

Our Vision

A world-class Treasury
working for
higher living standards
for New Zealanders

What we do

The Treasury

At the Treasury our job is to help the Government to improve economic performance and manage scarce resources. All of this is focused on improving living standards for New Zealanders.

The Treasury has three main roles:

- We provide advice to improve the economic and fiscal conditions for high levels of economic growth and improved living standards.
- We monitor and manage the financial affairs of the Crown.
- We assess and test other agencies' advice and proposals which have economic and financial implications.

The Treasury provides advice and services through nine output classes provided to the Minister of Finance through Vote Finance.

Crown Company Monitoring Advisory Unit (CCMAU)

CCMAU is responsible for maintaining and enhancing the Crown's ownership interest in Crown research institutes (CRIs), State-owned enterprises (SOEs) and a number of Crown-owned companies and entities. CCMAU provides advice to relevant Vote Ministers through output classes under Vote Crown Research Institutes and Vote State-Owned Enterprises.

The Treasury/CCMAU relationship

CCMAU is a stand-alone unit within the Treasury. The Executive Director of the Unit is directly accountable to the Secretary to the Treasury for the Crown's investment in CCMAU, and for CCMAU's performance.

Contents

Highlights of our year	2
Secretary's overview	3
Organisational structure - the Department	12
The Treasury	
Vision and goals	14
Maintaining and developing capability	15
Organisational responsibilities	28
Vote Finance at a glance	32
Output performance - Vote Finance	33
Crown Company Monitoring Advisory Unit	
Vision and purpose	69
CCMAU's overview	70
Output performance - CCMAU	77
Votes at a glance	77
Vote Crown Research Institutes	77
Vote State-Owned Enterprises	81
Financial statements	
Departmental	85
Non-departmental	101
Statement of accounting policies	113
Statement of responsibility	118
Audit Report	119
Annexes	
Treasury Quality Standards for Analysis and Advice	121
Legislation	123
Working papers	126

Highlights of our year

- Ideas from Treasury research on economic transformation were used in the Government's February 2002 document *Growing an Innovative New Zealand*.
- The Treasury supported the *Review of the Centre*, charting a future direction for the public sector, and led subsequent work to develop future central agency roles.
- Passage of the New Zealand Superannuation Act to partially fund retirement benefits.
- Support of the Tax Review.
- Recapitalisation of Air New Zealand.
- Successfully implemented a new Treasury organisational structure and staff roles.
- The Treasury was runner-up in the large organisation category of the Equal Employment Opportunities Trust Work and Life Awards.
- CCMAU has been restaffed and is planning for the future.

Secretary's overview

We have continued to focus on how Government policy can help achieve higher living standards. The bulk of our effort has focused on helping the Government to improve economic performance and manage scarce resources.

This included running an effective 2002 Budget process, ensuring efficient management of Crown assets and liabilities, and providing advice on value for money from policy options.

We also provided support for Ministers as they responded to changes in the external environment, for instance providing additional economic advice in the wake of the tragic events of September 11 and assisting with negotiations over the ownership of Air New Zealand.

Looking to the future we have been working to identify and resource key development areas. We want to encourage continuous improvement and innovation, so that we are best placed to anticipate and meet the needs of current and future governments.



The Minister of Finance has assessed us as having met and frequently exceeded his expectations.

Throughout the year, staff have demonstrated their professionalism and commitment to excellence, enabling us to provide high-quality advice to the Government. For all nine of our output classes the Minister of Finance has assessed us as having met and frequently exceeded his expectations.

This is especially pleasing since the Treasury has also been making changes within the organisation. August/September 2001 saw the start of the new Treasury structure and roles resulting from the branch organisational reviews of the previous year. These changes were designed to create more flexible organisational arrangements and to help the Treasury to be a more responsive organisation. I believe the changes should enable the organisation to maximise the ongoing contribution of staff to achieving higher living standards for New Zealanders.

Towards higher living standards for New Zealanders

The Government has a goal of growing an inclusive economy for the benefit of all. Working towards an inclusive economy requires a focus both on policies that enhance growth and on policies that enhance opportunities for New Zealanders of all cultures and backgrounds to participate in society and the economy. While growth is not the sole source of wellbeing for New Zealanders, nor the only objective of government, our ability to achieve the other things we value depends to a large extent on our growth performance.

The Government in its February 2002 *Growing an Innovative New Zealand* set out an economic objective to return New Zealand's per capita income to the top half of the OECD rankings. Over the past decade, good policy foundations and favourable external conditions have lifted New Zealand's growth performance towards the OECD average. However, it has not been enough to close the gap that opened between us and other OECD countries during the 1970s and 1980s. Making up this gap will require ongoing transformation of the New Zealand economy.

Getting more growth

An important area of work in 2001/02 was research conducted to get a better understanding of the New Zealand economy. The focus of this research was on understanding the micro characteristics of the New Zealand economy and better identifying the fundamental drivers of economic performance. Part of the research focused on New Zealand specific factors that could impact on growth-size of the economy and distance from markets, for example. There is a growing body of theory and empirical evidence that cities, regions and countries in which labour and capital are concentrated offer higher returns because of the spill-over effects. If this is correct, small, distant countries like New Zealand may face disadvantages relative to larger, more proximate countries in terms of being able to attract and retain the skilled labour and capital required to lift productivity and growth.

We also concentrated on researching the reasons behind New Zealand's relatively high GDP volatility and understanding the effects of this volatility. This work suggests that volatility in New Zealand's growth rate has decreased since the mid-1980s. Our work continues to seek to understand the factors that lead to fluctuations in output.

We held a series of seminars and workshops to communicate and discuss the information gained from this research, with the aim of stimulating debate throughout the Treasury, and in other agencies. A number of the ideas emerging from this research were drawn on in developing the growth and innovation framework, set out in *Growing an Innovative New Zealand*.

A number of the ideas were drawn on in developing the growth and innovation framework.

The Treasury was also involved in coordinating the economic transformation component of the Budget 2002. This involved providing advice to Ministers on prioritising expenditure to those areas which underpin the Government's growth strategy. The ideas have been developed further in our briefing paper for the incoming Minister, *Growing Higher Living Standards for New Zealanders*.

Catching up with the OECD is a very challenging task. Looking forward, there are good prospects that our medium-term growth can be at least around the OECD average, but that's not going to be enough to ensure

a marked improvement in our OECD rankings. There are unlikely to be any simple answers. We need to continue to extend our thinking on how to lift growth. Our 2002/03 growth work programme will be focused on developing policy options that offer the best prospects for raising growth in output per head.

Ensuring value for money

Achieving the Government's desired outcomes requires an efficient, effective and innovative State sector. The Treasury is responsible for the ongoing monitoring and management of the Crown's financial affairs. Our focus is on improving decision-making and performance management systems to ensure effective and efficient use of State resources and regulatory powers.

The Government needs to be sure that its expenditure offers sound value for money. Throughout 2001/02 we provided advice on opportunities for reprioritising expenditure to provide better value for money in delivery of public sector services, consistent with the Government's goals. Work was also undertaken to improve capital budgeting processes. Value for money work focused in particular on defence, education, the justice sector, labour, social development and especially health. While some of this work led to shifts in spending towards higher value areas, we think much more can be done over the next few years to encourage more systematic evaluation and reprioritisation of public spending. Our briefing paper to the incoming Minister outlines possible tools and processes to encourage better value for money.

Getting their priorities right

Over the last three Budgets, the Minister of Social Services and Employment has identified \$348 million in savings that he has been able to use elsewhere.

Achieving these savings was helped by the variety of activities contained within the portfolio and the ability to make change without significant restructuring. The Minister's willingness to investigate the best mix of interventions was critical. The size and flexibility of the Minister's Votes made a reprioritisation exercise worthwhile because of the likelihood that savings could meet the costs of new activities.

Enhancing public sector management

To improve State sector planning and decision-making processes, the Treasury, in conjunction with the State Services Commission (SSC), the Department of Prime Minister and Cabinet (DPMC) and Te Puni Kokiri (TPK), led a project to introduce *Statements of Intent* and new planning expectations for departments. Departments are being asked to articulate and measure the outcomes they are seeking, to be able to specify how their outputs will contribute and how their capability will be managed to make that contribution. Fifteen departments, including the Treasury, produced *Statements of Intent* for 2002/03. Lessons and best practice from these agencies are being reviewed to provide improved guidance and support when all departments are required to produce *Statements of Intent* for 2003/04.

In August 2001 the Government set up an advisory committee to review the core of the State sector and how it could be strengthened to serve the public more effectively. The Government accepted the recommendations of the November Advisory Committee *Review of the Centre* report, and these are in the process of being implemented. The Treasury's work on enhancing public sector management has been undertaken in the context of developing and then implementing the recommendations of the report.

The *Review of the Centre* concluded that, although the New Zealand public management system provides a sound platform on which to build, it needs to meet more effectively the needs of Ministers and citizens. It proposed improvements in three areas:

- Integrating service delivery across multiple agencies.
- Addressing fragmentation of the State sector and improving its alignment.
- Improving the systems by which State servants are trained and developed.

Alan Bollard was a member of the Advisory Committee.

We provided support and advice to the Advisory Committee and are working with other central agencies to implement the recommended changes. The Review envisaged a multi-year response. We are contributing by, for example, developing advice on changes to the accountability system, Vote structures and Crown entity governance and investigating State sector innovation. Much of this work has been carried out in conjunction with other central agencies and chief executives and is due to be reported to Cabinet in the next financial year.

Supporting our Minister

The Minister had a number of important work priorities continuing from 2000/01 and several new work priorities emerged that required significant work during the year. The Treasury reprioritised efforts and received some additional funding to support this activity.

Pre-funding of New Zealand Superannuation was one of the Government's key policy commitments. Following design work in 2000/01, the Treasury helped facilitate the October passage of the New Zealand Superannuation Act 2001 and provided assistance with the subsequent public information campaign.



The Treasury provided assistance to the Minister with the May 2002 public information campaign for the New Zealand Superannuation Fund.

The Tax Review initiated in 2000/01 reported to the Government in October

2001. We provided advice to the Review team in developing its report and to Ministers in developing the Government's response. In conjunction with Inland Revenue, we provided advice on the international tax issues raised by the Review in preparation for Budget 2002.

On 27 November 2001 the New Zealand Government finalised an agreement to contribute capital to Air New Zealand of \$885 million, giving the Crown an 82% ownership stake in Air New Zealand. The Treasury was involved in providing initial policy advice when concerns emerged about the future viability of the airline and in providing support to Ministers in subsequent negotiations. The Treasury has also assumed responsibility for providing policy advice to the Minister on the Crown's ownership interest in Air New Zealand.

In December 2001 the Crown and Tranz Rail completed the Crown's purchase of the Auckland rail corridor. The Treasury assisted and supported the Crown's negotiations and subsequent negotiations over train control, track maintenance and other interim services. In May 2002 the Crown and Tranz Rail completed the final outstanding details of the Crown's purchase of the Auckland rail corridor. Negotiations have also progressed with Auckland councils over the on-lease of the rail infrastructure and the responsibilities that Auckland will assume. This will allow Auckland to start developing the rail network to help address traffic congestion.

In our *Departmental Forecast Report for the Year Ending June 2002*, we agreed a series of work priorities with the Minister of Finance. In addition to those reported above, we made progress in the following areas:

- The findings from the July 2001 report *Towards an Inclusive Economy* were disseminated to a range of government agencies and we have subsequently developed a conceptual framework for assessing the efficiency and effectiveness of ways to improve children's and young people's lives through three critical life-stages.
- We provided advice on the reform of the tertiary education system, including the Tertiary Education Strategy, the Tertiary Education Reform Bill, the establishment of the Tertiary Education Commission and changes to the funding system.
- Development work was undertaken to improve our understanding of Crown balance sheet composition issues.
- We advised on the development of a three-year health funding package, together with analysis of major new health investments such as the Primary Care Strategy and the meningococcal disease vaccination programme.
- We responded to environmental issues by providing:
 - coordinated advice on the economic and fiscal implications of the Government's response to the Royal Commission on Genetic Modification
 - advice in relation to the Government's decision to ratify the Kyoto Protocol.

- Policy advice was provided to support the launch of the new Doha World Trade Organisation round, strengthen APEC relationships and promote bilateral trade promotion.
- We marketed and monitored the Export Credit Office, which provides services for trade credit insurance, and completed a 12-month review of operations, which Cabinet will consider in 2002/03.

Maximising organisational value

CCMAU

CCMAU started the year with concerns about security and service delivery for Ministers. Those issues have now been addressed and, as outlined on pages 69 to 76, steps taken to ensure the Unit has the capability to meet the ongoing needs of Ministers and other stakeholders.

The Treasury

Maximising the Treasury's contribution to the Government's desired outcomes requires a continual focus on enhancing capability and performance within the organisation. It needs talented staff, committed to the success of the organisation. As outlined on pages 14 to 27, the focus in 2001/02 was on developing our organisational structures, systems and processes to enable us to be responsive to the needs of Ministers and to maximise value from the efforts of staff, individually and collectively. This is an ongoing task. The focus for the year ahead is on the behavioural aspects of culture change and ensuring the Treasury gets value from the changes made during 2001/02. This is not easy but, with the continuing support and enthusiasm of managers and staff, I am confident the performance of the Department will continue to improve.

In September 2002 I will be leaving the Treasury to take up a position as Governor of the Reserve Bank. I want to place on record my thanks to all those who have helped the Treasury perform so well during my time as Secretary. It has been a privilege to work here. I am confident the organisation will keep playing its important role in helping New Zealand achieve higher living standards.

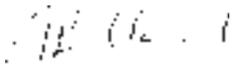
The year ahead

As set out in our *Statement of Intent* for 2002/03, we have agreed the following work priorities with the Minister for the year ahead:

- Develop policy options that offer the best prospects for raising growth in output per head. Our research will focus on lifting firm growth and performance in a small, distant economy, and enhancing innovation and global connectedness as routes to higher productivity and growth in the New Zealand economy.
- Develop and operate systems which help achieve results-focused value for money, including the roll-out of *Statements of Intent* to all departments. Support *Review of the Centre* initiatives to improve the public sector management system and develop effective ways to achieve shared outcomes. Identify potential improvements to financial and accountability arrangements, including the Public Finance Act, to support these initiatives.

We will be working collaboratively with a wide range of public and private sector agencies to contribute to the followed outcomes for Government:

- Improved overall economic performance.
- A stable macroeconomic environment.
- Prudent fiscal management.
- Effective and efficient use of State resources and powers.
- Improved decision-making and performance management systems for the State sector.
- Efficient management of the Crown balance sheet and net worth.



Dr A E Bollard
Secretary to the Treasury

Organisational structure - the Department

as at 30 June 2002

Responsible Minister:
Treasurer/Minister of Finance

Vote Minister:
Minister of Finance

Alan Bollard
Secretary to the Treasury

Branch Managers/Deputy Secretaries

Mike James	Asset and Liability Management Branch
	<ul style="list-style-type: none"> Public Sector Management Crown Debt Management Crown Company Performance Crown Risk & Liability Management
Iain Rennie	Budget and Macroeconomic Branch
	<ul style="list-style-type: none"> Budget Management Macroeconomic Policy Advice Macroeconomic Forecasting & Monitoring Fiscal Forecasting & Reporting Accounting Policy Development
John Whitehead	Regulatory and Tax Policy Branch
	<ul style="list-style-type: none"> Tax Policy Regulation & Vote Purchase, Ownership & Performance Issues [Market Interventions, Environment & Natural Resources, International Economics & Defence, Revenue Agencies & Other Government Services]
Peter Bushnell	Social Policy Branch
	<ul style="list-style-type: none"> Regulation & Vote Purchase, Ownership & Performance Issues [Health, Education, Welfare, Labour Markets, Justice, Māori Affairs]
Angela Hauk-Willis	Corporate Branch
	<ul style="list-style-type: none"> Corporate Services Policy Coordination & Development

Vote Ministers:
Minister for Crown Research Institutes
Minister for State-Owned Enterprises

Murray Wright Executive Director	Crown Company Monitoring Advisory Unit
	<ul style="list-style-type: none"> Crown Research Institutes' Monitoring State-Owned Enterprises' Monitoring Appointments & Governance

The Treasury - Vision and goals

Vision

A world-class Treasury working for higher living standards for New Zealanders

Strategic goals

To respond to the changing output environment and to meet the needs of current and future governments, we must work more effectively and efficiently. We have set ourselves four strategic goals.

Develop the Treasury as a learning organisation

- Maintain and develop a talented workforce with broad expertise and experience as the essential asset base of the organisation.
- Capture and make full use of the experience and expertise of our staff.
- Leverage and learn off others externally to broaden our range of knowledge and experience.

Build intellectual leadership for practical application

- Lift our horizon and free-up space for a more strategic focus.
- Recognise and actively encourage continuous improvement and innovation.

Prioritise so the Treasury can add most value

- Assist Ministers in their prioritisation so the Treasury makes the greatest contribution to government.
- Prioritise and manage Treasury resources better, recognising the appropriate levels of risk and quality assurance required.

Improve stakeholder relationships

- Improve understanding of the economic, fiscal and other frameworks that underpin Treasury advice among Ministers, the public sector, the business sector and the wider community.
- Improve our communications and relationships with other organisations.

Maintaining and developing capability

To maximise the Treasury's contribution to the Government's desired outcomes, we need to focus continually on enhancing capability within our organisation. The way in which we develop our capability is guided by the *New Zealand Treasury Strategic Plan 1999-2004*.

Confirming our strategic direction

In November 2001 the Senior Management Group undertook a midterm review of the *Strategic Plan*. This provided the starting point for developing a *Statement of Intent* for the Treasury and work on post-election preparedness. We involved our staff in discussing the review of the *Strategic Plan*. The result was that despite significant changes in the external environment, our vision and the goals set out in our *Strategic Plan* were still relevant and appropriate. For the first time we conducted a *Treasury Climate Survey 2001* to get staff feedback on progress in implementing the *Strategic Plan*. The Survey confirmed that the goals set out in the *Strategic Plan* were still important to staff.

