

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 four 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.
- We provide leadership, with other central agencies, to develop an effective, efficient and innovative State sector.

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.

MINISTER'S FOREWORD



The Treasury, as the Government's lead economic and financial advisor, has a significant role in helping achieve our goal of growing an inclusive economy for all New Zealanders.

This *Annual Report* outlines the contribution the Treasury has made over the 2003/04 year to support this central aim.

A particular focus has been ongoing work by the Treasury to lift New Zealand's economic growth and productivity and to maintain the Government's role as a careful fiscal manager, supported by an efficient and effective public sector.

The Government has also received valued Treasury support through its running of an effective 2004 Budget process and through advice and analysis on a range of issues as set out in this report.

As we move towards 2005, I will continue to look to the Treasury for high-quality analysis and policy advice in progressing Government goals and raising living standards for all New Zealanders.

A handwritten signature in black ink, appearing to read 'M. Cullen'.

Hon Dr Michael Cullen
Minister of Finance

HIGHLIGHTS OF OUR YEAR

- Reporting on economic performance and identifying critical issues for growth
- Introduction of the Public Finance (State Sector Management) Bill to improve State sector management systems
- Advising the Government on rail and transport issues
- Working jointly with other officials to design and cost the Working for Families package
- Undertaking the Overseas Investment Act Review
- Advising on possible reforms to the Resource Management Act
- Advising on reducing trans-Tasman business barriers and participating in international discussions on closer economic partnerships
- Reviewing the Treasury's strategic direction and identifying medium-term priorities
- Implementing accommodation changes at No. 1 The Terrace.

CHIEF EXECUTIVE'S SUMMARY



I am pleased to present this *Annual Report for the Treasury for the 2003/04 year*.

The Treasury has continued to concentrate on its primary role of providing quality economic and financial policy advice for the Government over the period. Efforts have been clearly focused on achieving the Government's longer-term goals, as well as providing an effective contribution to more immediate issues as they arise.

An encouraging feature of the year has been the continued strengthening of the Treasury's relationships with stakeholders both within and outside the public sector. In particular, much work has been undertaken jointly and successfully with other public sector agencies, reflecting the Treasury's responsibilities as a public sector leader and central agency.

From an organisational perspective, a highlight of the period has been the development of a strategic direction which identifies the contribution the Treasury aims to make to the Government's goals over the next five years and beyond.

This clear sense of a results-focussed "outcome" direction and work priorities, supported by the ongoing redevelopment of our accommodation at No. 1 The Terrace, has set the stage for a challenging and productive period ahead.

Towards higher living standards for New Zealanders – a strategic direction

The Treasury's vision is to be a world-class organisation working for higher living standards for New Zealanders.

This overarching vision for our organisation has shaped the development over 2003/04 of our strategic direction, which has updated and strengthened the goals set out in our previous *Strategic Plan 1999-2004*.

Work began with confirming five outcomes as critical in achieving the Government's goal of creating higher living standards for all New Zealanders:

- Improved overall economic performance.
- Stable and sustainable macroeconomic environment.
- Effective and efficient use of State resources and regulatory powers.

- Improved decision-making and performance management systems.
- Efficient management of Crown assets and liabilities.

We then determined how the Treasury should contribute to these outcomes over the next five years and beyond. This involved pinpointing how we could use and develop capability to achieve those results, and identifying work priorities and the organisational implications in each area.

The result is a longer-term view which has given new clarity to Treasury work programmes for the foreseeable future, while also allowing flexibility as changes in demand and new issues arise.

Improving New Zealand's economic performance

Work by the Treasury on the critical goal of improving economic growth has continued at an intensive level over 2003/04, across a number of areas of focus.

We continued to increase our understanding of New Zealand's economic performance and of the factors which determine economic growth. In the long term, New Zealand's growth prospects are increasingly recognised to lie with increasing labour productivity and, to a lesser extent, labour utilisation.

Over 2003/04, the Treasury continued to identify and measure the factors that determine productivity growth and used this to shape advice in this area. Understanding the contribution of "human capital" development was another area of focus, and results of this work also fed into ministerial policy advice.

Efforts to improve New Zealand's physical and regulatory infrastructure, so critical to business growth, have been a large part of the Treasury work programme over this period. Our contribution on these issues – much of it in conjunction with other government departments and agencies – has included advice on possible reforms to the Resource Management Act, regulation and funding for transport infrastructure and regulatory and governance issues for the energy sector.

Similarly, the Treasury continued work on deepening New Zealand's international links, including reducing barriers to trans-Tasman business and economic partnerships with other countries.

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The Treasury and the public sector

An efficient and effective public sector is critical to achieving the Government's goals. As such, it is a key focus for the Treasury, with our contribution now explicit in our strategic direction. We are also one of the three central agencies with leadership responsibilities for the public sector, adding extra emphasis to this work.

Over the past year, we have continued to work to improve our cross-agency coordination and strategic alignment – as well as to integrate the different elements of the public sector management system to improve its effectiveness. We have also reoriented some of our internal priorities and processes to support this emphasis.

Other goals have been to ensure departmental capability needs are addressed in an integrated manner, and to ensure tools are developed to help improve public sector performance.

Projects undertaken in these areas over 2003/04 have ranged from leading a comprehensive review of the Department of Child, Youth and Family Services (and assisting with its implementation), to a review of the long-term sustainability of health funding and a joint-agency design and costing of the Government's Working for Families package.

A significant highlight was also the Government's introduction of the Public Finance (State Sector Management) Bill. The Bill is the result of intensive work by the Treasury, the State Services Commission (SSC) and other agencies to update this core public sector legislation, facilitating an improved "managing for outcomes" focus and integrating the existing Public Finance and Fiscal Responsibility Acts.

In a more immediate sense, the 2004 Budget, once again set the framework for the Government to establish its priority setting and public sector resource allocation in the current year and beyond.

CCMAU

CCMAU is a stand-alone unit within the Treasury that monitors Crown research institutes (CRIs), state-owned enterprises (SOEs) and Crown-owned companies and entities – organisations which together play a significant part in New Zealand's economy.

Over 2003/04, CCMAU has focused on consolidating organisational changes made to enhance the Unit's capability at a strategic level. Results and progress are outlined in the Unit's report on pages 65 to 78.


The year ahead

The Treasury enters the 2004/05 year with the aim of continuing to provide highly regarded and valued policy advice and services to Ministers.

The solid foundations laid in the year under review – in particular, the goals set for the organisation in the strategic direction and the actions which support it – will help ensure this success.

Accommodation changes will be ongoing over the coming year, but the benefits of the more open-plan floor designs are already becoming apparent and will outweigh any short-term inconvenience.

I would like to thank Treasury staff and colleagues for their contribution in 2003/04 and, in particular, for continuing to deliver high-quality work during these accommodation developments.


