commentaries on key data releases.
- ▶ Produced updated macroeconomic and tax forecasts for the *Half Year Economic and Fiscal Update* (HYEFU) in December 2009 and the 2010 Budget in May 2010.
- ▶ Produced macroeconomic impact estimates and tax costings for the 2010 Budget's tax reform package.

Statement of Service Performance for Output Class: Economic and Tax Forecasting				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, the models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved. Forecasts were delivered on time. Estimates of macroeconomic effects and estimates of fiscal costs enabled the Government to introduce a tax reform package in the 2010 Budget. Forecasts were scrutinised by an external panel of experts (macroeconomic) and by IRD forecasters. Tax policy costing models were quality assured by Treasury analysts, IRD and, in one case, an external consultant.		
Tax revenue forecast error on one-year-ahead forecasts. (Tax revenue forecast root mean square error and mean error over the five years to June 2007 were 4.4% and 4.2% retrospectively.)	Less than ±3%	Achieved. Actual error for 2009/10 outcome vs 2009 Budget forecast was -1.4%.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,788	2,755	2,677	
<i>Funded by:</i>				
Revenue Crown	2,736	2,705	2,627	
Other Revenue	52	50	50	
In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures. A summary of the MCOA financials and the 2008/09 comparatives are provided on page 26.				

Fiscal Management

Scope of Appropriation

This output class is limited to the development of the budget strategy and advice, and activities of the annual budget process.

Significant Work Completed During 2009/10

- ▶ Reviewed the Budget 2009 process including the forming of recommendations for Budget 2010.
- ▶ Substantially redesigned the budget process which increased the scrutiny on baseline expenditure and better supported the Government to advance its priorities consistent with its fiscal strategy.
- ▶ Released budget guidance.
- ▶ Convened a public service Chief Executives Group to provide appropriate opportunities for these stakeholders to assist in the design and management of the budget process.
- ▶ All budget-related outputs were delivered to the required quality standard in accordance with the overall timetable and the Public Finance Act 1989.

Statement of Service Performance for Output Class: Fiscal Management		
Performance Dimensions	Target	Performance for 2009/10
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, the models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved. The Treasury provided advice to redesign the budget process; significantly changing this process from the previous year. These changes included allocating most of the budget operating allowance to specific government priority areas much earlier in the process. A consequence of this targeted approach was that the majority of Votes received no additional resources which increased the focus on reprioritising baseline funding to better support government priorities. In Budget 2010 over \$1.8 billion of baseline funding was reprioritised as a result of this approach.

Statement of Service Performance for Output Class: Fiscal Management				
Performance Dimensions	Target	Performance for 2009/10		
Advice and processes required as part of annual budget process assist the Government to pursue its policy priorities in accordance with the principles of responsible fiscal management and support effective and efficient management of public financial resources. (See note on Management of the annual financial cycle below.)	Achieved	<p>Achieved.</p> <p>The Minister of Finance was kept informed on at least a weekly basis through the year on the balance between budget contingency and the Budget 2010 operating and capital allowances.</p> <p>The budget process was designed and managed to support the Government to implement policy priorities and deliver the budget consistent with the <i>Budget Policy Statement</i> (BPS), the FSR and in accordance with the principles of responsible fiscal management and support effective and efficient management of public financial resources.</p>		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,972	3,197	2,422	
<i>Funded by:</i>				
Revenue Crown	2,925	3,147	2,378	
Other Revenue	47	50	44	
<p>In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures. A summary of the MCOA financials and the 2008/09 comparatives are provided on page 26.</p> <p>Actual 2009/10 output class expenditure was \$225,000 or 7% under the Supplementary Estimates budget owing to efficiencies around the budget production.</p>				

Notes:**Management of the annual financial cycle: Performance expectations**

All process guidance, incorporating any appropriate changes arising from the annual process review, is released no later than 30 working days prior to departmental submission.

All guidance issued is sufficiently comprehensive and clear and does not require formal clarification.

Budget strategy advice and the BPS are developed to support the Government's fiscal policy objectives.

Treasury advice on the budget provides options that enable the Government to deliver the budget consistent with the BPS.

All statutory requirements of the Public Finance Act 1989 are met.

Annual review of process stakeholders completed quarter one to determine changes to improve future processes.

Fiscal Reporting

Scope of Appropriation

This output class is limited to preparing fiscal forecasts, monitoring of and reporting on fiscal conditions, preparing the Financial Statements of Government, providing advice on the application and development of generally accepted accounting practice as it applies to the Crown and monitoring the adequacy of departmental financial management controls.

Significant Work Completed During 2009/10

- ▶ Prepared the annual and monthly Financial Statements of Government, Fiscal Forecasts and monthly Controller Reports in accordance with the Public Finance Act 1989.
- ▶ Provided central government leadership on accounting standard setting frameworks including representation on international and domestic accounting standard setting boards. This work included significant input into the release of discussion documents on the statutory framework for financial reporting in New Zealand.

Statement of Service Performance for Output Class: Fiscal Reporting				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, the models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved. Advice was provided on the actual fiscal position and forecast outlook to support the Government to develop its BPS and FSR in accordance with the principles of responsible fiscal management.		
Audit opinion issued by the Controller and Auditor-General on the Financial Statements of Government.	Unqualified	Achieved. An unqualified opinion was achieved for the Financial Statements of Government for the year ended 30 June 2009.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	3,606	3,708	3,570	
<i>Funded by:</i>				
Revenue Crown	3,545	3,650	3,504	
Other Revenue	61	58	66	
In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures. A summary of the MCOA financials and the 2008/09 comparatives are provided on page 26.				

Policy Advice – Fiscal and Macroeconomic

Scope of Appropriation

This output class is limited to the provision of fiscal and macroeconomic policy advice.

Significant Work Completed During 2009/10

- ▶ Published *Challenges and Choices: New Zealand's Long-term Fiscal Statement* in October 2009.
- ▶ Published a technical working paper on *Challenges and Choices: Modelling New Zealand's Long-term Fiscal Position* in January 2010.
- ▶ Published the BPS, including medium-term fiscal projections, in December 2009.
- ▶ Published the FSR in May 2010. After taking advice from the Treasury, the Minister of Finance changed the net debt objective from 30% of GDP to 20%.
- ▶ Presented the Minister of Finance with options for implementing a spending cap. The proposed spending cap was not adopted, but it has identified enough issues that there is strong appetite to investigate other options for achieving similar outcomes. This has led to the review of the fiscal management approach.
- ▶ The “Fiscal Anchor”: Provided advice on the benefits of setting numerical objectives for fiscal measures other than net debt, such as net worth.
- ▶ Fiscal consolidation: The global financial crisis, combined with increased government spending and tax cuts over the previous few years, meant that in Budget 2009 the Government's operating balance was projected to be in deficit for at least the next 10 years. The Treasury provided advice on how to advance the return to surplus and how it might help to reduce vulnerabilities and support economic growth.

Statement of Service Performance for Output Class: Policy Advice – Fiscal and Macroeconomic				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, the models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	<p>Achieved.</p> <p>Fiscal consolidation was a key driver in assisting the Minister of Finance when he was reviewing the net debt objective.</p> <p>Provided advice to the Minister on the pros and cons of net worth as an alternative fiscal anchor to net debt. Net debt was reconfirmed as the Government's fiscal anchor as a result of this work along with the influence of the current fiscal position (banking surprises and the objective of getting to surplus as soon as practical). The advice led to further work on options to bring greater balance sheet scrutiny and transparency.</p> <p>Provided advice to the Minister on a spending cap, which prompted a review of the fiscal management approach.</p> <p>The long-term fiscal statement was successful in initiating public debate on options for managing the fiscal impact of population ageing, using a basket of goods and services to demonstrate choices and trade-offs.</p> <p>The modelling and assumptions behind the statement received public scrutiny when the technical working paper was presented at two macroeconomic conferences this year.</p>		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	4,268	4,296	4,079	
<i>Funded by:</i>				
Revenue Crown	4,190	4,224	4,004	
Other Revenue	78	72	75	
In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures. A summary of the MCOA financials and the 2008/09 comparatives are provided on page 26.				

Management of Crown Lending and Crown Bank Accounts

Scope of Appropriation

This output class is limited to the management of Crown lending and Crown and departmental bank accounts.

Significant Work Completed During 2009/10

- ▶ Advanced \$785.9 million distributed as follows: \$380 million to KiwiRail, \$232.6 million to DHBs, \$142.8 million to Housing New Zealand Corporation and \$30.5 million to the Auckland Transition Agency.
- ▶ Managed risk on \$223.5 million of interest rate swaps transacted for Housing New Zealand Corporation.

Statement of Service Performance for Output Class: Management of Crown Lending and Crown Bank Accounts		
Performance Dimensions	Target	Performance for 2009/10
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, the models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved. NZDMO's advice on the Government's borrowing programme was underpinned by the Treasury's fiscal and macroeconomic forecasts. The quality assurance processes for these models are discussed in the Economic and Tax Forecasting appropriation.
Value-added for Crown lending meets target level.	\$15 to \$20 million	Not achieved. Value-added for Crown lending was \$11.9 million in 2009/10. The lower than expected result was primarily owing to reduced margins between government funding levels and its loans to Housing New Zealand Corporation.
Average value at risk (VaR) for Crown lending, at a 95% confidence level (see note on VaR below).	Average monthly VaR does not exceed \$1.4 million	Achieved. Average monthly VaR was \$0.2 million, or 1.4% of the limit agreed by the Minister of Finance (see notes below).
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts.	No compliance breaches	Achieved. There were no compliance breaches.

Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	205	360	906	
<i>Funded by:</i>				
Revenue Crown	200	354	890	
Other Revenue	5	6	16	
<p>In 2009/10, the Policy Advice and Management: Macroeconomic appropriation was separated across four output classes within a Macroeconomic Policy Advice and Management MCOA. The structure was established to ensure that the macroeconomic outputs were sensibly aggregated and to allow for more comprehensive performance measures. A summary of the MCOA financials and the 2008/09 comparatives are provided on page 26.</p> <p>Actual 2009/10 output class expenditure was \$155,000 or 43% under the Supplementary Estimates budget owing to a lower resource allocation owing to greater emphasis on borrowing and investment work in the Administration of Crown Borrowing and Administration of Investment of Public Money output classes.</p>				

Notes:

Average VaR – performance measure

The Minister of Finance has agreed to a limit for average monthly VaR across the whole of NZDMO's operations of \$14 million. NZDMO's performance target for the tactical portfolios is set at 10% of the total limit, or \$1.4 million.

Value-added from Crown lending

NZDMO derives the value-added figure from its management reporting, which is calculated on a different basis from external Crown financial statement reporting.

Historic performance helps guide the establishment of future targets, which are set annually taking into account changes in the external environment.

State Sector and Economic Performance Policy Advice and Management MCOA

- ▶ Policy Advice: Economic Performance
- ▶ Policy Advice: State Sector Performance
- ▶ New Zealand Export Credit Office
- ▶ Management of Liabilities, Claims Against the Crown and Crown Properties
- ▶ Crown Deposit Guarantee Scheme
- ▶ Crown Wholesale Guarantee Facility

The following table shows the overall cost of this MCOA.

Cost – State Sector and Economic Performance Policy Advice and Management MCOA				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	31,372	36,253	38,751	35,322
<i>Funded by:</i>				
Revenue Crown	30,743	35,647	38,216	34,689
Other Revenue	629	606	535	633

Policy Advice – Economic Performance

Scope of Appropriation

Policy advice on the Government's economic strategy and policy settings and their effect on New Zealand's economic growth.

Significant Work Completed During 2009/10

- ▶ Supported the Capital Market Development Taskforce and advised on options.
- ▶ Advised on the Securities Act 1978 review on issues of disclosure, transparency and investor protection, including advice on the establishment of a Financial Markets Authority.
- ▶ Provided support in conjunction with IRD to the Tax Working Group in the form of secretariat and papers. This assisted the Tax Working Group in the delivery of its report: *A Tax System for New Zealand's Future*.
- ▶ Delivered in conjunction with IRD advice and support to Ministers that enabled the development, announcement and implementation of the centre-piece of Budget 2010 – the Budget 2010 Tax Package. This included the associated communication material.
- ▶ Provided advice on innovation issues, including business R&D incentives and technology transfer, the structure and governance of public sector innovation agencies, and the CRI system (as part of the CRI Taskforce).
- ▶ Advanced the Closer Economic Relations (CER) investment protocol.
- ▶ Managed review of Overseas Investment Act 2005.
- ▶ Advised the Government on the establishment of a possible Productivity Commission, which Ministers agreed to establish.
- ▶ Proposed and implemented changes to the Regulatory Impact Assessment system to support better quality regulation.
- ▶ Advised the Government on climate change targets in preparation for and after the Copenhagen Climate Change conference.
- ▶ Advised on and implemented legislation to extend the Crown Deposit Guarantee Scheme to 31 December 2011.
- ▶ Regularly reviewed pricing for the Crown Wholesale Guarantee Facility and advised on the closure of the Facility which took place on 30 April 2010.

Statement of Service Performance for Output Class: Policy Advice – Economic Performance				
Performance Dimensions	Target	Performance in 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Regulatory Impact Analysis: Number of significant Regulatory Impact Statements assessed (see note on Regulatory Impact Analysis below).	20	Achieved: 43		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	15,242	14,041	15,465	15,836
<i>Funded by:</i>				
Revenue Crown	14,951	13,789	15,227	15,553
Other Revenue	291	252	238	283
Actual 2009/10 output class expenditure was \$1,201,000 or 9% over the Supplementary Estimates budget largely owing to increased resource allocation (primarily in the areas of Tax, Regulation and Highly Skilled Workforce) than anticipated to deliver on results in this output class.				

*Note:***Regulatory Impact Analysis**

Regulatory Impact Analysis was a relatively new function for the Treasury, and at the time the measures were set, had not been operating for a full year. Targets for the 2009/10 year were based on our first five months of operating in this area.

Policy Advice – State Sector Performance

Scope of Appropriation

Policy advice on the effective and efficient use of State resources including improved decision-making and performance management systems and the efficient management of Crown assets.

Significant Work Completed During 2009/10

- ▶ Advice on industrial relations across the State sector (in concert with central and sector agencies).
- ▶ Advice on improving value for money (VfM)/smarter better public services, including: supporting the Cabinet Expenditure Control Committee (ECC) agenda; implementing BASS; setting up Cross Agency Programme Management Office; helping initiate the Review of Expenditure on Policy Advice; and monitoring key departments and Crown entities.
- ▶ Advice on the Crown's balance sheet and risk, and on specific commercial investment opportunities for the Crown.
- ▶ Health sector: advice to Ministers on the scope for improving VfM and productivity to support the Budget 2010 objectives, and on options for improving institutional settings.
- ▶ Justice sector: advice, working with Central Agencies and sector agencies, to address drivers of crime, reducing costs and volumes in the justice sector.
- ▶ Defence sector: advice to Ministers on the Defence Review progress of the White Paper and on major investments proposed by the sector.
- ▶ Benefit system: in-depth advice on the benefit system to prompt and frame strategic debate.
- ▶ Advice on further improving the effectiveness and efficiency of public services.
- ▶ Advice on options for fiscal consolidation, concerning programme or policy design, to help Ministers manage the fiscal crisis.
- ▶ Pilot, refine and implement the PIF to improve agency capability and performance (acting in concert with other Central Agencies).

Statement of Service Performance for Output Class: Policy Advice – State Sector Performance				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Vote analysis: Supporting the Government by pursuing policy priorities and fiscal policy objectives through the analysis and advice provided as part of the annual budget cycle.	Achieved	<p>Achieved.</p> <p>Treasury advice across votes helped Ministers deliver the 2010 Budget consistent with their BPS. Our advice has helped Ministers improve VfM and performance, both within key sectors and across the public sector.</p> <p>All statutory requirements of the Public Finance Act 1989 have been met.</p> <p>The Treasury has reviewed several aspects of core Vote analysis for further improvement, including: formal guidance to departments and Crown entities; the budget process; capital business case analysis; and the CFISnet system.</p>		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	12,065	15,916	14,062	12,322
<i>Funded by:</i>				
Revenue Crown	11,849	15,671	13,830	12,104
Other Revenue	216	245	232	218
Actual 2009/10 output class expenditure was \$3,851,000 or 24% under the Supplementary Estimates budget largely owing to specific project funding for BASS not utilised this year but will be carried forward to 2010/11 to continue on Phase 1 of the project, and forecasted resource allocation directed into Policy Advice – Economic Performance.				

New Zealand Export Credit Office

Scope of Appropriation

Implementation of the Government's Export Credit Guarantees policy and operations of NZECO.

Significant Work Completed During 2009/10

- ▶ A total of 118 new policies were issued in 2009/10, supporting exports of \$266.2 million.
- ▶ The Working Capital Guarantee has not been utilised by the banks, in light of the banks' reduced appetite for new lending (post the global financial crisis). NZECO is working, as a matter of priority, with all the banks as we recognise that access to working capital is a key constraint on exporters' ability to achieve growth targets, in line with the objectives of the Medium-term Growth Agenda.
- ▶ NZECO paid one claim during the period amounting to \$136,370. This was in relation to the NZECO short-term trade credit guarantee. As a percentage of NZECO's total portfolio, this claim represents 0.106%. This is well below NZECO's provisioning estimates, and is also less than the experience by the private sector or other export credit agencies.

Statement of Service Performance for Output Class: New Zealand Export Credit Office				
Performance Dimensions	Target ⁸	Performance in 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Conform to international best practice for the provision of the export credit insurance, as specified in OECD and World Trade Organisation (WTO) guidelines.	100%	Achieved.		
Value of new medium- to long-term credit insurance policies.	\$46 million	Not achieved: \$27.33 million. Several transactions, for which NZECO issued formal offers of support, were delayed owing to continued constrained bank appetite.		
Value of new US contract bonds.	\$82 million	Not achieved: \$8.62 million. The result is dependent on the exporters being successful with their bids. NZECO approved seven bid bonds totalling over \$100 million; however, only two of these have been successful to date.		
Value of new non-US contract bonds.	\$10 million	Achieved: \$34.78 million. The demand for this year exceeded expectation.		
Value of new working capital guarantees.	\$5 million	Not achieved: \$0. The target for this output was affected by continued constrained global demand and an improved appetite by the private sector, compared to the levels anticipated on the basis of 2008/09.		
Value of short-term trade credit guarantees.	\$48.8 million	Not achieved: \$32.26 million. During the year, NZECO issued 89 policies – the exposure of \$32.26 million has supported exports of \$123 million. The target for this output was affected by continued constrained global demand and an improved appetite by the private sector, compared to the levels anticipated on the basis of 2008/09.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,103	4,144	1,871	1,919
<i>Funded by:</i>				
Revenue Crown	2,063	4,093	1,842	1,878
Other Revenue	40	51	29	41
<p>Actual 2009/10 output class expenditure was \$2,041,000 or 49% under the Supplementary Estimates budget owing to lower than expected volumes of surety bond deals driving lower legal and commission fees, and some minor cost savings in personnel and other operating expenses.</p> <p>The appropriation for this output class was increased by \$2,251,000 in the Supplementary Estimates to provide for annual operating costs to support the increase in facility sizes of US surety bonds products, general contract bond products and export credit guarantee products.</p>				

⁸ It is difficult for NZECO to accurately estimate performance targets for outputs as the results achieved depend on contractors' success in tenders during the year.

Management of Liabilities, Claims Against the Crown and Crown Properties

Scope of Appropriation

Management of contractual or Treaty of Waitangi-related claims against the Crown and the management of New Zealand House, London.

Significant Work Completed During 2009/10

- ▶ Concluded Court of Appeal case regarding residual obligations from Maui Gas contracts.
- ▶ Conducted an out of court settlement to seek reimbursement of supply costs from Maui partners.
- ▶ Undertook ongoing management of the transfer of legal titles of SOEs and of the Crown's day-to-day contractual obligations.
- ▶ Concluded work to settle the Crown's liability in an estate claim.
- ▶ Terralink litigation settled following mediation process.
- ▶ Provided ongoing administration on payments relating to Taitokerau Forests Limited.
- ▶ Provided advice on various aspects of Rugby New Zealand 2011 Limited.
- ▶ Provided advice on commercial aspects of Treaty negotiations.

Statement of Service Performance for Output Class: Management of Liabilities, Claims Against the Crown and Crown Properties				
Performance Dimensions	Target	Performance in 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Management and resolution of liabilities and claims within parameters set by Ministers.	Achieved	Achieved. Liabilities and claims were settled at the least cost to the Crown while at the same time meeting the obligations held by the Crown.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	1,384	1,574	2,093	2,971
<i>Funded by:</i>				
Revenue Crown	1,363	1,550	2,057	2,917
Other Revenue	21	24	36	54
Actual 2009/10 output class expenditure was \$190,000 or 12% under the Supplementary Estimates budget owing to lower consultancy and legal advice than anticipated around certain claims and commercial operations advice, and some minor cost savings.				

Crown Deposit Guarantee Scheme

Scope of Appropriation

This output class is limited to the implementation and operation of the Crown's Deposit Guarantee Scheme excluding expenses incurred in connection with administering claims under a guarantee or indemnity given under the Scheme.