To champion the change toward more results-based planning within the public service, we prepared a *Statement of Intent* for 2002/03, rather than the traditional *Departmental Forecast Report*. This involved identifying the outcomes that are important for the Government and illustrating how we contribute to them. We need to develop indicators to assess progress towards the key outcomes for the Department. To be effective it is important any indicators have broad ownership within the organisation and credibility with stakeholders. This takes time to develop and is something on which we will work during 2002/03.

We also used our planning process to identify some of the big issues for the Government. One result of this work is our briefing for the incoming Minister, following the general election in July.

Managing priorities

We have continued to use our planning processes to review output demand and shift resources to meet changing needs. We have funded the production of additional outputs required by Ministers within baselines where possible. During 2001/02 the Department reprioritised resources to provide sponsorship of the Knowledge Wave conference and undertake additional work on economic transformation. Resources were also directed to support an increased workload and legal costs associated with managing the Maui Gas Contracts. The Treasury also contributed funding from within existing baselines to support the Crown's negotiations regarding Air New Zealand and Auckland rail.

Development work was also undertaken during the year looking at our long-term capital needs given our lease at No 1 The Terrace expires in 2005.



Mike James, Iain Rennie, Angela Hauk-Willis, Peter Bushnell, John Whitehead (rear)

During the year we improved our planning and financial governance through earlier identification of work priorities, improved budgeting and reporting and more active management of cross-Treasury projects. We anticipate using the outcome framework in our 2002/03 *Statement of Intent* to help set our priorities in future.

Measuring our achievements

We outlined our goals in the *Strategic Plan*, but the obvious question is “how well are we doing?”. We have to set some benchmarks to measure our current and future progress in terms of our vision and strategic goals. This is particularly important in the areas in which we are seeking to make change. The focus is on:

- maintaining and developing future capability
- the processes at which we must excel
- meeting customer needs, particularly output delivery for the Minister
- creating value in outcomes for our broader stakeholders.

During 2001/02 we have been piloting measures in the first two areas. We undertook a *Treasury Climate Survey* in November 2001, with over 90% of staff providing a response. The Survey was designed to get feedback on areas of importance in the *Strategic Plan* such as teamwork and innovation. We will be able to measure progress when we undertake a follow-up survey in 2002/03. In the interim, we have compared the results with a benchmark of over 4,600 people from knowledge-intensive organisations. This is to make sure we are measuring ourselves against similar organisations. The Survey results were also used to help identify our management priorities for 2002/03.

We undertook a climate survey in November 2001, with over 90% of staff providing a response.

The Treasury has a formal process for seeking feedback from the Minister on a quarterly basis. For all nine of our output classes the Minister of Finance has assessed us as having met and frequently exceeded his expectations. We also continually seek and take on board informal feedback from the Minister and other stakeholders. During

2002/03 we will be looking at collecting more systematic feedback on how we are meeting customer needs and creating value for our broader stakeholders.

Developing flexible organisational arrangements

The last year has been a time of significant organisational change.

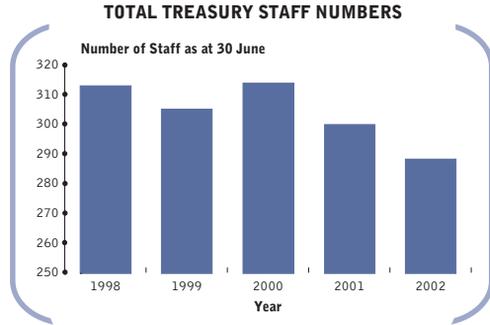
The last year has been a time of significant organisational change. In August/September 2001 we implemented a new Treasury structure and roles resulting from organisational reviews the previous year. These changes were designed to create a more flexible organisation and were supported by modest accommodation changes to an open plan work environment. The changes were aimed at clarifying roles and responsibilities, creating opportunities for career enhancement, improving interaction across and between branches and generally improving service delivery. Staff provided their support and maintained output delivery while these changes were being implemented.

Underpinning the new Treasury structure and roles are behavioural changes aimed at creating the organisation described in the *Strategic Plan*. To encourage these behavioural changes we developed a range of supporting material, including teamwork guidelines for all staff and guidance on the roles of senior staff.

A review of the Treasury's Flexible Working Arrangements policy was completed during the year. This policy is designed to enable our people to balance better their work and life, through flexible working arrangements, childcare and leave options. Our review found that the policy was working well.

Changing staff numbers

The number of staff employed in the Treasury at 30 June 2002 was 288, a reduction from 300 the previous year resulting largely from a number of vacancies across the organisation. In addition, the Treasury had six staff seconded to ministerial offices, government departments or other agencies, employed eight waged staff, had four staff seconded to international financial organisations, and 12 staff on leave without pay, including parental leave.

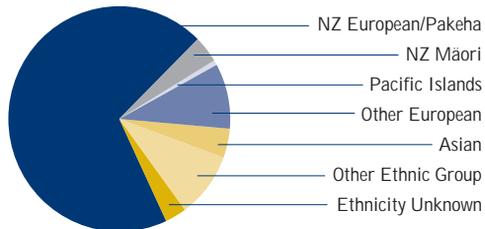


The Treasury had a staff turnover of 22% in 2001/02, a decrease from 27% last year. The average length of service for Treasury staff has increased from 5.2 years in 2000/01 to 5.9 years in 2001/02.

Improving Equal Employment Opportunities (EEO)

In June 2000, the Treasury set itself some indicative forecasts aimed at increasing the employment of people from the EEO target groups over the next five to 10 years. The aim is to increase the percentage of women and improve their distribution at more senior levels within the Treasury. The percentage of women in the Treasury has increased from 45.3% in 2000/01 to 52.4% this year.

We have identified the need to take a long-term approach to the recruitment of Māori and Pacific Island staff, given the small pool of Māori and Pacific Island post-graduates. For six years we have offered annual Treasury Māori



and Pacific Island Scholarships. In January, we awarded our Māori and Pacific Island Scholarships to three students. The students are attending Waikato, Auckland and Massey universities.

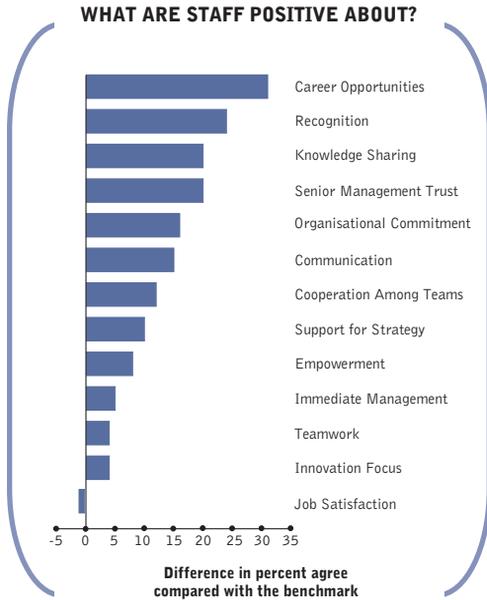
The Treasury's EEO Management Programme 1999-2004 has been updated during the year and objectives agreed for the year ahead. The Programme is designed to make the Treasury's culture more supportive to ensure all staff are valued for the contribution they make, and to encourage target group staff to join, remain and develop within the Treasury. One of the Treasury-wide EEO initiatives for the year was to enter the EEO Trust Work and Life Awards. The Awards are designed to promote organisations that demonstrate their commitment to helping their employees lead full lives in and out of their working hours. The Treasury was runner-up in the large organisation category and "impressed judges with the changes it had made to its organisational culture since 1997". A Disability Implementation Plan has also been developed and approved during the year.



The Prime Minister Rt Hon Helen Clark presenting an EEO Trust award to Dr Alan Bollard, Belinda Ryan and Karen Taylor (August 2002)

Understanding and motivating our people

Our success depends on maintaining and developing a talented workforce and making full use of their experience and expertise. In the *Treasury Climate Survey 2001*, we sought feedback from staff on some of the key variables that are important for achieving our strategic goals. We compared our results with those of other similar organisations and found that we measure up well in the areas of career opportunities, recognition and knowledge sharing. Some surveyed areas that we want to explore further (and look for ways to improve) are job satisfaction, innovation, teamwork and immediate management. While we are about the same as, or slightly above, the benchmark¹ in these areas, we want to be a top-performing organisation. The Survey was undertaken during a period of organisational change, which may have impacted on the results, particularly job satisfaction. As set out in our *Statement of Intent* we will be particularly focusing on teamwork and innovation for 2002/03.



Developing our people

Developing the Treasury as a learning organisation requires developing and making full use of the experience and expertise of our staff, and leveraging and learning from others. We have continued to commit significant time and resources to staff training and supporting their professional development. We spend 1.5% of our budget on training but this significantly understates our investment. It does not capture on-the-job training, which is highly valued by staff. Feedback from

1 Refer page 17 for benchmark details.

Treasury staff is that they are very positive in terms of career opportunities within the Treasury compared with their peers in other knowledge-intensive organisations.

Across the Treasury there is now a focus in staff development and performance assessment on eight critical competency areas relevant to the achievement of our business and strategic directions. These competencies include, for example, analysis skills, intellectual leadership and communications. For the 2001/02 performance year this new competency framework was introduced and included in all staff performance agreements.

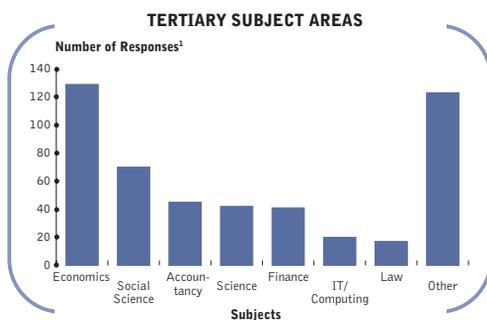
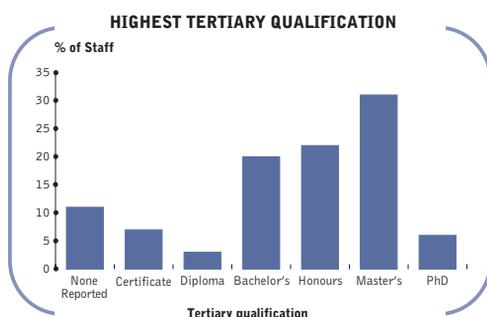
Building our intellectual leadership for practical application

To maintain and build our intellectual leadership we need talented and high-performing staff. Staff typically join the Treasury with high-level

tertiary qualifications and often develop these further while working for us.

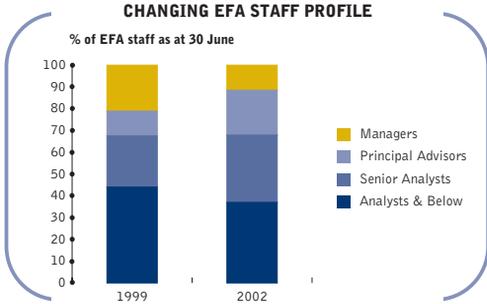
Within the Treasury we also have an increasingly diverse set of professional skills and experience available. This is crucial as we increase our focus on encouraging innovation. Innovation often occurs at the margin of disciplines; complex problems benefit from lateral thinking and diversity can enhance organisational responsiveness.

To build intellectual leadership we have focused on “lifting our horizon and freeing up space for a more strategic focus”. One of

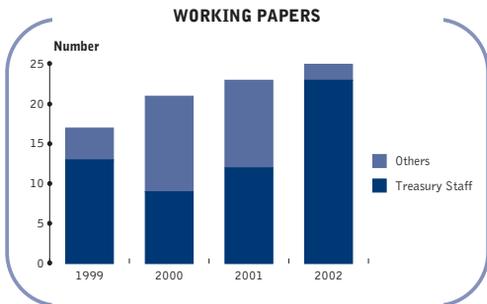


1 Some staff have multiple subject areas.

the strategies in the *Strategic Plan* was to recruit and develop analytical staff with the expertise and experience to provide intellectual leadership within the Treasury. As a result of implementing this strategy the profile for our economic and financial analyst (EFA) staff has shifted over the last three years. Reflecting this emphasis on recruiting and retaining experienced staff, the proportion of analysts in senior and principal advisor roles has risen.



We have also put more effort into identifying and resourcing development areas, typically work priorities agreed with the Minister. This work is often released as working papers to stimulate debate and share what we have learned. The number of working papers and proportion authored by Treasury staff have increased significantly in the last year.



During 2001/02 we formally launched an Academic Linkages

Programme to strengthen links between the Treasury and the academic community in New Zealand. Information on this Programme is available from our Internet site. Six students were selected as part of the Student Summer Internship Programme and worked on projects within the Treasury. There was an outstanding response to our Post-Graduate Scholarship programme with high-quality applications from all the universities. Five scholarships have been awarded to students from Victoria, Waikato, Canterbury and Auckland, and each student has been asked to conduct a Treasury seminar or presentation outlining their findings once they have completed their research.

Improving our knowledge management

Better management of our information, institutional knowledge and expertise is essential for producing high-quality work. This has been a key focus for 2001/02.

A major initiative was the Treasury-wide roll-out of a new electronic document management system (iManage) that enables consistent, cost-effective information capture, search and retrieval. This was completed on time and within budget. A complementary system was developed in-house and implemented to streamline the Treasury report creation, Official Information Act and ministerial processes. These systems only bring benefits if staff use them in their everyday work. Substantial training was provided on an individual and work group basis to encourage use of the systems. System changes were also made in response to staff feedback and refresher training provided.

The focus has also been on encouraging good knowledge management behaviour to support a learning organisation. Knowledge management is an integral part of the new performance competencies and managers have been encouraged to cover knowledge management behaviours explicitly in performance discussions with staff. Over the last 18 months we have had a formal Knowledge Management Programme, which has



Reviewing the expertise database - Annette Bridgman, Ngaire Pham and Brian Smith

focused on integrating good knowledge management practices into our everyday business through a series of Treasury-wide and branch initiatives. We consider it has provided a good “kick-start” for a long-term programme of behavioural change and we are working to maintain this momentum.

Finding good help

Searching for a Treasury expert on international tax issues and labour economics, or trying to find out who else plays squash at lunch times has become much easier with the expertise database, which was one of the tools developed in conjunction with the Treasury’s Knowledge Management Programme. The database enables anyone in the Treasury to run a keyword search and find staff with particular skills, experience or interests.

The key benefits are better use of our existing experience and expertise, and less reliance on personal knowledge of who knows what. This database helps to identify quickly who has experience or knowledge in a specific area, and this information can then be used to identify the best people to talk to about what’s happened in the past, or to provide quality assurance of advice, or even help put together the best teams on any particular project. The search parameters can also be tailored, so that the results will show “fishing policy” rather than “keen fisherman” !

Project leader Annette Bridgman says the expertise database highlights the aim of the Knowledge Management Programme, which is “to consciously improve how we capture, share and use our expertise to benefit our business” .

Following a review of information management and IT systems a decision was made to establish an integrated Knowledge Infrastructure Services Group, which came into effect from June 2002. The aim is to provide more integrated client services to support knowledge management within the Treasury.

Improving communications and stakeholder relationships

Stakeholders are the individuals, groups and organisations who have the potential to affect the Treasury’s achievement of its vision: to be a world-class Treasury working for higher living standards for New Zealanders. To develop high-quality advice for the Government,

it is important for us to make sure we are both listening and talking to a wide range of people. This is why communications and stakeholder relationships remain a high priority.

We have an ongoing focus on building the skills of our staff so that we can enhance relationships with our stakeholders and ensure two-way communication. As part of our internal planning we've identified our key relationships, and agreed some priorities across the Treasury.

We have continued a programme of targeted outreach with the Secretary to the Treasury, Deputy Secretary and other staff speaking to a variety of groups throughout the year. We have continued to develop relationships with important external audiences through our outreach programme. Through our Academic Linkages Programme we have invited leading academics to speak at our Treasury Guest Lecture Series on issues of broad policy relevance. Details of these programmes and our working papers are published on our Internet site. The speakers are invited to present an overview on a particular theme, drawing on their own research and teaching, and are encouraged to draw out implications for policy formation. The lectures are intended to be a source of intellectual stimulation, and to foster debate within the Treasury.

Looking ahead, we plan to measure our progress by surveying our stakeholders. This is so that we can gain a clearer understanding of how our stakeholders perceive our performance.

What can we learn from history?

Professor James Belich visited the Treasury in December 2001 and spoke as part of the Treasury Guest Lecture Series. His lecture explored the idea that New Zealand's economic growth has been highly influenced by our relations with the United Kingdom, and this has shaped the evolution of the New Zealand economy. Prof Belich dates New Zealand's economic slow-down from the time that Britain joined the European Economic Community and says this was a crucial turning point for our economy.

"Decolonisation, 1970s-1990s, brought economic diversification, greater independence in foreign policy and collective identity, and a great socio-demographic 'coming out' of difference. It also brought slow economic growth, insecurity, trauma and challenge – all the more because it remains partly unrecognised" (from *Paradise Reforged*, James Belich, Penguin 2001).

Supporting e-Government

The Treasury has continued to contribute to several e-Government projects. The Treasury provided resources to support improvements to a secure email service that enables organisations to transmit email and attachments securely between them. There are now 17 agencies of government using the service and a further five interested in joining. Building on this, we have led a project that will deliver a platform for authenticating public servants using inter-agency web-based applications. The Treasury has also been involved in the e-Procurement project that has been led by a Treasury staff member on secondment to the e-Government unit. The Treasury has also been involved as a departmental participant in this project.

Organisational responsibilities

The Treasury is led by Alan Bollard, the Secretary to the Treasury, and comprises five branches. Each branch has a specific focus, however there is a great deal of interaction across the Department.

As at 30 June 2002 we had the following number of staff in each of the branches, compared with the previous year. There may also have been a number of vacancies.

	2001	2002
Asset and Liability Management Branch	55	56
Budget and Macroeconomic Branch	49	44
Regulatory and Tax Policy Branch	56	56
Social Policy Branch	61	60
Corporate Branch*	78	71
Full-time Training	1	1
Total Treasury Staff	300	288

* Corporate Branch includes the Secretary to the Treasury's office.

Asset and Liability Management Branch

Mike James

The Asset and Liability Management Branch has both operational and policy advice functions. The Branch:

- manages the Crown's debt, overall cash flows and interest-bearing deposits through the New Zealand Debt Management Office (NZDMO)
- advises Treasury Ministers on managing the Crown balance sheet and public sector financial management systems and managing commercial, contractual and litigation risks on behalf of the Crown. The Branch also provides policy advice on managing and negotiating Treaty of Waitangi claims
- advises on the Crown's ownership interests and obligations in respect to SOEs, Crown companies, Air New Zealand and Crown financial institutions.