John Whitehead
Secretary to the Treasury

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Priorities for 2004/05

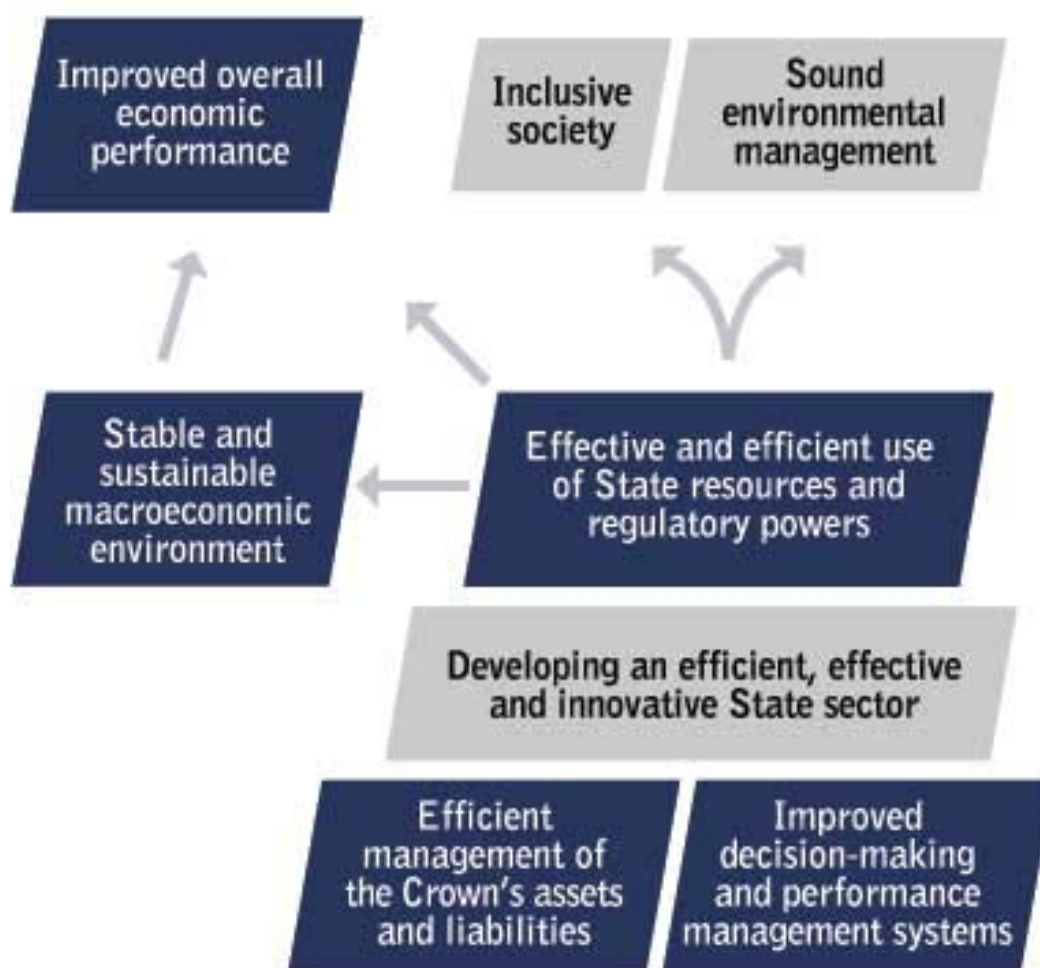
As set out in our *Statement of Intent* for 2004/05 we will be working collaboratively with a wide range of public and private sector agencies to contribute to outcomes for the Government, where the Treasury can make a difference. We will continue to extend work on growth, focusing on:

- reporting annually on progress and critical issues for growth to help with setting strategic priorities
- better understanding the factors that influence physical capital investment and firm entry, exit and growth
- increasing labour utilisation, by raising participation rates, and increasing education attainment
- increasing multifactor productivity – focusing in particular on firm productivity, skills, knowledge, research and development (R&D), innovation and government expenditure and revenue
- increasing regulations and institutions – particularly those related to property rights and resource management, infrastructure and external linkages.

We will seek to improve further the public sector management systems aimed at ensuring we achieve tangible results for citizens and the Government, by working to:

- increase the development and assessment of strategic priorities, from a “whole-of-government”, sector and agency perspective
- improve Budget processes and resource allocation to achieve desired Government outcomes
- enhance performance and capability monitoring.

Higher Living Standards *for* New Zealanders



Key outcomes for the Department

TOWARDS HIGHER LIVING STANDARDS FOR NEW ZEALANDERS

The Government has a goal of growing an inclusive economy for the benefit of all. Reaching this goal will mean higher living standards for New Zealanders. It is the Department's overarching outcome.

We are actively and systematically moving to an outcome-based approach to our management. This *Annual Report* reports against our *Statement of Intent* (SOI) for 2003/04, but also seeks to build on the progress made with our 2004/05 SOI. This is because a 2003/04 review of our medium-term strategic direction resulted in some changes to the outcome framework in our SOI for 2003/04 – and was used to identify medium-term priorities for each outcome area for 2004/05 and beyond.

We have confirmed five key outcomes relevant for the Treasury that we believe contribute in turn to the Government's outcomes that are important for improving living standards:

- Improved overall economic performance.
- Stable and sustainable macroeconomic environment.
- Effective and efficient use of State resources and regulatory powers.
- Improved decision-making and performance management systems.
- Efficient management of the Crown's assets and liabilities.

These are areas where the Treasury can make a difference, and are key outcomes for the Minister of Finance, or Vote Ministers in the case of CCMAU. They are highlighted in blue in the diagram opposite.

In this section we report on each outcome, noting progress and significant work undertaken during 2003/04 that should contribute to improved outcomes for the Government in the longer term.

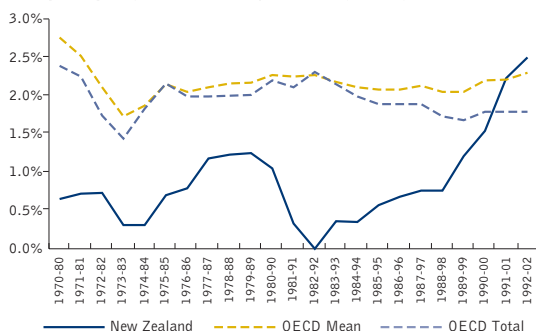
Improved overall economic performance

The Government continues to place a high priority on policies designed to promote economic growth and to improve social outcomes (Prime Minister's 2003 and 2004 *Statements to Parliament*). As the Government's chief economic advisor, our role is to understand what drives growth in New Zealand's average income and advise the Government on the impact on growth of a wide range of policies.

Economic growth is important for improving living standards. It is usually measured by growth in real (inflation-adjusted) gross domestic product (GDP).

NEW ZEALAND'S GDP PER CAPITA GROWTH

GDP per capita growth rate (11-year moving average)



The average level of material living standards is generally approximated by GDP per capita and although this measure has limitations, it is the most useful international measure readily available.

Since the early 1990s, New Zealand has been among the highest growth performers in the OECD, achieving an average annual GDP per capita growth rate higher than the average for the OECD. This was sustained in 2003/04, with GDP growth of 3.6% for the year to March 2004 and per capita GDP growth of 1.9%. Looking forward, in the 2004 *Budget Economic and Fiscal Update* we expected GDP growth to slow to

approximately 2.8% (and 1.6% per capita) for the year ending March 2005. More recent information suggests that growth will be somewhat stronger for the current year.

Feedback on economic performance

In their May 2004 Article IV Consultation, the International Monetary Fund's Executive Directors:

"welcomed the strong performance of New Zealand's economy in recent years, which reflects the authorities' continued skillful management of macroeconomic policies and the ongoing benefits from the extensive structural reforms that have been implemented since the 1980s."

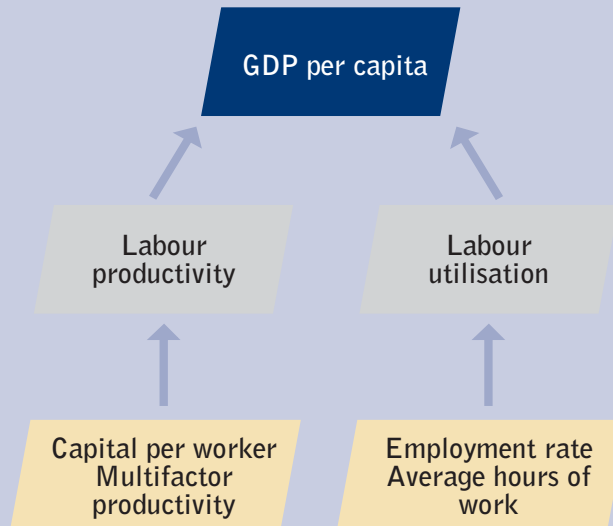
Understanding growth, reporting on performance and identifying priorities for the future

During 2003/04 we continued to increase our understanding of New Zealand's economic performance relative to other OECD countries. We published a study describing and explaining New Zealand's economic growth performance and key factors that determine growth, and related these to policy issues. Using this as a basis, senior managers and staff gave a number of speeches and presentations at conferences, workshops and other government departments. This aimed to build a shared understanding of the key drivers of growth, recognising that the actions of many players will shape New Zealand's economic performance.

We also reviewed upcoming critical issues for New Zealand's economic growth and identified policy priorities, opportunities and risks over the medium term as they relate to growth.

This work led to the development of an "economic growth project plan", which contains a portfolio of growth reports and projects designed to support our contribution to this outcome.

SOURCES OF GROWTH



Looking at New Zealand's increased economic growth, it is useful to recognise that GDP per capita can be described as the sum of the growth of "labour productivity" and the growth of "labour utilisation". Labour productivity is measured by GDP per hour worked, which in turn is dependent on the amount of physical capital per worker (equipment, buildings and infrastructure), and multifactor productivity (a measure of how well capital and labour are used to produce outputs). Labour utilisation depends on the employment rate (the proportion of the working-age population in jobs) and average hours of work. The growth in GDP per capita since the early 1990s came initially from growth in labour utilisation and more recently from labour productivity growth. Also encouraging is that New Zealand has experienced similar multifactor productivity growth rates to Australia since the early 1990s. The rate of accumulation in capital per worker in New Zealand has been slower than that in some other OECD countries.