Significant Work Completed During 2009/10

- ▶ This report covers the period up to September 2009 when, as part of the decision to offer an extended guarantee scheme for the period from 13 October 2010 to 31 December 2011, a new appropriation covering the operation of the Deposit Guarantee Scheme was introduced.
- ▶ Development and refinement of the provisioning methodology for entities considered more likely than not to default.
- ▶ Based on the Mascot Finance Limited experience, the Treasury concluded that a more robust and scalable solution to payout was required. Following analysis of the options and tendering, the decision was made to outsource to CIS.
- ▶ Provided input into the advice on the need for an extended guarantee scheme and led operational design of the extended scheme.
- ▶ Commenced a review of potential modifications to the original scheme with a view to determining whether or not changes were required.

Statement of Service Performance for Output Class: Crown Deposit Guarantee Scheme				
Performance Dimensions	Target	Performance – provide up-to-date information for the 2009/10 year		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
No unnecessary delays in processing applications.	Achieved	Achieved. All applications processed and no unresolved applications as at 30 September 2009.		
Development and implementation of an overall plan for managing the Crown interests including default events.	Achieved	Achieved. A prioritised approach to management was developed based on risk ranking (especially probability of default) and scale. As required, the Deposit Guarantee Scheme undertook inspections into entities where additional, more detailed information was considered necessary to enable appropriate management of the Crown's interests in relation to individual entities. A Crisis Response Plan was developed to ensure a co-ordinated approach in the event of further failures.		
Active monitoring of guaranteed institutions is undertaken to minimise Crown exposure.	Achieved	Achieved. The Reserve Bank of New Zealand was contracted to deliver monitoring and reporting on non-bank deposit takers participating in the Scheme. The information provided by the Reserve Bank was reviewed and enhancements agreed.		
The Treasury actively manages the Crown interests in the event of a specific default.	Within seven days of default	Achieved. Processing of Mascot Finance Limited and Strata Finance Limited defaults substantially completed. Residual claims follow-up and payment managed within Deposit Guarantee Schemes.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	437	437	3,720	1,425
<i>Funded by:</i>				
Revenue Crown	383	410	3,720	1,410
Other Revenue	54	27	-	15
Actual 2009/10 output class expenditure was for costs of the Crown Deposit Guarantee Scheme up to 1 September 2009. Funding was transferred to the newly established Crown Guarantee Schemes output class appropriation from 1 September 2009.				

Crown Wholesale Guarantee Facility

Scope of Appropriation

This output class is limited to the implementation and operation of the Crown's Wholesale Guarantee Facility.

Significant Work Completed During 2009/10

- ▶ The Crown Wholesale Guarantee Facility was terminated on 30 April 2010 reflecting that market conditions had stabilised to a degree that enabled participants to access funding markets without reliance on a Crown guarantee.
- ▶ Regular reviews of pricing of the Facility to ensure that it continued to meet its objectives without exposing the Crown to unnecessary risk or distorting market incentives.
- ▶ Regular reporting on guaranteed and unguaranteed issuance was developed to support monitoring (usage and pricing).

Statement of Service Performance for Output Class: Crown Wholesale Guarantee Facility				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
No unnecessary delays in processing applications.	Achieved	Achieved. All applications processed within two weeks and a significant proportion within one week or less from the date of application; with the exception of the initial applications, which required a review of programme documentation.		
Development and implementation of an overall plan for managing the Crown interests including default events.	Achieved	Achieved. See below, noting that payout by the Crown is only required on the maturity date of the guaranteed issue.		
Active monitoring of guaranteed institutions is undertaken to minimise Crown exposure.	Achieved	Achieved. The likelihood of default by entities that have used the Crown guarantee under the Crown Wholesale Guarantee Facility is assessed as minimal. Prudential monitoring is being undertaken by the Reserve Bank of New Zealand.		
The Treasury actively manages the Crown interests in the event of a specific default.	Within seven days of default	Achieved. No default event occurred in relation to any of the entities participating in the Crown Wholesale Guarantee Facility.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	141	141	1,540	849
<i>Funded by:</i>				
Revenue Crown	134	134	1,540	827
Other Revenue	7	7	-	22
Actual 2009/10 output class expenditure was for costs of the Crown Wholesale Guarantee Facility up to 1 September 2009. Funding for the Crown Wholesale Guarantee Facility was transferred to the newly established Crown Guarantee Schemes output class appropriation from 1 September 2009.				

Other Vote Finance Appropriations

Infrastructure Advice and Coordination

Scope of Appropriation

This appropriation is limited to the provision of advice to the Government and to government agencies on infrastructure, ensuring coordination and implementation of the Government's infrastructure activities, the formulation and implementation of the *National Infrastructure Plan*, monitoring of infrastructure investment and frameworks and operation of the National Infrastructure Advisory Board.

Significant Work Completed During 2009/10

- ▶ Publication of the first *National Infrastructure Plan*.
- ▶ Preparation and introduction of the Infrastructure Bill.
- ▶ Assistance provided to the Department of Corrections and the MOE on business cases for PPP projects (both approved).
- ▶ Review of KiwiRail's 10-year turnaround plan.
- ▶ Processed and analysed the second set of 10-year capital intentions submitted by major asset-owning public sector agencies for the budget.
- ▶ Continued work building towards specific outputs in 2010/11:
 - 1 development of a new business case standard and guidance for use by public sector agencies in preparing business cases
 - 2 development of a toolkit to assist departments develop, negotiate and manage PPP projects, and
 - 3 building an ongoing pipeline of PPP projects.

Statement of Service Performance for Output Class: Infrastructure Advice and Coordination				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Successful introduction of Infrastructure Bill by December 2009.	Achieved	Achieved. Introduced on 5 August 2009. Enacted August 2010.		
Successful completion and publication of first <i>National Infrastructure Plan</i> .	Achieved	Achieved. Plan published March 2010.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	4,675	5,052	4,942	
<i>Funded by:</i>				
Revenue Crown	4,587	4,973	4,885	
Other Revenue	88	79	57	
<p>This output class appropriation was established for 2009/10 as the infrastructure outputs come under the portfolio responsibility of the Minister for Infrastructure.</p> <p>Actual 2009/10 output class expenditure was \$377,000 or 8% under the Supplementary Estimates budget primarily owing to lower costs incurred for consultancy and legal advice than anticipated owing to some contract savings, and work on capital asset business cases continuing into 2010/11. An in-principle expense transfer to 2010/11 has been sought for up to \$200,000 to provide sufficient funding for the follow-up work on these projects.</p>				

Crown Guarantee Schemes

Scope of Appropriation

This appropriation is limited to the implementation and operation of the Crown's Deposit Guarantee Scheme and the Crown's Wholesale Guarantee Facility excluding expenses incurred in connection with administering claims under a guarantee or indemnity given under the Scheme.

Significant Work Completed During 2009/10

- ▶ Delivered the Deed of Guarantee for the extended Crown Deposit Guarantee Scheme.
- ▶ Developed and delivered a revised Deed of Guarantee applying within the current guarantee period including the ability to issue non-guaranteed securities in order to facilitate transition off the guarantee. The revised deed took effect on 1 January 2010.
- ▶ Completed delivery of the payout solution using CIS.
- ▶ Completed a guidance manual for complex claims that cannot be resolved via CIS as they require expert (legal) involvement.

Statement of Service Performance for Output Class: Crown Guarantee Schemes		
Performance Dimensions	Target	Performance for 2009/10
Development and implementation of an overall plan for managing the Crown interests including default events.	Achieved	Achieved. This work is ongoing, with particular attention being paid on the entities considered more likely than not to default and, in the run-up to expiry of the current scheme on 12 October 2010, medium- to high- risk entities that are not eligible for the extended guarantee scheme.
Active monitoring of guaranteed institutions is undertaken to minimise Crown exposure.	Achieved	Achieved. Ongoing via regular reporting from the Reserve Bank and supplemented by engagement with the entities themselves, requests for information under the Guarantee Deeds or inspections if necessary.
The Treasury actively manages the Crown interests in the event of a specific default.	Within seven days of default	Achieved. A structured plan has been developed to ensure the Crown's key requirements are met.

Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,520	5,471	-	
<i>Funded by:</i>				
Revenue Crown	2,520	5,428	-	
Other Revenue	-	43	-	

This output class appropriation was established on 1 September 2009 to consolidate the two separate output classes for the Crown Deposit Guarantee Scheme and the Crown Wholesale Guarantee Facility previously included under the Economic Performance MCOA.

Actual 2009/10 output class expenditure was \$2,951,000 or 54% under the Supplementary Estimates budget primarily owing to budgeted legal expenditure not required this financial year. Some costs of the scheme are difficult to forecast, particularly potential litigation costs. An in-principle expense transfer to 2010/11 has been sought for up to \$2,233,000 to ensure the Scheme has sufficient funding available to meet potential litigation costs.

Permanent Legislative Authorities

Appropriations for the New Zealand Debt Management Office

In 2008/09 NZDMO received funding through a single Permanent Legislative Authority (PLA) for Debt and Related Financial Asset Management. In 2009/10 this funding was split across four separate appropriations: Management of Crown Lending and Crown Bank Accounts (see pages 34 and 35) and three PLAs:

- ▶ Administration of Crown Borrowing PLA
- ▶ Administration of Derivative Transactions PLA, and
- ▶ Administration of Investment of Public Money PLA.

Information is provided for each appropriation individually later in this section.

Cost – Debt Management Office – PLA				
	Administration of Crown Borrowing, Derivative Transactions and Investment of Public Money			Debt and Related Financial Asset Management
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	6,783	7,322	8,149	8,714
<i>Funded by:</i>				
Revenue Crown	6,652	7,197	7,997	8,545
Other Revenue	131	125	152	169
In 2009/10, the Debt and Related Financial Asset Management output class was split across three PLA appropriations (as above), and one annual output class. The annual output class for Management of Crown Lending and Crown Bank Accounts now forms part of the Macroeconomic Policy Advice and Management MCOA (refer to page 26).				

Administration of Crown Borrowing PLA

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with administering borrowing by the Crown, as authorised by section 61(1) of the Public Finance Act 1989.

Significant Work Completed During 2009/10

- ▶ The final 2009/10 domestic debt programme was \$12.5 billion, a \$4 billion increase on the programme announced at the beginning of the year. This allowed us to pre-fund future borrowing requirements while market conditions remained favourable.
- ▶ The 2009/10 annual average cost of new borrowing was 4.15%, compared with a long-run average cost of around 6%.
- ▶ A number of measures were introduced to improve liquidity in the domestic market. The bond tranche size was increased from \$6 billion to \$8 billion, and we confirmed that we were actively considering the reintroduction of inflation-indexed debt.
- ▶ At year-end there were \$7.8 billion treasury bills outstanding in the market. Treasury bills outstanding peaked at \$9.2 billion in September. In April we re-introduced the one-year treasury bill, providing investors with an additional short-term government security and increasing the range of funding options available to NZDMO.
- ▶ NZDMO, in conjunction with the Minister of Finance where appropriate, promoted New Zealand government securities at conferences and investor meetings in Europe, Asia, New Zealand and Australia.

Statement of Service Performance for Output Class: Administration of Crown Borrowing PLA		
Performance Dimensions	Target (see notes)	Performance for 2009/10
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.
Compliance with risk management policies and parameters for portfolio management and debt issuance. See note on Compliance with risk management policies below.	No more than four breaches	Achieved. There were four breaches in 2009/10: three liquidity policy breaches and one credit breach.
Value-added from management of the Crown's debt and related financial assets to meet targets for tactical portfolios. See note on Value-added from management of the tactical portfolios below.	\$40 to \$60 million	Achieved. Value-added was \$69 million in 2009/10.

Statement of Service Performance for Output Class: Administration of Crown Borrowing PLA				
Performance Dimensions	Target (see notes)	Performance for 2009/10		
Average VaR for the tactical portfolios, at a confidence level of 95%. See note on Average VaR below.	Average monthly VaR is less than \$1.4 million	Achieved. Average monthly VaR was \$0.8 million, or 5.6% of the limit set by the Minister of Finance (see note below).		
Losses incurred from the credit-related sale of securities, or from default by a counter-party.	No losses	Achieved. There were no losses from the credit-related sale of securities, or from default by a counter-party.		
Number of settlement errors, and financial value of losses arising from settlement errors.	No more than 12 errors; losses do not exceed \$10,000	Achieved. There were four settlement errors, at a cost of \$1,689 to the Crown.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	5,161	5,701	3,260	
<i>Funded by:</i>				
Revenue Crown	5,059	5,603	3,200	
Other Revenue	102	98	60	
<p>In 2009/10, the Debt and Related Financial Asset Management output class was split across three PLA appropriations, and one annual output class. A summary of the PLA financials and the 2008/09 comparatives are provided on page 50.</p> <p>Actual 2009/10 output class expenditure was \$540,000 or 9% under the Supplementary Estimates budget owing to unpredictability of foreign legal fees associated with the European Medium Term Note (EMTN) and European Commercial Paper (ECP) products, coupled with favourable exchange rate movements. In addition, lower demand for Kiwibonds resulted in a corresponding decrease in registry costs.</p>				

Notes:**Aggregated performance targets for PLAs**

Performance targets for Administration of Crown Borrowing PLA, Administration of Derivative Transactions PLA and Administration of Public Borrowing PLA have been aggregated. The performance targets were specified as a total for activity across these output classes because this provided a more meaningful measure of the outputs produced by NZDMO. Measures have been cross-referenced in all three output appropriations.

The full set of measures and targets for the 2009/10 year and relevant notes are published in the Administration of Crown Borrowing PLA.

Compliance with risk management policies – performance measure

To improve transparency, the 2009/10 target explicitly identifies the number of breaches considered acceptable under existing NZDMO policy.

Value-added from management of the tactical portfolios meets target level

NZDMO derives the value-added figure from its management reporting, which is calculated on a different basis from external Crown financial statement reporting. The “tactical” portfolios are those where NZDMO is able to conduct discretionary transactions to manage risks: specifically, the liquidity, departmental and foreign exchange portfolios.

NZDMO values its portfolio(s) by the commonly-used methodology of calculating net present values from all future cash flows using zero-coupon discount curves which are generated at least daily from current market data. Generally, no counter-party credit spreads are applied to the curves.

NZDMO uses current spot foreign exchange rates to translate foreign currency net present values to New Zealand dollars. The value-added measure is primarily used to compare current performance against historic performance. Historic performance helps guide the establishment of future targets, which are set annually taking into account changes in the external environment.

Average VaR – performance measure

The Minister of Finance has agreed to a limit for average monthly VaR across the whole of NZDMO’s operations of \$14 million. NZDMO’s performance target for the tactical portfolios is set at 10% of the total limit, or \$1.4 million.

Administration of Derivative Transactions PLA

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with administering derivative transactions of the Crown, as authorised by section 65H(2) of the Public Finance Act 1989.

Significant Work Completed During 2009/10

- ▶ NZDMO uses a relatively small set of vanilla derivatives to manage interest-rate and currency risk in the portfolio. During 2009/10, new derivative transactions entered into included currency swaps and interest-rate swaps.
- ▶ Risk associated with the changing market value of derivative positions was successfully managed within NZDMO's average monthly VaR target for the investment and derivatives portfolio.

Statement of Service Performance for Output Class: Administration of Derivative Transactions PLA				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Compliance with risk management policies and parameters for portfolio management and debt issuance.	For other standards in this output class see the standards listed in the Administration of Crown Borrowing PLA output expense above	Performance targets for Administration of Derivative Transactions PLA, the Administration of Crown Borrowing PLA and Administration of Public Borrowing PLA have been aggregated. The performance targets were specified as a total for activity across these output classes because this provided a more meaningful measure of the outputs produced by NZDMO. The full set of measures and targets for the 2009/10 year and relevant notes are published in the Administration of Crown Borrowing PLA.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	1,249	1,308	3,893	
<i>Funded by:</i>				
Revenue Crown	1,227	1,285	3,819	
Other Revenue	22	23	74	
In 2009/10, the Debt and Related Financial Asset Management output class was split across three PLA appropriations, and one annual output class. A summary of the PLA financials and the 2008/09 comparatives are provided on page 50.				
Actual 2009/10 output class expenditure was \$59,000 or 5% under the Supplementary Estimates budget owing to minor cost savings.				

Administration of Investment of Public Money PLA

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with administering the investment of public money, as authorised by section 65J(1) of the Public Finance Act 1989.

Significant Work Completed During 2009/10

- ▶ As at 30 June 2010, NZDMO administered marketable securities valued at \$4,142 million, deposits valued at \$470 million and a cash balance of \$8,053 million. Cash and securities were used to fund government operations, to provide short-term liquidity if required and to help repay bond maturities in the longer term.
- ▶ Asset holdings increased during the year as NZDMO pre-funded future borrowing needs, and invested the proceeds into fixed-income securities.
- ▶ Assets are invested primarily in AAA- and AA-rated securities. The high quality of the asset portfolio, in conjunction with NZDMO's asset-liability matching policy, means the portfolio value had very low volatility, as reflected in an average monthly VaR during 2009/10 of less than \$1 million.

Statement of Service Performance for Output Class: Administration of Investment of Public Money PLA				
Performance Dimensions	Target	Performance for 2009/10		
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Compliance with risk management policies and parameters for portfolio management and debt issuance.	For other standards in this output class see the standards listed in the Administration of Crown Borrowing PLA output expense	Performance targets for Administration of Derivative Transactions PLA, the Administration of Crown Borrowing PLA and Administration of Public Borrowing PLA have been aggregated. The performance targets were specified as a total activity across these output classes because this provided a more meaningful measure of the outputs produced by NZDMO. The full set of measures and targets for the 2009/10 year and relevant notes are published in the Administration of Crown Borrowing PLA.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	373	313	996	
<i>Funded by:</i>				
Revenue Crown	366	309	978	
Other Revenue	7	4	18	
In 2009/10, the Debt and Related Financial Asset Management output class was split across three PLA appropriations, and one annual output class. A summary of the PLA financials and the 2008/09 comparatives are provided on page 50.				
Actual 2009/10 output class expenditure was \$60,000 or 19% over the Supplementary Estimates budget owing to higher global custodial costs.				

Administration of Guarantees and Indemnities Given by the Crown PLA

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with administering the guarantees and indemnities given by the Crown, as authorised by section 65ZG of the Public Finance Act 1989.

The appropriation was required to administer the guarantee provided to entities under the Crown Deposit Guarantee Scheme, including the management of Crown risk and administration expenses incurred in processing claims under the guarantee.

Significant Work Completed During 2009/10

- ▶ Successfully completed payouts of all claims following defaults by Mascot Finance Limited and Strata Finance Limited, where creditors made a claim.
- ▶ Initiated payouts for Vision Securities Limited, Rockforte Finance Limited and Viaduct Capital Limited.

Statement of Service Performance for Output Class: Administration of Guarantees and Indemnities Given by the Crown PLA				
Performance Dimensions	Target	Performance for 2009/10		
The Treasury actively manages the Crown's interests in the event of a specific default.	Achieved	Achieved. Delivered an outsourced claims payment solution via CIS to provide a robust scalable solution capable of dealing with high volume (depositor numbers) and/or multiple defaults.		
No unnecessary delays in processing depositors claims.	Achieved	Achieved. In practice, once the claims process commences the timeliness of payout is primarily determined by the speed with which creditors submit their claims. The process is deemed to have commenced from the time the Treasury sends the initial letter out seeking creditor details.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,475	2,798	-	866
<i>Funded by:</i>				
Revenue Crown	2,455	2,776	-	845
Other Revenue	20	22	-	21
Actual 2009/10 output class expenditure was \$323,000 or 11.5% under the Supplementary Estimates budget owing to a lower than anticipated level of activity in administering guarantees and indemnities given under the Crown Deposit Guarantee Scheme.				

Vote Crown Research Institutes Output Expense Performance

Crown Company Monitoring Advice to the Minister of Research, Science and Technology and the Minister for Economic Development

Scope of Appropriation

This appropriation is limited to the provision of ownership, performance monitoring and governance advice to the Minister of Research, Science and Technology and other responsible Ministers in respect of the Ministers' shareholding responsibilities.

Significant Work Completed During 2009/10

- ▶ Prepared advice for Ministers on the performance of the CRIs, NZVIF and REANNZ.
- ▶ Managed, on behalf of responsible Ministers, the appointment of CRI, NZVIF and REANNZ directors and monitored the performance of those boards and directors.
- ▶ Assisted the responsible Ministers in formulating ownership expectations in relation to the governance practices of the companies.
- ▶ Prepared advice on the Statements of Corporate Intent and strategic plans of the CRI, NZVIF and REANNZ boards.
- ▶ Completed performance reports on a quarterly, half-year and full-year basis to analyse the performance and accountability documents prepared by each company.
- ▶ Hosted training programmes for recently appointed and aspiring directors.
- ▶ Hosted professional development updates for existing Crown directors.
- ▶ Hosted a one-day induction seminar for new CRI and REANNZ directors.