Budget and Macroeconomic Branch

Iain Rennie

The Branch has three broad lines of work that include:

- advising the Government on Budget strategy, design, process and management; preparing fiscal projections and the Crown financial statements; and reviewing departmental financial management systems to provide assurance that there is a reasonable system of internal control
- monitoring the economic situation, preparing macroeconomic forecasts and providing advice on macroeconomic policy
- advising on Crown accounting policies.

Regulatory and Tax Policy Branch

John Whitehead

The Regulatory and Tax Policy Branch advises Ministers on regulatory issues with important economic consequences. These include environmental policy, competition and trade policy as well as transport, local government, land use and natural resources.

The Branch also advises on the structure and operation of a range of government departments and entities in these areas.

Tax policy advice covers the level and mix of direct and indirect taxes, the taxation of international income and the taxation of particular types and sectors of business.

Social Policy Branch

Peter Bushnell

The Social Policy Branch advises Ministers on the purchase and regulation of social services and public goods, ranging from education and health services to labour market policies, social support services, housing and law enforcement. These are all areas involving a large share of government expenditure.

In addition to advice on spending proposals, the Branch reports on the budgets and financial performance of government agencies.

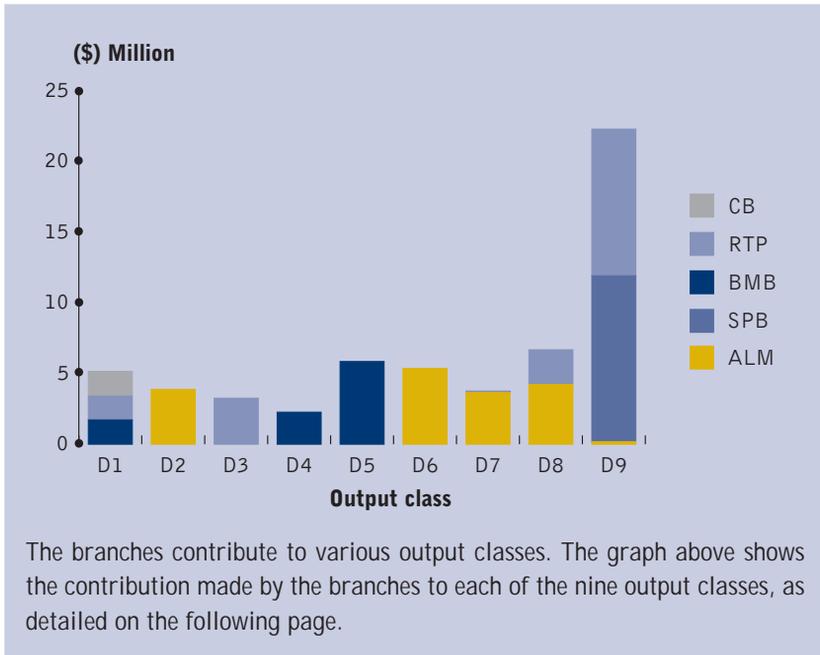
The Branch provides advice to give assurance to Finance Ministers about departmental proposals. It advises the Minister of Finance on policy developments in the area of social policy and often participates in interdepartmental working parties on reform proposals.

Corporate Branch

Angela Hauk-Willis

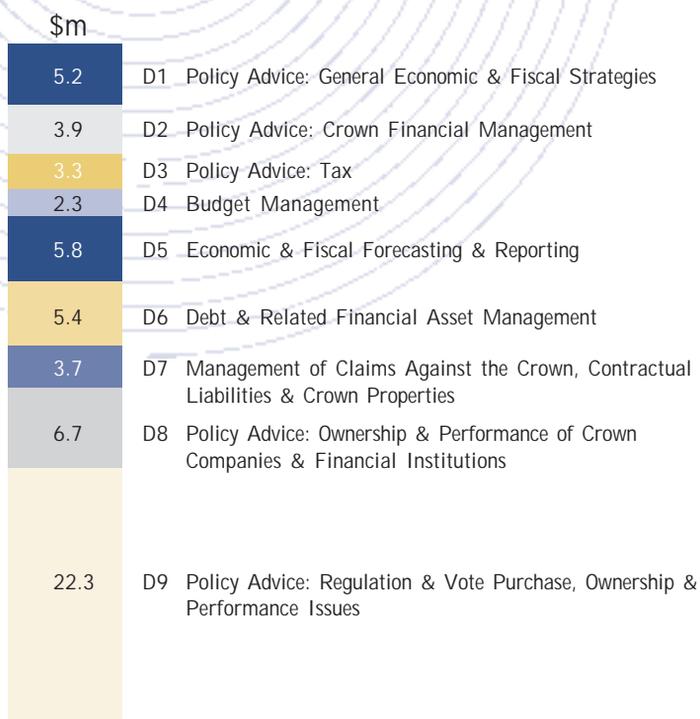
The Corporate Branch provides advice to the Chief Executive and senior managers on corporate strategy, policies and practices for the Treasury. The Branch also provides services and specialist advice in relation to finance and planning, human resources, risk management, communications, legal and knowledge management.

The branch is also home to the Policy Coordination and Development unit (PCD). PCD's role is to maintain an overview across Treasury policy development, keep abreast of emerging ideas and research and review and challenge existing Treasury thinking. PCD provides analysis and advice on medium-term strategy issues.



Vote Finance at a glance

Actual expenditure for 2001/02 by output class



(Figures are GST inclusive)

Output performance - Vote Finance

Statement of Objectives and Service Performance
section 35(3) Public Finance Act 1989

Output class D1

Policy Advice: General Economic and Fiscal Strategies

This class of outputs involves policy advice on the Government's broad economic strategy and macroeconomic policy settings, and their effect on the welfare of New Zealanders.

During the 2001/02 year, this will include advice on:

- the current and medium-term fiscal priorities to be considered when the Government prepares the *2002 Budget Policy Statement*, the *2002 Fiscal Strategy Report* and the *2002 Budget Speech*
- the macroeconomic outlook and implications for the 2002 Budget
- management of the implementation of the Government's review of the operation of monetary policy.

It includes analysis and advice on medium-term strategy issues, with the focus for 2001/02 on:

- New Zealand's macroeconomic volatility and how the New Zealand economy responds to fiscal and other shocks
- the overall prospects and performance of the economy, with a particular emphasis on sectoral transformation
- how regions adjust to shocks.

By providing advice on the development of sound fiscal and economic policies, these outputs contribute to various Government goals, in particular growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Prepared and published the:
 - *2002 Budget Policy Statement* that outlined the Government's goals, short-term and long-term fiscal policy objectives and 2002 Budget priorities
 - *2002 Fiscal Strategy Report*, which included advice on both short- and medium-term fiscal and budget policy issues
 - *Budget Speech*. This built on the Government's goals and fiscal policy objectives laid out in the *2002 Budget Policy Statement*.
- Planned, hosted and participated in the International Monetary Fund (IMF) and OECD missions to New Zealand.
- Completed a series of papers and commissioned a number of consultants' reports attempting to develop our understanding of the micro characteristics of the New Zealand economy and better identify the fundamental drivers of economic performance.
- Completed a series of seminars and workshops designed to disseminate the information gained from the research and stimulate debate on the issue throughout the Treasury.
- Contributed to the growth and innovation framework presented by the Prime Minister in February 2002.



Dr David Skilling and Geoff Simmons discuss firm growth

Understanding business

Economic growth is dependent on decisions by individuals, in New Zealand and overseas. While the Treasury provides advice to the Government on overall economic performance, to understand the factors impacting on growth it is important to understand the business sector and in particular its motivation and ability to grow its business. We already have significant contact with business, including for example our regular business talks, undertaken as part of our macro-forecasting work. This provides an overview of issues but we are looking to enhance our knowledge of what's critical to business growth.

During 2002 Infometrics undertook a survey tracking a small group of successful manufacturing export companies. The survey was undertaken on behalf of the Ministry of Economic Development, the Treasury and Trade New Zealand, and was the sixth in a series. The firms participate on the basis the information is confidential to those involved in the study. An important focus of the 2002 study was to probe the questions of firm growth and what bearing scale, location and ownership may have on it.

To gain a first-hand understanding of the issues affecting this group of firms, Geoff Simmons joined Andrew Gawith from Infometrics when they interviewed these firms. Geoff says, "It was good to get out of the office and talk to firms about the day-to-day issues they deal with. The experience gave me a much better understanding of the challenges companies face when exporting. While it is tough to reach customers from a small and remote economy, New Zealand firms carve out some remarkable niches in a huge variety of industries." Geoff says, "You can learn a lot from desk research but some businesses deal very creatively with the detailed issues that they face. General theories and looking at numbers simply can't cover that."

Service performance*

Performance Dimensions	Achieved?
Quality <ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested to indicate his level of satisfaction with the overall quality of outputs. Fiscal publications under this output class will meet the requirements of the Fiscal Responsibility Act 1994. 	<p>Met and frequently exceeded expectations</p> <p>✓</p>
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.	<p>✓</p>
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.	<p>✓</p>

Cost

2001/02 Actual (\$000)	5,190
Supp. Est. - Voted (\$000)	5,362
Main Est. (\$000)	4,205
2000/01 Actual (\$000)	3,619

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1,157,000 in the Supplementary Estimates owing to increased demand for economic growth outputs. The Treasury also made a contribution to the sponsorship of the Knowledge Wave Conference which was not included in Main Estimates budgets. These factors, particularly the increased demand for economic growth outputs, contributed to the increase in output expenditure relative to 2000/01.

Actual 2001/02 output class expenditure was \$172,000 or 3% under Supplementary Estimates budgets.

* General service performance objectives are detailed on pages 66 to 68.

Output class D2

Policy Advice: Crown Financial Management

This output class involves policy advice on financial and performance management systems in use across the Crown. It includes development of financial policy that takes into account the Crown's overall pattern of expenditure, revenue, assets, liabilities and risks, in order to minimise the economic costs through time arising from financing a given profile of government expenditure. It also covers the development and design of specific public sector management regimes applicable to departments, Crown entities and Crown companies.

Specific activities in 2001/02 include advice on:

- Crown balance sheet and risk management policy, and the way in which the financial assets, liabilities and risks of the Crown can efficiently and effectively be managed when considered together as an integrated set of exposures
- the governance, incentives, operating framework and reporting systems for departments and Crown entities to ensure effective performance and accountability relationships between entities and their stakeholders.

By providing policy advice on achieving value for money in public expenditure through efficient and effective public sector management and financial policy, these outputs contribute to various Government goals, in particular: growing an inclusive, innovative economy for the benefit of all; and restoring trust in government and providing strong social services.

Significant work completed during the year

- Contributed to the November 2001 report to Ministers on the *Review of the Centre*, looking at how the core of the State sector could be strengthened. The Treasury contributed to the response to the report, developing advice on changes to the accountability system, Vote structures, Crown entity governance and investigating State sector innovation.
- Led, with other central agencies, the introduction of *Statements of Intent* and new planning expectations to 15 departments as part of Budget 2002. Ministers agreed to a staged roll-out of *Statements of Intent* following a Treasury/SSC evaluation of the 2000/01 pilot introducing *Statements of Intent* to five departments.

- Promoted, with other central agencies, outcome-based management systems in eight agencies through the “Pathfinder” project, providing practical management tools and experience which government departments and agencies can use to become results-focused organisations, directly complementing the introduction of *Statements of Intent*.
- Introduced further steps to improve incentives for good financial management by departments, including further pilots for multi-year appropriations, cash management incentives through a differential capital charge scheme and an overdraft facility for the Audit Office to meet seasonal needs.
- Established and significantly advanced a work programme on balance sheet and risk management objectives and policy, including publication of the Treasury working paper *Does Crown Financial Portfolio Composition Matter?*



Evaluating *Statement of Intent* lessons - Mary Slater, Sonia Wansbrough, Tim Stevenson (Te Puni Kokiri) and Ann Neale (SSC)

Working together

Improving the performance of government departments is the goal of a new outcome-based approach to planning, management and reporting. One visible aspect of the change is that departments will have to produce a *Statement of Intent*, instead of a *Departmental Forecast Report*. Fifteen government departments produced *Statements of Intent* for 2002/03 and all departments will be required to produce them for 2003/04.

Sonia Wansbrough and Mary Slater have worked with their colleagues within the Treasury and from the SSC, DPMC and TPK evaluating recent experience with this new approach. Their focus has been on developing better guidance material for the coming year to support improved departmental planning and reporting. The four central agencies released *Managing for Outcomes Guidance for Departments* in August 2002.

The Ministry of Research, Science and Technology's General Manager Iain Colligan says that he has appreciated the improved guidance material, and values the support being provided by the central agencies. "It is pleasing to see that they have taken into account the many issues raised by departments," he says.

Service performance*

Performance Dimensions	Achieved?
Quality All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs.	Met and frequently exceeded expectations
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.	✓

Cost

2001/02 Actual (\$000)	3,885
Supp. Est. - Voted (\$000)	4,065
Main Est. (\$000)	3,778
2000/01 Actual (\$000)	3,666

(Figures are GST inclusive)

The appropriation for this output class was increased by \$287,000 in the Supplementary Estimates due to increased demand for outputs investigating alternative approaches to departmental insurance.

Output class expenditure was \$180,000 or 4% under Supplementary Estimates.

* General service performance objectives are detailed on pages 66 to 68.

Output class D3

Policy Advice: Tax

This class of outputs involves the provision of advice on tax policy.

The Treasury, jointly with the Policy Advice Division of Inland Revenue, will provide advice on:

- assisting Tax Review 2001
- the Government's response to Tax Review 2001
- tax strategy (overall objectives of the tax system, including choice of tax bases and the mix of taxation)
- international taxation (including taxation agreements with other countries; tax on New Zealanders' foreign-source income and the taxation of income earned by New Zealanders overseas)
- personal taxation (that is, direct taxes imposed on individuals)
- indirect taxes (including GST and taxes on specific goods and services, like excises)
- corporate taxation (that is, direct taxes imposed on companies, trusts and other forms of legal entity; and taxes imposed on individuals through such business organisations)
- tax systems and compliance (including withholding taxes, tax penalties, taxation administration rules, taxpayer rights and obligations and taxpayer compliance costs).

The Government purchases tax policy advice from both the Treasury and Inland Revenue to ensure that its tax policies are based on all relevant economic, legal and administrative factors.

The Treasury will also provide advice, in cooperation with the collection agencies, on excises that are not collected by Inland Revenue.

In respect of Votes Revenue and Customs, the Treasury will provide:

- advice on the outputs sought by the Government. This includes advice on cost, quality, quantity and choice of supplier. It also includes monitoring of payments for outputs produced against appropriations and advice on the non-departmental revenue and expenditure administered by departments
- advice on the financial performance of departments
- advice on increasing the capability of departments.

By providing policy advice on achieving the Government’s fiscal objectives, and by raising the required revenue in ways that best contribute to overall policy goals, these outputs contribute to the Government’s goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Provided analytical advice and project management services to the Tax Review Team. Following the report of the Tax Review, the Treasury also provided advice to the Minister of Finance on responding to the recommendations of the Review Team. In particular, further analysis was undertaken relating to the international tax recommendations of the Tax Review.
- A review on the taxation of charities was undertaken in which the Treasury analysed and reported submissions on the discussion document. A sector-based working party was established to report back to the Minister. As a result amendments to the charitable purposes definition and donations rebate were introduced into Parliament.
- A discussion document on the taxation of Māori authorities was developed, and released by the Government. Following consultation, final policy decisions were taken, and legislation introduced to modernise the taxation treatment of Māori authorities.
- The exposure draft of Parts C, D and E of the Rewrite of the Income Tax Act was released.
- Released the “Mass Marketed Tax Schemes” issues paper.
- A joint Australia/New Zealand issues paper on trans-Tasman triangular taxation has been released by both Governments, and consultation is now taking place.
- Provided advice and jointly reported (with Inland Revenue) on a number of GST issues including financial services, imported services, coastal shipping and tax-free shopping.
- Provided advice on taxation of gaming.
- Advice was provided on key issues and trade-offs affecting taxation of savings, including analysis of potential changes to Specified Superannuation Contribution Withholding Tax (SSCWT) and the role of employers in promoting private savings.

- Developed policy proposals for the discussion document on compliance and penalties review.
- Contributed to work on Inland Revenue's strategic plan development, *Statement of Intent*, e-enablement strategy and budget process.



Discussing tax issues - Murray Shadbolt, Felicity Barker, Vicky Robertson, Vito Schultz and John Creedy

Taxing issues

Normally Felicity Barker spends her time thinking about international tax policy issues as they relate to New Zealanders. But earlier this year she was at Duke University in North Carolina pondering some of the tax issues that arise in developing and transitional economies, and comparing the tax systems of other countries with our own. The course at Duke focused on tax analysis and revenue forecasting, and Felicity found it interesting to talk to the other delegates about their tax systems and get a perspective on New Zealand's place in the world.

Felicity says, "It was good to get a sense of the issues faced by other governments in places like Russia, the Middle East and Africa. How do you gather tax in economies that rely on bartering? If someone grows rice, and swaps it for a cow, there are no records and it's difficult to collect tax. But to understand these issues you need to understand their different societies and political systems. You can't just judge other economies based on what you do at home."

Felicity's study at Duke University was funded through an internal scholarship fund which is aimed at encouraging academic study relevant to the Treasury's work. She says that learning more about international systems and exchanging ideas about best practice were valuable as they have also helped her to evaluate better the quality of Treasury advice.

Service performance*

Performance Dimensions	Achieved?
<p>Quality</p> <ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. Outputs produced under this output class are to be undertaken in conjunction with Inland Revenue and other relevant collection agencies where reports are produced on revenue policy issues. 	<p>Met and frequently exceeded expectations</p> <p>✓</p>
<p>Quantity</p> <p>The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.</p>	<p>✓</p>
<p>Timeliness</p> <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.</p>	<p>✓</p>

Cost

2001/02 Actual (\$000)	3,263
Supp. Est. - Voted (\$000)	3,387
Main Est. (\$000)	3,502
2000/01 Actual (\$000)	4,042

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$115,000 in the Supplementary Estimates owing to fewer internal resources being required to support the Tax Review than originally anticipated.