Lifting labour productivity

The greatest potential for sustaining and increasing New Zealand's long-term per capita GDP growth lies in sustaining and increasing labour productivity growth. During 2003/04 we reported on New Zealand's physical capital per worker, its contribution to labour productivity, and possible reasons for its relatively low level and growth rate. This work built on previous research into aggregate and sector productivity growth. We are working jointly with the Ministry of Economic Development (MED) and the Ministry of Research, Science and Technology (MoRST) on increasing the effectiveness of support for businesses R&D, which is one component of innovation. We are also continuing to work on the regulatory frameworks for allocating and using natural resources and infrastructure.

We contributed to the Workplace Productivity Working Group (an advisory group to the Government) and provided ongoing support for the dialogue on productivity between the Council of Trade Unions' (CTU's) and Business New Zealand. We also worked with MED and other key agencies on the Government's Growth and Innovation Framework (GIF) policies, with the aim of ensuring we get maximum leverage from GIF initiatives.

We advised on taxation and the cost of capital and the impact of taxation on investment and capital accumulation. We are continuing work on the relationship between taxes and economic growth and on taxation and labour market incentives.

We made further progress on New Zealand's interactions with the rest of the world. We advised on reducing trans-Tasman business barriers and participated in closer economic partnerships/negotiations with various other countries. As a small economy, greater integration with the world economy assists improved economic performance.

Labour utilisation, human capital and growth

We undertook a number of studies on how labour utilisation and other aspects of human capital contribute to economic growth. These included projects on:

- the scope and potential impact of a rise in participation rates on New Zealand's per capita GDP
- the contribution of skills to business productivity
- the growth effects of businesses' use of human capital and technology
- the effects of increasing the capabilities of the less skilled.

The results of this work were included in our advice to Ministers and the deliberations of the Workplace Productivity Working Group.



Audrey Teasdale,
Veronica Jacobsen and
Peter Wilson en route
from a workplace
productivity briefing

Stable and sustainable macroeconomic environment

This outcome combines the “stable macroeconomic environment” and “prudent fiscal management” outcomes of last year’s SOI. Prudent fiscal management is a key contributor to a stable macroeconomic environment. In turn, stable and sustainable macro outcomes are significant preconditions for, and contributors to, improved overall economic performance.

The Treasury is responsible for advice to the Government on fiscal policy. We also advise on monetary policy, where objectives are agreed between the Minister of Finance (with advice from the Treasury) and the Reserve Bank Governor, and policy is implemented independently by the Reserve Bank. The Treasury, together with the Reserve Bank and MED, advises on financial-sector policy.

Our 2004/05 SOI outlines how we measure progress in relation to a stable and sustainable macroeconomic environment. The most recent information can be found in the 2004 *Budget Economic and Fiscal Update* and the Monthly Economic Indicators reports, available on our website at www.treasury.govt.nz.

The economy’s performance

Over the past year, the economy maintained its momentum. Growth slowed temporarily during the middle of 2003 as a result of SARS, international geopolitical uncertainty and electricity shortages, but recovered quickly as these effects waned. Export growth picked up on the back of a rebound in primary sector production and stronger commodity prices. Business investment growth accelerated, but private household spending (especially housing construction) was the main engine of growth. Strong economic growth saw unemployment fall to low levels and businesses operate their plants near full capacity.

There were signs of increased price pressures in some parts of the economy, but to date these have been largely offset by lower prices for imported goods and services. Indications are that these offsetting forces will decline and annual Consumer Price Index (CPI) inflation will rise, consequently the Reserve Bank has lifted interest rates.

The 2004 *Budget Policy Statement* reported that the Government was overachieving on its previous long-term fiscal objectives. The Government chose to lock in this faster-than-expected progress by lowering its long-term debt objective in the 2004 *Fiscal Strategy Report*.

Treasury support

Our support for this outcome in 2003/04 took the form of preparing background information in forecasts and monitoring, as reported in the *Economic and Fiscal Updates*, and in the Government’s 2004 *Fiscal Strategy Report*. We also advised on re-setting the Government’s long-term fiscal objectives.

During 2003/04 we worked on improving the information from which we develop our policy advice. We continue to publish regularly the Crown financial statements in a manner consistent with generally accepted accounting practice (GAAP). This year we added to our reporting by producing a System of National Accounts version of the Budget forecasts. This work will allow better

international comparisons of our fiscal performance and provides a backdrop to desired outcomes of a stable and sustainable macroeconomic environment and good decision-making and performance management systems.

Much of our work last year improved the way we benchmark and model our processes against those of other agencies around the world. We advised on public sector accounting changes and continued to study and report on Australian and New Zealand banking supervision as a way of improving the trans-Tasman financial sector's resilience to shocks.

The outcome of managing the fiscal position prudently will be advanced by our work on the new Public Finance (State Sector Management) Bill, which is currently before Parliament.

We contributed to developing New Zealand's monetary framework by advising on changes to the levels of foreign exchange reserves and to the Reserve Bank's capacity for intervening at the extremes of the exchange rate cycle. We also contributed ongoing research and advice on using the balance sheet as a buffer against economic shocks.

Take three on government finances

As the Government's lead advisor on economic and financial policy, part of the Treasury's role is to ensure government financial information is available in a format that meets user needs and international reporting requirements.

The GAAP format is used to prepare key accountability documents such as the year-end financial statements and *Economic and Fiscal Updates*. For the past year, the Treasury has also been working on two new ways of reporting on central government finances – the System of National Accounts (SNA) format used by the OECD, and the International Monetary Fund's (IMF's) revised Government Finance Statistics (GFS) 2001 format. This work resulted in two reports: an SNA version of the 2004 *Budget Economic and Fiscal Update* and a section on New Zealand's central and local government accounts to June 2002 in the IMF yearbook.

The SNA reporting framework is used to measure key economic indicators such as New Zealand's GDP and the balance of payments, while the revised GFS format, which was developed specifically for government reporting, is likely to be increasingly used by international agencies for country analysis and comparison.

Until now, Statistics New Zealand and the Treasury have used different data and systems to produce the information required by each reporting framework, leading to results which are often difficult to reconcile. Producing GFS under the 2001 methodology has also resulted in additional data requirements.

But now, thanks to effective collaboration between Statistics New Zealand and the Treasury, significant progress has been made towards the development of a joint data source and processing system. The system will be capable of producing actual and forecast reports under all three reporting frameworks: GAAP, SNA and GFS. The reports, which will be reconciled, will also meet international user demands. The data will need to be collected only once from the relevant government departments, saving additional time.

The project team consisted of Alan Vandermolen, Lindsay Bluck, Graham Muggeridge and Richard Angus of the Treasury; and Ron McKenzie, Lyndon Cavanagh and Brian Roulston of Statistics New Zealand.

The use of one set of fiscal data for all three reporting frameworks will ensure consistency, enhance forecasting capability and strengthen the Treasury's ability to discuss New Zealand's economic performance with international agencies.



The project team: Graham Muggeridge, Richard Angus, Lyndon Cavanagh, Lindsay Bluck, Alan Vandermolen and Brian Roulston (absent: Ron McKenzie)

Effective and efficient use of State resources and regulatory powers

The effective and efficient use of State resources and regulatory powers contributes to a wide range of the Government's desired economic, social and environmental outcomes.

The Treasury is responsible for monitoring and managing the Crown's financial affairs and advising the Government on how to get the best quality and value out of public spending. This involves:

- reviewing planned and existing expenditure along with the strategic alignment and capability of public sector organisations
- developing research-based reviews of medium-term policy options
- advising on regulatory proposals.

Together with other central agencies we also work on improving decision-making, review and evaluation practices, and performance management systems.

In 2003/04 we reviewed the long-term effectiveness and fiscal sustainability of several significant expenditure areas including:

- health funding
- the Working for Families package – working jointly with the Ministry of Social Development (MSD) and other officials on designing and costing the package
- coordinating the Government's growth and innovation policies with MED and other key agencies.



Working on health funding issues – Katja Ackerley, Colin Lynch, Charles Tallack, Iain Cossar and Susan Flavin

These reviews have substantial expenditure and effectiveness impacts that will bear fruit over the next several years.

Staff working on the
Resource Management
Act – Sharron Came,
Kevin Guerin, Pete Fraser,
Megan Taylor and
David Galt



The most significant review of the strategic alignment and capability of a public sector entity was that of the Department of Child, Youth and Family Services, reported to Ministers in September 2003. This will have significant effects on the Department's future focus, effectiveness and capability. We also undertook a variety of other smaller reviews.