Statement of Service Performance for Output Class: Crown Company Monitoring Advice to the Minister of Research, Science and Technology and the Minister for Economic Development				
Performance Dimensions	Target	Performance in 2009/10		
Quality standards for analysis and advice.	Achieved	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Ministerial satisfaction.	Materially met	Materially met. Service levels by COMU are unchanged from CCMAU. As MoRST's monitoring role increases, COMU's role reduces so as to avoid a duplication of resources. During the year COMU has provided the Minister with six-monthly reports on its service performance, quarterly reports on the performance of entities being monitored and ad hoc reports on other areas of interest. In addition to these reporting channels, weekly meetings with the Minister have ensured more real-time opportunities for feedback on COMU's performance.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	696	924	1,074	997
<i>Funded by:</i>				
Revenue Crown	687	913	1,052	981
Other Revenue	9	11	22	16
Actual 2009/10 output class expenditure was \$228,000 or 25% under the Supplementary Estimates budget owing to vacancies and efficiency savings.				

Vote State-Owned Enterprises Output Expense Performance

Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers

Scope of Appropriation

This appropriation is limited to the provision of ownership, performance monitoring and governance advice to the Minister for State-Owned Enterprises and other responsible Ministers in respect of the Minister's shareholding responsibilities or as responsible Ministers for the New Zealand Lotteries Commission and Public Trust.

Significant Work Completed During 2009/10

- ▶ Established COMU to increase the efficacy of the Crown's monitoring of performance of SOEs and Crown companies.
- ▶ Implemented a change in focus of monitoring to focus on accountability, transparency and performance.
- ▶ Implemented a continuous disclosure regime for the nine largest SOEs.
- ▶ Assisted the responsible Ministers in formulating ownership expectations in relation to the governance practices of the companies.
- ▶ Prepared advice on the Statements of Corporate Intent and strategic plans of the SOEs and Crown companies.
- ▶ Completed performance reports on a quarterly, half-year and full-year basis to analyse the performance and accountability documents prepared by each company.
- ▶ Commissioned independent valuations of the three electricity SOEs.
- ▶ Implemented financial performance measurements for the SOEs.
- ▶ Hosted training programmes for recently appointed and aspiring directors.
- ▶ Hosted professional development updates for existing Crown directors.
- ▶ Hosted a one-day induction seminar for new directors.
- ▶ Provided assistance to other agencies regarding nominations for boards.

Statement of Service Performance for Output Class: Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and other Responsible Ministers				
Performance Dimensions	Target	Performance for the 2009/10 year		
Quality standards for analysis and advice.	Achieved	Not assessed in 2009/10. Refer to page 60 for further information on the application of the policy standard during 2009/10.		
Ministerial satisfaction.	Materially met	Materially met. Ministers have been asked to comment on the performance of CCMAU and the transition to COMU. Expectations from the establishment of COMU have been materially met to date.		
Cost				
	2009/10 Actual \$000	Supp. Estimates - Voted \$000	Main Estimates \$000	2008/09 Actual \$000
Expenses	2,654	3,275	2,775	2,517
<i>Funded by:</i>				
Revenue Crown	2,618	3,241	2,707	2,477
Other Revenue	36	34	68	40
Actual 2009/10 output class expenditure was \$621,000 or 19% under the Supplementary Estimates budget owing to vacancies and efficiency savings.				

The Quality of the Treasury's Policy Advice

Scope

The Treasury applies a consistent quality standard to policy advice provided through all appropriations. The policy standard is published in full on pages 130 and 131 of this *Annual Report*.

The Quality of the Treasury's Policy Advice: All Treasury Appropriations		
Performance Dimensions	Target	Performance for 2009/10
All policy outputs comply with the Treasury's Quality Standards for Policy Advice, as assessed by the Minister three times during the year.	Rated as meeting and frequently exceeding expectations	<p>Not assessed in 2009/10.</p> <p>While this measure was not formally assessed, the Treasury has provided monthly reports to the Minister on policy priorities, and reports on our overall performance every four months. These, and weekly meetings between the Minister and the Chief Executive, have provided opportunities for regular feedback on the Treasury's work programme and the quality of its advice.</p> <p>The Treasury continues to employ the Quality Standards for Policy Advice, and all internal or externally-focused advice is expected to meet that standard. Accordingly, the standard is embedded in work plans of the Treasury staff and a formal quality assurance process is used to ensure that all Treasury reports to Ministers are peer reviewed, proofread and signed off by the responsible manager before completion.</p> <p>For the future, we intend to focus more directly on reviewing our performance against that standard, and in line with this a review is scheduled for 2010/11. This approach will provide a more robust and rigorous assessment of the quality of advice.</p>

Ministerial Servicing Performance 2009/10

The Treasury drafts responses to Ministerial Correspondence (MCs), Parliamentary Questions (PQs) and Official Information Act 1982 requests (OIAs) for consultation with, or approval by, the responsible Minister.

The Treasury provides these services to the:

- ▶ Minister of Finance, Associate Ministers of Finance and/or other Ministers, on referral from the Minister of Finance or an Associate Minister of Finance
- ▶ Minister for Infrastructure
- ▶ Minister for Regulatory Reform
- ▶ Minister of Research, Science and Technology, and
- ▶ Minister for State-Owned Enterprises.

There are two categories of requests: OIA requests made to Ministers (MOIAs) and OIA requests made to the Treasury (TOIAs).

Estimated and actual volumes for each output appropriation for the 2009/10 financial year are itemised below:

Vote Finance – Output Appropriations	Numbers			
	PQs	MCs	MOIAs	TOIAs
Estimated – Policy Advice: State Sector Performance	25-35	245-255	45-55	35-45
Actual draft replies	33	125	28	83
% answered by due date	97%	81%	86%	95%
% first draft accepted	97%	94%	86%	N/A
Estimated – Policy Advice: Economic Performance	5-15	535-545	10-20	25-35
Actual draft replies	34	457	45	77
% answered by due date	97%	84%	84%	94%
% first draft accepted	91%	92%	98%	N/A
Estimated – Infrastructure Advice and Coordination	5-15	90-100	0-10	0-10
Actual draft replies	8	41	2	5
% answered by due date	100%	88%	50%	100%
% first draft accepted	100%	85%	100%	N/A
Estimated – Crown Deposit Guarantee Scheme	5-15	30-40	0-10	0-10
Estimated – Crown Wholesale Guarantee Facility				
Estimated – Administration of Guarantees and Indemnities Given by the Crown PLA (covers Mascot Finance Limited and similar entities)				
Actual draft replies	0	0	0	0
% answered by due date	N/A	N/A	N/A	N/A
% first draft accepted	N/A	N/A	N/A	N/A
Estimated – Policy Advice: Fiscal and Macroeconomic	10-20	220-230	10-20	10-20
Actual draft replies	42	133	19	20
% answered by due date	100%	77%	89%	85%
% first draft accepted	74%	80%	100%	N/A
Estimated – Economic and Tax Forecasting	0-10	0-10	0-10	0-10
Actual draft replies	0	0	0	0
% answered by due date	N/A	N/A	N/A	N/A
% first draft accepted	N/A	N/A	N/A	N/A

Vote Finance – Output Appropriations	Numbers			
	PQs	MCs	MOIAs	TOIAs
Estimated – Fiscal Management	0-10	0-10	0-10	0-10
Actual draft replies	1	2	0	0
% answered by due date	100%	100%	N/A	N/A
% first draft accepted	100%	100%	N/A	N/A
Estimated – Fiscal Reporting	0-10	0-10	0-10	0-10
Actual draft replies	4	13	0	0
% answered by due date	100%	85%	N/A	N/A
% first draft accepted	100%	100%	N/A	N/A
Estimated – Management of Crown Lending and Crown Bank Accounts (NZDMO)	0-10	0-10	0-10	0-10
Estimated – Administration of Crown Borrowing PLA				
Estimated – Administration of Derivative Transactions PLA				
Estimated – Administration of Investment of Public Money PLA				
Actual draft replies	15	0	0	0
% answered by due date	100%	N/A	N/A	N/A
% first draft accepted	100%	N/A	N/A	N/A
Estimated – Management of Claims Against the Crown, Contractual Liabilities and Crown Properties	10-20	10-20	0-5	0-5
Actual draft replies	16	5	0	0
% answered by due date	88%	100%	N/A	N/A
% first draft accepted	100%	100%	N/A	N/A
Estimated – New Zealand Export Credit Office	0-10	0-10	0-10	0-10
Actual draft replies	0	6	0	2
% answered by due date	N/A	100%	N/A	50%
% first draft accepted	N/A	83%	N/A	N/A
Estimated – Organisational Performance and Ownership	50-60	5-15	0-10	15-25
Actual draft replies	61	30	22	26
% answered by due date	98%	97%	82%	96%
% first draft accepted	93%	73%	100%	N/A
Estimated – Total	140-150	1,170-1,180	75-85	105-115
Actual draft replies	214	812	116	213
% answered by due date	98%	84%	84%	93%
% first draft accepted	91%	90%	96%	N/A
Vote State-Owned Enterprises – Output Appropriations	Numbers			
	PQs	MCs	OIAs	
Estimated – SOEs	100-140	160-180	12-20	
Actual draft replies	13	81	8	2
% answered by due date	92%	90%	88%	100%
% first draft accepted	100%	99%	100%	N/A
Vote: Crown Research Institutes – Output Appropriations	Numbers			
	PQs	MCs	OIAs	
Estimated – CRIs	25-50	20-40	3-6	
Actual draft replies	25	7	4	1
% answered by due date	92%	100%	75%	100%
% first draft accepted	100%	71%	100%	N/A

Performance Measures for the 2009/10 Financial Year			
Measures and Standards Agreed for Vote Finance			
	Description	Timeframe	Performance Measures
MCs	Submit a reply to MCs for approval by the Minister of Finance, Associate Minister of Finance and/or other Ministers, on referral from the Minister of Finance.	Submit a reply within five working days of referral, unless otherwise agreed, to correspondence which is marked "urgent" by the Minister's Office. Submit a reply within 15 working days of referral, unless otherwise agreed, to all other correspondence.	At least 95% of replies to MCs will be delivered within agreed timeframes. At least 95% of replies to MCs will be acceptable to the Minister and will not require amendment.
PQs	Draft responses for PQs as requested by the Minister of Finance or Associate Minister of Finance.	Oral questions to the Minister's Office by 12.30pm. Written questions to the Minister's Office by noon on the due date.	Draft answers to all PQs will be consistent with Standing Order 377.
MOIAs	Submit a reply to requests made under the Official Information Act 1982, in accordance with the requirements of the Act, on referral from the Minister of Finance or Associate Minister of Finance. This includes, where applicable, an extension or transfer of a request or a response to an investigation by an Ombudsman.	All MOIA requests will be handled within the time limits prescribed by the Act. Replies will be delivered to the Minister at least five working days before the relevant statutory time limit, unless otherwise agreed.	All replies will be complete and accurate in the information they convey. Advice on, handling of and replies to, MOIA requests will accord with the provisions of the Official Information Act 1982. At least 95% of MOIA replies will be acceptable to the Minister and will not require amendment. All stated timeframes will be met.
TOIAs	Prepare a reply to requests made to the Treasury under the Official Information Act 1982, in accordance with the requirements of the Act. This includes, where applicable, an extension or transfer of a request or a response to an investigation by an Ombudsman.	All TOIA requests will be handled within the time limits prescribed by the Act. The Treasury will consult with and inform the Minister of Finance, Associate Ministers of Finance and/or other Ministers on proposed replies to TOIAs, as required and within agreed timeframes.	All replies will be complete and accurate in the information they convey. Advice on, handling of and replies to, TOIA requests will accord with the provisions of the Official Information Act 1982. Consultation on proposed replies will be appropriate and acceptable to the Minister of Finance. All stated timeframes will be met.
Measures and Standards Agreed for Vote Crown Research Institutes			
	Description	Timeframe	Performance Measures
MCs	Draft responses for MCs for approval by the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	Draft reply within 10 working days for any correspondence marked "urgent" or from a Member of Parliament. Draft reply within 15 working days for Prime Ministerial Correspondence. Draft reply within 20 working days for all other correspondence.	At least 95% of MC replies will be acceptable to the Minister and will not require amendment.
PQs	Draft responses for PQs as requested by the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	Oral questions to the Minister's office by 12.30pm. Written questions to the Minister's office by 5.00pm two days before the due date stamped on the question.	Draft answers to all PQs will be consistent with Standing Order 377.

OIAs	Draft responses to requests under the provisions of the Official Information Act 1982 referred from the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	<p>All requests are handled within the timeframes set in the OIA.</p> <p>Draft replies will be with the Minister five working days before the statutory deadline for reply.</p>	<p>All replies will be complete and accurate in the information they convey.</p> <p>Advice on, handling of and draft replies to, OIA requests will accord with the provisions of the OIA.</p> <p>The quality of the replies will be acceptable to the Minister.</p> <p>All stated timelines will be met.</p>
Measures and Standards Agreed for Vote State-Owned Enterprises			
	Description	Timeframe	Performance Measures
MCs	Draft responses for MCs for approval by the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	Unless agreed otherwise with the Minister's office staff, draft reply within five working days from receipt by COMU for any correspondence marked "urgent" or from a Member of Parliament or for Prime Ministerial correspondence. Draft reply within 10 working days from receipt by COMU for all other correspondence.	At least 95% of replies to MCs will be acceptable to the Minister and will not require amendment.
PQs	Draft responses for PQs as requested by the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	<p>Oral questions faxed to COMU at 11.00am. Background information and suggested responses to oral questions to the Minister's office by noon. Officials available to discuss answer and suggested approach with the Minister at 1.00pm.</p> <p>Responses to written questions to the Minister's office by noon two days before the due date stamped on the question.</p>	Draft answers to all PQs will be consistent with Standing Order 377.
OIAs	Draft responses to requests under the provisions of the Official Information Act 1982 referred from the responsible Minister, and/or other Ministers, on referral from the responsible Minister.	<p>All requests are handled within the timeframes set in the OIA.</p> <p>Draft replies will be with the Minister five working days before the statutory deadline for reply.</p>	<p>Replies will be complete and accurate in the information they convey.</p> <p>Consultation will be undertaken with relevant parties such as the SOE or other government agencies, where appropriate.</p> <p>Advice on, handling of and draft replies to, OIA requests will accord with the provisions of the OIA.</p> <p>The quality of the replies will be acceptable to the Minister.</p> <p>All stated timelines will be met.</p>
All Appropriations			
All of the above	-	-	Ministerial Servicing will not exceed budgeted costs.

Financial Statements – Departmental

for the year ended 30 June 2010

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Overview of Departmental Financial Results

for the year ended 30 June 2010

The following significant movements in actual results between the 2009/10 and 2008/09 years, and actual results against the 2009/10 Supplementary Estimates budget, are explained below:

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Revenue			
59,687	Crown	63,858	68,260	74,255
	Expenses			
40,886	Personnel	43,758	46,204	45,333
15,737	Operating	13,552	16,137	19,571
2,037	Consultants	5,542	4,725	8,332
	Current Assets			
7,698	Debtor – Crown	8,799	6,696	10,062
	Non-current Assets			
4,604	Property, plant and equipment	3,653	4,254	4,154
	Current Liabilities			
5,239	Creditors and other payables	5,254	4,300	7,577
	Non-current Liabilities			
1,151	Provision for employee entitlements	887	390	230
	Taxpayers' Funds			
6,948	General funds	6,342	6,342	6,342

Movements between Main Estimates Budgets and Supplementary Estimates Budgets are explained in the published Supplementary Estimates of Appropriation.

Significant Actual Movements Between 2008/09 and 2009/10

Revenue Crown for departmental outputs increased by \$4.2 million, mainly owing to increased capacity from budget initiative funding and greater consultancy spend for Deposit Guarantee Scheme.

Personnel increased by \$2.9 million mainly owing to increased capacity from budget initiative funding and a fall in staff turnover.

Operating costs decreased by \$2.2 million owing to lower transactional costs in NZDMO and a reduction in legal advice for the Deposit Guarantee Scheme.

Consultants increased by \$3.5 million mainly owing to greater complexity and therefore more resources for the Deposit Guarantee Scheme and additional funding for the BASS project.

Debtor – Crown increased by \$1.1 million owing to higher spend in June 2010 for the Deposit Guarantee Scheme and BASS project.

Property, plant and equipment decreased by \$1 million owing to lower capital expenditure on computer hardware.

Taxpayers' funds decreased by \$0.6 million owing to the repayment of capital provided for the Treasury accommodation project between 2003 and 2005.

Significant Variances Between 2009/10 Actuals and Supplementary Estimates Budget

Revenue Crown for departmental outputs decreased by \$10.4 million, mainly owing to less demand than anticipated for the Crown Deposit Guarantee Scheme, the Crown Wholesale Guarantee Facility and NZECO and delays in personnel recruitment.

Consultants expenses are \$2.8 million below budget owing to lower costs than anticipated for the Crown Deposit Guarantee Scheme and NZECO; most of this activity will now occur in 2010/11.

Debtor – Crown decreased by \$1.3 million mainly owing to lower expenditure for the Crown Deposit Guarantee Scheme and NZECO in June 2010 than originally expected.

Creditors and other payables decreased by \$2.3 million primarily owing to less expenditure than expected in June.

Statement of Comprehensive Income

for the year ended 30 June 2010

The Statement of Comprehensive Income details the revenue and expenses relating to all outputs (goods and services) produced by the Treasury during the financial year ended 30 June 2010. Total expenses equals total departmental output classes expenditure and appropriations in the Statement of Departmental Expenses and Capital Expenditure Against Appropriations on page 75.

2009 Actual \$000		Notes	2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Revenue				
59,687	Revenue Crown	2	63,858	68,260	74,255
1,109	Revenue other	3	1,156	1,085	1,156
60,796			65,014	69,345	75,411
	Expenses				
40,886	Personnel	4	43,758	46,204	45,333
15,737	Operating	5	13,552	16,137	19,571
2,037	Consultants		5,542	4,725	8,332
1,342	Depreciation	7	1,320	1,345	1,340
270	Amortisation	8	343	458	342
524	Capital charge	6	499	476	493
60,796			65,014	69,345	75,411
-	Net Surplus and Comprehensive Income		-	-	-

Explanations of significant variances against budget are detailed in the Overview of Departmental Financial Results on page 66.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Changes in Taxpayers' Funds

for the year ended 30 June 2010

The Statement of Changes in Taxpayers' Funds combines information about the net surplus with other aspects of the financial performance of the Treasury, to give a measure of comprehensive income.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
7,240	Balance at 1 July	6,948	6,948	6,948
-	Total comprehensive income	-	-	-
-	Return of operating surplus to the Crown	-	-	-
308	Capital contributions from the Crown	-	(6)	(6)
(600)	Capital withdrawal repaid to the Crown	(606)	(600)	(600)
6,948	Balance at 30 June	6,342	6,342	6,342

The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position

as at 30 June 2010

The Statement of Financial Position reports the total assets and liabilities of the Treasury, as at 30 June 2010. Taxpayers' funds are represented by the difference between the assets and liabilities.

2009 Actual \$000		Notes	2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Taxpayers' Funds				
6,948	General funds		6,342	6,342	6,342
6,948	Total Taxpayers' Funds				
	<i>Represented by:</i>				
	Assets				
	Current Assets				
3,794	Cash and bank balances		3,493	3,299	2,879
439	Prepayments		438	468	522
627	Accounts receivable		512	394	460
7,698	Debtor – Crown		8,799	6,696	10,062
12,558			13,242	10,857	13,923
	Non-current Assets				
4,604	Property, plant and equipment	7	3,653	4,254	4,154
718	Intangible assets	8	398	743	379
5,322			4,051	4,997	4,533
17,880	Total Assets				
	<i>Less:</i>				
	Liabilities				
	Current Liabilities				
5,239	Creditors and other payables	9	5,254	4,300	7,577
4,542	Provision for employee entitlements	10	4,810	4,822	4,307
9,781			10,064	9,122	11,884
	Non-current Liabilities				
1,151	Provision for employee entitlements	10	887	390	230
1,151			887	390	230
10,932	Total Liabilities				
6,948	Net Assets				

The accompanying accounting policies and notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2010

The Statement of Cash Flows summarises the cash movements in and out of the Treasury during the financial year. It takes no account of money owed to the Treasury or owing by the Treasury and therefore differs from the Statement of Comprehensive Income on page 68.

2009 Actual \$000	Notes	2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Cash Flows from Operating Activities			
	<i>Cash was provided from:</i>			
58,233	Supply of outputs to the Crown	62,757	68,260	71,891
1,097	Supply of outputs to third parties	1,185	1,115	1,200
59,330		63,942	69,375	73,091
	<i>Cash was disbursed to:</i>			
40,184	Personnel	43,754	44,448	46,488
16,670	Operating and consultants	19,395	23,078	25,732
524	Capital charge	499	476	493
57,378		63,309	67,665	72,376
1,952	Net Cash Flows from Operating Activities 11	633	1,710	715
	Cash Flows from Investing Activities			
	<i>Cash was provided from:</i>			
-	Sale of property, plant and equipment	107	-	-
-		107	-	-
	<i>Cash was disbursed to:</i>			
(1,218)	Purchase of property, plant and equipment	(562)	(801)	(889)
(392)	Purchase of intangible assets	(22)	(382)	(2)
(1,610)		(584)	(1,183)	(891)
(1,610)	Net Cash Flows from Investing Activities	(477)	(1,183)	(891)
	Cash Flows from Financing Activities			
	<i>Cash was provided from:</i>			
283	Capital contribution	-	(6)	(6)
155	Goods and services tax (net)	149	(68)	(133)
438		149	(74)	(139)
	<i>Cash was disbursed to:</i>			
(600)	Capital withdrawal	(606)	(600)	(600)
(162)	Net Cash Flows from Financing Activities	(457)	(674)	(739)
180	Net movement in cash and bank balances	(301)	(147)	(915)
3,614	Cash and bank balances at the beginning of the year	3,794	3,446	3,794
3,794	Cash and Bank Balances at the End of the Year	3,493	3,299	2,879

The accompanying accounting policies and notes form part of these financial statements.