The size of this output class has decreased compared with 2000/01 owing to the completion of the Tax Review during 2001/02.

Output class expenditure was \$124,000 or 4% under Supplementary Estimates.

* General service performance objectives are detailed on pages 66 to 68.

Output class D4

Budget Management

This class of outputs covers the development of the 2002 Budget strategy, and the operational activities of the 2002 Budget process. For the 2001/02 year, this will include design and management of:

- the 2002 Budget baseline round
- the 2002 Budget Initiatives process
- the 2001/02 Supplementary Estimates and associated Appropriation Bill process
- the 2002/03 Main Estimates and associated Appropriation Bill process.

Also included in this class is the production of the *Main Estimates of Appropriation* and *Supplementary Estimates of Appropriation* documents and related material.

By providing advice on the development of sound economic and fiscal policy in line with Government goals, and measuring progress towards those goals, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Provided advice on the design of the Budget process, including providing a framework for the Government's fiscal decision making.
- Developed the 2002 Budget Strategy, including management of the value for money review.
- Managed the:
 - October and February Baseline Updates
 - 2002 Budget Initiatives process, including support for the Budget bilateral discussions.
- Produced and published the *2001/02 Supplementary Estimates of Appropriation* and *2002/03 Main Estimates of Appropriation*, incorporating completion of baseline management and Budget initiative processes.

Maintaining high standards

Treasury staff member Steve Leith has been named as the Central Region Young Chartered Accountant of the Year for 2002. The Chartered Accountants of the Year Awards recognise the achievements of New Zealand's top professional accountants.



Steve is a Principal Advisor in the Treasury's Budget and Macroeconomic Branch. He says "It's very rewarding to be involved with many of the pioneering accounting issues facing the Government and the public sector in general. I particularly enjoy helping maintain the Government's position as a world leader in transparent fiscal forecasting and reporting."

Steve will represent the Central Region at the National Final, held in October 2002.

Service performance*

Performance Dimensions	Achieved?
Quality <ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. Outputs produced under this output class: <ul style="list-style-type: none"> will meet the agreed standard for publication of parliamentary papers will be prepared within the Budget timetable set by the Government and the statutory time limits of the Public Finance Act 1989. 	Met and frequently exceeded expectations ✓ ✓
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.	✓

Cost

2001/02 Actual (\$000)	2,273
Supp. Est. - Voted (\$000)	2,293
Main Est. (\$000)	2,136
2000/01 Actual (\$000)	2,015

(Figures are GST inclusive)

The appropriation for this output class was increased by \$157,000 in the Supplementary Estimates owing to increased demand for Budget strategy advice and ministerial secondment costs being directly allocated to this output class. These factors also contributed to the increases relative to 2000/01.

Output class expenditure was \$20,000 or 1% under Supplementary Estimates.

* General service performance objectives are detailed on pages 66 to 68.

Output class D5

Economic and Fiscal Forecasting and Reporting

This class of outputs involves the preparation of macroeconomic and fiscal forecasts, and the monitoring of economic and fiscal conditions. Updated forecasts will be published in the *December 2001 Economic and Fiscal Update* and the *2002 Budget Economic and Fiscal Update*. Reporting outputs include reports on major economic data releases and the preparation of the annual and monthly financial statements of the Crown.

The output class includes advice on the application and development of generally accepted accounting practice (GAAP) as it applies to the Crown. It also includes assessments of the adequacy of departmental management controls to detect or prevent errors in the financial information submitted to the Treasury.

By providing advice on managing the risk in the Crown's balance sheet, and the efficient funding of the Crown's activities, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Prepared and published the:
 - annual financial statements for the year ended 30 June 2001 and monthly financial statements for the Crown
 - *December 2001 Economic and Fiscal Update*
 - *2002 Budget Economic and Fiscal Update*
 - *2002 Pre-Election Economic and Fiscal Update*
- Implemented full line by line consolidation for the *2002 Budget Economic and Fiscal Update*.
- Reported and advised on the implications for New Zealand of developments in the international economy, including assessing the economic and financial impacts of events in the United States.
- Reported and advised on developments in the domestic economy and the implications for the macroeconomic forecasts through commentary on key statistical releases and providing monthly summaries of key economic indicators.

- Completed substantial redevelopment of the New Zealand Treasury Model (a macroeconomic model of the New Zealand economy) and began publication via the Treasury working paper series.
- Completed the implementation of a new tool for assessing the departmental management controls.
- Provided guidance on accounting developments, in particular the valuation of specialised assets, reporting of financial instruments and accounting for private and public sector partnerships.



Simon Hay, Mark Blackmore and Nathan McLellan

Responding to external change

“At first I just couldn’t believe it. I didn’t even think of work.” Macro-forecasting Team Manager Mark Blackmore describes his initial reaction to hearing the news of the tragic events of September 11.

However, as manager of the Treasury Macro-forecasting team, which monitors economic developments here and overseas and prepares the economic forecasts that underpin the Government’s Budget projections, he was one of a group of advisors who spent the morning of September 12 trying to analyse what the tragic events meant for financial markets and the New Zealand economy.

“Our first job was to confirm for the Minister of Finance that the financial markets were still able to operate, and that the New Zealand banking system was still working smoothly.” The group also had to consider what economic impacts the tragedy may have and develop some preliminary views on what it meant for the New Zealand economy - growth, the New Zealand dollar and interest rates, demand for New Zealand goods and tourist numbers.

“We considered events like the Gulf War, which resulted in dramatic rises in oil prices, but there was a great deal of uncertainty around the possible effects of events in New York and Washington. Nevertheless, we had the report over to the Minister by midday.”

The considerable uncertainty and pessimism that followed September 11 were reflected in quite weak economic forecasts published in December. Since then the Macro-forecasting team has revised its analysis. Mark says, “We revised our Budget and pre-election forecasts as the impact on the New Zealand economy was not as large as initially anticipated. However, we’re still seeing the effects in areas like international tourism.”

Service performance*

Performance Dimensions	Achieved?
Quality	
<ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. Forecasting publications produced under this output class will meet the requirements of the Fiscal Responsibility Act 1994. The Crown financial statements will conform to GAAP and fairly reflect the operations and financial position of the Crown. The daily Contoller function to monitor accurately the year-to-date disbursements compared to the supply made available by Parliament, and a Contoller statement to be prepared for the Contoller and Auditor-General’s signature authorising the release of public money. Delegations for the management of foreign exchange risks, Crown bank accounts and trust money will be managed to ensure that the conditions of the delegations are not breached and that they permit financial activity to be authorised at an appropriate level. Management statements required under section 29 of the Public Finance Act 1989 will be signed within the time limits set out in that Act and will be supported by analysis and reviews of departmental financial management. 	<p>Met and frequently exceeded expectations</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>

* General service performance objectives are detailed on pages 66 to 68.

Quantity		
The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.		✓
Timeliness		
All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.		✓
Cost		
2001/02 Actual (\$000)	5,857	
Supp. Est. - Voted (\$000)	5,950	
Main Est. (\$000)	6,833	
2000/01 Actual (\$000)	6,274	

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$883,000 in the Supplementary Estimates owing to lower than anticipated costs for projects such as the full consolidation and macro-forecasting monitoring projects, together with lower than anticipated personnel costs.

Output class expenditure was \$93,000 or 2% under Supplementary Estimates.

Output class D6

Debt and Related Financial Asset Management

This class of outputs concerns the operational management of the Crown's debt portfolio and the associated financial investments. These financial investments are in foreign currencies, which are held as hedges against long-dated foreign-currency debt that cannot be bought back from investors.

All expenses for this output class are incurred under section 61 of the Public Finance Act 1989. The specific activities include:

- developing and maintaining a portfolio framework that promotes the Crown's debt management policies. The framework encompasses a portfolio structure and management practices that enable an appropriate trade-off to be made between risk and cost of debt

- developing and implementing strategies to efficiently manage the domestic debt portfolio. This includes issuing domestic government debt, cash management for government departments, and intermediating the debt of Crown entities. Revisions to fiscal forecasts may lead to changes to the bond programme during the year
- developing and implementing strategies to efficiently manage the foreign-currency portfolio. This includes maintaining a diversified funding base and funding the Reserve Bank's foreign-currency reserves, maintaining hedges of long-dated foreign-currency debt that cannot be bought back from investors, and seeking to add value to the Crown in undertaking these activities while conforming to a risk-averse management framework.

Gross foreign-currency debt is expected to be in the range of \$6.5 billion to \$7.0 billion, whilst net foreign-currency debt is expected to be nil.

By providing advice on sound fiscal management in keeping with the Fiscal Responsibility Act 1994, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Undertook the following domestic borrowing activities:
 - Issued \$3,750 million of domestic Government bonds to meet the Government's funding requirement.
 - Completed \$500 million of New Zealand dollar interest-rate swaps.
- Borrowed \$788 million in foreign currency to refinance maturing loans, which fund the Reserve Bank's foreign-exchange reserves.
- Restructured foreign-currency liabilities to provide the Reserve Bank of New Zealand with its desired funding composition.
- Provided advice on a variety of capital markets issues (including funding structures and foreign-currency transactions) for several government departments and Crown entities.
- Filed:
 - the New Zealand annual securities report with the Japanese Ministry of Finance

- the annual update of Form 18-K (“Prospectus”) with the Securities and Exchange Commission in Washington.
- Implemented stress testing of the NZDMO’s foreign-currency portfolio to quantify interest rate risk in extreme market conditions.
- Coordinated an OECD survey of sovereign debt managers on investor relations, and presented the results of this survey to the OECD Working Group meeting in Paris.
- Prepared a case study on public debt management in New Zealand for inclusion in a forthcoming publication by the IMF and World Bank on sound practices in debt management.
- Extended straight-through processing to domestic transactions (including swaps and loans) to increase efficiency further and reduce operational risk associated with settlements’ processing.

Setting a world-class example

Since it was established in 1988, the NZDMO has been recognised as a world leader in public debt management. This status was confirmed earlier this year when the IMF and the World Bank asked the NZDMO to contribute a case study to their publication containing examples of countries that have developed strong systems of public debt management.

The case studies provide an overview of existing practices and frameworks among “best practice” countries and provide a context for understanding divergences or convergences in practices between countries. Insights drawn from the case studies will be useful both for countries at the early stages in developing their debt management capacity and for those, like New Zealand, that already have strong systems of debt management in place.

The NZDMO’s case study outlines the evolution of public debt management in New Zealand, the portfolio and risk management framework in which the NZDMO operates, and the development of the domestic market for Government securities.

Service performance*

Performance Dimensions	Achieved?
<p>Quality</p> <ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. The Secretary to the Treasury will monitor the operation of the NZDMO with the assistance of an Advisory Board. Performance in settlements, debt issuance, portfolio management and project management will be reported regularly to the Secretary to the Treasury and the Advisory Board, and to the Minister in the context of quarterly and year-end reviews. Operating performance will conform to international best practice. Policies regarding instruments and currencies for transactions, limits and credit exposures, as agreed with the Minister, will be adhered to. Established internal control standards for transactions will be met. Transparent and predictable issuance of domestic debt will be undertaken. 	<p>Met and frequently exceeded expectations</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>
<p>Quantity</p> <p>The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.</p>	<p>✓</p>
<p>Timeliness</p> <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.</p>	<p>✓</p>

Cost

2001/02 Actual (\$000)	5,365
Supp. Est. - Voted (\$000)	5,666
Main Est. (\$000)	5,915
2000/01 Actual (\$000)	5,651

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$249,000 in the Supplementary Estimates owing to a change in the allocation basis of corporate overhead costs to the NZDMO and input costs being less than forecast.

Output class expenditure was \$301,000 or 5% under Supplementary Estimates owing to staff vacancies and overseas travel being cancelled or deferred following the USA terrorist attacks.

* General service performance objectives are detailed on pages 66 to 68.

Output class D7

Management of Claims Against the Crown, Contractual Liabilities and Crown Properties

This output class involves managing a range of commercial, contractual, or Treaty of Waitangi-related claims against the Crown. Specific outputs within this class include:

- management of commercial and contractual risks associated with the 1973 Maui Gas Contract, including the operation of the gas notification system with downstream gas users
- management of contractual and commercial issues arising from completed asset sales and wind-up of the Crown's previous ownership interests in SOEs, Crown companies and other entities
- advice on the Crown's obligations under the Crown Forest Assets Act 1989
- advice on the management of historical claims under the Treaty of Waitangi and assistance with the Crown's negotiation of specific settlements
- provision of legal title to land sold to SOEs and other Crown companies as a part of their sale and purchase agreements with the Crown
- management of former Ministry of Foreign Affairs and Trade overseas properties that have been transferred to the Crown
- management and 12-month review of the export credit guarantee policy.

Specific outputs in this class often depend on the actions of third parties. New work in 2001/02 relates to managing the implementation of the export credit guarantee policy.

By providing advice on minimising the Crown's commercial risks, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Managed the Crown's day-to-day gas operations and contractual issues under the Maui Gas Contracts including managing the Crown's role in the redetermination of the Maui gas field.

- Managed the operations of the Export Credit Office including:
 - an extensive marketing campaign including over 50 briefings for exporters and industry
 - responding to ongoing enquiries from exporters and financiers
 - a review of the Office's operations after 12 months' experience.
- Continued the programme of identifying and transferring legal land title to various SOEs and other companies.
- Assisted in the management and completion of the Alexandra flood protection process and settlement of claims.
- Settled two long-standing litigation claims against the Crown.
- Provided advice on:
 - various Treaty negotiations as well as Māori Reserved Lands settlements
 - Government responses and management of issues associated with the withdrawal of aviation industry insurance.

A risky business

Dealing with the risks and commercial disputes that arise in the context of a \$300 million per annum business is all in a day's work for the Treasury's Commercial Investments team.

For David Scobie and his colleagues, this has meant familiarising themselves with the mechanics of managing the offtake from a large-scale gas field. David's team is responsible for looking after the Crown's interests and obligations relating to Maui Gas.

David says that his work is slightly unusual for the Treasury, as it directly involves the Crown as a commercial entity. "We have to assess the strategic and legal risks for the Crown. Occasionally this can mean winding up in Court - though this is not advice we relish giving to the Minister!"

Maui is 87.5% owned by Shell Group and 12.5% by Todd Petroleum. Under an agreement signed in 1973, the joint venture sells gas to the Crown, which then sells it to Natural Gas Corporation, Contact Energy and Methanex.

Service performance*

Performance Dimensions	Achieved?								
<p>Quality</p> <ul style="list-style-type: none"> All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. Outputs produced under this output class will: <ul style="list-style-type: none"> explore all opportunities to reach a satisfactory settlement of liabilities within parameters set by Ministers ✓ meet the Treasury's policies and procedures for the employment of advisors and consultants. ✓ The Minister will expect the Secretary to the Treasury to monitor the operation of the Export Credit Office with the assistance of a Technical Advisory Committee. ✓ It is expected that Export Credit Office performance will conform to international best practices for the provision of export credit insurance. na¹ 									
<p>Quantity</p> <p>The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.</p>	✓								
<p>Timeliness</p> <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.</p>	✓								
<p>Cost</p> <table border="1"> <tbody> <tr> <td>2001/02 Actual (\$000)</td> <td>3,749</td> </tr> <tr> <td>Supp. Est. - Voted (\$000)</td> <td>4,167</td> </tr> <tr> <td>Main Est. (\$000)</td> <td>3,803</td> </tr> <tr> <td>2000/01 Actual (\$000)</td> <td>3,203</td> </tr> </tbody> </table>	2001/02 Actual (\$000)	3,749	Supp. Est. - Voted (\$000)	4,167	Main Est. (\$000)	3,803	2000/01 Actual (\$000)	3,203	
2001/02 Actual (\$000)	3,749								
Supp. Est. - Voted (\$000)	4,167								
Main Est. (\$000)	3,803								
2000/01 Actual (\$000)	3,203								

(Figures are GST inclusive)

The appropriation for this output class was increased by \$364,000 in the Supplementary Estimates owing to increased demand for Export Credit Guarantees and management of the Crown's interests in the Maui Gas Contract outputs. Increased demand for these outputs also contributed to the increase relative to 2000/01.

Output class expenditure was \$418,000 or 10% under Supplementary Estimates owing mainly to the cost of Export Credit Guarantees being less than forecast.

¹ The Export Credit Office had no guarantee exposure during 2001/02.

* General service performance objectives are detailed on pages 66 to 68.

Output class D8

Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions

This output class involves the provision of policy advice on the Crown's financial position and the ownership interest in Crown companies (including SOEs) and Crown financial institutions.

It involves advice on the Crown's ownership interests and guarantee and indemnity obligations in relation to the Government Superannuation Fund (GSF), the National Provident Fund (NPF), the Public Trust Office (PTO) and the Earthquake Commission (EQC). Also involved is advice on implementing and subsequent monitoring of a pre-funding scheme for New Zealand Superannuation.

The outputs in this class include:

- advice to the Minister of Finance as shareholder in SOEs, CRIs and other Crown companies, on issues impacting on the Crown's ownership strategies, business plans and statements of corporate intent, capital structure, dividends, diversification and expansion proposals, and divestments
- advice on significant company restructurings, and on establishing commercially related activities in an appropriate institutional form and on Crown negotiations in relation to changes in asset structure and form
- advice on the Crown's ownership interests in the GSF, NPF, PTO and EQC, especially in relation to Crown financing, financial performance, management of risk (as owner or guarantor), and unfunded Crown liabilities
- advice on implementation and monitoring of a pre-funding scheme for New Zealand Superannuation.

From March 2001, new work commenced on advising and supporting the Crown's negotiations regarding the Auckland rail lease and associated infrastructure assets. New work in this output class in 2001/02 will focus on the implementation and monitoring of a pre-funding scheme for New Zealand Superannuation.

By providing advice on managing the Crown's commercial interests, and reducing risk in the Crown balance sheet, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Provided advice to Ministers on options for purchasing the Auckland rail corridor, including development of a negotiating brief. Conducted negotiations with Tranz Rail and Auckland local authorities. Work included: establishing a confidentiality agreement with Tranz Rail; establishing a Memorandum of Understanding with Auckland local authorities; and advice to Ministers on negotiating strategy and the accounting implications of the Auckland rail deal.
- Supported the passage of New Zealand Superannuation Bill, provided advice on implementation issues relating to the New Zealand Superannuation Fund and managed the public information campaign on the Act.