Work to help provide an effective research and evidence base for medium-term policy options included an in-house project team's studies under the broad heading of "Human Capital and Growth". As well as feeding into our advice to Ministers in this area, the results of this work made a significant contribution to the deliberations of the Workplace Productivity Working Group.

Regulation also has significant effects on the efficiency of the New Zealand economy. Given this, we advised on a variety of major regulatory proposals including:

- business law reform
- possible reforms to the Resource Management Act
- the Government's policy package to meet its Kyoto Protocol commitments
- the regulation of and funding for transport infrastructure
- regulatory and governance issues in the energy sector.

We typically worked closely with a number of other departments on these regulatory frameworks, with the aim of promoting continued or improved productivity within the New Zealand economy.

Improved decision-making and performance management systems

Well designed decision-making and performance management systems (including the Budget) encourage excellent performance in departments and Crown entities and sound financial management. They also help in making decisions on trade-offs and performance monitoring over time. We are constantly working to improve State sector decision-making and performance management systems.

This outcome also contributes to making more effective and efficient use of the State's resources, by ensuring systems are well designed, well understood and seen to operate effectively. We measure progress largely through surveys and reviews of our systems and processes.

The Treasury has the primary responsibility for advising on the Budget process and the Public Finance Act, preparing the Crown accounts, and designing financial and reporting arrangements for SOEs and Crown entities. We also work with the State Services Commission (SSC) in designing systems that encourage and maintain public sector effectiveness and accountability.

Major areas of work in 2003/04 involved:

- further advancing the “managing for outcomes” (MfO) initiative and the performance management system more generally
- managing and refining the Budget process
- developing and helping manage changes to the Public Finance Act as part of the Public Finance (State Sector Management) Bill.

Advancing the MfO initiative and the performance management system

Together with other central agencies we advanced the MfO initiative, including publishing an evaluation of its support in August 2003. This showed that departments were positive about the initiative, and that the expectations and guidance available to them were helpful in starting to implement an outcomes-focused planning process. Subsequent guidance on planning for 2004/05 encouraged departments to extend their MfO focus to the whole management cycle for the coming years, including feeding reviews into future planning. We also helped departments undertaking shared outcomes.

We issued two circulars after work on the performance management system:

- The first focused on improving the state of evaluation activity across agencies, recognising that to make good decisions about and perform well in the future, departments need to learn from past activities. This should generate greater certainty about whether government regulation, policies and programmes are working as planned. We are currently following up on how agencies have adopted it.

- The second circular reiterated the Crown's position on departmental insurance and risk management, and outlined high-level expectations that aim to ensure departments are making the right decisions around insurance. This followed work with industry representatives and a survey of departmental insurance arrangements.

The Government provides funding to a large range of non-government organisations (NGOs). It is important that these arrangements are established, administered and monitored well. We reviewed our NGO Contracting Guidelines in late 2003 to ensure they accurately reflect current best practice and remain useful to departments and Crown entities. This involved wide-ranging consultation to capture the relevant issues and challenges facing NGOs.

Managing and refining the Budget process

The Budget plays an important role in enabling the Government to advance its key policy goals while still meeting its fiscal objectives. Supporting this, the Treasury helped the Government with its 2004 *Budget Strategy*, including the 2004/05 fiscal assessment and advising on decision-making processes. We also supported Finance Ministers in bilateral discussions with Vote Ministers, contributing to policy proposals and identifying how they affected the Government's fiscal policy objectives.

The Budget process and production are largely governed by the Public Finance Act 1989 and the Fiscal Responsibility Act 1994. A well functioning Budget entails a predictable, clearly specified process where all participants clearly understand what is required of them, and where decision-makers and wider stakeholders receive timely and accurate information. To support this, during 2003/04 we:

- provided advice and training to departments on the conduct of the 2004 Budget round
- collated the package of new initiatives for the 2004 Budget and developed papers and recommendations for consideration by Budget Ministers, the Cabinet Policy Committee and Cabinet
- advised on and fulfilled statutory requirements under the Fiscal Responsibility Act 1994, including identifying specific fiscal risks
- managed and prepared Budget documentation in line with the Public Finance Act 1989, including the Appropriation and Imprest Supply Bills, Estimates and Baseline Updates.



Staff working on the Budget Review Project –
Andrew Caffery and Tyson Schmidt

A well functioning Budget decision-making process also depends on a clear understanding of the trends underlying Budget outcomes. In 2003/04 we researched and analysed expenditure trends and the effect of the Government's approach to funding existing outputs. We also helped the SSC in developing a State sector remuneration pressures information and analysis system.

Developing and helping manage changes to the Public Finance Act

We continue to help in the passage of the Public Finance (State Sector Management) Bill, which was introduced to the House in December 2003. The Bill is the biggest change to public sector management legislation for a decade.

The legislation amends the Public Finance Act and the State Sector Act and creates new Crown entity legislation. This aims to improve public sector and wider State sector management systems, including encouraging a greater focus on results and better integration. The work has been undertaken in close cooperation with the SSC and the Office of the Controller and Auditor-General, which will be maintained when the legislation reaches implementation stage.

Taking public finance and Crown entities to the next level

The Public Finance (State Sector Management) Bill represents the first major change to New Zealand's public management system in the past decade. The Bill, which includes significant amendments to the Public Finance Act and the creation of a new Crown Entities Act, is the result of several years' policy work to improve performance and integration across the State sector.

In August 2003, a cross-Treasury team came together to prepare the Bill for the parliamentary process, and to provide support as the Bill progressed through the various stages in the House.

"The project was an opportunity for Treasury employees, to develop and promote a piece of significant legislation," said project leader Kirsten Jensen. "The project team, which has lived and breathed the Bill for the past year, worked effectively with the State Services Commission and Parliamentary Counsel Office, to get the Bill ready for introduction into the House."

Kirsten and Treasury Solicitor Ivan Kwok led the project, managing relationships and providing legal oversight. Also on the project team were Ken Warren, Jonathan Ayto, Chris Money, John Jansen and Jennifer Lynch, who advised on Public Finance Act amendments; Roger Beckett and Simon MacPherson, who provided advice on Crown entities; and Belinda Ryan, Neil Miller, Catherine Moody and Annette Vogt, who coordinated and communicated issues.

The team also prepared a parliamentary briefing on the Bill, which provided a useful summary for engaging parliamentary parties. A subsequent departmental report responded to issues raised by submissions on the Bill, resulting in a number of amendments which significantly improved the new legislation.

Branch Manager – Regulatory and Tax Policy, Iain Rennie, said the project team had ensured robust Treasury advice was provided on the Bill. "It also provided opportunities to work more closely with the parliamentary parties and to build broad parliamentary support."



Working on the Bill – Jennifer Lynch, Maureen Wood, Roger Beckett, Simon MacPherson, Jonathan Ayto, Ivan Kwok and Kirsten Jensen

Efficient management of the Crown's assets and liabilities

Efficient management of the Crown's assets and liabilities contributes to improved overall economic performance through maximising the value of the Government's investments and minimising the costs of the Government's finance. The Treasury and CCMAU contribute by:

- monitoring entities and advising Ministers on significant strategic issues and investment and disinvestment decisions that affect both the Crown balance sheet and the companies
- managing, through the New Zealand Debt Management Office (NZDMO), the Crown's sovereign-issued debt and associated financial assets
- providing primary policy advice and, in some cases, managing commercial and contractual claims against the Crown.

The Crown owns more assets than any other entity in New Zealand, with assets as at 30 June 2004 estimated to be worth just over \$110.7 billion. These assets include interests in SOEs, Crown companies and CRIs and the increasing financial assets being accumulated in Crown financial institutions (CFIs). Offsetting this in part, the Crown has liabilities estimated at more than \$75.2 billion. Most notable is the sovereign-issued debt portfolio estimated at around \$35.5 billion. The Crown's net worth was estimated at around \$35.5 billion at the end of 2003/04.