Statement of Commitments

as at 30 June 2010

2009 Actual \$000		2010 Actual \$000
	Capital Commitments	
-	Property, plant and equipment	-
	<i>Non-cancellable operating lease commitments</i>	
3,450	Not later than one year	3,066
13,763	Later than one year and not later than five years	12,105
10,434	Later than five years	9,079
27,647	Total Non-cancellable Operating Lease Commitments	24,250
	<i>Other non-cancellable commitments</i>	
378	Not later than one year	312
378	Total Other Non-cancellable Commitments	312
28,025	Total Commitments	24,562

Capital Commitments

There are no capital commitments for this year.

Non-cancellable Operating Lease Commitments

The Treasury has non-cancellable leases on its principal premises at No 1 The Terrace, Wellington until 2017. These operating lease commitments have been recorded at their gross values in the Statement of Commitments.

Other Non-cancellable Commitments

The Treasury has other operating commitments consisting of computer maintenance contracts, building services contracts and contracts for service.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2010

Unquantifiable Contingent Liabilities

The Treasury has the following unquantifiable contingent liabilities:

- ▶ Carpark licence (Pastoral House) – In relation to the one carpark leased by the Treasury at Pastoral House, the Crown indemnified AMP NZ Office Pastoral Ltd against certain damages or loss caused by our use of that carpark.
- ▶ Carpark licence (No 3 The Terrace) – In relation to the eight carparks leased by the Treasury at No 3 The Terrace, the Crown indemnified AMP NZ Office 1 The Terrace Ltd against certain damages or loss caused by our use of those carparks.
- ▶ Deed of Lease (No 1 The Terrace) – In relation to the lease by the Treasury of levels 5-14, the basement and the sub-basement of the building at No 1 The Terrace, the Crown indemnified AMP NZ Office 1 The Terrace Ltd against certain damages or loss in relation to our lease of the premises.
- ▶ Research in Motion Limited – In accordance with a delegation from the Minister of Finance dated 23 May 2005, the Treasury has granted an indemnity to Research in Motion Limited under a licence agreement for software used in conjunction with Blackberry mobile email devices, covering breach of the licence agreement, intellectual property rights, claims arising from incorrect use of the software, defamation type actions and breach of export restrictions.
- ▶ Reuters Services Contract – The Treasury has indemnified Reuters Group PLC and its subsidiaries against any losses arising from the Treasury's use of certain Reuters services or arising from a breach of the Services Contract relating to the provision of financial information services. Further the Treasury indemnified Lipper (a Reuters company) in respect of third party copyright and intellectual property rights.
- ▶ The Treasury has indemnified First NZ Capital against any claims arising from third parties as a result of contract consultancy work undertaken by the company.

Quantifiable Contingent Liabilities

As at 30 June 2010, the Treasury had no quantifiable departmental contingent assets and liabilities (30 June 2009: nil).

The accompanying accounting policies and notes form part of these financial statements.

Departmental Capital Expenditure

for the year ended 30 June 2010

Departmental capital expenditure incurred in accordance with section 24 of the Public Finance Act 1989.

	2003 Actual \$000	2004 Actual \$000	2005 Actual \$000	2006 Actual \$000	2007 Actual \$000	2008 Actual \$000	2009 Actual \$000	2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
Property, Plant and Equipment										
Computer hardware	897	912	610	873	160	800	1,089	606	726	853
Furniture and fittings	-	32	884	126	3	7	74	-	-	25
Leasehold improvements	-	2,664	1,927	433	33	39	37	4	-	11
Leased equipment	-	-	-	56	-	-	-	-	-	-
Office machinery and electrical equipment	15	52	-	5	27	21	12	20	75	-
Total Property, Plant and Equipment	912	3,660	3,421	1,493	223	867	1,212	630	801	889
Intangibles										
Computer software – internally generated	-	-	-	-	295	195	-	-	312	-
Computer software – other	9	16	-	278	17	15	500	22	70	2
Total Intangibles	9	16	-	278	312	210	500	22	382	2
Total Capital Expenditure	921	3,676	3,421	1,771	535	1,077	1,712	652	1,183	891

The accompanying accounting policies and notes form part of these financial statements.

Statement of Departmental Expenses and Capital Expenditure Against Appropriations

for the year ended 30 June 2010

The Statement of Expenditure and Appropriations details expenditure against appropriations. Total Departmental Output Classes Expenditure and Appropriations equals total expenses in the Statement of Comprehensive Income on page 68.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Vote Finance: Departmental Output Classes			
-	Administration of Crown Borrowing ^{9,10}	5,161	3,260	5,701
-	Administration of Derivative Transactions ^{9,10}	1,249	3,893	1,308
866	Administration of Guarantees and Indemnities given by the Crown ^{9,10}	2,475	-	2,798
-	Administration of Investment of Public Money ^{9,10}	373	996	313
-	Crown Guarantee Schemes	2,520	-	5,471
8,714	Debt and Related Financial Asset Management ^{10,12}	-	-	-
-	Infrastructure Advice and Coordination ¹¹	4,675	4,942	5,052
	<i>Macroeconomic Policy Advice and Management (MCOA)¹²</i>			
-	▸ Economic and Tax Forecasting	2,788	2,677	2,755
-	▸ Fiscal Management	2,972	2,422	3,197
-	▸ Fiscal Reporting	3,606	3,570	3,708
-	▸ Management of Crown Lending and Crown Bank Accounts	205	906	360
-	▸ Policy Advice: Fiscal and Macroeconomic	4,268	4,079	4,296
-		13,839	13,654	14,316
12,380	Policy Advice and Management: Macroeconomic ¹²	-	-	-
	<i>State Sector and Economic Performance Policy Advice and Management (MCOA)¹²</i>			
1,425	▸ Crown Deposit Guarantee Scheme	437	3,720	437
849	▸ Crown Wholesale Guarantee Facility	141	1,540	141
2,971	▸ Management of Liabilities, Claims against the Crown, Contractual Liabilities and Crown Properties	1,384	2,093	1,574
1,919	▸ New Zealand Export Office	2,103	1,871	4,144
15,836	▸ Policy Advice: Economic Performance	15,242	15,465	14,041
12,322	▸ Policy Advice: State Sector Performance	12,065	14,062	15,916
35,322		31,372	38,751	36,253
57,282	Total Vote Finance: Departmental Output Classes	61,664	65,496	71,212

⁹ These expenses or capital expenditures have permanent legislative authority.

¹⁰ The expenses included in appropriations, Administration of Crown Borrowing, Administration of Derivative Transactions, Administration of Investment of Public Money Crown Wholesale Guarantee Scheme and Crown Deposit Guarantee Scheme, were previously a single annual appropriation – Debt and Related Financial Asset Management – in 2008/09 and prior years.

¹¹ Infrastructure Advice and Coordination appropriation was established in 2009/10 with resources transferred from State Sector and Economic Performance Policy Advice and Management (MCOA); Policy Advice – Economic Performance and Policy Advice – State Sector Performance output classes.

¹² The expenses included in Macroeconomic Policy Advice and Management MCOA were part of the appropriations Debt and Related Financial Asset Management and Policy Advice and Management: Macroeconomic in 2008/09 and prior years.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Vote Crown Research Institutes: Departmental Output Classes			
997	Crown Company Monitoring Advice to the Minister for Crown Research Institutes, the Minister for Economic Development and the Minister for Research, Science and Technology	696	1,074	924
	Vote State-Owned Enterprises: Departmental Output Classes			
2,517	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2,654	2,775	3,275
60,796	Total Departmental Output Classes Expenditure and Appropriation	65,014	69,345	75,411
	Capital Expenditure			
1,212	Property, plant and equipment	630	801	889
500	Intangibles	22	382	2
1,712	Total Departmental Capital Expenditure	652	1,183	891

There was no unappropriated expenditure incurred during 2009/10 (2008/09: nil).

The accompanying accounting policies and notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2010

1 – Statement of Accounting Policies

Reporting entity

The Treasury is a government department (the Department) as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

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

The primary objective of the Treasury is to provide services to the public rather than making a financial return. Accordingly, the Treasury has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Treasury are for the year ended 30 June 2010. The financial statements were authorised for issue by the Secretary to the Treasury on 30 September 2010.

Basis of preparation

These financial statements have been prepared in accordance with, and comply with, NZ IFRS and other financial reporting standards, as appropriate for public benefit entities.

The financial statements have been prepared on a historical cost basis.

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

There have been no changes in accounting policies during the financial year.

The Treasury has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- ▶ Presentation of Financial Statements (Revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of Comprehensive Income. The Statement of Comprehensive Income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Ministry has decided to prepare a single Statement of Comprehensive Income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the Statement of Comprehensive Income were previously recognised directly in the Statement of Changes in Equity.

The Treasury has not adopted the following standards, amendments and interpretations issued but not yet effective:

- ▶ NZ IAS 24 Related Party Disclosures (Revised 2009) replaces NZ IAS 24 Related Party Disclosures (Issued 2004). This standard:
 - i Removes the previous disclosure concessions applied by the Ministry for arm's-length transactions between the Treasury and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Treasury and entities controlled or significantly influenced by the Crown.

- ii Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Ministers of Finance, State-Owned Enterprises and Crown Research Institutes, the Treasury will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
- iii Clarifies that related party transactions include commitments with related parties.

The Treasury expects it will early adopt the revised standard for the year ended 30 June 2011.

- ▶ NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39.

The new standard is required to be adopted for the year ended 30 June 2013. The Treasury has not yet assessed the effect of the new standard and expects it will not be early adopted.

Revenue

Revenue is measured at the fair value of consideration received.

Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

State Sector Retirement Superannuation and KiwiSaver schemes revenue

This revenue included reimbursements by SSC for contributions made by the Treasury to the State Sector Retirement Superannuation Scheme and the KiwiSaver Scheme, and tax credits for contributions to KiwiSaver received from IRD.

Sale of publications

Sale of publications is recognised when the product is sold to the customer. The recorded revenue is the gross amount of the sale.

Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

Operating lease

The Treasury leased office premises during the year ending 30 June 2010. Substantially all the risks and benefits of ownership were retained by the lessor, and therefore these leases are classified as operating leases. Operating lease costs are written off to the Statement of Comprehensive Income over the period of the lease.

Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit and loss in which case the transaction costs are recognised in the Statement of Comprehensive Income.

Financial instruments primarily comprise cash and bank balances, accounts receivable and payables. All financial instruments are recognised in the Statement of Financial Position at cost. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Comprehensive Income.

The Treasury uses derivative financial instruments to hedge its exposure to foreign exchange movements. The Treasury does not hold or issue derivative financial instruments for trading purposes. The Treasury has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the surplus or deficit.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

Cash and cash equivalents

Cash includes cash on hand and funds on deposits with banks.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment charges.

Impairment of a receivable is established when there is objective evidence that the Treasury will not be able to collect amounts due according to the original terms of the receivable.

Property, plant and equipment

Property, plant and equipment consists of leasehold improvements, computer hardware, furniture and fittings and office equipment.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. All computer equipment assets costing over \$1,000 and all other assets costing more than \$5,000 are capitalised.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Treasury and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are recorded in the Statement of Comprehensive Income.

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 the Treasury and the cost of the item can be measured reliably.

Depreciation

Depreciation of property, plant and equipment is provided on a straight line basis so as to allocate the cost of property, plant and equipment, less their estimated residual values, over their estimated useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and fittings	Shelving	10 years
	Other	5 years
Leasehold improvements		12 years
Office machinery and electrical equipment	Photocopiers	5 years
	Other	5 years
	Electronic white boards	3 years
	Facsimile machines	3 years
Computer hardware	UPS/Air conditioning	5 years
	Cabling	5 years
	PCs, terminals and printers	3 years
	Other hardware	3 years

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.

Intangible assets

Software acquisition and development

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Treasury are recognised as an intangible asset. Direct costs include the software development and employee costs.

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 period is recognised in the Statement of Comprehensive Income.

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

Computer software	Internally generated software	3 years
	System software	3 years

Creditors and other payables

Creditors and other payables are measured at cost.

Employee entitlements

Short-term employee entitlements

Employee entitlements that the Treasury expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months and sick leave.

The Treasury recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Treasury anticipates it will be used by staff to cover those future absences.

The Treasury recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- ▶ likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information, and
- ▶ the present value of the estimated future cash flows. Discount factors of 3.48% to 6% and salary inflation factors of 0% to 3.5% were used. The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Income as incurred.

Provisions

The Treasury recognises a provision 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 not recognised for future operating losses.

Taxpayers' funds

Taxpayers' funds is the Crown's investment in the Treasury and is measured as the difference between total assets and total liabilities.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the value of that penalty or exit cost.

Goods and services tax

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated 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, IRD is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from, IRD, including the GST relating to investing and financing activities, is classified as financing activity cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

Budget figures

The budget figures are those presented in the Budget Estimates (Main Estimates) and those amended by the Supplementary Estimates, and associated forecasts included in the Main Estimates and Supplementary Estimates and reflected in the Statements of Comprehensive Income, Financial Position, Cash Flows and Changes in Taxpayers' Funds.

Statement of cost allocation policies

The Statement of Cost Allocation Policies was in place for the 2009/10 year. The details of the policy are outlined as follows:

- ▶ Direct costs are costs that can be identified with a single output/result. Where possible, costs are assigned directly to outputs/results.
- ▶ Indirect costs are costs that cannot be identified with an output in an economically feasible manner. They are incurred for the common benefit of more than one output. Indirect costs are pooled as overhead costs and allocated to outputs/results based on the actual hours worked at a predetermined standard cost rate.
- ▶ A time recording system is used to collect the information of actual hours worked on each output/result.
- ▶ The predetermined standard cost per hour is set at the beginning of the year and is derived from dividing expected indirect costs for the year, including salaries and overheads, across expected hours to be worked for the year.
- ▶ As the standard cost per hour is set at the beginning of the year, differences in costs and hours worked result in either an under or over recovery of costs during the year. This difference is allocated to outputs/results based on the hours worked on each output/result at the end of each month.

Critical accounting estimates and assumptions

In preparing these financial statements the Treasury has made estimates and assumptions concerning the future. These estimates and judgements may differ from the subsequent actual results. Estimates and judgements 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. These estimates and judgements do not have a material impact on the carrying amounts of assets and liabilities.

2 – Revenue – Crown

This is revenue earned for the supply of outputs to the Crown.

3 – Other Revenue

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
1,061	State Sector Retirement Superannuation and KiwiSaver Schemes	1,032	1,060	1,060
48	Miscellaneous	124	25	96
1,109		1,156	1,085	1,156

4 – Personnel Costs

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
37,433	Salaries and wages	41,024	43,440	41,939
1,516	Employer contributions to defined contribution plans	1,499	1,168	1,519
514	(Decrease)/Increase in employee entitlements	(327)	(231)	(90)
1,423	Other	1,562	1,827	1,965
40,886		43,758	46,204	45,333

5 – Operating Expenses

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
3,477	Lease of premises	3,018	3,437	2,991
365	Fees to KPMG for audit of the Department and NZDMO	314	353	538
112	Fees to Office of Auditor-General for audit of the Crown Financial Statements	252	160	250
21	Other fees to auditors	71	20	20
-	Fees to KPMG for Better Administrative Support Services	785	-	-
2,366	Process management services	1,364	1,498	2,368
1,163	Transport and travel	1,237	1,637	1,439
633	Training and development	616	915	869
990	Information costs	908	1,304	898
669	Data processing costs	638	727	691
21	Furniture/office equipment purchases	17	26	18
5,920	Other operating costs	4,332	6,060	9,489
15,737	Total Operating Expenses	13,552	16,137	19,571

6 – Capital Charge

The Treasury pays a capital charge to the Crown on its average taxpayers' funds for the six months ended 30 June and 31 December.

The capital charge rate for the financial year ended 30 June 2010 was 7.5% (30 June 2009: 7.5%).

7 – Property, Plant and Equipment

The following categories of property, plant and equipment were used by the Treasury:

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Computer Hardware			
	<i>Cost</i>			
4,593	Opening balance as at 1 July	5,238	5,482	5,239
1,089	Additions	606	726	853
(444)	Disposals	(363)	(350)	(350)
5,238	Closing balance as at 30 June	5,481	5,858	5,742
	Accumulated Depreciation			
3,672	Opening balance as at 1 July	3,922	3,956	3,922
696	Depreciation	793	775	803
(446)	Disposals	(363)	(349)	(350)
3,922	Closing balance as at 30 June	4,352	4,382	4,375
1,316	Carrying Amounts	1,129	1,476	1,367
	Furniture and Fittings			
	<i>Cost</i>			
1,085	Opening balance as at 1 July	1,159	1,138	1,159
74	Additions	-	-	25
-	Disposals	-	-	-
1,159	Closing balance as at 30 June	1,159	1,138	1,184
	Accumulated Depreciation			
767	Opening balance as at 1 July	982	981	982
215	Depreciation	100	87	103
-	Disposals	-	-	-
982	Closing balance as at 30 June	1,082	1,068	1,085
177	Carrying Amounts	77	70	99
	Leasehold Improvements			
	<i>Cost</i>			
5,097	Opening balance as at 1 July	5,134	5,134	5,134
37	Additions	4	-	11
-	Disposals	(391)	-	-
5,134	Closing balance as at 30 June	4,747	5,134	5,145
	Accumulated Depreciation			
1,642	Opening balance as at 1 July	2,060	2,060	2,060
418	Depreciation	412	423	420
-	Disposals	(130)	-	-
2,060	Closing balance as at 30 June	2,342	2,483	2,480
3,074	Carrying Amounts	2,405	2,651	2,665

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Leased Equipment			
	<i>Cost</i>			
56	Opening balance as at 1 July	-	-	-
-	Additions	-	-	-
(56)	Disposals	-	-	-
-	Closing balance as at 30 June	-	-	-
	Accumulated Depreciation			
54	Opening balance as at 1 July	-	-	-
-	Depreciation	-	-	-
(54)	Disposals	-	-	-
-	Closing balance as at 30 June	-	-	-
-	Carrying Amounts	-	-	-
	Office Machinery and Electrical Equipment			
	<i>Cost</i>			
682	Opening balance as at 1 July	647	650	647
12	Additions	20	75	-
(47)	Disposals	(32)	(200)	-
647	Closing balance as at 30 June	635	525	647
	Accumulated Depreciation			
644	Opening balance as at 1 July	610	609	610
13	Depreciation	15	60	14
(47)	Disposals	(32)	(201)	-
610	Closing balance as at 30 June	593	468	624
37	Carrying Amounts	42	57	23
4,604	Total Property, Plant and Equipment	3,653	4,254	4,154
	Summary			
	<i>Cost</i>			
11,513	Opening balance as at 1 July	12,178	12,404	12,179
1,212	Additions	630	801	889
(547)	Disposals	(786)	(550)	(350)
12,178	Closing Balance as at 30 June	12,022	12,655	12,718
	Accumulated Depreciation			
6,779	Opening balance as at 1 July	7,574	7,606	7,574
1,342	Depreciation	1,320	1,345	1,340
(547)	Disposals	(525)	(550)	(350)
7,574	Closing balance as at 30 June	8,369	8,401	8,564
4,604	Total Property, Plant and Equipment	3,653	4,254	4,154

8 – Intangible Assets

The following categories of intangible assets were used by the Treasury:

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Computer Software – Internally Generated			
	<i>Cost</i>			
713	Opening balance as at 1 July	713	713	713
-	Additions	-	312	-
-	Disposals	-	-	-
713	Closing balance as at 30 June	713	1,025	713
	Accumulated Amortisation			
170	Opening balance as at 1 July	380	380	381
210	Amortisation	205	298	217
-	Disposals	-	-	-
380	Closing balance as at 30 June	585	678	598
333	Carrying amounts	128	347	115
	Computer Software – Acquired			
	<i>Cost</i>			
1,177	Opening balance as at 1 July	1,677	1,756	1,677
392	Additions	22	70	2
108	Transfer in from other government department	-	-	-
-	Disposals	-	(109)	-
1,677	Closing balance as at 30 June	1,699	1,717	1,679
	Accumulated Amortisation			
1,149	Opening balance as at 1 July	1,292	1,290	1,291
60	Amortisation	138	160	125
83	Transfer in from other government department	-	-	-
-	Disposals	(1)	(129)	(1)
1,292	Closing balance as at 30 June	1,429	1,321	1,415
385	Carrying Amounts	270	396	264
718	Total Intangible Assets	398	743	379

There are no restrictions over the title of the Treasury's intangible assets. No intangible assets are pledged as security for liabilities.