Reviewing SOE policy issues - Jean-Pierre Andre and Brian McCulloch

- Provided advice or reported on:
 - Air New Zealand
 - Television New Zealand's structural options and the legislative process associated with the Television New Zealand Bill

- Housing New Zealand Corporation's dividend policy, capital structure, debt policy and joint venture proposals
- SOE policy issues including capital structure, expansion and acquisition proposals
- business plans, statements of corporate intent and ownership issues
- EQC and GSF asset portfolio diversification.

Service performance*

Performance Dimensions	Achieved?
<p>Quality</p> <ul style="list-style-type: none"> • All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs. • Outputs produced under this output class will be undertaken in conjunction with CCMAU where reports are prepared on the financial performance of SOEs, CRIs and other Crown companies. 	<p>Met and frequently exceeded expectations</p> <p>✓</p>
<p>Quantity</p> <p>The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.</p>	<p>✓</p>
<p>Timeliness</p> <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.</p>	<p>✓</p>

Cost

2001/02 Actual (\$000)	6,687
Supp. Est. - Voted (\$000)	7,551
Main Est. (\$000)	3,933
2000/01 Actual (\$000)	3,572

(Figures are GST inclusive)

The appropriation for this output class was increased by \$3,618,000 in the Supplementary Estimates for the New Zealand Superannuation Fund public information campaign, and supporting the Crown's negotiations regarding the purchase of the Auckland rail lease and infrastructure assets.

Output class expenditure was \$864,000 or 11% under Supplementary Estimates owing to progress in some outputs being less than forecasted.

* General service performance objectives are detailed on pages 66 to 68.

Output class D9

Policy Advice: Regulation and Vote Purchase, Ownership and Performance Issues

This class of outputs involves advice on actions to achieve the Government's goals and assessments of the financial performance of departments and Crown entities. The outputs include:

- advice on the interventions and outcomes relating to departmental Votes and Crown entities. This includes advice, from an economic and fiscal perspective, on opportunities for the Government to achieve better value for money in public sector services. Areas of particular focus are:
 - health strategy and value-for-money delivery of health services
 - the performance of the education sector. In 2001/02 this will include providing advice on the Government's response to the Tertiary Education Advisory Commission's reports, the development of a strategic plan for early childhood education, and options for improving educational achievement in the schools sector
 - the effects of Government social and housing assistance policies; the operation of the labour market, including ACC; and advice on reducing inequalities in health, education, employment and housing outcomes experienced by New Zealanders
 - justice sector policy, including how best to achieve justice outcomes, purchase of outputs and building capability for Police, Courts and Corrections
 - modernising the legal and regulatory framework of the economy to enhance competition, investor protection and external economic relations and improve local government. In 2001/02 this will include providing policy and implementation advice as the range of industry development programmes is expanded, and working towards evaluation of the suite of industry development programmes
 - New Zealand's external strategy including trade, defence and security issues. This will include a focus on value-for-money of defence capital expenditure
 - environmental and conservation issues. In 2001/02 this will include a focus on providing policy and implementation advice to enable New Zealand to ratify the Kyoto Protocol on Climate Change and

the Government to respond to the Royal Commission on Genetic Modification

- advice on the outputs sought by the Government. This includes advice on cost, quality, quantity and choice of supplier. It also includes monitoring of payments for outputs against appropriations and advice on the non-departmental revenue and expenditure administered by departments and Crown entities
- advice on the financial performance of departments and Crown entities
- advice on increasing the capability of departments and Crown entities.

The Government seeks to improve the social and economic wellbeing of New Zealand by, in particular:

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

This output class contributes to these goals by providing policy advice on achieving value for money through effective and efficient government expenditure and regulation.

Significant work completed during the year

- Together with other departments, provided advice to Ministers on how policy priorities could be advanced from within the resources available in the 2002 Budget, where appropriate by improving the value for money of existing expenditure, particularly for Vote Health, Vote Education, Vote Work and Income and the Justice sector Votes.
- Advised on the formulation and management of the Health three-year funding package announced in December 2001, and the four-year capital package announced in Budget 2002. Both packages required an analysis of relative priorities for new operating and capital investments, as well as an assessment of value-for-money opportunities within the Vote.
- Advised on the reform of the tertiary education sector, including the Tertiary Education Strategy, the Statement of Tertiary Education



Discussing education issues - Barbara Annesley, Warwick Terry and Paula Skilling

Priorities, the Tertiary Education Reform Bill, the establishment of the Tertiary Education Commission, and changes to the funding system.

- Advised on the provision of capital to tertiary education institutions, including with respect to mergers of institutions and through the “Partnerships for Excellence” policy.
- Coordinated the Economic Transformation component of the Budget.
- Support was provided to Ministers relating to the Air New Zealand recapitalisation package that led to the announcement that the Government will invest up to \$885 million in two stages to secure the future viability of Air New Zealand.
- Continued to advise on options addressing roading issues, particularly with respect to road safety, funding, congestion and enhancing public transport.
- Participated in the officials’ process that led to the establishment on 1 July 2002 of the New Zealand Food Safety Authority. In particular, the Treasury was involved in the development of the business case to support the functions of the new authority and assisted the Ministry of Agriculture and Forestry in supporting the passing of the legislation.
- Contributed to the interdepartmental officials’ process developing policy options to support ratification of the Kyoto Protocol on climate change, including a carbon tax.

- Participated in the interdepartmental officials' group on the Government's response to the Royal Commission on Genetic Modification, including advising on economic and fiscal issues, and leading the working group considering the response to overarching framework, institutional and legal issues.
- The Treasury was involved in the implementation of the results of an independent review of Overseas Development Assistance. The Treasury participated in the development of policy and organisational arrangements for the new stand-alone body NZAID (the New Zealand Agency for International Development), and reviewed and advised on the funding arrangements required to have NZAID operational on 1 July 2002.
- Worked with the New Zealand Defence Force and the Ministry of Defence to ensure that Ministers were able to approve the formulation of a long-term plan for capital expenditure for Defence. This plan is intended to provide a prioritised and costed tool to enable the Government's defence strategy to be delivered over the next decade. This plan was approved as part of the 2002 Budget process and will be implemented over the coming year.
- Organised and chaired a meeting of the Manila Framework Group that was held in Auckland on 4-5 December 2001.
- Participated in a range of Asia Pacific Economic Cooperation (APEC) fora including Senior Officials' Meetings, and provided support and briefings for APEC Finance Ministers' and Leaders' meetings.
- The Treasury participated as part of the New Zealand Government negotiating team working with the Hong Kong China Government to develop a possible Closer Economic Partnership.
- Provided advice on a wide range of public and criminal law reforms, including the new Sentencing Act and Parole Act, and reforms of the Human Rights Act, Police Act, Guardianship Act, and transnational and organised crime, and Corrections law.
- Provided advice on a range of significant fiscal and capability issues facing the Justice sector, including the Corrections prison infrastructure, Police information technology, Police and Courts' remuneration, Courts' fines collection call centre capability, establishment of a Court of Final Appeal and resourcing of specialist services and jurisdictions such as the Legal Services Agency, Environment Court, Waitangi Tribunal and Disputes Tribunal.

- Provided advice on:
 - paid parental leave, including the fiscal costs of various eligibility and payment options, and the costs of administration
 - the development of the *Early Childhood Education Strategic Plan* and the move to pay parity between kindergarten and school teachers
 - a range of compulsory school issues, including the teacher pay negotiations
 - reviews of the Local Government Act and the Funding Powers Act
 - sustainable development
 - the biosecurity reviews
 - the *Landonline* project
 - South Island Landless Natives Act 1906 issues.

Back to school

Going back to school in remote parts of the East Cape was a useful exercise for members of the Treasury Education team when they visited education providers around Ruatoria. The team was visiting to get a better understanding of an initiative called “Whaia te iti Kahurangi”, which is a Government-iwi partnership focused on strengthening education and improving student outcomes in Ngati Porou and East Coast communities. The trip also provided an opportunity to see first hand some of the issues faced by remote rural schools, such as recruiting and retaining staff, and delivering a broad curriculum to small numbers of senior secondary students.

Senior Analyst Barbara Annesley says the visit reinforced the fact that “complex problems can require multi-faceted solutions that are tailored to local needs”.

The team talked to teachers and principals, and attended a strategic partnership board meeting on a marae. Its aim was to see “partnership in practice”, and to gain a better understanding of local perspectives and issues. The Treasury team also looked at the ways in which local schools were using information communication technology to overcome some of the problems which stemmed from their remote location.

Barbara says she also enjoyed getting into the spirit of being an honorary East Coast rugby supporter while she was there, and says that the visit helped to demystify what the Treasury is and what it does. “I think it dispelled the grey-suited bureaucrat image!”

Service performance*

Performance Dimensions	Achieved?
Quality All reports will comply with the Treasury Quality Standards for Analysis and Advice. The Minister will be requested quarterly to indicate his level of satisfaction with the overall quality of outputs.	Met and frequently exceeded expectations
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2001/02.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2001/02.	✓ ¹
Cost 2001/02 Actual (\$000)	22,316
Supp. Est. - Voted (\$000)	22,722
Main Est. (\$000)	21,262
2000/01 Actual (\$000)	20,644

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1,460,000 in the Supplementary Estimates owing to additional funding provided for the Crown's Air New Zealand negotiations output, which was partially offset by resource shifts to other output classes. The Air New Zealand work also contributed to the increase in the output relative to 2000/01.

Output class expenditure was \$406,000 or 2% under Supplementary Estimates.

1 Except that:

- advice on the Ministry of Social Development outcome-based funding pilots was not provided as results from the pilots will not be available until the 2002/03 year
- advice on trends in New Zealand labour market outcomes was not completed as this work was reprioritised to allow for work on labour demand factors.

* General service performance objectives are detailed on pages 66 to 68.

Service performance objectives: All Vote Finance output classes

Performance Dimensions	Achieved?
<p>Quality</p> <p>All reports will comply with the Treasury's Quality Standards for Analysis and Advice outlined on pages 121-122. Output quality will be assessed as follows:</p> <ul style="list-style-type: none"> • The Minister will expect the Treasury to implement suitable quality control procedures to support the expectations for analysis and advice delivered under this Vote. • Managerial and peer (internal and external) review will be maintained to ensure that the quality standards are met. • The Minister will be formally requested, on a quarterly basis, to indicate his or her level of satisfaction with the overall quality of the outputs produced. 	<p>✓</p> <p>✓</p> <p>Met and frequently exceeded expectations</p>
<p>Coverage</p> <p>A comprehensive range of services will be provided as agreed with the Minister. These will include the capacity to react quickly and provide support for the Minister in Cabinet committees, including relevant briefings on significant issues and regular evaluation of the impacts of policy on the Government's desired outcomes.</p>	<p>✓</p>
<p>Cost Effectiveness</p> <p>Analysis and advice will be delivered within the cost parameters agreed with the Minister (or as subsequently modified by agreement).</p>	<p>✓</p>
<p>Timeliness</p> <p>Timeframes will be agreed between the Minister and the Secretary to the Treasury for the financial year.</p> <ul style="list-style-type: none"> • Advice will be delivered within the agreed and/or statutory timeframe so that Ministers have sufficient time to consider the issues and take appropriate action. Where agreed deadlines will not be met, extensions are to be formally requested. • Ministerial correspondence (MCs), parliamentary questions (PQs), Cabinet agendas and Official Information Act requests (OIAs) will be responded to within agreed and/or statutory timeframes. • The Department will respond appropriately to requests for attendance at Parliament during debates and at Cabinet and Select Committee meetings. 	<p>✓</p> <p>Refer pages 67-68</p> <p>✓</p>

2001/02	PQs	MCs	OIAs
Timeliness			
• Drafting instructions in the form of draft legislation will be provided to the Parliamentary Counsel Office within the timeframe agreed with that Office.			✓
Quarterly and end-of-year reporting will enable the Minister to assess actual performance in the timeliness of output delivery against those expectations.			✓ ¹
D1			
Estimated	10-20	50-100	10-20
Actual draft replies	11	37	4
% answered by due date	64	100	100
D2			
Estimated	0-5	0-5	0-5
Actual draft replies	4	10	2
% answered by due date	75	80	100
D3			
Estimated	10-20	150-200	40-50
Actual draft replies	15	157	10
% answered by due date	100	100	70
D4			
Estimated	5-10	0-5	10-20
Actual draft replies	4	3	3
% answered by due date	100	100	100
D5			
Estimated	20-30	10-20	10-20
Actual draft replies	13	-	2
% answered by due date	100	-	50
D6			
Estimated	0-5	0-5	-
Actual draft replies	4	2	-
% answered by due date	100	100	-
D7			
Estimated	5-10	5-10	0-5
Actual draft replies	32	6	-
% answered by due date	100	100	-
D8			
Estimated	20-50	125-175	20-40
Actual draft replies	33	119	29
% answered by due date	91	92	93

1 With the exceptions noted on page 65.

2001/02	PQs	MCs	OIAs
D9			
Estimated	100-150	400-500	200-300
Actual draft replies	271	214	69
% answered by due date	98	99	87
Ownership			
Estimated	50-60	20-30	10-20
Actual draft replies	95	3	2
% answered by due date	100	66	100

Explanation:

Early in 2001/02 the Treasury introduced a new information management system for tracking PQs, MCs and OIAs. When reviewing year-end results we found a number of process errors, typically with reports being provided a day late in relation to our internal timeliness standards. Action has been undertaken to rectify these issues for 2002/03.

- All PQs were provided to the Clerk's office by the due date, but a number failed to meet our internal deadline to the Minister's office, typically by one day.
- 40% of the late MCs and OIAs were provided one day after our internal deadline.
- The balance of MCs and OIAs tended to be late because they involved complex or multiple issues and/or required additional information or agreement from third parties. This was exacerbated by staff absences over holiday periods and workload pressures, particularly for small teams working on New Zealand Superannuation, rail and Air New Zealand within output classes 8 and 9.

CCMAU

- Vision and purpose

Vision

To be a world-class ownership monitoring, advisory and governance agency.

Purpose

CCMAU's purpose is to protect and enhance shareholder value by providing timely, high-quality commercial advice that enables responsible Ministers for State-owned enterprises (SOEs), Crown research institutes (CRIs), and other Crown companies and entities, and other owners as appropriate to: hold boards accountable for their performance; make informed decisions about the businesses they own on behalf of New Zealanders; formulate and implement ownership policies; fulfil the other objectives and requirements contained in relevant legislation; and maintain skilled and competent boards.

Relationship with the Treasury

The Executive Director of CCMAU is directly accountable to the Secretary to the Treasury for the Crown's investment in CCMAU, and for CCMAU's performance in providing the output classes Ministers seek.

CCMAU's overview

Executive Director - Murray Wright



Crown companies and entities monitored by CCMAU play vital roles in the New Zealand economy. The Unit has continued to focus on maintaining and enhancing the value of the Crown's investment.

This past year has seen CCMAU in consolidation and rebuilding mode following the transfer of the health monitoring function the previous year and the discovery of a leak of sensitive information by a contractor during the second half of 2001. During the first half

of 2002 considerable energy has been devoted to planning for CCMAU to enhance the services and value it delivers to the Crown in the future.

CCMAU has benefited from a relatively stable workforce during 2001/02, with low staff turnover and the recruitment of high-calibre candidates to advisory positions across the organisation. This has enhanced the credibility of the Unit and enabled it to meet the expectations of its stakeholders.

Crown Research Institutes

Principal Advisor - Murray Wright

It is the Government's objective to transform New Zealand's economy and society towards a more knowledge-based and innovative future. CRIs are Government owned principally to maintain particular research capabilities, and to use those capabilities to drive the development of

New Zealand's innovative capacity. All CRIs have continued to play vital roles in enhancing the development of New Zealand's innovation system this year.

Last year the Government agreed a series of expectations for CRIs, which were summarised in the 2000/01 operating framework statement. This year it issued a further statement placing greater emphasis on the CRIs acting as change agents, working in partnership with the private sector to improve company capability in the effective use of technology. CRIs are expected to place a greater emphasis on the identification and use of intellectual property. Wherever practicable, CRIs should be commercialising research with private sector partners.

During the year, CCMAU advised shareholding Ministers on the extent to which individual CRIs could pay a one-off special dividend by gearing up their balance sheets. Total dividends of \$49.7 million were agreed and applied to the Government's Venture Investment Fund. One of the goals of the Fund is to facilitate the commercialisation of innovations from CRIs, universities and the private sector.

State-owned Enterprises

Principal Advisor - David Marriott

CCMAU monitors the performance of 16 SOEs, which are required to operate as successful businesses. CCMAU also monitors a number of Crown-owned companies and entities which typically have more mixed objectives, but are required to deliver these in a commercial manner.

The SOE sector is a significant part of the economy, not only because of the returns it provides as dividends and taxes, but also because the companies provide a wide range of goods and services essential for the economy. The Crown's investments in the electricity sector (three generation companies and the national transmission network) dominate the portfolio, making up around 70% of the equity employed. The balance of the Crown's investment is spread over interests in communications (TV, radio, telecommunications), primary production (farming, coal, timber) and general services (post, air traffic control, weather forecasting etc).

Because investments in the electricity sector make up such a large part of the portfolio, the Crown's returns in the last 12 months were down because of low water inflows needed for hydro power generation during the winter months. This meant Mighty River Power and Meridian Energy did not produce as much revenue as expected. This was to some extent offset by an improved result from Genesis Power. Genesis Power owns New Zealand's largest standby thermal plant at Huntly, which was able to increase its output.

Directors are looking at strategies to maximise the value of the Crown's investment in the long term, as measured by the ability of companies to produce future dividend streams. Most of these businesses are mature, and are generating solid returns. Many of the companies are recognised as having "world class" expertise, and this is providing opportunities to further develop their businesses both locally and internationally. Directors and shareholders are frequently faced with choices of whether to reinvest within the companies for future value gain, or to pay a dividend. Some of these projects are substantial and have the potential to make a significant impact on the New Zealand economy eg, new power station projects, Meridian's "Project Aqua" on the Waitaki River, and Genesis Power's "e3p" at Huntly.