Source: 2004 Crown Financial Statements

Crown agencies for which either the Treasury or CCMAU has lead monitoring responsibility

SOEs *(CCMAU lead, and the Treasury)*

- AgriQuality Ltd
- Airways Corporation of New Zealand Ltd
- Asure New Zealand Ltd
- Electricity Corporation of New Zealand (Residual) Ltd
- Genesis Power Ltd
- Landcorp Farming Ltd
- Meridian Energy Ltd
- Meteorological Service of New Zealand Ltd
- Mighty River Power Ltd
- New Zealand Post Ltd
- New Zealand Railways Corporation
- Solid Energy New Zealand Ltd
- Timberlands West Coast Ltd
- Transpower New Zealand Ltd
- Transmission Holdings Ltd

Other Crown companies

(CCMAU lead, and the Treasury)

- Learning Media Ltd
- Radio New Zealand Ltd
- Television New Zealand Ltd
- Animal Control Products Ltd
- Quotable Value Ltd

CRIs *(CCMAU lead, and the Treasury)*

- AgResearch Ltd (AgResearch)
- Industrial Research Ltd (Industrial Research)
- Institute of Environmental Science & Research Ltd (ESR)
- Institute of Geological and Nuclear Sciences Ltd (GNS)
- Landcare Research New Zealand Ltd (Landcare Research)
- National Institute of Water & Atmospheric Research Ltd (NIWA)
- New Zealand Forest Research Institute Ltd (Forest Research)
- New Zealand Institute for Crop & Food Research Ltd (Crop & Food Research)
- The Horticulture and Food Research Institute of New Zealand Ltd (HortResearch)

Other *(CCMAU lead, and the Treasury)*

- Air New Zealand Ltd (Treasury only)
- Christchurch International Airport Ltd
- Dunedin International Airport Ltd
- Invercargill Airport Ltd
- New Zealand Lotteries Commission
- Public Trust
- New Zealand Venture Investment Fund Ltd

CFIs *(Treasury only)*

- Earthquake Commission
- National Provident Fund
- New Zealand Superannuation Fund
- Government Superannuation Fund

While the Crown's fiscal objectives are set at an aggregate level, we advise on, monitor the performance of and in some cases directly manage assets and liabilities at the individual entity level.

The income from the Crown's commercial investments and financial assets, and the costs of its financial liabilities, flow into the Crown's operating balance and are reported in the Crown's financial statements. Market fluctuations mean that actual performance may vary from targets in a shorter timeframe, but over a longer term these entities are expected to contribute positively to the Crown's operating balance and balance sheet, while minimising risks to the Crown and thus taxpayers.

It is also important that the Crown's individual assets and liabilities are structured and managed so they contribute to an efficient balance sheet. This forms part of the "stable and sustainable macroeconomic environment" outcome discussed on pages 13-15.

As set out in our 2004/05 SOI, when advising Ministers on strategic issues, Statement of Corporate Intents and business plans, or when monitoring entity performance, we focus on:

- **return on investment and value added:** Whether the returns of the entities (mainly the CFIs and SOEs, as they make up the major component of the Crown's commercial assets) over the business cycle exceed the cost of capital. The financial size of the Crown's debt portfolio means we also consider NZDMO's ability to add value to the portfolio.
- **financial viability:** Whether the SOEs maintain their long-term financial viability, with one measure being their credit ratings, and whether the CFIs hold, or plan for, enough funds to meet their statutory objectives. To the extent that a fund is owned or guaranteed by the Crown, any unfunded liability is reflected in the Crown's liabilities.

Information on the financial position of the SOEs, Crown companies and CFIs can be found in the Crown financial statements and in the *Annual Reports* of the individual entities. Each of the rated SOEs maintains an investment grade credit rating.

- **compliance with established policies:** Whether NZDMO's funding and portfolio management activities are undertaken within an appropriate risk management framework. The framework and detailed accounting disclosures on the assets and liabilities managed by NZDMO are detailed on pages 113-122. There were no material breaches of established policies and controls in 2003/04.

SOEs, CRIs and Crown companies

The Treasury and CCMAU continued to advise on governance and performance, including advising shareholding Ministers on Statements of Corporate Intent (SCIs) and business plans, and on investment strategies to maintain and enhance shareholder wealth. A significant new area of work in 2003/04 involved implementing the "long-term hold" review process, which included reviewing each SOE and applying long-term ownership principles to ensure performance and investment strategies are consistent with Government objectives. A second important initiative by CCMAU involved developing value-based reporting to improve our monitoring and understanding of SOE performance.

Given the significance of the energy sector to the New Zealand economy, the energy SOEs were an important focus. The Treasury and CCMAU advised on a number of investment and expansion proposals where SOEs sought Ministers' views. The split of Television New Zealand Ltd (TVNZ) into the new TVNZ and Transmission Holdings Ltd was completed in 2003/04, with Transmission Holdings Ltd being established as an SOE on 1 January 2004.



Reviewing SOE issues –
Emma Laird (CCMAU)
and Ingrid van Elst
(Treasury)

In terms of CRIs, CCMAU worked with other agencies to enhance the CRIs' contribution to objectives in the GIF, as outlined on pages 66 and 67. (CCMAU's Overview).

CFIs

CFIs represent a significant proportion of the Crown's balance sheet and the establishment of the New Zealand Superannuation Fund (NZSF) means this proportion will grow significantly over time. The Treasury has an ongoing role in monitoring CFI performance and advising from time to time on governance arrangements.

During 2003/04 the Treasury was actively involved in disbursing funds to the NZSF as the Fund's Guardians implemented its investment programme. By 30 June 2004 the NZSF was fully invested across a range of asset classes.

Debt management

We continued to improve our delivery of debt management outputs. In the domestic market we issued \$2,200 million of Government bonds to meet the Government's funding requirement and completed \$500 million of New Zealand dollar interest rate swaps. Offshore, we completed a US\$100 million medium-term note transaction.

We provided advice and services on a variety of capital markets issues and advanced funds to the Reserve Bank, Housing New Zealand Corporation, district health boards and other entities. We also undertook foreign exchange and derivative transactions with government departments and entities to help in their risk management activity.

We introduced new products, analytical tools and system improvements to enhance our ability to fund the Government's borrowing requirements, manage the stock of debt and add value, while balancing cost and risk objectives. Notably, we:

- completed the redevelopment of the information technology system used for debt management

- signed a new agreement for the provision of registry services for New Zealand dollar denominated securities issued by NZDMO
- implemented mortgage-back securities as a new financial instrument for NZDMO to invest in, to enhance our ability to manage risk efficiently and add value
- progressed the implementation of a new accounting strategy in response to industry moves to adopt fair value accounting for financial instruments.

Efficient management of the Crown's debt

There are many influences on actual results, such as the overall level of debt, the level and evolution of market interest rates, the volume of intermediation and advances to parts of the Crown, and NZDMO's discretionary decisions. In some cases we made a direct contribution, while in others it was second-order. Outlined below is information on performance for the past four years.

Outcome Indicators	2000/01	2001/02	2002/03	2003/04
Core Crown finance costs on debt (\$m)	2,483	2,324	2,478	2,260
Value added in the foreign-currency portfolio (\$m)	11.7	6.5	13.4	7.9
Value added from NZD interest-rate swaps (\$m)	19.4	5.0	6.2	7.3
Adherence to policies and controls for managing risk, with nil material breaches	✓	✓	✓	✓

Other commercial assets and claims against the Crown

The Treasury has continued to manage a number of the Crown's commercial assets and contractual functions, and also risks on behalf of the Government. During 2004, we concluded negotiations with the parties to the Maui gas contracts, signing revised contracts for future deliveries from the Maui field. This, along with the transfer of the Crown's interest in the Kupe oil and gas field to Genesis Energy Ltd, will help to reduce uncertainty around gas supply over the next few years. We also continued to operate the Export Credit Office, and in 2003/04 reviewed its statutory form.



Working on Maui issues –
Chris White and Karina Jenkins

ORGANISATIONAL STRUCTURE – THE DEPARTMENT

as at 30 June 2004

Responsible Minister:

Minister of Finance

Vote Minister:

Minister of Finance

John Whitehead
Secretary to the Treasury

Branch Managers/Deputy Secretaries

Mike James

Asset and Liability Management Branch

- Public Sector Management
- Crown Debt Management
- Crown Company Performance
- Crown Risk & Liability Management

Peter Bushnell

Budget and Macroeconomic Branch

- Budget Management
- Macroeconomic Policy Advice
- Macroeconomic Forecasting & Monitoring
- Fiscal Forecasting & Reporting
- Accounting Policy Development

Iain Rennie

Regulatory and Tax Policy Branch

- Tax Policy
- Regulation & Vote Purchase, Ownership & Performance Issues [Market Interventions, Environment & Natural Resources, International Economics & Defence, Revenue agencies & Other Government Services]

Peter Mersi

Social Policy Branch

- Regulation & Vote Purchase, Ownership & Performance Issues [Health, Education, Welfare, Labour Markets, Justice Agencies, Māori Affairs & Other Population Agencies]

Angela Hauk-Willis

Corporate Branch

- 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

- Crown Research Institutes' Monitoring
- State-Owned Enterprises' Monitoring
- Appointments & Governance

THE TREASURY

– VISION AND PURPOSE

Vision

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

Purpose

The Treasury helps the Government to improve economic performance and manage scarce resources.