9 – Creditors and Other Payables

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
1,138	Creditors	1,044	1,641	1,138
17	Creditors for property, plant and equipment	85	22	17
32	Receipts in advance	55	65	-
3,488	Accrued expenses	3,340	2,172	5,972
581	GST payable	730	400	450
5,239	Total Creditors and Other Payables	5,254	4,300	7,577

Creditors and other payables are non-interest-bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates fair value.

10 – Provision for Employee Entitlements

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
1,404	Retirement, resigning and long service leave	1,219	1,420	483
2,999	Annual leave	2,811	2,679	2,941
87	Sick leave	133	71	71
556	Accrued salaries	768	409	556
122	Accrued performance payments	201	212	122
525	Accrued other entitlements	565	421	364
5,693		5,697	5,212	4,537
	<i>Represented by:</i>			
4,542	Current	4,810	4,822	4,307
1,151	Non-current (relating to retirement and long service leave)	887	390	230
5,693		5,697	5,212	4,537

11 – Reconciliation of the Net Surplus to the Net Cash Flows from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the net surplus reported in the Statement of Comprehensive Income on page 68 to arrive at the net cash flows from operating activities disclosed in the Statement of Cash Flows on page 71.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
-	Net Surplus from Statement of Comprehensive Income	-	-	-
	<i>Non-cash items:</i>			
1,612	Depreciation and amortisation	1,663	1,803	1,682
	<i>Add/(less) working capital movements:</i>			
65	Decrease/(increase) in advances and prepayments	1	(38)	(83)
1,023	(Increase)/decrease in accounts receivable	115	116	167
(1,454)	Decrease/(increase) in debtor – Crown	(1,101)	-	(2,364)
(220)	Increase/(decrease) in payables, accrued expenses and provisions	65	(331)	2,234
(2)	Increase/(decrease) in other current liabilities	-	-	-
928	(Decrease)/increase in non-current liabilities	(264)	160	(921)
	<i>Investing activity items:</i>			
-	Net loss/(gain) on sale of property, plant and equipment	154	-	-
1,952	Net Cash Flows from Operating Activities	633	1,710	715

12 – Financial Instruments

The Treasury is party to financial instrument arrangements as part of its everyday operations. These financial instruments include cash and bank balances, advances, accounts receivable, Debtor – Crown and creditors and other payables.

Credit risk

In the normal course of its business the Treasury is subject to credit risk from debtors other than the Crown.

The Treasury does not require any collateral or security to support financial instruments with financial institutions with which the Treasury deals, as these entities have high credit ratings. For its other financial instruments the Treasury does not have significant concentrations of credit risk.

Fair value

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

Currency and interest rate risk

The Treasury has no significant exposure to currency exchange loss risk and its financial instruments are not interest rate sensitive.

Liquidity risk

Liquidity risk is the risk that the Treasury will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Treasury closely monitors its forecast cash requirements with expected cash drawdowns from NZDMO. The Treasury maintains a target level of available cash to meet liquidity requirements.

All of the Treasury's financial liabilities (creditors and payables) will be settled in less than six months from the balance date.

13 – Related Party Information

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

The Treasury enters into transactions with other government departments, Crown entities and SOEs on an arm's-length basis. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the Treasury would have adopted if dealing with that entity at arm's length in the same circumstances are not disclosed.

Key management personnel compensation (includes the Chief Executive and his direct reports)

2009 Actual \$000		2010 Actual \$000
2,047	Salaries and other short-term benefits	1,953
-	Post-employment benefits	86
1	Other long-term benefits	-
-	Termination benefits	549
2,048	Total Key Management Personnel Compensation	2,588

The 2010 year includes compensation for Chief Executive and six direct reports (being four Deputy Secretaries, Acting Executive Director of the National Infrastructure Unit and Director CCMAU) until 23 November, when the leadership structure was changed to establish the Executive Leadership Team of the Chief Executive and two Deputy Chief Executives.

Key management personnel compensation excludes the remuneration and other benefits the Ministers of Finance, State-Owned Enterprises, Regulation, Infrastructure and Crown Research Institutes receive. The Ministers' remuneration and other benefits are not received only for their role as a member of key management personnel of the Ministry. The Ministers' remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Treasury.

14 – Events Subsequent to Balance Date

There were no events subsequent to balance date that required adjustment to the financial statements or disclosure (2009: none).

15 – Capital Management

The Treasury's capital is its equity (or taxpayers' funds). Equity is represented by net assets. The Treasury manages its expenses, revenues, assets, liabilities and general financial dealings prudently. The Treasury's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and compliance with the government budget processes and with Treasury Instructions.

The objective of managing the Treasury's equity is to ensure the Treasury effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

16 – Explanation of Major Variances Against Budget

Refer to Department Overview.

Supplementary Financial Schedules – Non-departmental

for the year ended 30 June 2010

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The following supplementary financial schedules record the expenses, revenue and capital receipts, assets and liabilities that the Department manages on behalf of the Crown. These supplementary financial schedules include NZDMO balances reported on pages 116 to 126.

The Department administered \$4,343 million of expenses, \$4,308 million of revenue, \$23 million of capital receipts, \$306 million of capital expenditure, \$23,979 million of assets and \$69,671 million of liabilities on behalf of the Crown for the year ended 30 June 2010.

The financial information reported in these schedules is consolidated into the Financial Statements of the Government, and therefore readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2010.

Overview

This overview provides details of significant expenditure and revenue variances between 2008/09 and 2009/10 and between 2009/10 actual and 2009/10 Supplementary Estimates.

Capital Charge

Capital charge receipts in 2009/10 increased by 8.6% compared with 2008/09. This was primarily owing to an increase in the capital base of departments as a result of revaluations of property, plant and equipment and capital contributions from the Crown.

Crown Guarantee Schemes: Crown Deposit Guarantee Scheme and Crown Wholesale Guarantee Facility

The Government provides two guarantee schemes in relation to financial institution deposits: the Crown Deposit Guarantee Scheme and the Crown Wholesale Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

Crown Deposit Guarantee Scheme

Scheme description

On 12 October 2008 the Minister of Finance initiated an opt-in Crown Deposit Guarantee Scheme. The objective of this scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the Crown Deposit Guarantee Scheme, fees are payable to the Government by participating institutions if they hold significant deposits (ie, greater than \$5 billion) or if they experience significant growth in deposits (ie, greater than 10% per annum). Approved deposit takers to date are listed on the Treasury website.

On 25 August 2009 the Minister of Finance announced that the Government would extend the Crown Deposit Guarantee Scheme from 13 October 2010 to 31 December 2011 with tightened eligibility criteria and additional limitations on coverage of the scheme. The changes to the scheme include restricting coverage to institutions with a credit rating of BB or higher, reducing the guaranteed amount of individual eligible deposits and changing the fee structure to include all deposits.

Scheme management

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other deposit takers who sign the guarantee to agree to certain controls on their business including:

- ▶ some restrictions on distributions to shareholders
- ▶ some assurance that the business dealings of the deposit taker are on arm's-length terms
- ▶ the ability for the Crown to appoint an inspector
- ▶ the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- ▶ personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.

In addition, the Crown has established a monitoring regime to continually assess the risk associated with the scheme as it develops.

Amounts guaranteed and provision for loss

As at 30 June 2010, 73 financial institutions (2009: 73) had joined the scheme and deposits totalling \$133 billion (2009: \$124.2 billion) had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon. The Crown assesses the potential loss to be associated with the entities that hold significant deposits (ie, greater than \$5 billion) as being remote. It is recognising the revenue received from these institutions over the guarantee period and has made no provision for any loss associated with these entities.

For other entities within the scheme (ie, entities that hold deposits less than \$5 billion) a provision has been made to provide for losses that are considered more likely than not to occur. The Crown continually updates both the likelihood of further default actions triggering the guarantee and the expected loss given default. Based on these assessments, the Crown has provided for a net expected loss given default of \$748 million as at 30 June 2010 (2009: \$816 million), being the cost of future payments to investors after expected recoveries in entities operating under the scheme as at 30 June 2010. In addition, the Crown has included liabilities of \$43 million (2009: \$15 million) being the cost of payments to investors in entities guaranteed under the scheme which were in receivership as at 30 June 2010.

While the provision represents a best estimate of likely loss, a significant range of outcomes are possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default. Except as provided on the Treasury website, further information on the Crown Deposit Guarantee Scheme cannot be provided owing to commercial sensitivity.

2009 Actual \$000	Summary of Crown Deposit Guarantee Scheme Disclosures in the Supplementary Schedules – Non-departmental	2010 Actual \$000	2010 Mains \$000	2010 Supps \$000
69,813	Statement of Expenditure and Appropriations – Payments in Respect of Guarantees and Indemnities (page 105) – Expense for entities in default	43,357	-	1,392,000
816,000	Statement of Expenditure and Appropriations – Payments in Respect of Guarantees and Indemnities (page 105) – Movement in provision for defaulted entities	(68,000)	-	-
67,295	Schedule of Revenue – Crown Deposit Guarantee Scheme (fees) (page 108)	87,041	94,000	96,856
34,000	Schedule of Revenue – Other current revenue (expected recoveries) (page 108)	13,740	-	2,000
34,000	Schedule of Assets – Accounts receivable (expected recoveries) (page 110)	13,258	-	11,000
23,085	Schedule of Liabilities – Deferred revenue (Crown deposit guarantee fees) (page 111)	24,529	22,138	25,000
14,657	Schedule of Liabilities – Guarantee scheme payables (gross) – defaulted entities (page 111)	43,062	-	-
816,000	Schedule of Liabilities – Guarantee scheme provision (net) – defaulted entities (page 111)	748,000	-	875,000

Crown Wholesale Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in Crown Wholesale Guarantee Facility. The objective of the opt-in Crown Wholesale Guarantee Facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under

the Crown Wholesale Guarantee Facility, the Government received a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued.

Deposit-taking financial institutions utilising the Crown Wholesale Guarantee Facility have applied for a guarantee under the Crown Deposit Guarantee Scheme. In addition to the risk management under the deposit scheme, the Government further manages its risk exposure by:

- ▶ limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- ▶ limiting the amount of debt covered by the guarantee to debt up to 125% of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- ▶ establishing additional capital buffers by requiring an additional 2% Tier 1 capital buffer above the 4% regulatory minimum, and
- ▶ requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 30 June 2010, the value of wholesale securities guaranteed was \$10.4 billion (2009: \$5.7 billion). No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Crown Wholesale Guarantee Facility effective from 31 May 2010. As at 30 June 2010, the Crown had issued 25 guarantee certificates; the benefit of those guarantees will remain in place for the underlying securities until the scheduled maturity of those securities. The terms of these securities range from two to five years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.

2009 Actual \$000	Summary of Crown Wholesale Guarantee Facility Disclosures in the Supplementary Schedules – Non-departmental	2010 Actual \$000	2010 Mains \$000	2010 Supps \$000
6,249	Schedule of Revenue – Crown Wholesale Guarantee Facility (fees) (page 108)	76,455	14,885	76,390
131,812	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) (page 111)	206,298	48,072	207,000

Dividends

SOE dividends increased by \$538 million from 2008/09 (page 108), primarily owing to an increase in dividends from Meridian Energy and Mighty River Power from those paid in previous years. The aggregate dividend increases were owing to numerous factors including changes in economic and hydrological conditions.

Dividends from Crown entities (TVNZ) reduced by \$9 million (page 108) in 2009/10, owing to the impact of the recession on the advertising market.

Other dividends received from the Crown's share in Airports is \$0.7 million (page 108) less than that received in 2008/09 primarily owing to the change in the economic climate.

Export Credit Office

The purpose of the Export Credit Office is to assist New Zealand companies to increase exports by providing government-guaranteed export credit insurance products to New Zealand exporters, particularly for those countries, sectors and contracts that the private sector may not have the capacity or willingness to cover.

2009 Actual \$000	Summary of Export Credit Office Disclosures in the Supplementary Schedules – Non-departmental	2010 Actual \$000	2010 Mains \$000	2010 Supps \$000
2,494	Schedule of Revenue – Export Credit Office (page 108)	3,044	4,716	3,263
4,491	Schedule of Liabilities – Insurance Liabilities (Export Credit Office) (page 111)	4,993	2,750	14,143

Revenue has increased by 22% in 2009/10 of a result of additional insurance guarantees provided during the year. Although there was an increase from last year, the additional amount of cover is well below that forecasted at Supplementary Estimates.

Net Foreign Exchange (Losses)/Gains

Net foreign exchange losses were \$14 million in 2009/10, compared with gains of \$21 million in 2008/09, as a result of movements in exchange rates affecting the value of New Zealand's shareholding in the Asian Development Bank and the World Bank (page 104). The decrease in value of these investments is also reflected in Other share investments (page 110). NZDMO incurred net foreign exchange gain of \$3 million in 2009/10, compared with a net loss of \$5 million in 2008/09 owing to movements in foreign exchange rates.

Goodwill

Goodwill in relation to Air New Zealand (\$258 million) has been tested for impairment at June 2010 using the June 2009 valuation. The assets and liabilities have not significantly changed and there has been no change in the composition of the balance sheet. There have been no restructuring, fleet changes or any other events occurring during the related period that would indicate significant change to valuation. The June 2009 valuation also exceeded the carrying amount by a substantial margin.

Government Superannuation Fund (GSF) Unfunded Liabilities

The Government operates a defined benefit superannuation plan for qualifying employees who are members of the GSF. The members' entitlements are defined in the Government Superannuation Fund Act 1956. Members make regular payments to GSF and in return, on retirement, receive a defined level of income. GSF is closed to employees who were not members at 1 July 1992.

The GSF obligation has been calculated by the Government Actuary as at 30 June 2010. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from GSF in respect of past service to be estimated and then discounted back to the valuation date.

GSF unfunded liability as at 30 June 2010 was \$9,937 million (page 111), an increase of \$948 million compared with 30 June 2009. This is primarily owing to:

- ▶ an actuarial loss recognised in the year (page 104) of \$1,231 million owing to movements in the economic assumptions used in calculating the liability
- ▶ contributions made by the Crown against the liability (including taxation) during 2009/10 of \$916 million, and
- ▶ this has been partially offset by the current service costs and interest expenses (appropriated under Other Expenses Incurred by the Crown – GSF Unfunded Liability) (page 105) of \$633 million.

The decrease in the Other Expenses Incurred by the Crown – GSF Unfunded Liability from 2008/09 of \$328 million relates to the reduction in the discount rates used between the years.

The Government expects to make a contribution of \$649 million to GSF in the year ended 30 June 2011.

In addition to its obligations to past and present employees, because GSF is liable to income tax under section HJ 1 of the Income Tax Act 2004, the Crown will be required to make additional contributions equivalent to the tax on future investment income. Additional detailed note disclosures required under NZ GAAP for this liability are included in the Financial Statements of the Government.

Government Superannuation Fund Authority – Crown's Share of Expenses

These are expenses of the Government Superannuation Fund Authority relating to the management and administration of GSF. The Crown's share for 2009/10 was \$22 million, \$4 million higher than that in 2008/09 and \$4 million higher than forecast. The investment manager expenses are dependent upon the portfolio valuations. The fund portfolio grew during the year much more than originally forecasted.

Hawkes Bay Airport

Hawkes Bay Airport Ltd was corporatised on 1 July 2009. The transaction was fiscally neutral with \$7.4 million appearing in the Schedule of Capital Receipts (page 109) and in the Schedule of Expenditure and Appropriations – Capital Expenditure (page 106). The Crown has a shareholding of 50% in Hawkes Bay Airport.

International Financial Institutions

There were no contributions made to the IMF for the Financial Transaction Plan lending programme in 2009/10 (page 106) compared with a contribution of \$274 million in the 2008/09 year. This reflects the cyclical nature of the IMF lending programme and the previous year's response by the IMF to the international financial crisis.

Invercargill Airport Suspensory Loan

A facility for a loan to Invercargill Airport of \$1.5 million for border security equipment was provided in the 2009/10 Supplementary Estimates, however this was not drawn down in the financial year. The agreed facility expired on 30 June 2010.

Landcorp Protected Land Agreement

The capital expenditure in relation to the Landcorp Protected Land Agreement for 2009/10 was \$16 million (page 106). This is made up of:

- ▶ the Crown's ongoing purchase of redeemable preference shares in payment for land transferred under the Protected Land Agreement of \$10 million, and
- ▶ the provision of \$6.056 million of the accumulated capital costs and losses owing to Landcorp for the transfer of Rangiputa Station under the Protected Land Agreement. This was unappropriated expenditure owing to a change in the Treasury's recognition test at year end for transfers under this agreement.

Expenditure of \$26 million in 2008/09 was for the purchase of redeemable preference shares in Landcorp of \$13 million and the inclusion of a new farm agreement for \$13 million.

Maui Gas Contract

The Maui Gas contract expired on 30 June 2009; however, there were a number of outstanding issues that were settled during 2009/10. The Crown's revenues from Maui Gas contract sources have decreased by \$16 million as

a result of the contract expiring. The decrease in revenues is offset by a reduction in Other Expenses Incurred by the Crown for Maui Gas Contracts of \$10 million.

2009 Actual \$000	Summary of Maui Gas Contracts Disclosures in the Supplementary Schedules – Non-departmental	2010 Actual \$000	2010 Main \$000	2010 Supps \$000
3,669	Schedule of Revenue – Contact Energy Ltd Crown margin interest (page 108)	-	-	-
2,355	Schedule of Revenue – Sale of Goods and Services – Maui gas (page 108)	-	-	-
11,018	Schedule of Revenue – Maui Gas contracts (page 108)	1,763	-	1,372
31,549	Schedule of Capital Receipts – Contact Energy Ltd Crown margin (page 109)	-	-	-
12,236	Statement of Expenditure and Appropriations – Other Expenses Incurred by the Crown – Maui Gas Contracts (Residual Liabilities in 2009/10) (page 105)	2,100	-	2,355

National Provident Fund (NPF) Defined Benefit Plan (Annuitants) Scheme Provision

The Government has guaranteed superannuation schemes managed by the NPF. As at 30 June 2010 NPF's DBP Annuitants Scheme was in a net deficit position of \$1,003 million (2009: \$947 million), represented by a gross estimated pension obligation of \$1,053 million (2009: \$994 million) with net investment assets valued at \$50 million (2009: \$47 million). No additional provision was required in the year for other pension schemes managed by NPF under the Government's guarantee under section 60 of the National Provident Fund Restructuring Act 1990.

The increase in the Crown's liability for the NPF DBP(A) Scheme under Crown guarantee as at 30 June 2010 was primarily owing to:

- ▶ the actuarial loss recognised for the year (page 104) of \$95 million resulting from movements in the economic assumptions used in calculating the provision, and
- ▶ the unwinding of the interest expense (appropriated under Other Expenses Incurred by the Crown – NPF Schemes – Liability under Crown Guarantee) (page 105) of \$38 million.

Offset by:

- ▶ payments made against the liability by the Crown during the year of \$77 million.

Additional detailed note disclosures required under NZ GAAP are included in the Financial Statements of the Government for this liability.

National Provident Fund (NPF) – Crown Liability for Scheme Deficiency

The Crown is liable for the deficiency in the accounts of NPF schemes established pursuant to section 38A(6) of the National Provident Fund Act 1950, authorised by section 72 of the National Provident Fund Restructuring Act 1990. There was a call against this appropriation for 2009/10 of \$0.028 million to 31 March 2010 and a provision of \$3.7 million for the three months to 30 June 2010 (page 105). The scheme deficiency paid for the year to 31 March 2009 was \$34 million. The reduction in the 2009/10 claim was a result of improvements in investment markets over 2009.

New Zealand House – London

2009 Actual \$000	Summary of New Zealand House – London Disclosures in the Supplementary Schedules – Non-departmental	2010 Actual \$000	2010 Mains \$000	2010 Supps \$000
14,049	Schedule of Revenue – Rentals from Crown overseas properties (page 108)	10,913	15,300	12,300
416	Statement of Expenditure and Appropriations – Non-Dept Output Class – Management of NZ House, London (page 105)	412	1,000	1,000
14,537	Statement of Expenditure and Appropriations – Other Expenses Incurred by the Crown – Crown Overseas Properties (page 105)	12,947	16,200	14,700

Operational costs associated with New Zealand House (including depreciation) are included in Other Expenses Incurred by the Crown – Crown Overseas Properties (page 105). Expenses and revenue are less than in 2008/09 and less than that forecasted at Supplementary Estimates. This reduction is primarily owing to the change in the exchange rate between the two years and reduced occupancy rates in 2009/10.

New Zealand Superannuation Fund

The reduction in the contribution to the New Zealand Superannuation Fund in 2009/10 by \$1,992 million was a result of the Government's decision to reduce the contribution to a one-off contribution of \$250 million on 1 July 2009 (page 106).

New Zealand Debt Management Office (NZDMO)

Interest from investments and other income

NZDMO's interest from investments decreased by \$169 million primarily owing to lower interest rates and changes in investment activity levels (page 108).

NZDMO's other income decreased by \$15 million primarily owing to reduced interest income on lending to Housing New Zealand Corporation as interest rates have fallen (page 108).

Other expenses

Other expenses – NZDMO largely comprises net interest on NZDMO derivatives (excluding fair value and foreign exchange gains/losses) where net revenue has increased \$32 million owing to both interest rate changes and transactional activity (page 108).