In the last year the shareholders supported New Zealand Post's proposal to establish "Kiwibank" as a subsidiary of New Zealand Post.

CCMAU will continue to oversee the performance of the Crown company portfolio, and in particular will monitor whether the performance of the development projects achieves the projected increases in shareholder value.

Appointments and Governance

Director - Ron Hamilton

CCMAU continued to administer the Cabinet-approved director appointment process.

- The Unit received expressions of interest in Crown board positions from 302 people. A similar number were screened for governance competencies and their potential to provide stewardship of Crown companies.

- Five “prospective directors” seminars were held during the year (up from two the previous year). It is pleasing to report that many who attended these courses were nominated by targeted agencies such as the Ministry of Women’s Affairs and Te Puni Kokiri, a positive development towards ensuring that future director appointments can increasingly reflect the demographic diversity of our community.
- CCMAU advised Ministers on a total of 85 appointments and reappointments to boards of SOEs, CRIs and other Crown companies and entities. A number of director appointments due to expire in mid-2002 were extended for several months in order to accommodate the July general election.
- CCMAU advised Ministers in relation to approving annual directors’ fees. The Unit also provided assistance to 14 other government agencies with candidate identification for Crown board appointments.

A number of strategic projects on board governance issues were commenced and/or completed during the year, including:

- two Cabinet papers on diversity and candidate selection processes
- the development of a business simulation model expected to enhance board and director performance evaluation processes
- review of the fee methodology for individual Crown companies
- the preparation of a draft Code of Corporate Governance, which is out for consultation with interested agencies
- organising, on a full cost recovery basis, a seminar for existing directors on information technology
- giving presentations on governance to a number of groups during the year, including women’s groups, the new Pacific Radio board, and to Institute of Directors seminars.

Maintaining and developing capability

Managing security risks

The first quarter of the year was dominated by an investigation by Mr David Oughton QSO into the leaks of information relating to New Zealand Post and other SOEs. The Unit assisted Mr Oughton by providing full access to information and by commissioning a forensic examination of our computer system. Mr Oughton's report, naming the person responsible for removing confidential information from CCMAU, was released on 27 September 2001.

Following advice from Crown Law, we decided not to take further proceedings against the person identified as responsible for removing the material from CCMAU, and Crown Law sent a letter to his solicitor to this effect. However, the letter also said that if any further confidential material sourced from CCMAU were disclosed, CCMAU reserved the right to commence proceedings without further notice.

As part of the computer forensic examination, CCMAU received a separate report detailing recommendations on how to improve the security of its computer system. Action was taken to implement those recommendations in conjunction with upgrading the Unit's computer system, including both hardware and software.

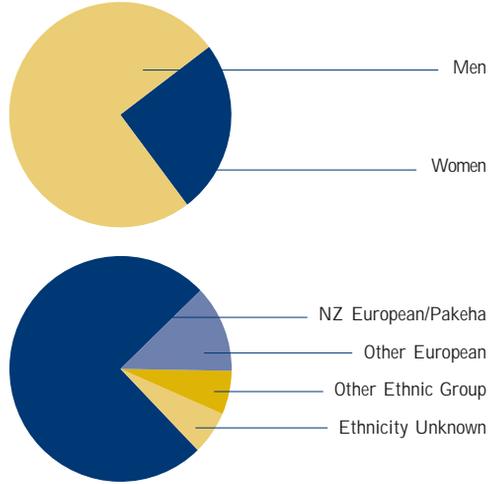
It is intended that CCMAU will conduct a review of its security policies and practices in 2002/03, to ensure the 2001 recommendations have been appropriately implemented and to ensure compliance with relevant aspects of the recent *Security in the Government Sector* manual released by the Department of Prime Minister and Cabinet.

Managing our people

The number of staff employed in CCMAU at 30 June 2002 was 16 with no current vacancies. In addition, we have one person seconded to a ministerial office. The average length of service for CCMAU staff has increased from 2.5 years in 2000/01 to 3.27 years in 2001/02. Staff turnover was only 6.35%, compared with 49% the previous year. The previously high turnover was due largely to the transfer of the health monitoring function. During the year, CCMAU recruited a number of high-calibre candidates to advisory positions across the organisation.

CCMAU seeks to encourage target staff to join, remain and develop within the Unit. Given the small size of the Unit and the specialised nature of the services provided, attracting target staff will always be a challenge.

CCMAU has retained a stable team of high-quality individuals. In 2001/02, staff have attended a number of training and development initiatives to ensure they maintain a level of skill commensurate with their roles and responsibilities.



Planning for the future

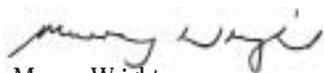
Following a strategic planning meeting in February 2002, a CCMAU planning working group was convened. In May a qualitative stakeholder survey was conducted and from the results it has become apparent that CCMAU:

- **needs to do more** - by offering new services and gaining a greater strategic focus whilst still maintaining excellence in our planning and ministerial work
- **in a way that is more proactive** - to change the perception of CCMAU as a purely financially focused Unit

- **and involves more people** - by consulting with others more widely and sharing our skill base with other government departments and Crown entities.

CCMAU plans to develop the Unit's capabilities through four strategic focus areas that will ensure core functions are performed as well as possible, whilst continuing to move the Unit forward. These four focus areas are:

- **service offerings** - define our existing services more clearly and develop new ones that add strategic value
- **learning** - gain a deeper understanding of the companies and sectors on which we focus, improve internal knowledge sharing and liaise more closely with other government and non-government bodies
- **service delivery and communication** - present our services and ourselves consistently and better to enable a wider group to share our expertise
- **internal capability** - define a professional development process and an organisational structure that develops and fully utilises the skills and knowledge of our staff, and develop the flexibility to be more responsive to Ministers' needs.



Murray Wright
Executive Director

Output performance - CCMAU

Statement of Objectives and Service Performance
section 35(3) Public Finance Act 1989

Votes at a glance

Actual expenditure for 2001/02 by output class:

\$m	
0.830	D1 Crown Company Monitoring Advice to the Minister for CRIs
2.144	D1 Crown Company Monitoring Advice to the Minister for SOEs and Other Responsible Ministers

(Figures are GST inclusive)

Vote Crown Research Institutes

Output class D1

Crown Company Monitoring Advice to the Minister for Crown Research Institutes

This class of outputs involves the provision of policy and ownership monitoring advice on nine CRIs and includes:

- providing advice on setting ownership objectives and targets for CRIs, strategic direction, the size and nature of the Crown's investment in this sector, and residual implementation issues
- monitoring and advising Ministers of CRIs' performance against these objectives and targets
- managing, on behalf of Ministers, the director appointment and performance assessment process for CRI boards.

By providing advice on the effective governance and management of the Crown's investment in CRIs, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Convened a series of meetings in January 2002 between the Minister for CRIs and each CRI Chair and Chief Executive to discuss a supplementary operating framework statement for 2002/03 and other issues the companies wished to raise.
- Managed the CRI strategic planning round on behalf of shareholding Ministers. Strategic plans were evaluated and reports were prepared on the content and implications of each plan, and on the content and acceptability of each *Statement of Corporate Intent* (SCI). SCIs were finalised and provided to the Minister's office for tabling in Parliament.
- Provided monitoring advice to shareholding Ministers on a quarterly basis, detailing both the financial and non-financial performance of each CRI, and science highlights for the quarter.
- Assisted Ministers and CRI boards to reach agreement on the level of capital dividends to be paid.
- Provided advice to Ministers on a number of specific ownership issues that arose during the year.
- Managed the appointment of CRI directors on behalf of shareholding Ministers, taking into account the Government's desire for diversity on company boards. This included advertising for potential candidates, identifying and interviewing prospective director candidates and providing advice to Ministers on a range of directors to fill vacancies. A successful new directors induction seminar was held.

Service performance

Performance Dimensions	Achieved?
<p>Quality</p> <ul style="list-style-type: none"> • All advice will be delivered in accordance with the following quality standards: <ul style="list-style-type: none"> - The aim of the advice is clearly stated and it answers the questions set. - The assumptions behind the advice are explicit and the argument is logical and supported by the facts. - The facts in the papers are accurate and all material facts are included. - The advice demonstrates a sound knowledge of the Crown company's business, the environment within which the company operates and the consequences of shareholder or company actions. - An adequate range of options is presented, and the benefits, costs and consequences of each option are assessed. - CCMAU has consulted with other government agencies and other affected parties and possible issues are identified and action plans developed to resolve those issues in a timely way. - The problems of implementation, technical feasibility, timing and consistency of recommendations have been considered. - The format meets Cabinet Office and ministerial requirements; and the material is effectively, concisely and clearly presented, has short sentences in plain English and is free of spelling, grammatical and numerical errors. • The Minister will be requested quarterly to assess actual performance in output delivery against these expectations. • All written advice to the Minister will be signed out by the Executive Director, Principal Advisor or a designated advisor. 	<p>Materially met expectations</p> <p>✓</p>
<p>Quantity</p> <p>The quantity and nature of policy and ownership monitoring advice outputs will be supplied on the basis of a work programme agreed between the Minister for CRIs and the Executive Director of CCMAU (as amended from time to time).</p>	<p>✓</p>

Timeliness			
Timeframes for the delivery of the outputs in this output class will be agreed between the Minister for CRIs and the Executive Director of CCMAU for the financial year.			✓
PQs, MCs and OIAs will be responded to within agreed and statutory timeframes.			
2001/02	PQs	MCs	OIAs
Estimated	120-160	40-60	1-4
Actual draft replies	80	68	1
% answered by due date	100	94 ¹	100
Cost			
2001/02 Actual (\$000)	830		
Supp. Est. - Voted (\$000)	830		
Main Est. (\$000)	898		
2000/01 Actual (\$000)	764		

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$68,000 in the Supplementary Estimates owing to cost savings achieved in 2001/02.

¹ The timeliness of responses to some MCs was occasionally affected by the need to seek background information from CRIs in order for the Minister to provide an informed response.

Vote State-Owned Enterprises

Output class D1

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

This class of outputs involves the provision of policy and ownership monitoring advice on SOEs and Crown-owned companies including:

- advice on setting ownership objectives and targets for SOEs and Crown-owned companies, strategic direction, the size and nature of the Crown's investment in this sector and residual implementation issues
- monitoring and advising Ministers about SOE and Crown-owned company performance against these objectives and targets
- management, on behalf of Ministers, of the director appointment process and performance assessment of SOE and Crown-owned company boards.

By providing advice on the effective governance and management of the Crown's investment in SOEs, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Significant work completed during the year

- Provided advice and assistance on:
 - the resolution of a number of governance issues at New Zealand Post
 - the New Zealand Post banking proposal, including the establishment of a specific monitoring regime for the bank
 - the investigation of, and advice to Ministers on, the electricity companies' winter performance and on the electricity sector reforms
 - the future organisational form of Television New Zealand and Broadcast Communication Ltd's communications business and strategic plan

- completion of the winding up of @Work, Crown Forestry Management and Government Property Services
 - the Genesis Power “e3p” Huntly power station upgrade
 - the Public Trust’s new strategy and organisational form
 - setting up the Venture Investment Fund
 - a range of company development projects
 - the convening of an SOE chairs’ meeting in March 2002 with the Minister for SOEs and other Ministers
 - the completion of a shareholders’ expectation manual for SOEs
 - developing and delivering two seminars for incoming directors, on the role of directors in a Crown environment.
- Managed:
 - the ongoing responses to MCs, PQs and OIAs
 - the consolidated quarterly reporting to Cabinet on the performance of SOEs, Crown companies, the Public Trust and the New Zealand Lotteries Commission
 - the business planning round.

Service performance

Performance Dimensions	Achieved?
<p>Quality</p> <ul style="list-style-type: none"> • All advice will be delivered in accordance with the following quality standards: <ul style="list-style-type: none"> - The aim of the advice is clearly stated and it answers the questions set. - The assumptions behind the advice are explicit and the argument is logical and supported by the facts. - The facts in the papers are accurate and all material facts are included. - The advice demonstrates a sound knowledge of the Crown company's business, the environment within which the company operates and the consequences of shareholder or company actions. - An adequate range of options is presented, and the benefits, costs and consequences of each option are assessed. - CCMAU has consulted with other government agencies and other affected parties and possible issues are identified and action plans developed to resolve those issues in a timely way. - The problems of implementation, technical feasibility, timing and consistency of recommendations have been considered. - The format meets Cabinet Office and ministerial requirements; and the material is effectively, concisely and clearly presented, has short sentences in plain English and is free of spelling, grammatical and numerical errors. • The Minister will be requested quarterly to assess actual performance in output delivery against these expectations.¹ • All written advice to the Minister will be signed out by the Executive Director, Principal Advisor or a designated advisor. 	<p style="text-align: center;">Good</p> <p style="text-align: center;">✓</p>
<p>Quantity</p> <ul style="list-style-type: none"> • The quantity and nature of policy and ownership monitoring advice will be supplied on the basis of a work programme agreed between the Minister for SOEs and Executive Director of CCMAU (as amended from time to time). • CCMAU will report quarterly to Ministers on performance by SOEs and Crown companies against expectations in accordance with the Cabinet-agreed content of that report. 	<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>

¹ A formal assessment of the overall quality of advice provided by CCMAU was obtained from the Minister at year end only.

2001/02	PQs	MCs	OIAs
Estimated	500	350	25
Actual draft replies	355	118	28
% answered by due date	100	90 ¹	86 ¹

Cost

2001/02 Actual (\$000)	2,144
Supp. Est. - Voted (\$000)	2,268
Main Est. (\$000)	2,588
2000/01 Actual (\$000)	2,553

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$320,000 in the Supplementary Estimates owing to cost savings achieved in 2001/02.

Output class expenditure was \$124,000 or 5% under Supplementary Estimates owing to the Economic Value Added project not being completed by year end.

¹ Of the "late" responses to MCs and OIAs, the majority were provided shortly after the relevant deadline. In some cases, where necessary, extensions of time were obtained. Delays occasionally arose because of the large volume of information sought, the complexity of issues involved, and/or the need to consult with third parties such as the relevant SOEs and Crown companies or entities.

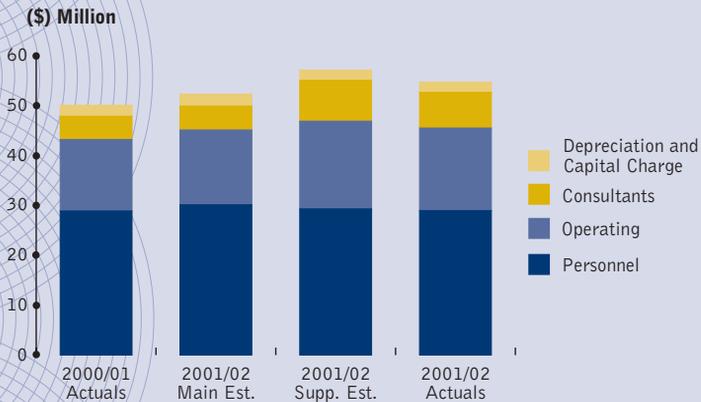
Financial statements - Departmental

for the year ended 30 June 2002

- Expenditure at a glance 86
- Financial performance 87
- Movements in taxpayers' funds 88
- Financial position 89
- Cash flows 90
- Reconciliation of net cash flows 91
- Commitments 92
- Contingent assets and liabilities 93
- Expenditure and appropriations 94
- Notes to the financial statements 96

Expenditure at a glance

for the year ended 30 June 2002



The 2001/02 Main Estimates budget was higher than 2000/01 actual expenditure due largely to a forecast increase in personnel costs. However, the actual expenditure on personnel costs for the year ended 30 June 2002 was less than forecast in the Main and Supplementary Estimates due to staff vacancies. Operating costs increased for the financial year 2002 due to the New Zealand Superannuation Fund publicity campaign and Export Credit Office expenditure. Consultants' costs also increased during the 2002 financial year due to the purchase of specialist technical and financial advice to support the Crown's Air New Zealand and Auckland rail negotiations.

Statement of Financial Performance

for the year ended 30 June 2002

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Department including CCMAU during the financial year ended 30 June 2002.

30 June 2001			30 June 2002		
Actual		Notes	Actual	Main	Supp.
\$000			\$000	Estimates	Estimates
				\$000	\$000
	Revenue				
49,468	Crown	1	54,324	52,145	56,861
598	Other revenue	2	393	170	259
48	Interest		-	44	-
50,114	Total Revenue		54,717	52,359	57,120
	Expenses				
28,870	Personnel costs		28,962	30,116	29,288
14,323	Operating costs	3	16,430	15,005	17,599
4,672	Consultants		7,258	4,791	8,181
1,657	Depreciation	5	1,579	1,906	1,563
544	Capital charge	6	488	497	489
50,066	Total Expenses		54,717	52,315	57,120
48	Net Surplus		-	44	-

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Movements in Taxpayers' Funds

for the year ended 30 June 2002

The Statement of Movements in Taxpayers' Funds combines information about the net surplus with other aspects of the financial performance of the Department, including CCMAU, to give a degree of measure of comprehensive income.

30 June 2001		30 June 2002		
Actual		Actual	Main	Supp.
\$000		\$000	Estimates	Estimates
			\$000	\$000
5,522	Taxpayers' Funds Balance at Beginning of Year	5,427	5,427	5,427
	<i>Movements during the year</i>			
48	Net surplus	-	44	-
48	Total Recognised Revenues and Expenses for the Year	-	44	-
(95)	Transfer to Ministry of Health	-	-	-
(48)	Provision for repayment of net surplus to the Crown	-	(44)	-
(143)	Total Flows to the Crown	-	(44)	-
5,427	Taxpayers' Funds Balance at End of Year	5,427	5,427	5,427

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Financial Position

as at 30 June 2002

The Statement of Financial Position reports the total assets and liabilities of the Department including CCMAU as at 30 June 2002. The difference between the assets and liabilities is called taxpayers' funds.