Treasury roles

The Treasury has four main roles:

- Providing advice to improve the economic and fiscal framework for high levels of economic growth and improved living standards.
- Monitoring and managing the financial affairs of the Crown.
- Assessing and testing other agencies' advice and proposals which have economic and financial implications.
- Providing leadership, with other central agencies, to develop an effective, efficient and innovative State sector.

Management objectives

To respond to the changing output environment and to meet the needs of current and future governments, the Treasury must work more effectively and efficiently.

As part of our strategic direction, we have agreed it's **time** for the Treasury to:

- **T**ake the lead
- **I**ntest in our organisation and its people
- **M**anage for outcomes
- **E**ngage effectively.

MAINTAINING AND DEVELOPING CAPABILITY

To maximise the Treasury's contribution to the Government's desired outcomes, we must continually focus on enhancing our own capability. During 2003/04 we identified priorities for the future after reviewing our strategic direction, while continuing to advance our existing management agenda.

Reviewing our strategic direction

The Treasury's 1999-2004 *Strategic Plan* has been useful in guiding our capability development for the past five years. However, by 2003 and with a new chief executive in place, it was timely to review our strategic direction.

Our review focused on "managing for outcomes", looking at how we could maximise our outcome contribution for the Government during the next three to five years. We sought to build a cross-Treasury consensus on this direction through, for example, discussions and debates on how we could best contribute to improving New Zealand's economic performance, and on our priorities in making efficient and effective use of State resources and regulatory powers.

In April 2004 the Senior Management Group (SMG) briefed staff on the priorities they envisaged for the future and provided guidance on how our work emphasis needed to change. This became the basis for our 2004/05 SOI and more detailed work planning. During the next five years we want to deliver concrete gains for the Government, having made early progress and learnt from the experience. We expect our priorities to change over time and will review them each year.



Senior managers –
Iain Rennie, Angela Hauk-
Willis, John Whitehead,
Mike James, Peter
Bushnell, Peter Mersi

We also assessed our ability to deliver on our outcome priorities, using a series of cross-Treasury discussions. Secretary to the Treasury John Whitehead briefed staff on the issues and proposed actions in June 2004. Project planning is now underway, in particular looking at how we can improve our focus on managing for outcomes in planning for 2005/06.

Managing our priorities

“Managing for outcomes” covers the full management cycle, from direction-setting to planning, implementation, delivery and review. Our direction-setting focus during 2003/04 was designed to improve the alignment of Treasury activity and help staff understand how their work contributes to the Government’s outcomes. Over time it should help us to develop better integrated work plans and improve our resource prioritisation.

Managing for outcomes requires us to ensure resources are applied to areas where they can deliver results. To improve annual budgeting performance we aim for a 0-3% year-end underspend. This encourages us to make effective and efficient use of the resources available to us, while not exceeding our appropriation. Through better budgeting and contingency management, we have steadily improved our performance in this area.

We have also continued to improve our internal financial management processes, implementing monthly budget updates (“rolling budgets”). This helps ensure a timely flow of resources between changing priorities and encourages budget managers to be more forward looking. When opportunities arise we fund additional outputs from within our baseline, and we return funding to the Crown when it is not required. For example, during 2003/04 we returned \$0.8 million to the Crown and reprioritised our work to support new initiatives, such as reviewing the Overseas Investment Commission and managing the Crown’s interest during the Maui gas negotiations.

VOTE FINANCE - FINANCIAL OUTTURN VERSUS BUDGET

% variance at 30 June



Assessing performance

Monitoring and reviewing our performance is a continual process – this *Annual Report* simply summarises our achievements for the year. We seek information through a number of channels, including reporting to the Minister of Finance and seeking feedback on our performance on a quarterly basis. He continues to assess us as having met and frequently exceeded his expectations, for all nine output classes.

We have adopted a multi-year approach to developing outcome indicators. During 2003/04 we continued to pilot and test indicators for the operational parts of our business, reporting on these in our 2004/05 SOI and briefly here (see pages 9-25). We will be reviewing these in light of our strategic direction.

We also continued to monitor and report on “capability indicators” for our management agenda – to find out what worked and what did not. These can provide early warning of potential risks and help identify management priorities for the year ahead.

The next biennial *Treasury Climate Survey*, planned for October 2004, should provide information on overall staff satisfaction relative to other organisations. In 2003, the Corporate Branch undertook an abbreviated *Climate Survey* which, while covering only a sample of Treasury staff, indicated they were more positive than the benchmark for similar organisations, as in our previous whole-of-Treasury surveys.

Implementing accommodation changes

Accommodation change has been a major project over the past year.

In 2003 we renegotiated our lease and agreed development plans to remain at No. 1 The Terrace for a further 12 years, from 1 July 2005. Compared with our current costs, the lease will provide rental savings in the first year (2005/06) of \$2.2 million, largely because the number of floors we lease will reduce from 14 to 10. These savings will decline in subsequent years as the rental and associated building operating costs increase. However, the savings will help us to cope with pressures on our fixed baseline in the years ahead.

Remaining at No. 1 The Terrace involves leasehold improvements to accommodate staff on the reduced floors and ensure the facilities meet our short- and long-term needs. Stage One of the project – which involved relocating 143 staff to refurbished accommodation on floors 11 to 14, a purpose-built computer room and all staff facilities – was completed in April 2004. Stage Two, completed early in August 2004, included a public reception area and conference/meeting rooms. A further 73 staff were relocated to refurbished accommodation on floors 5 to 7 and a second purpose-built computer room was completed. Both stages have been completed on schedule and within budget. We expect the final stage to be completed by January 2005, with all Treasury staff relocated to refurbished accommodation on floors 5 to 14.

The accommodation changes have offered us an excellent opportunity to take advantage of new technologies in air conditioning and lighting. We expect our power use to decrease by approximately 30%, with resultant cost savings that will be fully realised in 2005/06. A new building and tenancy security system has also been installed, providing better service, greater levels of tenancy management control and enhanced physical security. We have also improved our information and communications technology and promoted more flexible working arrangements for individuals and teams.

Smooth moves

For the past two years, a team of Treasury people has been hard at work “behind the scenes”, planning and implementing major accommodation changes which have affected everyone at the Treasury.

The team’s main challenge was to ensure that a safe and productive working environment was provided for more than 300 Treasury employees, while the building was comprehensively refurbished around them.

The project was led by Julie-Anne Morrison, supported by a project team and other employees who were co-opted to assist as needed. Julie-Anne worked closely with the Treasury’s SMG to ensure the project met organisational needs, developing detailed plans to coordinate the efforts of contractors and staff and ensuring the project was completed within budget.

An advisory group led by Kathy Ixer advised the project team and SMG on a range of design issues. The group, made up of two representatives from each branch and the accommodation designer, conducted a Treasurywide information gathering exercise to understand how Treasury staff go about their work, and to ensure the final design provided an efficient and effective working environment for all teams.

Most employees were required to move twice: once into temporary accommodation and finally into their new homes. Branch readiness teams ensured each move went smoothly, with staff typically packing up their belongings on Friday evening, and returning on Monday morning to their new, fully operational workstations. Rose Johns, Ruksana Shaikh and David McKie, along with many others, were instrumental in making this a smooth process. Garrie Harold and Charles O’Donnell worked tirelessly to manage moving contractors and



Julie-Anne Morrison shows Geraldine Bruin the new floor layouts and colour schemes



Wendy Houlahan and Caroline McArley testing the new computer room

clear floors in time for construction to begin.

For Treasury staff, a fully operational computer system is taken as a “given” and this requirement didn’t change during the accommodation moves. Wendy Houlahan, Phil Templeton and other Tech Solutions staff spent many weekends relocating computer equipment, pipe work for air conditioning, servers and telephony equipment. Cutting through several hundred wires was not a job for the faint-hearted, but all the planning and hard work paid off, with minimal disruption caused to users.

The move to an open plan work environment necessitated the archival and storage of thousands of files and other material previously stored at employee workstations and in the sub-basement of the Treasury building. The Document Management team, led by Fiona Staples, managed the relocation of some 7,000 boxes of material to off-site, purpose-built facilities over a period of 10 months. Several hundred boxes of material that was no longer required were also destroyed, in consultation with Archives New Zealand.

Other developments as part of the accommodation changes included the provision of a central reception space and flexible meeting rooms on level 5, a refurbished Wharenuī on Level 14 and a refurbished cafeteria on the same floor. Over 150 Treasury staff and guests were out of bed and at work by 6am on Monday 5 April for the opening of the refurbished Wharenuī, assisted by the Treasury’s powhiri group. And with the Wharenuī affectionately referred to as the Treasury’s “marae in the sky”, it is probably appropriate that employees voted to call the new café “Kai in the Sky”.