Borrowing costs

Borrowing costs have increased by \$198 million primarily owing to significantly increased volumes of New Zealand Government stock and treasury bills issued to third parties (page 105).

Other Current Revenue

Other current revenue has decreased by \$41 million in 2009/10. This primarily relates to a reduction in the estimated recovery of government guarantee payments (page 108).

Port Nicholson Block Settlement Trust Loan

A loan was made to the Port Nicholson Block Settlement Trust for the purchase of properties at Shelly Bay, Wellington, in 2008/09. This loan was repaid to the Crown during 2009/10 and appears in the Schedule of Capital Receipts (page 109).

Public Trust Equity Injection

Equity injections have been made to the Public Trust in both 2008/09 and 2009/10 to restore its capital adequacy to the guideline level. It is expected that this capital will be repaid to the Crown in future years (page 106).

Rail Issues

In late 2008/09 it was agreed that the Ministry of Transport be the lead agency for rail policy advice. All rail-related appropriations were transferred to Vote Transport with effect from 1 July 2009.

Reserve Bank Surplus

The Reserve Bank dividend (formerly known as “notional surplus income”) received by the Crown increased from \$168 million in 2008/09 to \$675 million in 2009/10 (page 108). This increase arises from a combination of factors including:

- ▶ higher net profits in 2008/09 largely owing to realised foreign exchange rate gains of \$434 million
- ▶ a change in statutory arrangements for the calculation of dividend, which now allows for foreign exchange rate gains to be considered in the payment of the annual dividend (in accordance with the principles set out in the Reserve Bank of New Zealand’s Statement of Intent), and
- ▶ a voluntary dividend, a return of surplus capital, of \$45 million was also received from the Reserve Bank during 2009.

Rugby New Zealand 2011 Limited

The \$4 million included for Rugby New Zealand 2011 Limited in the Statement of Expenditure and Appropriations schedule under Other Expenses Incurred by the Crown (page 105) in 2009/10 is the recognition of an increase in the Crown’s 67% share of forecast loss compared to the 2005/06 estimate provided when the company was established.

Taitokerau Forests Limited

Loans to Taitokerau Forest Limited of \$2.4 million were advanced as per the Loan Agreement during 2009/10. An impairment of the loans of \$2.362 million was undertaken as under the Loan Agreement, Taitokerau Forests Limited’s liability to the Crown will never exceed the value of their assets (page 106).

Statement of Accounting Policies

for the year ended 30 June 2010

Reporting Entity

These non-departmental schedules and statements present financial information on public funds managed by the Treasury on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2010. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, refer to the Financial Statements of the Government.

Basis of Preparation

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental supplementary financial schedules are consistent with NZ GAAP and Crown accounting policies and are detailed in the Financial Statements of the Government.

The financial information reported in these schedules is consolidated into the Financial Statements of the Government, and therefore readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2010.

Significant Accounting Policies

Foreign exchange

Foreign exchange transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

Goods and services tax

All items in the financial statements, including appropriation statements, are stated exclusive of GST. In accordance with Treasury Instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the Financial Statements of the Government.

Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

Change in Accounting Policies and Comparatives

Fair value movements have been disclosed separately in the Schedule of Revenue in 2009/10 (page 108) to comply with NZ IFRS 7. In previous years, this movement has not been disclosed separately. The 2008/09 comparatives have been restated to separately disclose the movement in fair value for that financial year.

Subsequent Events

Subsequent to 30 June 2010 receivers have been appointed to three of the companies that had been included within the provision for net costs to the Crown: Mutual Finance Limited on 14 July 2010, Allied Nationwide Finance on 20 August 2010 and South Canterbury Finance Limited on 31 August 2010. Appointment of receivers to the companies triggered the Crown guarantee under the deposit scheme.

The net cost to the Crown of the defaults of these three companies is expected to be approximately \$745 million including the costs of discounting cash flows to present values. The Crown recognised the inherent risk of these entities and provided \$728 million for the net cost of their failure within the 2009 annual accounts. The additional \$17 million net cost to the Crown currently estimated had been fully provided for during the year, and is included within the total provision of \$748 million. There is no material impact on the provision for the net costs to the Crown as a result of the receiverships.

Schedule of Expenses

for the year ended 30 June 2010

The Schedule of Expenses summarises expenses that the Department administers on behalf of the Crown. Details of non-departmental expenditure and appropriations are provided on pages 105 and 106.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
68,928	Non-departmental output classes	1,090	1,921	2,146
2,087,220	Borrowing expenses	2,284,955	2,153,000	2,288,836
2,659,771	Other expenses incurred by the Crown	718,053	810,297	2,162,897
	<i>Remeasurements:</i>			
694,948	▶ Change in GSF unfunded liability – actuarial (gains)/losses	1,231,222	-	408,289
(22,000)	▶ Change in NPF DBP(A) Scheme provision under Crown Guarantee – actuarial (gains)/losses	95,000	12,000	12,000
2,979	▶ Change in Rugby World Cup provision	591	-	3,419
55,560	▶ SOE/CE impairments	-	-	-
-	▶ Grossing up of deposit guarantee payments	-	-	(1,327,000)
-	▶ Derivative losses (gains)	377	-	-
(21,142)	▶ Foreign exchange losses/(gains) incurred by the Treasury	14,037	-	-
-	▶ Invercargill Airport Suspensory Loan impairment	-	-	(300)
-	▶ Taitokerau Forest Loan impairment	(2,362)	(1,400)	(3,100)
(37,000)	▶ Taitokerau Forest Loan write down previously recognised as a remeasurement to fair value	-	-	-
5,489,264		4,342,963	2,975,818	3,547,187
	<i>Vote Crown Research Institutes</i>			
-	Other expenses incurred by the Crown	7	-	762
-		7	-	762
5,489,264	Total Non-departmental Expenses	4,342,970	2,975,818	3,547,949

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Statement of Expenditure and Appropriations

for the year ended 30 June 2010

The Statement of Expenditure and Appropriations details expenditure and capital payments incurred against appropriations. The Department administers these appropriations on behalf of the Crown.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	<i>Vote Finance</i>			
	<i>Non-departmental Output Classes</i>			
416	Management of New Zealand House, London	412	1,000	1,000
88	Management of Crown's Obligations for Geothermal Wells	125	151	351
384	Guardians of New Zealand Superannuation	354	504	504
68,000	New Zealand Railways Corporation Support	-	-	-
40	Regulatory Responsibility Taskforce	95	266	120
-	2025 Productivity Taskforce	104	-	171
68,928		1,090	1,921	2,146
	<i>Borrowing Expenses</i>			
2,087,220	Debt Servicing ¹³	2,284,955	2,153,000	2,288,836
2,087,220		2,284,955	2,153,000	2,288,836
	<i>Other Expenses Incurred by the Crown</i>			
180,887	Auckland Rail Development	-	-	-
14,537	Crown Overseas Properties	12,947	16,200	14,700
40	Crown Residual Liabilities	67	230	230
-	Geothermal Liabilities	-	500	500
12	Government Superannuation Appeals Board	4	50	50
18,415	Government Superannuation Fund Authority – Crown's Share of Expenses ¹³	22,160	19,692	19,692
960,808	Government Superannuation Fund Unfunded Liability ¹³	633,160	676,025	663,000
-	Impairment of Loans to Taitokerau Forest Limited	2,362	1,400	3,100
-	Invercargill Airport Suspensory Loan	-	-	300
320,462	Loss on Acquisition of Toll NZ Limited	-	-	-
12,236	Maui Gas Contracts	2,100	-	2,355
6,250	National Rail Network Improvements	-	-	-
4,972	New Zealand Railways Corporation Transaction Costs of Purchasing Toll NZ Limited	-	-	-
6,000	NZRC Wiri Inland Port Rail Link	-	-	-
71,000	National Provident Fund Schemes – Liability under Crown Guarantee ¹³	38,000	62,000	62,000
40,726	National Provident Fund – Crown Liability for Scheme Deficiency ¹³	(3,272)	33,400	-
6,259	ONTRACK Operating and Maintenance Costs	-	-	-
-	Payments in Respect of Export Credit Office Guarantees and Indemnities	136	-	170
885,813	Payments in Respect of Guarantees and Indemnities ¹³	(24,643)	-	1,392,000
26,495	Rail Transport Upgrade and Growth	-	-	-
-	Rugby New Zealand 2011 Limited	4,000	-	4,000

¹³ These expenses or capital expenditures have permanent legislative authority.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2010

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	<i>Other Expenses Incurred by the Crown – cont'd</i>			
37,000	Taitokerau Forests Limited Loan Write Down	-	-	-
-	Taitokerau Forests Limited grant	31	300	300
13	Unclaimed Money ¹⁴	1	250	250
-	Unclaimed Trust Money ¹⁴	-	250	250
62,241	Urban Rail Development	-	-	-
5,587	Wellington Regional Council Suspensory Loan	-	-	-
18	Write-off of Capital Charge Receivable	-	-	-
2,659,771		687,053	810,297	2,162,897
	<i>Capital Expenditure</i>			
6,774	Crown Rail Operator Equity Injection	-	-	-
140,000	Crown Rail Operators Loan	-	-	-
-	Hawkes Bay Airport Equity Injection	7,400	-	7,400
4,500	Industrial Research Limited Equity Injection	-	-	-
274,000	International Financial Institutions	-	-	270,000
-	Invercargill Airport Suspensory Loan	-	-	1,500
26,208	Landcorp Protected Land Agreement	16,056	13,000	10,000
2,242,000	New Zealand Superannuation Fund – Contributions	250,000	250,000	250,000
388,294	New Zealand Railways Corporation Increase in Capital for Purchase of Crown Rail Operator	-	-	-
45,000	New Zealand Railways Corporation Loans	-	-	-
15,268	Port Nicholson Block Settlement Trust Loan	-	-	-
20,000	Public Trust Capital Injection	30,000	-	30,000
690,000	Purchase of Toll NZ Limited's Rail Business and Associated Costs	-	-	-
600,000	Reserve Bank of NZ Equity Injection	-	-	-
-	Taitokerau Forests Limited	2,400	1,400	3,100
3,800	Timberlands West Coast Limited Equity Injection	-	-	-
11,330	Wellington Regional Council Suspensory Loan	-	-	-
4,467,174		305,856	264,400	572,000
9,283,093	Total Vote Finance	3,278,954	3,229,618	5,025,879
	<i>Vote Crown Research Institutes</i>			
	<i>Other Expenses Incurred by the Crown</i>			
-	CRI Residual Liabilities	7	-	762
-	CRI Non-excluded Liabilities	-	-	-
-	Total Vote Crown Research Institutes	7	-	762
9,283,093	Total Non-departmental Expenditure and Appropriations	3,278,961	3,229,618	5,026,641

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

14 These expenses or capital expenditures have permanent legislative authority.

Statement of Unappropriated Expenditure

for the year ended 30 June 2010

There was one item of unappropriated expenditure in Vote Finance in the year ended 30 June 2010.

Appropriation Type	Appropriation Name	Appropriated Expenditure \$000	Total Expenditure, Expenses or Liabilities Incurred \$000	Unapproved Unappropriated Expenses \$000
Non-departmental capital expenditure	Landcorp Protected Land Agreement	10,000	16,056	6,056

Under the terms of the Protected Land Agreement, the Crown provides compensation to Landcorp Farming Limited for any accumulated capital costs and accumulated losses/(profits) at time of transfer or sale of any protected land.

An agreement in principle between the Crown and Te Hiku forum to settle a Treaty of Waitangi grievance was signed 16 January 2010. The agreement in principle includes Rangiputa Station which is a property held under the Protected Land Agreement. Although there has been no Deed of Settlement drafted to date, there are other mitigating factors that have rendered the transfer of this property probable and therefore required to be recognised under current New Zealand accounting standards. The Treasury's recognition test had been previously based around a Deed of Settlement position; however, the additional information available in this instance suggests the transfer is now probable.

The estimated current value of the accumulated capital costs and accumulated losses/(profits) is the \$6.056 million unappropriated expenditure.

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Schedule of Revenue

for the year ended 30 June 2010

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Vote Finance			
1,560,582	Capital charge	1,695,213	1,613,839	1,686,211
3,669	Contact Energy Limited Crown margin interest	-	-	-
67,295	Crown Deposit Guarantee Scheme	87,041	93,808	96,856
6,249	Crown Wholesale Guarantee Facility	76,455	14,885	76,390
10,301	Dividends from Crown entities	1,471	1,270	1,471
275,815	Dividends from SOEs	813,448	327,684	810,548
3,320	Dividends – other	2,634	2,041	2,810
10,000	Earthquake Commission guarantee fee	10,000	10,000	10,000
38,652	Employers' superannuation contributions	36,395	40,000	40,000
2,494	Export Credit Office	3,044	4,716	3,263
386,619	Interest from investments	246,463	328,000	278,978
29,472	Interest income – other	565	17,000	565
179,908	Other income – NZDMO	163,972	132,000	156,457
349,807	Other expenses – NZDMO (incl. gains on derivatives)	381,955	285,000	359,836
11,018	Maui Gas contracts	1,763	-	1,372
14,049	Rentals from Crown overseas properties	10,913	15,300	12,300
168,000	Reserve Bank of New Zealand notional surplus	675,000	460,000	630,000
2,355	Sale of goods and services	-	-	-
403,000	Fair value gains/(losses) incurred by NZDMO ¹⁵	79,000	(119,000)	(13,000)
(5,000)	Foreign exchange gains/(losses) incurred by NZDMO	3,000	-	1,000
57,163	Other current revenue	16,020	404	2,625
582	Unclaimed money	1,327	500	500
3,575,351		4,305,679	3,227,447	4,158,182
	Vote Crown Research Institutes			
9,303	Dividends from CRIs	1,934	-	9,730
9,303		1,934	-	9,730
3,584,654	Total Non-departmental Revenue	4,307,613	3,227,447	4,167,912

Comparatives have been restated to reflect the change in accounting policy and to report the current year's gain or loss in the correct statement.

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

¹⁵ Net fair value gains/(losses) on all instruments measured at fair value are separately reported as Net fair value gains/(losses). This represents a change in practice from prior years when fair value gains/losses were included in revenue or expenses against individual instrument types.

Schedule of Capital Receipts

for the year ended 30 June 2010

The Schedule of Capital Receipts details non-departmental capital receipts that the Department administers on behalf of the Crown.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	Vote Finance			
401,312	Capital Withdrawals Crown cost	-	-	-
-	Hawkes Bay Airport Corporatisation	7,400	-	7,400
31,549	Contact Energy Limited Crown margin	-	-	-
500	Loan repayments from other parties	15,267	500	16,126
433,361	Total Capital Receipts	22,667	500	23,526

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Schedule of Assets

as at 30 June 2010

The Schedule of Assets summarises the assets that the Department administers on behalf of the Crown.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates \$000
	<i>Current Assets</i>			
9,455,325	Cash and cash equivalents	8,157,851	5,510,246	5,907,052
481,669	Accounts receivable	15,767	5,403	11,991
781,367	Advances	422,422	103,122	100,422
457	Derivatives	80	389	457
3,895,488	Marketable securities, deposits and derivatives in gain	4,246,000	2,606,000	5,460,000
94	Capital charge receivable	78	18	-
32,092	Prepayments	42,156	-	-
14,646,492	Total Current Assets	12,884,354	8,225,178	11,479,922
	<i>Non-current Assets</i>			
6,157,000	Advances	6,276,056	7,833,000	6,695,000
257,950	Intangibles and goodwill	257,950	-	257,950
2,266,000	Marketable securities, deposits and derivatives in gain	4,124,000	2,346,000	6,550,000
175,964	Other share investments	161,927	154,890	175,964
175,555	Other equity accounted investments	178,307	187,346	180,073
122,508	Property, plant and equipment	96,697	112,747	96,975
9,154,977	Total Non-current Assets	11,094,937	10,633,983	13,955,962
23,801,469	Total Non-departmental Assets	23,979,291	18,859,161	25,435,884

In addition, the Department monitors 17 SOEs and 15 Crown entities. The investment in these entities is consolidated in the Crown financial statements on a line-by-line basis. The investment in these entities is not included in this schedule.

The 2009 actual figures have been restated to reflect fair value, so that an accurate comparison with 2010 actual figures can be made.

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Schedule of Liabilities

as at 30 June 2010

The Schedule of Liabilities summarises the liabilities that the Department administers on behalf of the Crown.

2009 Actual \$000		2010 Actual \$000	2010 Main Estimates \$000	2010 Supp. Estimates Voted \$000
	<i>Current Liabilities</i>			
3,609,422	Crown balances with Westpac	3,463,000	2,757,000	3,292,000
57,217	Payables and accrued expenses	81,450	51,336	9,849
15,989,000	Borrowings	10,140,000	10,280,000	10,408,000
66,533	Deferred revenue – current	150,485	41,138	152,427
629,684	Government Superannuation Fund unfunded liability	648,704	611,200	683,925
830,657	Guarantee scheme payable/provision	791,062	-	875,000
1,558	Insurance premiums received in advance	2,627	2,750	1,688
7,000	NPF Crown liability for scheme deficiency s72	3,728	-	-
17,262	Rugby World Cup provision	15,158	17,004	21,799
21,208,333	Total Current Liabilities	15,296,214	13,760,428	15,444,688
	<i>Non-current Liabilities</i>			
27,362,378	Borrowings	42,385,000	38,983,000	43,484,000
88,364	Deferred revenue	80,357	30,000	80,000
2,933	Insurance premiums received in advance	2,366	-	12,455
8,358,765	Government Superannuation Fund unfunded liability	9,287,946	9,696,006	8,469,598
947,203	NPF DBP(A) Scheme unfunded provision	1,003,503	919,400	922,203
36,759,643	Total Non-current Liabilities	52,759,172	49,628,406	52,968,256
57,967,976	Total Non-departmental Liabilities	68,055,386	63,388,834	68,412,944

The 2009 actual figures have been restated to reflect fair value, so that an accurate comparison with 2010 actual figures can be made.

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Schedule of Commitments

as at 30 June 2010

This schedule sets out the level of commitment made against out-year appropriations and funding baselines for non-departmental expenditure. The Department, on behalf of the Crown, has entered into non-cancellable contracts in relation to New Zealand House in London.

2009 \$000		2010 \$000
	Operating Commitments	
	<i>By type:</i>	
1,581	Non-cancellable property lease	1,314
306	Other non-cancellable operating commitments	130
1,887		1,444
	<i>By term:</i>	
194	Less than one year	165
194	One to two years	35
122	Two to five years	104
1,377	More than five years	1,140
1,887	Total Commitments	1,444

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Schedule of Contingent Liabilities

as at 30 June 2010

2009 \$000		2010 \$000
	Quantifiable Contingent Liabilities	
18,035	Guarantees and indemnities	17,060
2,462,076	Uncalled capital	2,451,362
132	Legal proceedings and disputes	132
1,916,958	Other contingent liabilities	1,662,369
4,397,201		4,130,923

Contingent liabilities are costs that the Crown will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, uncalled capital, legal disputes and claims. The contingent liabilities managed by the Department on behalf of the Crown are a mixture of operating and balance sheet risks and they vary greatly in magnitude and likelihood of realisation. In general, if a contingent liability were realised it would have a negative impact on the operating balance, net Crown debt and net worth. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to net Crown debt.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount included is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

The majority of the quantified contingent liabilities shown above arise from the uncalled capital element of the Crown's investments in the Asian Development Bank and the World Bank, and promissory notes issued in favour of the IMF.

Significant decreases in contingent liabilities are owing to exchange rate fluctuations.

The Crown's exposure to the Crown Deposit Guarantee Scheme and Crown Wholesale Guarantee Facility is detailed in the Supplementary Financial Schedules – Overview on pages 94 to 101.

Unquantifiable Contingent Liabilities

The Treasury also administers a number of contingent liabilities that cannot be quantified. These arise primarily from institutional guarantees and indemnities. Readers are referred to the Financial Statements of the Government for further details.

Contingent Assets

The Department, on behalf of the Crown, has no contingent assets (2009: nil).

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

Statement of Trust Monies

as at 30 June 2010

2009 \$000		2010 \$000
1,720	Balance at the beginning of the year	1,719
208	Contribution	276
(311)	Distribution	(292)
102	Interest earned on trust money	65
1,719	Balance at the End of the Year	1,768

The Trust Account is established pursuant to section 67 of the Public Finance Act 1989, for the purposes of depositing money paid to the Crown under section 77 of the Trustee Act 1956.

The source of funds is principally estates of deceased persons where the beneficiaries cannot be traced. Funds are retained in the Trust Account for six years, and are then transferred to the Crown as unclaimed money.

Details of funds held in the Trust Account are gazetted annually.

The Statement of Accounting Policies is an integral part of these supplementary financial schedules.

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

New Zealand Debt Management Office

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New Zealand Debt Management Office (NZDMO) is part of the New Zealand Treasury and is responsible for the efficient management of the Crown's debt and associated assets within an appropriate risk management framework. NZDMO's strategic objective is to maximise the long-term economic return on the Crown's financial assets and debt in the context of the Government's fiscal strategy, particularly its aversion to risk.