30 June 2001		30 June 2002		
Actual \$000	Notes	Actual \$000	Main Estimates \$000	Supp. Estimates \$000
Taxpayers' Funds				
5,427		5,427	5,427	5,427
5,427		5,427	5,427	5,427
Represented by:				
Assets				
Current Assets				
5,041		4,285	3,611	4,106
359		439	351	385
201		222	63	107
5,812		5,048	4,954	5,070
11,413		9,994	8,979	9,668
Non-Current Assets				
2,803	7	2,473	2,261	2,654
2,803		2,473	2,261	2,654
14,216		12,467	11,240	12,322
Less:				
Liabilities				
Current Liabilities				
4,108		2,724	2,691	2,342
3,951	8	3,693	2,471	3,861
62	9	62	62	62
48		-	44	-
8,169		6,479	5,268	6,265
Non-Current Liabilities				
188	9	126	126	126
432	10	435	419	504
620		561	545	630
8,789		7,040	5,813	6,895
5,427		5,427	5,427	5,427

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2002

The Statement of Cash Flows summarises the cash movements in and out of the Department during the financial year. It does not include money owed to the Department or owing by the Department, and therefore differs from the Statement of Financial Performance on page 87.

30 June 2001		30 June 2002		
Actual		Actual	Main	Supp.
\$000		\$000	Estimates	Estimates
		\$000	\$000	\$000
	Cash Flows from Operating Activities			
	<i>Cash was provided from:</i>			
50,020	Supply of outputs to the Crown	55,223	51,945	57,657
535	Supply of outputs to third parties	340	170	239
51	Interest	-	41	-
103	Net GST	(135)	160	(36)
50,709	Total	55,428	52,316	57,860
	<i>Cash was disbursed to:</i>			
28,870	Personnel costs	29,217	30,478	29,305
20,209	Operating costs	24,977	20,104	27,448
544	Capital charge	488	497	489
49,623	Total	54,682	51,079	57,242
1,086	Net Cash Flows from Operating Activities	746	1,237	618
	Cash Flows from Investing Activities			
	<i>Cash was provided from:</i>			
17	Sale of property, plant and equipment	8	-	-
	<i>Cash was disbursed to:</i>			
1,345	Purchase of property, plant and equipment	1,457	1,414	1,497
(1,328)	Net Cash Flows from Investing Activities	(1,449)	(1,414)	(1,497)
	Cash Flows from Financing Activities			
	<i>Cash was disbursed to:</i>			
20	Payment of net surplus to the Crown	53	44	56
95	Capital repayment	-	-	-
(115)	Net Cash Flows from Financing Activities	(53)	(44)	(56)
(357)	Net decrease in cash held	(756)	(221)	(935)
5,398	Cash and bank balances at beginning of year	5,041	3,832	5,041
5,041	Cash and Bank Balances at End of Year	4,285	3,611	4,106

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Reconciliation of Net Cash Flows

for the year ended 30 June 2002

The Reconciliation of Net Cash Flows discloses the non-cash adjustments applied to the net surplus reported in the Statement of Financial Performance on page 87 to arrive at the Net Cash Flow disclosed in the Statement of Cash Flows on page 90.

30 June 2001		30 June 2002		
Actual		Actual	Main	Supp.
\$000		\$000	\$000	\$000
48	Net Surplus from Statement of Financial Performance	-	44	-
	<i>Non-cash items</i>			
1,657	Depreciation	1,579	1,906	1,563
19	Other non-cash items	-	5	2
	<i>Movements in working capital items</i>			
(2)	Increase in advances and prepayments	(80)	(3)	(26)
(148)	(Increase)/decrease in accounts receivable	(21)	-	94
546	Decrease/(increase) in debtor - Crown	764	(200)	742
651	(Decrease)/increase in payables and provisions	(1,237)	1	(1,739)
(1,760)	Decrease in other current liabilities	(258)	(516)	(90)
48	Increase in non-current liabilities	3	-	72
	<i>Items classified as investing activities</i>			
27	Net (gain)/loss on sale of property, plant and equipment	(4)	-	-
1,086	Net Cash Flows from Operating Activities	746	1,237	618

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Commitments

as at 30 June 2002

The Department has a non-cancellable lease on its principal premises at No 1 The Terrace in Wellington. The Department also has a non-cancellable lease over office space in Boulcott Street which is currently subleased.

Operating commitments consist of computer maintenance contracts, building services contracts and contracts for services totalling \$950,000.

As at 30 June 2002, the timing of outstanding operating and lease commitments was as follows:

30 June 2001 \$000		30 June 2002 \$000
5,214	Less than one year	5,416
4,514	One to two years	4,747
8,933	Two to five years	4,856
-	More than five years	-
18,661	Total	15,019

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Contingent Assets and Liabilities

as at 30 June 2002

As at 30 June 2002, the Department had no departmental contingent assets and liabilities (30 June 2001: nil).

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Expenditure and Appropriations

for the year ended 30 June 2002

		30 June 2002	
		Actual	Supp.
		Expenditure	Estimates
		\$000	Voted
		\$000	\$000
	The Treasury		
	Vote Finance		
D1	Policy Advice: General Economic and Fiscal Strategies	5,190	5,362
D2	Policy Advice: Crown Financial Management	3,885	4,065
D3	Policy Advice: Tax	3,263	3,387
D4	Budget Management	2,273	2,293
D5	Economic and Fiscal Forecasting and Reporting	5,857	5,950
D6	Debt and Related Financial Asset Management ¹	5,365	5,666
D7	Management of Claims Against the Crown, Contractual Liabilities and Crown Properties	3,749	4,167
D8	Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions	6,687	7,551
D9	Policy Advice: Regulation and Vote Purchase, Ownership and Performance Issues	22,316	22,722
	Total Vote Finance	58,585	61,163

(Figures are GST inclusive where applicable)

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

¹ Expenses to be incurred pursuant to section 61(1) of the Public Finance Act 1989.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2002

		30 June 2002	
		Actual Expenditure	Supp. Estimates Voted
		\$000	\$000
	CCMAU		
	Vote Crown Research Institutes		
D1	Crown Company Monitoring Advice to the Minister for Crown Research Institutes	830	830
	Vote State-Owned Enterprises		
D1	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2,144	2,268

(Figures are GST inclusive where applicable)

The accompanying notes on pages 96 to 100 and accounting policies on pages 113 to 117 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2002

1 Revenue - Crown

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

2 Other revenue

30 June 2001		30 June 2002		
Actual \$000		Actual \$000	Main Estimates \$000	Supp. Estimates \$000
178	Rental income	169	170	185
420	Miscellaneous	224	-	74
598	Total Other Revenue	393	170	259

3 Operating costs

These include:

30 June 2001		30 June 2002		
Actual \$000		Actual \$000	Main Estimates \$000	Supp. Estimates \$000
4,316	Lease of premises	4,318	4,223	4,318
205	Fees to auditors for audit of the Department and the NZDMO	137	201	152
95	Fees to auditors for audit of Crown Financial Statements	95	95	95
6	Other fees to Department and NZDMO auditors	44	39	41
-	Other fees to Crown auditors	172	170	183
13	Other write-offs	-	-	-
27	(Gain)/loss on sale of property, plant and equipment (Note 4)	(4)	-	-
9,661	Other operating costs	11,668	10,277	12,810
14,323	Total Operating Costs	16,430	15,005	17,599

4 Gain/(loss) on sale of property, plant and equipment

30 June 2001	30 June 2002		
	Actual \$000	Main Estimates \$000	Supp. Estimates \$000
(27) Computer equipment	4	-	-
(27) Net Gain/(Loss) on Sale	4	-	-

5 Depreciation

30 June 2001	30 June 2002		
	Actual \$000	Main Estimates \$000	Supp. Estimates \$000
16 Furniture and fittings	22	20	22
175 Leasehold improvements	176	163	133
222 Office machinery and electrical equipment	188	204	192
1,243 Computer equipment	1,192	1,518	1,215
1 Plant	1	1	1
1,657 Total Depreciation	1,579	1,906	1,563

6 Capital charge

The Treasury pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December. The capital charge rate for the financial year ended 30 June 2002 was 9% (30 June 2001: 10%).

7 Property, plant and equipment

The following categories of property, plant and equipment were used by the Department.

	30 June 2002		
	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
Furniture and fittings	482	423	59
Leasehold improvements	1,793	1,433	360
Office machinery and electrical equipment	1,203	926	277
Computer equipment	7,763	5,989	1,774
Plant	5	2	3
Total Property, Plant and Equipment	11,246	8,773	2,473

	30 June 2001		
	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
Furniture and fittings	482	401	81
Leasehold improvements	5,268	4,731	537
Office machinery and electrical equipment	1,550	1,085	465
Computer equipment	7,065	5,349	1,716
Plant	5	1	4
Total Property, Plant and Equipment	14,370	11,567	2,803

8 Employee entitlements

	30 June 2001	30 June 2002		
	Actual \$000	Actual \$000	Main Estimates \$000	Supp. Estimates \$000
Current Liabilities				
865 Retirement, resigning and long service leave	966	780	984	
1,765 Annual leave	1,735	1,006	2,016	
692 Accrued salaries	859	385	488	
629 Accrued performance payments	133	300	373	
3,951 Total Employee Entitlements	3,693	2,471	3,861	

9 Provision for onerous contract

30 June 2001		30 June 2002		
Actual		Actual	Main	Supp.
\$000		\$000	Estimates	Estimates
			\$000	\$000
313	Balance at beginning of year	250	250	250
(63)	Amount utilised	(62)	(62)	(62)
250	Balance at End of Year	188	188	188
	<i>Represented by:</i>			
62	Current	62	62	62
188	Non-current	126	126	126

The Department has entered into a non-cancellable lease at No 1 The Terrace in Wellington. Owing to a change in its activities, the Department no longer occupies one level of the building at No 1 The Terrace. This floor has been sublet but owing to market conditions the rental income achieved is much lower than the rental expense being incurred. The net obligation under the lease agreement has been provided for as an onerous contract. The liability will be incurred over the next three years.

10 Provision for employee entitlements

30 June 2001		30 June 2002		
Actual		Actual	Main	Supp.
\$000		\$000	Estimates	Estimates
			\$000	\$000
384	Balance at beginning of year	432	419	432
84	Additional provision made	71	-	87
(8)	Amount utilised	(39)	-	(37)
(61)	Unused provision reversed	(63)	-	(17)
33	Effect of discounting	34	-	39
432	Balance at End of Year	435	419	504

The provision for employee entitlements relates to employee benefits of resigning and long service leave. The provision is affected by a number of estimates including the expected length of service of employees and the timing of benefits being taken. The liability is expected to be incurred over the next 20 years.

11 Financial instruments

The Department is party to financial instrument arrangements as part of its everyday operations. These financial instruments include cash and bank balances, advances and prepayments, accounts receivable, debtor Crown, payables and accrued expenses and employee entitlements.

Credit risk

In the normal course of its business the Department incurs credit risk from debtors other than the Crown.

The Department does not require any collateral or security to support financial instruments with financial institutions with which the Department deals, as these entities have high credit ratings. For its other financial instruments the Department 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 Department has no significant exposure to currency exchange loss risk, and its financial instruments are not interest rate sensitive.

12 Related party information

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

The Department enters into numerous transactions with other government departments, Crown agencies and SOEs on an arm's length basis. These transactions are not considered to be related party transactions.

Financial statements - Non-departmental

for the year ended 30 June 2002

- Expenditure and appropriations 102
- Crown revenue and receipts 108
- Trust monies 112

Non-departmental transactions relate to assets and liabilities that the Department manages or monitors on behalf of the Crown. The Treasury administered \$9.2 billion of non-departmental payments, \$4.2 billion of non-departmental revenue and receipts and \$1.3 million of trust monies on behalf of the Crown for the year ending 30 June 2002. Further details of the Department's management and monitoring of these Crown assets and liabilities are provided in the Output Performance sections of this report.

These non-departmental transactions are consolidated into the Crown Financial Statements and therefore readers should also refer to the 2001/02 Crown Financial Statements.

Statement of Expenditure and Appropriations

for the year ended 30 June 2002

	30 June 2002	
	Actual Expenditure \$000	Supp. Estimates Voted \$000
Vote Finance		
<i>Non-departmental output classes</i>		
GSF Authority ¹	3,379	3,379
Management of Crown overseas properties	360	1,200
Guardians of New Zealand Superannuation	-	200
Waihi subsidence assessments	100	100
Total Non-Departmental Output Classes	3,839	4,879
<i>Benefits and other unrequited expenses</i>		
GSF - subsidy to Government Superannuation Fund ¹	698,090	689,642
GSF - subsidy to judges' superannuation account ¹	12,678	10,913
GSF - subsidy to parliamentary superannuation account ¹	3,754	4,607
GSF - Superannuation Fund annuities	344	361
GSF - unfunded liability movement ¹	436,708	(367,540)
Total Benefits and Other Unrequited Expenses	1,151,574	337,983
<i>Borrowing expenses</i>		
Debt servicing	2,488,549	2,484,000
Total Borrowing Expenses	2,488,549	2,484,000
<i>Other expenses</i>		
Alexandra flood subrogated claims	1,396	1,396
Compensation payments	-	218
Crown overseas properties	7,838	9,251
Crown residual liabilities	(18)	958
Geothermal Trading	1,796	2,700
GSF - custodial and investment management expenses	2,114	4,339

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

1 GSF New Zealand was the working title of the Crown entity created to manage the Government Superannuation Fund by the GSF Amendment Bill 2001. During the Bill's passage through Parliament during 2001/02, the name was changed to "GSF Authority".

Commentary on variances over 5%

Vote Finance

Non-departmental output classes

Management of Crown overseas properties

Management fees relating to major projects were less than forecast due to delays in the projects.

Guardians of New Zealand Superannuation

The Guardians were expected to commence operations in the latter part of the 2002 financial year, but this was delayed into the 2003 financial year.

Benefits and other unrequited expenses

GSF - subsidies to judges' and parliamentary superannuation accounts

Subsidy payments vary depending on the actual number of beneficiaries.

GSF - unfunded liability movement

The value of the assets held by the Fund declined during the financial year as a result of the global slowdown.

Authority for these GSF expenses is permanently legislated by various sections of the Government Superannuation Fund Act 1956.

Borrowing expenses

Authority for debt servicing expenditure is permanently legislated by sections 60 and 61 of the Public Finance Act 1989.

Other expenses

Compensation payments

No claims were settled during the financial year.

Crown overseas properties

Expenditure on major projects has been slower than expected.

Crown residual liabilities

No significant items came to charge during the financial year, whilst one provision was reversed.

Geothermal Trading

Maintenance costs were lower than forecast.

GSF - custodial and investment management expenses

Expenses were lower than forecast because of delays in appointing managers.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2002

	30 June 2002	
	Actual Expenditure \$000	Supp. Estimates Voted \$000
Vote Finance (<i>continued</i>)		
<i>Other expenses (continued)</i>		
GSF Appeals Board	2	50
Marine Resources claim - negotiated settlement	650	650
Maui Gas Contract	338,498	356,000
Overseas Investment Commission honoraria	19	25
Waihi subsidence ex-gratia payments	1,142	1,200
Unclaimed money	22	500
Total Other Expenses	353,459	377,287
<i>Capital contributions to other organisations</i>		
Air New Zealand	885,000	1,035,000
GSF Authority ¹	287	295
Guardians of New Zealand Superannuation	-	550
Housing Corporation loans	20,970	25,810
Housing New Zealand Corporation - capitalisation	2,856,000	2,856,000
Housing New Zealand - acquisition and modernisation of housing stock	42,480	42,480
Housing New Zealand loans	451,350	451,350
International financial institutions	234,000	300,000
New Zealand Post - banking	72,200	72,200
New Zealand Superannuation Fund - contributions	-	600,000
Taitokerau Forests	2,778	3,900
Total Capital Contributions to Other Organisations	4,565,065	5,387,585

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

1. GSF New Zealand was the working title of the Crown entity created to manage the Government Superannuation Fund by the GSF Amendment Bill 2001. During the Bill's passage through Parliament during 2001/02, the name was changed to "GSF Authority".

Commentary on variances over 5%

Other expenses (continued)

GSF Appeals Board

It is not possible to forecast this item with any accuracy.

Overseas Investment Commission honoraria

Fewer expense claims were received than expected.

Unclaimed money

It is not possible to forecast this item with any accuracy.

Capital contributions to other organisations

Air New Zealand

Air New Zealand has yet to request the final capital contribution.

Guardians of New Zealand Superannuation

The Guardians were expected to commence operations in the latter part of the 2002 financial year, but this was delayed into the 2003 financial year.

Housing Corporation loans

The Corporation requested fewer loans than expected.

Housing New Zealand became a subsidiary of the Housing Corporation, which was then renamed Housing New Zealand Corporation, on 1 July 2001.

Separate appropriations to Housing Corporation and Housing New Zealand were retained for 2001/02 as the establishment of the new Housing New Zealand Corporation had not been finalised at the time of the 2001 Budget.

International financial institutions

It is not possible to forecast this item with any accuracy.

New Zealand Superannuation Fund - contributions

As the Guardians of New Zealand Superannuation did not commence operations during the 2002 financial year, funds held by the NZDMO on behalf of the Fund were not transferred.

Taitokerau Forests

Loan requests were fewer than forecast.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2002

	30 June 2002	
	Actual Expenditure \$000	Supp. Estimates Voted \$000
<i>Vote Finance (continued)</i>		
<i>Purchase of assets</i>		
Auckland rail corridor	91,125	91,125
Crown coin collection	-	5
Development of Crown overseas properties	505	600
Geothermal Trading	614	800
Total Purchase of Assets	92,244	92,530
<i>Repayment of debt</i>		
ECNZ debt	70,000	70,000
Net foreign debt repayment	465,845	594,000
Total Repayment of Debt	535,845	664,000
Total Non-Departmental Appropriations: Vote Finance	9,190,575	9,348,264
<i>Vote Crown Research Institutes</i>		
<i>Other expenses</i>		
Crown residual liabilities	82	180
Total Other Expenses	82	180
Total Non-Departmental Appropriations: Vote Crown Research Institutes	82	180
Total Non-Departmental Appropriations Administered by the Treasury	9,190,657	9,348,444

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

Commentary on variances over 5%

Purchase of assets

Crown coin collection

No coins were purchased during the year.

Development of Crown overseas properties

One project was delayed into the 2003 financial year.

Geothermal Trading

The cost of drilling a new well was lower than forecast.

Repayment of debt

Net foreign debt repayment

The variance arises from the NZDMO's liquidity management requirements.