Developing flexible organisational arrangements

During 2003/04 we addressed some issues arising out of previous changes to our structure and working style.

We are maintaining the key features of the 2001 organisational change, with a flat management structure and greater staff empowerment and flexibility. During the year, the SMG tackled two issues: managers’ and team leaders’ roles; and the organisation of sections and teams.

They agreed that managers had some clearly defined and distinct responsibilities that could not be devolved – in particular, responsibility for ensuring the quality of output from their sections and managing capability (ensuring we have the people and the systems to deliver). While managers (not team leaders) will be held accountable for these core functions, managers still have a lot of scope to choose who does what and which systems and processes best feed into this accountability.

The review of optimal arrangements for sections and teams is part of continuing to ensure we adapt and respond quickly to changes in our output environment, included assessing pressure points throughout the organisation. Section size was obviously an issue, but so too was work complexity. The SMG agreed that a range of solutions could be considered and there was a need to be more responsive to areas under pressure.

As part of making sections work better, two Fiscal Management and Reporting teams were created in the Budget and Macroeconomic Branch, following a

review of our Budget, Financial Management Systems and Accounting outputs. Reviews of the Market Interventions and Health sections led to a decision to retain these individual sections, but enhance their management resourcing by appointing a second manager to each section.

Changing staff profile

The Treasury employed 313 staff at the end of June 2004, an increase from 308 the previous year. The difference largely reflects a lower number of vacancies at year-end than in the previous year. We also had a further 17 staff on secondment to various agencies, employed four wage workers and had 25 staff on leave without pay, including parental leave.

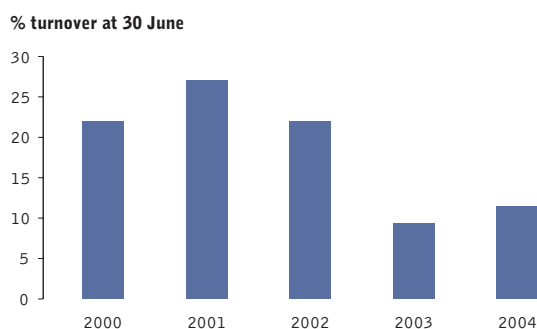
The average length of service increased from 5.8 years in 2002/03 to 6.4 years as at 30 June 2004, and, the proportion of staff staying more than one year increased from 88% at 30 June 2003 to 92% this year. The profile for our economic and financial analyst staff has shifted over recent years, with an increasing proportion of analysts in senior analyst and principal advisor roles. During 2003/04 we promoted 11 staff to manager positions within the Treasury – providing them with new development opportunities.

Staff turnover was 11.4% compared with 9.4% last year.

Over the past two years we have experienced low turnover in comparison with the 20%-plus levels of the previous years. However, we are cautious in interpreting this as a long-term trend. The reduced turnover may involve a number of factors, some external to the Treasury and more or less transient in their effect. For example:

- changes in the Wellington job market may mean less opportunity for staff movement
- there may be less incentive to leave New Zealand given our relatively good economic performance and the terrorist threats offshore
- staff may be less motivated to move, with the Treasury providing competitive salaries and opportunities for professional development and work/life balance.

TREASURY STAFF TURNOVER



We will continue to monitor turnover and seek to identify the factors driving change.

EEO progress

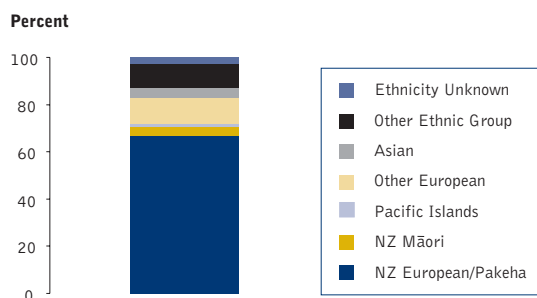
In June 2000, the Treasury set itself indicative forecasts for employing more women, Māori and Pacific Island people over the next five to 10 years.

The percentage of women in the Treasury has increased over recent years to 49% at the end of 2003/04. The representation of women at more senior levels has also increased and is now higher than the level we forecast for 2010.

We have continued to implement an EEO Management Programme designed

to make the Treasury's culture more supportive, ensure all staff are valued for the contribution they make, and encourage target group staff to join, remain with and develop within the Treasury. A key achievement during 2003/04 was commissioning an ethnicity stock take that aimed to:

TREASURY EEO 2004



- identify any ethnicity barriers in our employment policies and practices
- review our current initiatives
- consider some best practice examples of increased ethnic diversity in both the private and public sectors.

This exercise has been useful in helping us think about ethnic diversity within the Treasury, in relation to our business needs. If any gaps are identified we will be developing plans to address these.

Staff development

Our success depends on maintaining and developing a talented workforce and making full use of their experience and expertise. Treasury staff have high expectations about their opportunities for ongoing career development. All staff receive feedback on their performance relative to key work objectives and competencies for their positions. Staff and managers also agree development plans for the year ahead.

In July 2003 we launched a Learning and Development Framework, which aims to:

- maintain our focus on generic behavioural development eg, people leadership and management skills
- increase our focus on generic technical development underpinning core parts of our business, such as Vote analysis
- maintain our focus on individual technical development, where specific skills sets are required.

Learning and development initiatives that have resulted during the year include:

- a revised and updated induction programme for newcomers to the Treasury
- an improved Individual Development Programme for senior analysts
- various training sessions for managers, for example Performance Feedback and Coaching, and Performance Assessment
- various programmes for team leaders
- a new Vote analysis programme for managers and team leaders

- a revised and updated Amorangi workshop, building on the earlier Bi-Cultural Awareness course, and a Māori culture and language interactive training package for staff
- various technical courses – such as Writing for Your Audience, Creative Thinking, and Mentoring.

Promotion and staff rotation have provided fresh challenges and new opportunities for staff. We also continue to have a number of staff on secondment to other organisations such as Ministers' offices.

Treasury employees enjoy professional and academic achievements

The Treasury aims to employ people with an incisive, questioning intellect who enjoy open and lively debate and are prepared to take responsibility.

It's no surprise, then, that a number of employees have enjoyed recent professional and academic achievements.

David Snell received a Treasury study award which enabled him to complete the joint international tax programme/Master of Public Administration degree at Harvard Law School and Kennedy School of Government. The one-year programme is designed for applicants with seven or more years of relevant professional experience. David, who was the top performing student in a number of subjects, was designated Lincoln Scholar (a \$5,000 award) based on his outstanding performance in the fall semester.

Claire Solon received the 2004 Bernard Galvin Prize from Victoria University's School of Government, after completing an honours degree in public policy last year. The prize is awarded annually to the student who has demonstrated the best application of economic analysis to public policy or public management. Claire holds the role of Vote Analyst for State Services, and also works on related policy issues such as e-government and evaluation.

Bob Buckle received the New Zealand Institute of Economic Research's Economist of the Year Award for 2003/04. Bob was also appointed a member of the editorial board of the *Journal of Business Cycle Measurement and Analysis*, a new international research journal focusing on business cycle research.

Iris Claus received the Jan Whitwell Prize for best student presentation at the New Zealand Association of Economists' Annual Conference. And **Jennifer Lynch** was appointed Vice President of the Corporate Lawyers' Association of New Zealand.

As part of our commitment to staff training and ongoing professional development, we spent \$2,260 per head on formal staff training during 2003/04. This significantly understates our investment as it does not capture on-the-job training, which is highly valued by staff and provides a high return to the organisation. During 2003/04, 254 staff reported an average of 41 hours spent as "training received" and/or part-time study.

During the year, the SMG reviewed the Treasury's senior staff capability. It also initiated a project and established a project team to clarify senior roles and career paths; recommendations from the project team are due by early 2004/05.

With personnel costs representing approximately 60% of our total expenses, good human resource information is vital. During 2003/04 we went to tender and are now in the process of identifying a preferred supplier for a new payroll and human resource information management system.

Leveraging our investment in knowledge management

We have continued to focus on capturing the benefits from our investment in knowledge management systems and promoting good knowledge management behaviour.

Two sample staff surveys, together with results from our Corporate Branch *Climate Survey*, highlighted the need to undertake further work on bedding in knowledge management behaviours, focusing on leadership, role modelling and incentives. Initiatives during the year included:

- our Knowledge Infrastructure Services staff providing a very popular “tip of the week” to improve awareness and encourage the consistent use of knowledge management tools and information technology by all staff.
- enhancing the knowledge management tools available to staff. For example, we now record a number of seminars on video, and use them to disseminate new ideas across the Treasury.
- pilot testing our new intranet portal, which offers more standardised access to knowledge relevant to individuals, based on their roles and team memberships.