NZDMO's major responsibilities involve:

- ▶ financing the Crown's borrowing requirement and managing a portfolio of assets and liabilities
- ▶ disbursing cash to departments
- ▶ advancing funds to government entities in accordance with government policy, and
- ▶ providing capital markets services and derivative transactions for departments and Crown entities.

NZDMO managed \$23.1 billion of assets, \$56.1 billion of liabilities, \$0.4 billion of revenue and \$1.9 billion of expenses on behalf of the Crown for the year ended 30 June 2010. Further information on NZDMO's performance in managing the Crown's sovereign-issued debt and related financial assets is provided on pages 34 and 35 and pages 50 and 54.

To facilitate a greater level of transparency regarding NZDMO operations, the following supplementary financial schedules report the activity of NZDMO as though it were a stand-alone entity. Cross-holdings or other financial positions between NZDMO and other government entities are not eliminated. The financial information reported in these schedules is consolidated into the Crown financial statements.

Schedule of Assets and Liabilities

as at 30 June 2010

2009			2010	
Carrying Value \$m	Fair Value \$m		Carrying Value \$m	Fair Value \$m
		Assets		
		<i>Cash, cash equivalents and receivables</i>		
8,320	8,320	Crown settlement account	6,988	6,988
-	-	Crown trust account	16	16
1,105	1,105	Foreign cash and cash equivalents	1,133	1,133
396	396	Debtors and receivables	-	-
		<i>Advances</i>		
3,170	3,170	RBNZ	2,727	2,727
1,401	1,401	Crown Financing Agency	1,494	1,494
1,813	1,813	Housing New Zealand	1,835	1,835
399	399	New Zealand Railways Corporation	448	448
65	65	Non-Crown	86	88
		<i>Financial assets</i>		
3,424	3,424	Marketable securities	4,097	4,097
442	442	External deposits	467	467
1,842	1,842	Derivatives in gain	1,607	1,607
454	454	IMF financial assets ¹⁶	2,199	2,199
22,831	22,831	Total Assets	23,097	23,099
		Liabilities		
		<i>Overdrafts and payables</i>		
3,609	3,609	Crown disbursement account ¹⁷	3,463	3,463
5	5	Creditors and payables	66	66
		<i>Financial liabilities</i>		
7,442	7,442	Treasury bills – market	7,823	7,825
5	5	Treasury bills – non-market	174	174
22,486	22,871	Government bonds – market ¹⁸	30,705	31,727
7,144	7,349	Government bonds – non-market	6,580	6,897
1,552	1,707	Inflation-indexed bonds – market	1,588	1,800
466	510	Inflation-indexed bonds – non-market	476	538
491	494	Kiwi bonds	309	309
153	153	Euro-commercial paper	-	-
840	840	Foreign currency debt	809	809
889	889	Collateral	981	981
1,333	1,333	Derivatives in loss	860	860
117	117	Departmental deposits	307	307
336	336	IMF allocation ¹⁶	1,820	1,820
96	96	Immigration investor policy bonds	92	92
2	2	Other	1	2
46,966	47,758	Total Liabilities	56,054	57,670
(24,135)	(24,927)	Net Assets/(Liabilities)	(32,957)	(34,571)

¹⁶ During 2009/10 the IMF, in response to the global financial crisis, allocated additional reserve assets to member countries to provide liquidity to the global economic system. A general allocation (August 2009) increased reserve assets held by NZDMO and also the associated IMF allocation liability.

¹⁷ At the end of each banking day, the net balance of all departmental and Crown bank accounts held at Westpac is swept between the Westpac Crown Disbursement account and the RBNZ Crown Settlement account. This daily sweep ensures that there is no end of day net exposures between the Crown and Westpac. Therefore, the Disbursement account balance effectively offsets the balances of departmental and Crown accounts at Westpac.

¹⁸ Government bonds – market includes \$395 million of infrastructure bonds at June 2010 (June 2009: \$395 million).

Schedule of Revenues and Expenses

for the year ended 30 June 2010

2009 \$m		2010 \$m
	Revenue	
	<i>Cash, cash equivalents and receivables</i>	
110	Crown settlement account	125
-	Crown trust account	-
3	Foreign cash and cash equivalents	2
	<i>Advances</i>	
85	RBNZ	(2)
84	Crown Financing Agency	84
109	Housing New Zealand	51
22	New Zealand Railways Corporation	19
(2)	Non-Crown	7
	<i>Financial assets</i>	
171	Marketable securities	113
16	External deposits	8
1	IMF financial assets	4
599	Total Revenue	411
	Expenses	
142	Treasury bills – market	224
46	Treasury bills – non-market	4
1,179	Government bonds – market	1,439
429	Government bonds – non-market	392
141	Inflation-indexed bonds – market	107
42	Inflation-indexed bonds – non-market	32
33	Kiwi bonds	14
1	Euro-commercial paper	-
47	Foreign currency debt	41
1	Collateral	1
(345)	Derivatives ¹⁹	(381)
5	IMF allocation	4
3	Immigration investor policy bonds	3
19	Other	23
1,743	Total Expenses	1,903
(5)	Net FX gains/(losses)	3
403	Net FV gains/(losses) ²⁰	79
(746)	Net Revenue/(Expenses)	(1,410)

¹⁹ Net derivatives include interest (receipts and payments only) on all derivatives, both derivatives in gain and derivatives in loss. Net derivatives may be a net revenue or net expense result for a reporting period. The net result is reported under expenses for reasons of consistency. FX gains/losses on derivatives are reported as part of the overall net FX gains/(losses) line while fair value gains/losses are part of the overall net fair value gains/(losses) line.

²⁰ Net fair value gains/(losses) on all instruments measured at fair value are separately reported as Net FV gains/(losses). This represents a change in practice from prior years when fair value gains/losses were included in revenue or expenses against individual instrument types.

Classes and Categories of Financial Instruments

NZDMO designates its financial assets and liabilities under the following IFRS categories:

2009 \$m				2010 \$m				
Amortised Cost ²¹	Fair Value Through Profit or Loss ²²	Available for Sale	Carrying Value		Amortised Cost ²¹	Fair Value Through Profit or Loss ²²	Available for Sale	Carrying Value
				Financial Assets				
				<i>Cash, cash equivalents and receivables</i>				
8,320	-	-	8,320	Crown settlement account	6,988	-	-	6,988
-	-	-	-	Crown trust account	16	-	-	16
61	1,044	-	1,105	Foreign cash and cash equivalents	13	1,120	-	1,133
396	-	-	396	Debtors and receivables	-	-	-	-
		-		<i>Advances</i>			-	
-	3,170	-	3,170	RBNZ	-	2,727	-	2,727
-	1,401	-	1,401	Crown Financing Agency	-	1,494	-	1,494
979	834	-	1,813	Housing New Zealand	858	977	-	1,835
-	399	-	399	New Zealand Railways Corporation	-	448	-	448
65	-	-	65	Non-Crown	15	31	40	86
		-		<i>Financial assets</i>				
-	3,424	-	3,424	Marketable securities	-	4,097	-	4,097
-	442	-	442	External deposits	-	467	-	467
-	1,842	-	1,842	Derivatives in gain	-	1,607	-	1,607
454	-	-	454	IMF financial assets	2,199	-	-	2,199
10,275	12,556	-	22,831	Total Financial Assets by Designation	10,089	12,968	40	23,097
				Financial Liabilities				
3,609	-	-	3,609	Crown disbursement account	3,463	-	-	3,463
5	-	-	5	Creditors and payables	66	-	-	66
7,294	148	-	7,442	Treasury bills – market	6,821	1,002	-	7,823
5	-	-	5	Treasury bills – non-market	174	-	-	174
17,709	4,777	-	22,486	Government bonds – market	26,814	3,891	-	30,705
7,144	-	-	7,144	Government bonds – non-market	6,580	-	-	6,580
1,552	-	-	1,552	Inflation-indexed bonds – market	1,588	-	-	1,588
466	-	-	466	Inflation-indexed bonds – non-market	476	-	-	476
491	-	-	491	Kiwi bonds	309	-	-	309
-	153	-	153	Euro-commercial paper	-	-	-	-
-	840	-	840	Foreign currency debt	-	809	-	809
-	889	-	889	Collateral	-	981	-	981
-	1,333	-	1,333	Derivatives in loss	-	860	-	860
-	117	-	117	Departmental deposits	-	307	-	307
336	-	-	336	IMF allocation	1,820	-	-	1,820
96	-	-	96	Immigration investor policy bonds	92	-	-	92
2	-	-	2	Other	1	-	-	1
38,709	8,257	-	46,966	Total Financial Liabilities by Designation	48,204	7,850	-	56,054

²¹ NZDMO's amortised cost assets are designated as loans and receivables.

²² All "fair value through profit or loss" instruments are designated by management as FVPL, with the exception of derivatives which are classified as "held for trading" and are automatically included in the FVPL category of financial instruments.

Derivatives

As at 30 June 2010, the value of derivatives was as follows:

2009					2010			
Carrying Value in Gain \$m	Carrying Value in Loss \$m	Net Carrying Value \$m	Notional Value \$m		Carrying Value in Gain \$m	Carrying Value in Loss \$m	Net Carrying Value \$m	Notional Value \$m
				Derivatives				
1,043	(960)	83	19,930	Foreign exchange contracts	570	(530)	40	25,736
144	(259)	(115)	4,763	Cross currency swaps	395	(218)	177	7,686
655	(114)	541	9,976	Interest rate swaps	642	(112)	530	8,481
-	-	-	-	Futures	-	-	-	-
1,842	(1,333)	509	34,669	Total Derivatives	1,607	(860)	747	41,903

Risk Management

NZDMO operates within a risk management framework that is approved by the Minister of Finance. The framework specifies NZDMO's policies for managing market risk, credit risk, liquidity risk, funding risk and operational risk.

The risk management framework is subject to continuous improvement as information technology and analytical techniques advance. NZDMO's risk management framework and practices are subject to regular audit review, and are also reviewed periodically by the NZDMO Advisory Board, by the Controller and Auditor-General and by external experts commissioned by NZDMO.

The risk management framework sets out the governance framework for NZDMO's operations, including the legislative provisions governing NZDMO's borrowing and investment activities. Internal operations are governed by an established risk culture, body of policies, ethical guidelines, defined responsibilities and formal delegations, segregated duties and reporting and performance management requirements.

Funding Risk

Funding risk refers to the inability to raise funds at an acceptable price and tenor.

NZDMO's funding policy is designed to spread refinancing risk over time, and to diversify funding sources by maintaining access to a range of funding markets. To manage interest rate risk and lower the cost of the New Zealand-dollar portfolio, NZDMO maintains a mix of fixed-rate and floating-rate debt, and uses interest rate swaps. Inflation-indexed debt makes up a component of the portfolio and is issued when it is cost effective to do so.

Bonds are issued into benchmark lines to improve liquidity in the domestic bond market and, consequently, reduce the Crown's cost of borrowing. NZDMO limits the tranche size of each maturity of marketable bonds issued in New Zealand dollars. Benchmark size trades off between improving liquidity and managing refinancing risk, and it is reviewed regularly.

Liquidity Risk

Liquidity risk is defined as not being able to meet expected and unexpected cash flow needs. The objective of NZDMO's liquidity policy is to ensure that NZDMO can meet all cash obligations as they fall due. To manage liquidity risk in its foreign currency portfolios, liquid assets are required to be held in each currency to cover cash flow obligations over one-day, two-day and six-week intervals. For New Zealand-dollar liquidity risk, NZDMO has established cash management arrangements with the Reserve Bank of New Zealand to support effective management of overall Crown cash flows.

Liquidity Management

As at 30 June 2010	Contractual Cash Flows \$m	0-12 Months \$m	1-2 Years \$m	2-5 Years \$m	5-10 Years \$m	> 10 Years \$m
Overdrafts and Payables						
Crown disbursement account	3,463	3,463	-	-	-	-
Creditors and payables	66	66	-	-	-	-
Financial Liabilities						
Treasury bills – market	7,890	7,890	-	-	-	-
Treasury bills – non-market	175	175	-	-	-	-
Government bonds – market	39,433	1,828	8,367	15,692	8,332	5,214
Government bonds – non-market	8,415	398	2,042	3,355	1,899	721
Inflation-indexed bonds – market	2,038	73	73	219	1,673	-
Inflation-indexed bonds – non-market	609	22	22	65	500	-
Kiwi bonds	314	251	63	-	-	-
Euro-commercial paper	-	-	-	-	-	-
Foreign currency debt	843	99	342	229	173	-
Collateral	981	981	-	-	-	-
Departmental deposits	307	307	-	-	-	-
IMF allocation	1,820	1,820	-	-	-	-
Immigration investor policy bonds	92	8	28	56	-	-
Other	1	1	-	-	-	-
Total Non-derivative Liabilities	66,447	17,382	10,937	19,616	12,577	5,935
Derivative Inflows²³						
Foreign exchange contracts	25,736	25,087	617	32	-	-
Cross currency swaps	9,162	262	1,211	5,429	2,260	-
Interest rate swaps	2,196	472	395	835	494	-
Total Derivative Inflows	37,094	25,821	2,223	6,296	2,754	-
Derivative Outflows²³						
Foreign exchange contracts	25,663	25,068	564	31	-	-
Cross currency swaps	8,493	134	1,032	5,155	2,172	-
Interest rate swaps	1,620	269	260	648	443	-
Total Derivative Outflows	35,776	25,471	1,856	5,834	2,615	-

²³ Derivative flows include both derivatives in gain and derivatives in loss.

Credit Risk

Credit risk is defined as the risk of loss in portfolio value owing to the downgrade or default of an institution or security issuer.

NZDMO is exposed to credit loss when the issuer of a debt instrument defaults on interest or principal payments, or when a counterparty in a transaction such as a swap agreement defaults on an obligation. Credit-related loss in the value of the portfolio also occurs when the market value of a debt instrument falls owing to an increase in credit risk.

Financial instruments that subject NZDMO to credit risk include bank balances, advances, investments, interest rate swaps, currency swaps and foreign exchange forward contracts.

NZDMO manages credit risk through the credit screening of counterparties, use of credit exposure limits and counterparty collateral obligations. Credit exposures are maintained only with highly rated institutions for which the probability of default is low. To diversify credit exposure, NZDMO limits its exposure to any one institution. The creditworthiness of counterparties is continuously monitored. Credit risk is further controlled by incorporating credit support annexes into master swap agreements with swap and foreign exchange counterparties.

NZDMO lending to government entities, and to entities to which NZDMO is exposed as a matter of government policy, is not managed under the credit policy.

2009 \$m	Credit Risk Management	2010 \$m
22,831	Total NZDMO financial assets	23,097
	<i>Less:</i>	
15,297	Crown-related balances	13,928
7,534	Total Credit Exposure for Financial Assets	9,169

Concentration of Credit Exposure as at 30 June 2010

By Credit Rating	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,056	75	2	-	-	1,133
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	86	86
Marketable securities	1,995	1,993	-	-	-	3,988
External deposits	-	424	43	-	-	467
Derivatives in gain	-	841	431	-	24	1,296
IMF financial assets	-	-	-	-	2,199	2,199
Total Credit Exposure by Credit Rating	3,051	3,333	476	-	2,309	9,169

By Industry	Sovereign Issuers \$m	Supra- National \$m	NZ Banking Sector \$m	Foreign Banking Sector \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,120	-	11	2	-	1,133
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	86	86
Marketable securities	779	422	1,118	763	906	3,988
External deposits	-	-	424	43	-	467
Derivatives in gain	-	-	626	532	138	1,296
IMF financial assets	-	2,199	-	-	-	2,199
Total Credit Exposure by Industry	1,899	2,621	2,179	1,340	1,130	9,169

By Geographical Area	United States of America \$m	Europe \$m	Japan \$m	Australia \$m	New Zealand \$m	Supra- National \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,056	-	64	2	11	-	-	1,133
Debtors and receivables	-	-	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	86	-	-	86
Marketable securities	120	1,354	337	434	1,216	422	105	3,988
External deposits	-	-	-	43	424	-	-	467
Derivatives in gain	248	354	-	44	650	-	-	1,296
IMF financial assets	-	-	-	-	-	2,199	-	2,199
Total Credit Exposure by Geographical Area	1,424	1,708	401	523	2,387	2,621	105	9,169

Concentration of Credit Exposure as at 30 June 2009

By Credit Rating	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,043	60	2	-	-	1,105
Debtors and receivables	-	396	-	-	-	396
Advances to non-Crown	16	-	-	-	49	65
Marketable securities	2,461	963	-	-	-	3,424
External deposits	-	442	-	-	-	442
Derivatives in gain	83	1,202	353	-	10	1,648
IMF financial assets	-	-	-	-	454	454
Total Credit Exposure by Credit Rating	3,603	3,063	355	-	513	7,534

By Industry	Sovereign Issuers \$m	Supra- National \$m	NZ Banking Sector \$m	Foreign Banking Sector \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,045	-	58	2	-	1,105
Debtors and receivables	-	-	396	-	-	396
Advances to non-Crown	16	-	-	-	49	65
Marketable securities	1,320	498	520	630	456	3,424
External deposits	-	-	442	-	-	442
Derivatives in gain	-	-	1,153	401	94	1,648
IMF financial assets	-	454	-	-	-	454
Total Credit Exposure by Industry	2,381	952	2,569	1,033	599	7,534

By Geographical Area	United States of America \$m	Europe \$m	Japan \$m	Australia \$m	New Zealand \$m	Supra- National \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	1,042	-	3	2	58	-	-	1,105
Debtors and receivables	-	-	-	-	396	-	-	396
Advances to non-Crown	-	-	-	-	65	-	-	65
Marketable securities	127	1,371	231	609	520	498	68	3,424
External deposits	-	-	-	-	442	-	-	442
Derivatives in gain	247	225	-	12	1,163	-	1	1,648
IMF financial assets	-	-	-	-	-	454	-	454
Total Credit Exposure by Geographical Area	1,416	1,596	234	623	2,644	952	69	7,534

Operational Risk

Operational risk refers to the risk of loss owing to an event that could impact on NZDMO's ability to produce its outputs to the quality, quantity and cost specified. Risk events include resource failures or constraints, control and security breaches or failures, transaction errors, compliance breaches, the breakdown of key relationships and disasters.

NZDMO's generic objectives in respect of operational risk are to:

- ▶ mitigate financial and reputational loss arising from operational failure by effectively managing operational risks where it is cost effective to do so, and
- ▶ establish a culture of continuous improvement of operational policies and practices.

Operational risks in NZDMO are managed in a number of ways. Controls include general Treasury policies, NZDMO-specific policies, reporting and performance management requirements, delegations and systems access restrictions. They are supported by close communications and regular management meetings that, in turn, reinforce a strong team ethic. Independent experts, such as external auditors, provide additional support in managing operational risk.

Market Risk

Market risk is defined as the impact of changes in interest rates or exchange rates on portfolio value.

The objective of NZDMO's market risk management is to limit this risk within parameters that allow for the achievement of its other financial objectives, including earning a satisfactory rate of return on liquid assets and adding value in its foreign currency execution activities.

NZDMO has implemented an asset and liability matching (ALM) policy to manage risk within its portfolios. The policy aims to minimise the currency and interest rate risks to NZDMO's revenues and balance sheet, by matching the characteristics of its assets to those of its liabilities, where practicable. The range of instruments used to minimise exposure to market risk includes debt instruments, financial assets, foreign exchange contracts, currency swaps, interest rate swaps and futures contracts.

NZDMO is exposed to market risk when assets and liabilities are imperfectly matched. The risk is managed through the use of Value at Risk (VaR) limits and stop-loss limits.

The VaR limit is expressed over daily, monthly and annual time horizons at 95% confidence level and reflects the risk tolerance of the Government in respect of NZDMO's activities. NZDMO uses back-testing to evaluate the performance of the VaR model, and stress-testing is carried out to understand how extreme or unusual events would impact on the portfolio. Monthly, quarterly and annual stop-loss limits are in place to protect NZDMO from further losses once actual losses reach a certain point.

Because NZDMO's liabilities exceed its assets, it also incurs market risk associated with the net volume of outstanding government debt. Fluctuations in the net market value of New Zealand-dollar debt as a result of interest rate movements are not actively managed, and unmatched debt is accounted for on an amortised cost basis.

Foreign Currency Risk Management

NZDMO's net foreign currency debt position is kept close to zero, as indicated in the schedules below.