Vote Crown Research Institutes

Other expenses

Crown residual liabilities

It is not possible to forecast this item with any accuracy.

Crown Revenue and Receipts

for the year ended 30 June 2002

30 June 2001		30 June 2002	
Actual		Actual	Budgeted
\$000		\$000	\$000
	Vote Finance		
	<i>Current revenue</i>		
1,081,248	Capital charge	958,199	956,351
24,338	Contact Energy Ltd Crown margin	35,858	38,000
-	Contact Energy Ltd Crown margin revaluation	189,299	-
13,490	Dividends from Crown entities	51,945	51,945
303,875	Dividends from SOEs	334,359	333,859
3,214	Dividends - other	2,606	1,366
10,000	Earthquake Commission guarantee fee	10,000	10,000
-	Employers' superannuation contributions	90,074	89,526
-	Export Credit Office	-	17
25,738	Income from Crown trading entities	7,801	7,500
10,979	Interest from Contact Energy Ltd	4,969	8,000
2,208	Interest from Housing NZ Corporation	17,374	18,000
459,804	Interest from investments	411,852	365,000
6,349	Interest - other	20,131	20,314
321,195	Maui Gas Contract	300,919	317,000
379,148	Net surplus from SOEs and Crown entities	202,440	308,919
24,041	Rentals from Crown overseas properties	25,179	27,632
157,681	Reserve Bank surplus	154,138	154,138
27,220	Other current revenue	192,212	36,891
331	Unclaimed money	309	500
2,850,859	Total Current Revenue	3,009,664	2,744,958

(All figures are GST exclusive)

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

Commentary on variances over 5%

Vote Finance

Current revenue

Contact Energy Ltd Crown margin

This item varies with spot prices and demand.

Contact Energy Ltd Crown margin - revaluation

The long-term receivable was revalued upwards as at 30 June 2002, resulting in increased revenue being reported for the financial year.

Dividends - other

Christchurch Airport paid a dividend earlier than forecast.

Export Credit Office

No contracts were signed during the financial year.

Interest from Contact Energy Ltd

Contact Energy repaid a loan earlier than forecast.

Interest from investments

The amount varies with interest rates, exchange rates and the amount of investments held.

Net surplus from SOEs and Crown Entities

The EQC made a substantially smaller profit than forecast.

Rentals from Crown overseas properties

This is primarily an exchange rate variance.

Other current revenue

Includes unforecast receipts from the United Nations in relation to peacekeeping operations in East Timor, and the revenue effect of recognising the Maui prepaid gas asset and the national rail corridor.

Unclaimed money

It is not possible to forecast this item with any accuracy.

Crown Revenue and Receipts (continued)

for the year ended 30 June 2002

30 June 2001	30 June 2002	
	Actual \$000	Actual \$000
	<i>Vote Finance (continued)</i>	
	<i>Capital receipts</i>	
	Capital withdrawals from Crown companies	
50,100	9,431	12,431
17,170	12,700	12,700
960,986	955,433	1,241,000
	Loan repayments from Contact Energy Ltd	
-	70,000	70,000
1,570	46,454	19,475
66,000	55,000	-
1,677	-	-
1,097,503	1,149,018	1,355,606
3,948,362	4,158,682	4,100,564
	<i>Vote Crown Research Institutes</i>	
	<i>Current revenue</i>	
3,500	40,400	43,900
20,000	(25,864)	(26,145)
23,500	14,536	17,755
	Total Crown Revenue: Vote Crown Research Institutes	
23,500	14,536	17,755
	Total Crown Revenue Managed by the Treasury	
3,971,862	4,173,218	4,118,319

(All figures are GST exclusive)

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

Commentary on variances over 5%

Capital receipts

Capital withdrawals from Crown companies

A forecast capital repayment from R Corporation did not eventuate.

Net domestic borrowing

The variance arises from the NZDMO's liquidity management requirements.

Loan repayments from other parties

Solid Energy made an unforecast repayment in June 2002.

Return of capital by the IMF

This item was not forecast.

Vote Crown Research Institutes

Current revenue

Dividends from CRIs

Horticulture Research did not pay its forecast dividend.

Statement of Trust Monies

for the year ended 30 June 2002

	30 June 2002 \$000	30 June 2001 \$000
Balance at beginning of year	1,378	1,205
Contribution	35	173
Distribution	(154)	(1)
Revenue	71	1
Expenses	-	-
Balance at End of Year	1,330	1,378

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

Sources of funds are principally estates of deceased persons where the beneficiary(s) cannot be traced. Funds are retained in the Trust Account for six years, and are then transferred to the Crown revenue account as unclaimed money. During the financial year ended 30 June 2002, \$268 was paid to claimants. Interest of \$71,000 was earned from trust money on term deposit.

Details of funds held in the account are gazetted annually.

The accompanying accounting policies on pages 113 to 117 are an integral part of these financial statements.

Statement of Accounting Policies

1 Reporting entity and statutory base

These are the financial statements of the Treasury, a government department (the “Department”) as defined by section 2 of the Public Finance Act 1989 for the financial year ended 30 June 2002. The statements have been prepared pursuant to section 35 of that Act.

The activities of CCMAU have been incorporated into these financial statements.

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

2 Measurement system

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

3 Accounting policies

Revenue

The Department derives revenue through the provision of outputs to the Crown, for services to third parties and through interest on its deposits with the NZDMO. Such revenue is recognised in the Statement of Financial Performance when earned.

Cost allocation

The Department has derived the cost of outputs using a cost allocation system, which is outlined below.

Definition of terms

“Branch” is a cost centre that directly and indirectly contributes to outputs.

“Direct costs” are costs that can be identified with a single output.

“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.

“Corporate overhead costs” are those costs attributed to support service cost centres.

Basis for assigning corporate overhead costs to branches

The basis used to assign corporate overhead costs to branches is approximate resource usage.

Direct costs

Where possible costs are assigned directly to outputs.

Direct labour costs

A time recording system is used to collect and assign direct labour costs to outputs.

Basis for allocating indirect costs to outputs

Corporate overhead costs and branch indirect costs are allocated to outputs on a direct labour cost basis.

Accounts receivable

Accounts receivable are recorded in the Statement of Financial Position at the amounts expected to be ultimately collected.

Leases

The Department leases office premises. Substantially all the risks and benefits of ownership are retained by the lessor and therefore, these leases are classified as operating leases. Operating lease costs are recognised as an expense in the Statement of Financial Performance in the year in which they are incurred.

Fixed assets

Fixed assets are stated at the lower of cost less accumulated depreciation or net realisable value.

Depreciation

Depreciation of fixed assets is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their useful lives. The estimated economic useful lives are:

Furniture and fittings:	Safes	15 years
	Shelving	10 years
	Other	5 years
Leasehold improvements:		8 years
Office machinery and electrical equipment:	Photocopiers	5 years
	Other	5 years
	Electronic white boards	3 years
	Facsimile machines	3 years
Computer equipment:	UPS/Air conditioning	5 years
	Hardware	5 years
	Cabling	5 years
	System software	3 years
	PCs, terminals and printers	3 years
Plant:		5 years

Provisions

Onerous contracts

Where the benefits expected to be derived from a contract are lower than the unavoidable costs of meeting the Department's obligation under the contract, a provision is recognised. The provision is stated at the value of the future net cash outflows expected to be incurred in respect of the contract.

Employee entitlements

Provision is made in respect of the Department's liability for resigning retirement and long service leave. These provisions have been calculated on an actuarial basis based on the present value of expected future entitlements.

Statement of cash flows

"Cash" means cash balances on hand, held in bank accounts, and deposits with the NZDMO.

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

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

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

Foreign currency

Payments and receipts of foreign currency have been recorded at the actual rate of exchange at which the payment or receipt took place. Opening and closing balances recorded in the Statement of Financial Position are recorded at the rates applicable at balance date unless a forward exchange rate contract exists for the transaction. No forward cover has been arranged on any amounts included in the Statement of Financial Position. All exchange gains and losses, except for those arising from long-term monetary items, are recorded in the Statement of Financial Performance for the financial year, whether realised or not.

Financial instruments

Financial instruments primarily comprise cash and bank balances, receivables and payables. All financial instruments are recognised in the Statement of Financial Position. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

Goods and services tax

The Statements of Departmental and Non-Departmental Expenditure and Appropriations are inclusive of GST. The Statement of Financial Position is exclusive of GST except for advances and prepayments, accounts receivable, debtor-Crown and payables, which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in the Statement of Financial Position as either a payable or a receivable.

Income tax

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

Taxpayers' funds

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

Commitments

Commitments disclosed include those operating and capital commitments arising from non-cancellable contractual obligations. Commitments relating to employment contracts are not included in these financial statements.

Contingent assets and liabilities

Departmental contingent assets and liabilities are recognised in the Statement of Contingent Assets and Liabilities at the point at which the contingency is evident.

4 Changes in accounting policies

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

Statement of Responsibility

The Secretary to the Treasury, in terms of sections 35 and 37 of the Public Finance Act 1989, is responsible for the preparation of the Department's financial statements and the judgements made in the process of producing these financial statements.

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, these financial statements fairly reflect the financial position and operations of the Department for the financial year ended 30 June 2002.



Dr A E Bollard
Secretary to the Treasury

20 September 2002



John Matheson
Chief Financial Officer

20 September 2002

Audit Report



To the readers of the Financial Statements of the Treasury for the year ended 30 June 2002

We have audited the financial statements on pages 32 to 68 and pages 77 to 117. The financial statements provide information about the past financial and service performance of the Treasury and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 113 to 117.

Responsibilities of the Secretary to the Treasury

The Public Finance Act 1989 requires the Secretary to the Treasury to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Treasury as at 30 June 2002, the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and section 38(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Secretary to the Treasury. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Godfrey Boyce, of KPMG, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Secretary to the Treasury in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Treasury's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have carried out other assignments for the Treasury in the area of financial management advice. We have no other interests in the Treasury.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Treasury on pages 32 to 68 and pages 77 to 117:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect
 - the Treasury's financial position as at 30 June 2002;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements in relation to the performance targets and other measures set out in the forecast financial statements for the year ended on that date.

Our audit was completed on 20 September 2002 and our unqualified opinion is expressed as at that date.



Godfrey L Boyce
KPMG

On behalf of the Auditor-General
Wellington, New Zealand

Treasury Quality Standards for Analysis and Advice

Quality Characteristic	Description
Purpose	The objective for the advice is clearly stated, it answers any financial and economic issues raised by the Minister and demonstrates a clear understanding of the desired outcome(s) of the Government and/or the Minister.
Problem definition	The public policy problem, including the underlying causes, size and materiality of issues, is identified and supported by data or other evidence.
Context	It is clear where the advice stands in the context of the wider policy process, including what has already been undertaken and what is expected to occur in the future.
Logic	An appropriate analytical framework is used. Assumptions behind the advice are explicit and the argument is logical and supported by facts.
Accuracy	All material facts are present and accurate. Known gaps that could significantly affect the conclusions are identified and the range of uncertainty stated. Forecasts are credible at the time they are produced and take into account all relevant information.
Options	A range of options is presented that provides clearly differentiated choices and these are rigorously evaluated against the analytical framework. Costs, benefits, consequences and risks/opportunities of the options are assessed as part of the analysis. Where it is not appropriate to use a range of options the reasons are clearly stated.

Quality Characteristic	Description
Recommendations	Recommendations are clear, logical, and action oriented and can stand alone from the rest of the advice. They are sufficient to enable a decision to be made on the proposal or to move to the next decision/ action point.
Consultation	Evidence of thorough and timely consultation with other government departments and interested parties is presented, and their views, including objections, incorporated as appropriate.
Practicality	Issues of implementation, technical feasibility, practicality and timing are considered and advice accurately identifies compliance, transitional, political, legislative, revenue and expense and administrative implications and costs (quantified where possible).
Communication	Guidance is provided on how communications arising from decisions on the advice should be handled, including an assessment of key stakeholders who should be informed and how.
Presentation	<p>Material is presented to suit the target audience and:</p> <ul style="list-style-type: none"> • is concise and structured in a way which assists others to understand the aim of the advice, key features of the information, analysis, and recommendations, and their key implications • uses appropriate language and style • uses empirical evidence • avoids clichés and technical jargon (or where the latter is not possible, is used appropriately for a general audience) • is consistent with departmental and Cabinet Office presentation requirements.

Note: All aspects of the standards may not apply to specific pieces of policy advice, given considerations of urgency or the particular nature of the advice to be provided. For instance, much of our work is second-opinion advice on other departments' proposals often undertaken under tight time pressures.

Legislation

as at 30 June 2002

Budget legislation administered by the Treasury during the year:

Appropriation Act(s)

Imprest Supply Act(s)

Other legislation administered by the Treasury:

Bank of New Zealand Act 1988

Crown Forest Assets Act 1989

Crown Research Institutes Act 1992

Export Guarantee Act 1964

Farm and Fishing Vessel Ownership Savings Schemes (Closure)
Act 1998

Finance Acts (Various)

Fiscal Responsibility Act 1994

Government Superannuation Fund Act 1956

Hawkes Bay Earthquake Act 1931

Institute of Chartered Accountants of New Zealand Act 1996

International Finance Agreements Act 1961

National Expenditure Adjustment Act 1932

National Provident Fund Restructuring Act 1990

National Savings Act 1940

New Zealand Government Property Corporation Act 1953

New Zealand Railways Corporation Restructuring Act 1990

New Zealand Railways Staff Welfare Society Dissolution Act 1999

New Zealand Superannuation Act 2001 (various provisions)
Post Office Bank Act 1987
Public Audit Act 2001
Public Finance Act 1977
Public Finance Act 1989
Radio New Zealand Act 1995
Radio New Zealand Act (No 2) 1995
Rural Banking and Finance Corporation of New Zealand Act 1989
Southland Electricity Act 1993
State Insurance Act 1990
State-Owned Enterprises Act 1986
Superannuation Schemes Act 1989
Tourist Hotel Corporation of New Zealand Act 1989
Treasurer (Statutory References) Act 1997
War Funds Act 1915

Delegated legislation administered by the Treasury:

Bank of New Zealand Order 1989
Crown Research Institutes Act Commencement Order 1998
Electricity Industry Reform Act Commencement Orders (various)
Export Guarantee Amendment Act Commencement Order 1990
Finance Acts Orders (various)
International Finance Agreements Amendment Act Commencement Order 1978
National Provident Fund (Approval of Amendments to Restructuring Proposal) Order 1993
National Savings Investment Account Regulations (various)
New Zealand Railways Corporation Restructuring Act Orders (various)

New Zealand Railways Staff Welfare Society Dissolution Act
Commencement Order 1999

Post Office Bank Amendment Act Orders (various)

Public Audit (West Coast Development Trust) Order 2002

Public Finance Act Orders (various)

Radio New Zealand Orders (various)

Southland Electricity Act Commencement Order 1994

State Insurance Act (Vesting) Order 1990

State-Owned Enterprises Orders (various)

Tourist Hotel Corporation of New Zealand Act Commencement
Order 1990

Tower Corporation Act Commencement Order 1990

Working papers

for the year ended 30 June 2002

The Treasury working paper series contains work in progress on a variety of economic, financial, trade and social issues. The series comprises working papers written to inform internal policy discussions.

Our aim in publishing is to make papers available to a wider audience, and to inform and encourage public debate. Treasury working papers are an electronic publication that can be viewed on our web site:

<http://www.treasury.govt.nz/workingpapers>

Working papers added during 2001/02 include:

2002¹

- 02/06 Ethnicity and Early Labour Market Experiences in the Christchurch Health and Development Study, by Tim Maloney
- 02/05 The Economics of Population Ageing, by John Stephenson and Grant Scobie
- 02/04 Long-term Fiscal Projections and their Relationship with the Intertemporal Budget Constraint: An Application to New Zealand, by John Janssen
- 02/03 Subsidiarity: Implications for New Zealand, by Kevin Guerin
- 02/02 Saving in New Zealand: Measurement and Trends, by Iris Claus and Grant Scobie
- 02/01 Modelling Regional Labour Market Adjustment in New Zealand, by Wai Kin Choy, David C Maré and Peter Mawson

2001

- 01/34 Does Crown Financial Portfolio Composition Matter?, by Nick Davis
- 01/33 Calm after the Storm?: Supply-Side Contributions to New Zealand's GDP Volatility Decline, by Robert A Buckle, David Haugh and Peter Thomson

¹ A further seven working papers were produced for the June quarter but not released until after the election.

- 01/32 Saving and Growth in an Open Economy, by Iris Claus, David Haugh, Grant Scobie and Jonas Tornquist
- 01/31 An Econometric Analysis of a Production Function for New Zealand, by Kam Leong Szeto
- 01/30 Reducing Māori and Pacific Inequalities, by the Treasury
- 01/29 Poverty, Income Inequality and Health, by Ken Judge and Iain Paterson
- 01/28 Greening the WTO's Disputes Settlement Understanding: Opportunities and Risks, by Jim Rose
- 01/27 Sustainable Development: Environment and Economic Framework Integration, by Basil M H Sharp
- 01/26 Three Steps Towards More Effective Development Assistance, by Jim Rose and Simon Hay
- 01/25 New Zealand's Fiscal Policy Framework: Experience and Evolution, by John Janssen
- 01/24 Budget Management That Counts: Recent Approaches to Budget and Fiscal Management in New Zealand, by Angela Barnes and Steve Leith
- 01/23 Regulatory Issues in Biosecurity, by Chris Pinfield
- 01/22 Brain Drain or Brain Exchange?, by Hayden Glass and Wai Kin Choy
- 01/21 Understanding Changes in the Distribution of Household Incomes in New Zealand between 1983-86 and 1995-98, by Dean Hyslop and Dave Mare
- 01/20 Financing New Zealand Superannuation, by Brian McCulloch and Jane Frances
- 01/19 Household Net Wealth: An International Comparison, by Iris Claus and Grant Scobie
- 01/18 Household Saving Behaviour in New Zealand: A Cohort Analysis, by John K Gibson and Grant Scobie
- 01/17 Geography and the Inclusive Economy: A Regional Perspective, by the Treasury
- 01/16 Human Capital and the Inclusive Economy, by the Treasury
- 01/15 Towards an Inclusive Economy, by the Treasury