As at 30 June 2010	NZD \$m	USD \$m	Yen \$m	Euro \$m	AUD \$m	Other \$m	Carrying Value \$m
Cash, Cash Equivalents and Receivables							
Crown settlement account	6,988	-	-	-	-	-	6,988
Crown trust account	16	-	-	-	-	-	16
Foreign cash and cash equivalents	-	1,058	64	5	1	5	1,133
Debtors and receivables	-	-	-	-	-	-	-
Advances							
RBNZ	-	1,724	-	1,003	-	-	2,727
Crown Financing Agency	1,494	-	-	-	-	-	1,494
Housing New Zealand	1,835	-	-	-	-	-	1,835
New Zealand Railways Corporation	448	-	-	-	-	-	448
Non-Crown	86	-	-	-	-	-	86
Financial Assets							
Marketable securities	1,628	1,480	310	48	559	72	4,097
External deposits	204	27	37	50	48	101	467
Derivatives in gain	6,539	(1,362)	1,150	(3,144)	(936)	(640)	1,607
IMF financial assets	6	965	241	746	-	241	2,199
Total Financial Assets	19,244	3,892	1,802	(1,292)	(328)	(221)	23,097
Overdrafts and Payables							
Crown disbursement account	3,463	-	-	-	-	-	3,463
Creditors and payables	30	-	-	11	11	14	66
Financial Liabilities							
NZ dollar government securities	47,655	-	-	-	-	-	47,655
Euro-commercial paper	-	-	-	-	-	-	-
Foreign currency debt	-	440	354	-	-	15	809
Collateral	-	981	-	-	-	-	981
Derivatives in loss	974	1,597	1,256	(2,168)	(337)	(462)	860
Departmental deposits	-	66	-	234	4	3	307
IMF allocation	-	801	200	619	-	200	1,820
Immigration investor policy bonds	92	-	-	-	-	-	92
Other	1	-	-	-	-	-	1
Total Financial Liabilities	52,215	3,885	1,810	(1,304)	(322)	(230)	56,054
Net Currency Holdings	(32,971)	7	(8)	12	(6)	9	(32,957)

Financial Instruments: Fair Value Hierarchy

NZDMO measures some financial instruments at fair value based on the designation or classification of the instruments into "Fair value through profit or loss" or "Available-for-sale" categories for financial instruments. The following table provides a fair value hierarchy, as required by NZ IFRS7, that reflects the significance of the inputs used in making the fair value measurements. The hierarchy levels are Level 1 (quoted market prices), Level 2 (observable inputs) and Level 3 (unobservable inputs).

As at 30 June 2010	Carrying Value \$m	Fair Value Measurement \$m	Hierarchy		
			Level 1 \$m	Level 2 \$m	Level 3 ²⁴ \$m
Cash, Cash Equivalents and Receivables					
Crown settlement account	6,988	-	-	-	-
Crown trust account	16	-	-	-	-
Foreign cash and cash equivalents	1,133	1,120	-	1,120	-
Debtors and receivables	-	-	-	-	-
Advances					
RBNZ	2,727	2,727	-	2,727	-
Crown Financing Agency	1,494	1,494	-	1,494	-
Housing New Zealand	1,835	977	-	977	-
New Zealand Railways Corporation	448	448	-	448	-
Non-Crown	86	71	-	31	40
Financial Assets					
Marketable securities	4,097	4,097	3,629	468	-
External deposits	467	467	-	467	-
Derivatives in gain	1,607	1,607	-	1,607	-
IMF financial assets	2,199	-	-	-	-
Total Financial Assets	23,097	13,008	3,629	9,339	40
Overdrafts and Payables					
Crown disbursement account	3,463	-	-	-	-
Creditors and payables	66	-	-	-	-
Financial Liabilities					
Treasury bills – market	7,823	1,002	-	1,002	-
Treasury bills – non-market	174	-	-	-	-
Government bonds – market	30,705	3,891	3,891	-	-
Government bonds – non-market	6,580	-	-	-	-
Inflation-indexed bonds – market	1,588	-	-	-	-
Inflation-indexed bonds – non-market	476	-	-	-	-
Kiwi bonds	309	-	-	-	-
Euro-commercial paper	-	-	-	-	-
Foreign currency debt	809	809	-	809	-
Collateral	981	981	-	981	-
Derivatives in loss	860	860	-	860	-
Departmental deposits	307	307	-	307	-
IMF allocation	1,820	-	-	-	-
Immigration investor policy bonds	92	-	-	-	-
Other	1	-	-	-	-
Total Financial Liabilities	56,054	7,850	3,891	3,959	-

²⁴ For reasons of materiality, NZDMO has not completed the reconciliation from beginning to ending balances for Level 3 instruments.

Audit Report



To the Readers of the Treasury's Financial Statements and Statement of Service Performance

for the year ended 30 June 2010

The Auditor-General is the auditor of the Treasury (the Department). The Auditor-General has appointed me, Godfrey Boyce, using the staff and resources of KPMG, to carry out the audit on her behalf. The audit covers the financial statements, the schedules of non-departmental activities and statement of service performance included in the annual report of the Department, for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- ▶ The financial statements of the Department on pages 65 to 91:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Department's financial position as at 30 June 2010;
 - the results of its operations and cash flows for the year ended on that date;
 - its expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2010; and
 - its unappropriated expenses and capital expenditure for the year ended 30 June 2010.
- ▶ The schedules of non-departmental activities on pages 102 to 126 fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2010.
- ▶ The statement of service performance of the Department on pages 24 to 60:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards included in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2010, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▶ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▶ verifying samples of transactions and account balances;
- ▶ performing analyses to identify anomalies in the reported data;
- ▶ reviewing significant estimates and judgements made by the Secretary to the Treasury;
- ▶ confirming year-end balances;
- ▶ determining whether accounting policies are appropriate and consistently applied; and
- ▶ determining whether all financial statement and statement of service performance disclosures are adequate.

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

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

Responsibilities of the Secretary to the Treasury and the Auditor

The Secretary to the Treasury is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2010. The financial statements must also fairly reflect the Department's unappropriated expenses and capital expenditure for the year ended on that date.

In addition, the Secretary to the Treasury is responsible for preparing schedules of non-departmental activities, in accordance with the Treasury Instructions 2009 that must fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2010.

Quality Standards for Policy Advice

Quality Policy Advice is Fit for Purpose

This Quality Standard for Policy Advice sets out the characteristics or dimensions of policy advice that will best enable it to promote well-informed high-quality decision-making by Ministers. However the quality dimensions below are not a checklist and not all dimensions will be equally important in every case – judgements are required at the outset about how to apply and balance the quality dimensions to ensure a particular piece of advice is fit for purpose in achieving the result sought.

When undertaking a piece of work, explicit consideration needs to be given to the following:

- ▶ What point are Ministers at in their decision-making process? Can the Treasury add value? What are our opportunities to have an impact?
- ▶ What result are we seeking by providing a piece of advice?
- ▶ How should the quality dimensions below be applied and balanced to achieve this result?
- ▶ What is the relative priority of this piece of work?
- ▶ What level of investment is warranted?



Dimensions of Quality Policy Advice

Analytically rigorous (Analysis)	Set in a wider strategic context (Applied analysis)	Customer focused and persuasive (Advice)
<p>Relevant frameworks</p> <p>Appropriate analytical frameworks are used, and:</p> <ul style="list-style-type: none"> ▶ knowledge is up-to-date and informed by recent thinking and literature in the field ▶ assumptions behind the frameworks used are explicit and consideration has been given to how they will be expected to play out in the real world (a world which includes information and transaction costs, market failure, government failure, etc), and ▶ consideration has been given to less traditional frameworks and whether they would add innovative or useful perspectives. 	<p>Strategic</p> <ul style="list-style-type: none"> ▶ Advice is set in the context of the Treasury's results and informed by a strategic view about what is important. ▶ We are explicit about the relative importance and materiality of the issue, in fiscal, economic and strategic terms. ▶ Connections across policy issues are made, ensuring that Ministers receive a whole-of-government perspective. ▶ Advice considers the long-term implications of decisions and provides a perspective that goes beyond immediate impacts. ▶ We frame issues and help set the agenda. 	<p>Clear</p> <p>Advice is compellingly presented. It is:</p> <ul style="list-style-type: none"> ▶ brief and concise – key messages should be readily apparent to the reader ▶ easy to read – has a clear and logical structure, avoids technical jargon and uses visual devices such as charts and tables where possible ▶ pitched to suit the target audience – uses appropriate language, style and level of detail, and ▶ framed in terms of how it fits with previous advice and communications with the Minister.
<p>Robust reasoning and logic</p> <p>Advice has a clear purpose, problem definition, evaluation of options against criteria and assessment of risks and opportunities. We come to a conclusion and give action-oriented recommendations.</p>	<p>Practical</p> <p>Issues of implementation, technical feasibility, practicality and timing are considered and advice accurately identifies compliance, transitional, legislative, revenue and administrative implications and costs.</p>	<p>Timely</p> <p>Reports should meet Ministers' need for advice that helps in the decision-making process (even if it means, at times, that advice is not fully developed) and indicate when a decision is required.</p>

Analytically rigorous (Analysis)	Set in a wider strategic context (Applied analysis)	Customer focused and persuasive (Advice)
<p>Evidence-based</p> <p>Analysis is supported by relevant evidence:</p> <ul style="list-style-type: none"> ▶ Empirical methods are sound, data gaps are identified and the level of confidence/certainty in our empirical base is explicit. ▶ We draw on New Zealand experience of current and past policy interventions and, where relevant, the experience of other countries. ▶ We give our best judgement despite data imperfections; we acknowledge information limitations and advise within them. 	<p>Public sector consultation</p> <p>Ministers receive advice that enables them to engage with their colleagues on a fully informed basis because:</p> <ul style="list-style-type: none"> ▶ thorough and timely consultation with other government departments has occurred and points of difference, and the reasons for these, are set out, and ▶ where possible, advice is developed in conjunction with relevant government agencies. 	<p>Politically aware</p> <p>Advice:</p> <ul style="list-style-type: none"> ▶ demonstrates awareness of the wider environment and political situation ▶ is based on a clear understanding of the desired outcomes of the Minister/Government ▶ relates to the perspectives of Ministers, even if suggesting something that tests those perspectives, and ▶ recognises choices and constraints Ministers face, and includes a range of options to address these.
<p>Free and frank</p> <p>Our advice is honest, impartial and politically neutral – we have a duty to alert Ministers to the possible consequences of following particular policies, whether or not such advice accords with Ministers' views. Good free and frank advice is offered with an understanding of its political context and the constraints within which the Minister is operating.</p>	<p>Perspectives of wider stakeholders</p> <p>We understand and advise Ministers on the perspective of groups outside the public sector, consult with key stakeholders and provide advice on communications where appropriate.</p>	<p>Solution focused</p> <p>We are proactive, anticipating, as well as responding to, Ministers' needs. Advice suggests a clear way forward ("Here is what you can do" as well as "Here is a problem") and includes a range of practical options (first best advice, but also second and third).</p>



Quality Involves Continuous Improvement
<p>At the end:</p> <ul style="list-style-type: none"> ▶ Did we achieve the result we were seeking? ▶ Were our judgements about what would be fit for purpose correct? ▶ What would we do differently next time? ▶ How can we capture and share this learning?

Research and Policy Publications

for the year ended 30 June 2010

The Treasury's research and policy publications present work-in-progress perspectives on a variety of economic, financial, trade and social issues. The Treasury's aim in publishing them is to make the papers available to a wider audience, and to inform and encourage public debate on important areas of work. All papers can be viewed on our website: www.treasury.govt.nz/publications/research-policy.

Papers added during 2009/10 include:

Publishing Date and Paper Number	Working Papers 2009/10
January 2010 (WP: 10/01)	<p>Challenges and Choices: Modelling New Zealand's Long-term Fiscal Position</p> <p>This working paper provides further detail on the modelling behind Challenges and Choices: New Zealand's Long-term Fiscal Statement, published on 29 October 2009.</p> <p>Authors: Matthew Bell, Gary Blick, Oscar Parkyn, Paul Rodway and Polly Vowles.</p>
Publishing Date and Paper Number	Policy Perspectives Papers 2009/10
	None published in 2009/10
Publishing Date and Paper Number	Productivity Papers 2009/10
	None published in 2009/10

Legislation

as at 30 June 2010

Budget legislation administered by the Treasury during the year:	Delegated legislation administered by the Treasury: - cont'd
<ul style="list-style-type: none"> ▶ Appropriation Act(s) ▶ Imprest Supply Act(s) 	<ul style="list-style-type: none"> ▶ New Zealand Railways Corporation Restructuring Act Orders (various) ▶ New Zealand Staff Welfare Society Dissolution Act Commencement Order 1999 ▶ New Zealand Superannuation (Political Commitment) Order 2003 ▶ New Zealand Superannuation (Political Commitment) Order 2004 ▶ North City Bus Limited Vesting Order 1991 ▶ Overseas Investment Act Commencement Order 2005 ▶ Overseas Investment Regulations 2005 ▶ Overseas Investment Amendment Regulations (various) ▶ Post Office Bank Amendment Act Commencement Orders (various) ▶ Public Audit (West Coast Development Trust) Order 2002 ▶ Public Finance Act Orders (various) ▶ Public Finance (Departmental Guarantees and Indemnities) Regulations 2007 ▶ Public Finance (Departmental Guarantees and Indemnities) Amendment Regulations 2010 ▶ Rail Operator Orders (various) ▶ Rural Banking and Finance Corporation of New Zealand Act Commencement Order 1989 ▶ Rural Intermediate Credit (Limits on Advances) Notice 1982 ▶ Shipping Corporation of New Zealand Repeal Act Commencement Order (various) ▶ Sink Benefit Fund Winding Up Order 1990 ▶ Social Security (Rates of Benefits and Allowances) Order (various) ▶ Southland Electricity Act Commencement Order 1994 ▶ Southland Electricity Act Commencement Order 1998 ▶ Speedlink Carriers Limited Vesting Order 1991 ▶ Speedlink Parcels Limited Vesting Order Limited 1991 ▶ State Insurance Act (Vesting) Order 1990 ▶ State-Owned Enterprises Orders (various) ▶ Television New Zealand (Separation of Transmission Business) Order 2003 ▶ Tourist Hotel Corporation of New Zealand Act Commencement Order 1990 ▶ Tourist Hotel Corporation of New Zealand Act (Vesting and Commencement) Order 1990 ▶ Travelling Allowance Regulations (various) ▶ Westpac Banking Corporation Act Commencement Order 1982 ▶ Witness and Interpreters Fees Amendment Regulations 2004
<p>Delegated legislation administered by the Treasury:</p> <ul style="list-style-type: none"> ▶ Bank of New Zealand Order 1989 ▶ Cityline (NZ) Vesting Order 1992 ▶ Cook Islands Sterling Area Currency and Securities Exemption Notice 1957 ▶ Crown Entities (Financial Powers) Regulations 2005 ▶ Crown Entities (Financial Powers) Amendment Regulations 2006 ▶ Crown Entities New Zealand (Fast Forward Fund Limited) Order 2008 ▶ Crown Entities New Zealand (Fast Forward Fund Limited) Order 2009 ▶ Crown Research Institutes Act Commencement Order 1998 ▶ Crown Solicitors Regulations 1994 ▶ Crown Solicitors Amendment Regulations 2004 ▶ Earthquake Commission Regulations 1993 ▶ Export Guarantee Amendment Act Commencement Order 1990 ▶ Fees and Travelling Allowances Regulations 1952 ▶ Finance Act Order (various) ▶ Government Superannuation Orders and Regulations (various) ▶ Housing New Zealand Limited Vesting Order 1993 ▶ International Finance Agreements Amendment Act Commencement Order 1978 ▶ International Finance Agreements Amendment Act Commencement Order 1993 ▶ KiwiSaver Act Commencement Order 2006 ▶ KiwiSaver Regulations 2006 (and various Amendment Regulations) ▶ Local Authorities and Public Bodies (New Zealand Superannuation Scheme) Order 1974 ▶ National Provident Fund (Approval of Restructuring Proposal) Order 1991 ▶ National Provident Fund (Approval of Amendments to Restructuring Proposal) Order 1993 ▶ National Savings Investment Account Regulations (various) ▶ New Zealand Planning Council Dissolution Act Commencement Order 1991 ▶ New Zealand Rail Limited Vesting Order (various) ▶ New Zealand Railways Corporation Notice, Regulations and Orders (various) 	

Other Legislation administered by the Treasury:

- | | |
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| <ul style="list-style-type: none"> ▶ Aid to Water-Power Works Act 1910 ▶ Bank of New Zealand Act 1988 ▶ Crown Entities Act 2004 (Part 4) ▶ Crown Forests Assets Act 1989 ▶ Crown Research Institutes Act 1992 ▶ Crown Retail Deposit Guarantee Scheme Act 2009 ▶ District Railways Purchasing Act 1885 ▶ Earthquake Commission Act 1993 ▶ Export Guarantee Act 1964 ▶ Farm and Fishing Vessel Ownership Savings Schemes (Closure) Act 1998 ▶ Farm Ownership Savings Act 1974 ▶ Finance Acts (various) ▶ Fishing Vessel Ownership Savings Act 1977 ▶ Government Superannuation Fund Act 1956 ▶ Hawke's Bay Earthquake Act 1931 ▶ International Finance Agreements Act 1961 ▶ KiwiSaver Act 2006 (only section 177 jointly with IRD) ▶ National Expenditure Adjustment Act 1932 ▶ National Provident Fund Restructuring Act 1990 ▶ New Zealand Government Property Corporation Act 1953 ▶ New Zealand Planning Council Dissolution Act 1991 | <ul style="list-style-type: none"> ▶ New Zealand Railways Corporation Act 1981 ▶ New Zealand Railways Corporation Restructuring Act 1990 ▶ New Zealand Railways Staff Welfare Society Dissolution Act 1999 ▶ New Zealand Superannuation and Retirement Income Act 2001 (various provisions) ▶ Overseas Investment Act 2005 ▶ Post Office Bank Act 1987 ▶ Public Audit Act 2001 ▶ Public Finance Act 1989 ▶ Rural Banking and Finance Corporation of New Zealand Act 1989 ▶ Southland Electricity Act 1993 ▶ State Insurance Act 1990 ▶ State-Owned Enterprises Act 1986 ▶ State-Owned Enterprises (AgriQuality Limited and Asure New Zealand Limited) Act 2007 ▶ State-Owned Enterprises (Contact Energy Limited) Act 1998 ▶ State-Owned Enterprises (Meteorological Service of New Zealand Limited and Vehicle Testing New Zealand Limited) Amendment Act 1999 ▶ Tourist Hotel Corporation of New Zealand Act 1989 ▶ Treasurer (Statutory References) Act 1997 |
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Monitoring of Crown Agencies

COMU has monitoring responsibility for the following:	
<p>Crown Financial Institutions:</p> <ul style="list-style-type: none"> ▶ Accident Compensation Commission (ACC) (Investments) ▶ Earthquake Commission (EQC) ▶ Government Superannuation Fund (GSF) ▶ National Provident Fund (NPF) ▶ New Zealand Superannuation Fund (NZSF) <p>State-Owned Enterprises:</p> <ul style="list-style-type: none"> ▶ Airways Corporation of New Zealand Ltd (Airways) ▶ Animal Control Products Ltd (ACP) ▶ AsureQuality Ltd (AsureQuality) ▶ Electricity Corporation of New Zealand Ltd (ECNZ) (the residual company) ▶ Genesis Power Ltd (Genesis) ▶ Kordia Group Ltd (Kordia) ▶ Landcorp Farming Ltd (Landcorp) ▶ Learning Media Ltd (LML) ▶ Meridian Energy Ltd (Meridian) ▶ Meteorological Service of New Zealand Ltd (MetService) ▶ Mighty River Power Ltd (Mighty River Power) ▶ New Zealand Post Ltd (NZ Post) ▶ New Zealand Railways Corporation (KiwiRail Group) ▶ Quotable Value Ltd (Quotable Value) ▶ Solid Energy New Zealand Ltd (Solid Energy) ▶ Timberlands West Coast Ltd (Timberlands) ▶ Transpower New Zealand Ltd (Transpower) 	<p>Other Crown companies:</p> <ul style="list-style-type: none"> ▶ Crown Fibre Holdings Ltd (CFH) ▶ Health Benefits Ltd (HBL) ▶ New Zealand Venture Investment Fund Ltd (NZVIF) ▶ Radio New Zealand Ltd (RNZ) ▶ Research and Education Advanced Network New Zealand Ltd (REANNZ) ▶ Television New Zealand Ltd (TVNZ) <p>Crown Research Institutes: (from 1/2/2011 joint responsibility with Ministry of Science & Innovation)</p> <ul style="list-style-type: none"> ▶ AgResearch Ltd (AgResearch) ▶ Industrial Research Ltd (IRL) ▶ Institute of Environmental Science & Research Ltd (ESR) ▶ Institute of Geological & Nuclear Sciences Ltd (GNS Science) ▶ Landcare Research New Zealand Ltd (Landcare Research) ▶ National Institute of Water & Atmospheric Research Ltd (NIWA) ▶ New Zealand Forest Research Institute Ltd (Scion) ▶ The New Zealand Institute for Plant & Food Research Ltd (Plant & Food Research) <p>Other:</p> <ul style="list-style-type: none"> ▶ Air New Zealand Ltd ▶ Christchurch International Airport Ltd (CIAL) ▶ Dunedin International Airport Ltd (DIAL) ▶ Hawkes Bay Airport Ltd (HBAL) ▶ Invercargill Airport Ltd (IAL) ▶ New Zealand Lotteries Commission (Lotteries) ▶ Pacific Forum Line Ltd (PFL) ▶ Public Trust (Public Trust) ▶ Rugby NZ (2011) Ltd

COMU administers the board appointment processes for all of the above companies/entities, except ACC and PFL. Also, in addition, COMU administers the board appointment processes for the following entities: 2025 Taskforce, Crown Forestry Rental Trust, Government Superannuation Appeals Board, National Infrastructure Advisory Board, Nominating Committee for the Guardians of New Zealand Superannuation Fund and the Reserve Bank.