We have shared the Treasury's knowledge management and infrastructure services expertise with other public sector agencies and at conferences. We have also provided considerable technical support in implementing the government-wide secure email system upgrade, advice on secure remote computing and advice for the E-Govt shared workspace project, which enables electronic inter-agency collaboration.

Developing more integrated policy advice

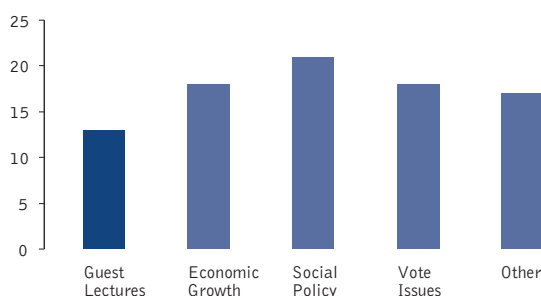
One of our priorities is developing better integrated Treasury advice, linking our empirical analysis with policy advice. At a staff meeting in August 2003, John Whitehead highlighted the specific behaviours he expected from staff to help make us a more integrated Treasury. The aim was to encourage staff to consider what they could do differently in their day-to-day work. This was followed up in separate discussions with managers and principal advisors on their leadership role in modelling and promoting this desired behaviour with staff.

We continued to undertake relevant research and use the knowledge gained to inform policy debates. In 2003/04 we released 29 working papers and continued to use our guest lecture series and internal seminars to disseminate Treasury work more widely. These are all designed as a source of intellectual stimulation, fostering debate within the Treasury.

We also want to better anticipate ministerial needs and issues for the future. We want more emphasis on economic and fiscal strategy, at a whole-of-government and agency level, with the Treasury taking more of a lead in shaping the agenda and identifying areas of opportunity. Our strategic direction work on managing for outcomes provided a good start on this and our post-election preparedness work during 2004/05 should take this further.

FOSTERING DEBATE

Number of lectures and internal seminars



Improving communications and stakeholder relationships

Our stakeholder relations activity has been guided by the direction senior managers set in May 2003:

- Being seen as an effective and influential policy shop.
- Exercising a strong leadership role across the public sector.
- Having strong links to a wide range of stakeholders both within and outside Wellington.
- Having a reputation that enables us to attract and retain staff.

Over the past year, we worked at strengthening the Treasury's relationships with stakeholders both within and outside the public sector.

Treasury staff secondments play a vital role in building and maintaining relationships with our Ministers and other departments, and we now have 13 Treasury secondees in Ministers' offices and other government agencies. Much work has been undertaken jointly and successfully with other public sector agencies, reflecting the Treasury's responsibilities as a public sector leader and central agency.

During 2003/04, senior managers undertook a number of speaking engagements around the country. For example, John Whitehead addressed business audiences in both Auckland and Christchurch on the challenges involved in improving New Zealand's economic performance.

We continued to send regular email newsletters to 260 Treasury alumni around the world, to develop and maintain links with former staff. Forty secondary school students took part in WorkChoice Day and we hosted nine additional secondary school visits in 2003/04, giving students an introduction to the Treasury and its role in government.

Our internet site (www.treasury.govt.nz) remains a key source of information for our stakeholders. We have started a review to ensure it meets their needs, including an online survey to gauge current users' views.

Our research and policy work was made regularly available as working papers on our internet site, and we promoted debate on policy implications through seminars and other channels. We also engaged directly with media on key work such as the 2004 Budget pre-briefing.

Last year, we established a new role to develop relationships with key people and organisations in Auckland. This is because the issues facing the Auckland region impact on a number of different parts of the Treasury, such as roading, migration, housing and health.

Treasury history – continuity and change

The Treasury is one of New Zealand's oldest institutions, founded in the same year as the Treaty of Waitangi was signed. And now, the Treasury's history has been committed to print for current and future generations to absorb.

Launched in late 2003, *Treasury – The New Zealand Treasury 1840-2000* by Dr Malcolm McKinnon is a rich and textured tale, providing a valuable insight into how the Treasury, its role and structure have developed over the past 160 years.

Proving that the clichéd image of "grey bureaucrats" is often inaccurate, the book features a range of colourful characters, including the Treasury Secretary who took beginner's ballet lessons during a particularly stressful year and the Secretary who once captained the Wellington rugby team.

Malcolm McKinnon, one of New Zealand's most respected historians, interviewed a large number of past and present Treasury officials, as well as other contacts both inside and outside government, in order to produce the book.



The Treasury rugby team 1904

One thing which hasn't changed in the Department's long history is the hotly contested annual rugby match between the Treasury and Land Information New Zealand. First held in 1886, it represents one of the oldest sporting contests in the country. In August 2004, the Treasury took to the rugby field for the 100th time, cheered on by a large group of spectators, to defend its sporting honour. Competition was so fierce that both sides had to call on ministerial help, with Associate Finance Minister Trevor Mallard joining the Treasury side. The final score? Land Information New Zealand 34, the Treasury 5.



The Treasury rugby team 2004

ORGANISATIONAL RESPONSIBILITIES

The Treasury is led by John Whitehead, 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.

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 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 CFIs.

Budget and Macroeconomic Branch

Peter Bushnell

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 and tax forecasts and providing advice on macroeconomic policy
- advising on Crown accounting policies.

Regulatory and Tax Policy Branch

Iain Rennie

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.

Andrew Crisp was Acting Branch Manager for part of the year while Iain Rennie was seconded to the Department of Prime Minister and Cabinet.

Social Policy Branch

Peter Mersi

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.

As at 30 June 2004 we had the following number of staff in each of the branches, compared with the previous year.

	2003	2004
Asset and Liability Management Branch	63	64
Budget and Macroeconomic Branch	45	47
Regulatory and Tax Policy Branch	55	57
Social Policy Branch	69	65
Corporate Branch*	76	80
Full-time Training	-	-
Total Treasury Staff	308	313

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

VOTE FINANCE AT A GLANCE

Actual expenditure for 2003/04 by output class



(Figures are GST inclusive)

OUTPUT PERFORMANCE – VOTE FINANCE

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

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 living standards for New Zealanders.

This includes advice for the Government on strengthening the fiscal policy framework and improving the framework for monitoring monetary policy outcomes.

General economic and fiscal strategy requires empirical and analytical research to support and inform policy advice. This output class includes research and policy advice with a medium-term perspective, taking account of the characteristics of the New Zealand economy. This research and policy advice will focus on how to improve New Zealand's economic performance, looking at growth, productivity and macro stability issues.

Significant work completed during the year

- Helped the Government set out its strategy for the 2004 Budget in the 2004 *Budget Policy Statement*, and published the Government's medium-term fiscal scorecard in the 2004 *Fiscal Strategy Report*.
- Completed a range of papers on the economic implications of population ageing and New Zealand's savings behaviour for the Periodic Report Group on Retirement Income Policy.
- Completed work on the impact of workplace and personal super schemes on retirement savings and gave several external presentations.
- Completed a state-of-play paper, *New Zealand Economic Growth: An Analysis of Performance and Policy*, describing and explaining New Zealand's economic growth performance and prospects, and relating these to policy issues.
- Reported on critical issues for growth.
- Reported an annual update of New Zealand's long-term economic growth performance in a growth-accounting framework and including comparisons with other OECD countries.
- Reported work on understanding New Zealand's low level of physical capital per worker and its relationship to labour productivity.
- Contributed to the officials' support team for the Workplace Productivity Working Group and provided ongoing support for the CTU/Business New Zealand productivity dialogue.
- Undertook research on firm dynamics and firm performance and their relationship to productivity and growth.
- With MED and MoRST, reported to joint Ministers on incentives for business R&D and on a joint officials' work programme to investigate further enhancing them.

- Planned, hosted and participated in IMF and OECD missions to New Zealand, including preparing briefing material and following up questions. Oversaw the drafting of the OECD New Zealand survey in Paris.
- Provided advice on policy options relating to the high exchange rate.
- Completed policy and implementation advice on the level of foreign exchange reserves for insurance reserves and on an enhanced Reserve Bank intervention capacity and consequent changes to the Reserve Bank Funding Agreement.
- Participated in and completed a trans-Tasman joint report on Australia – New Zealand's banking supervision.

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 produced under this output class will meet the requirements of the Fiscal Responsibility Act 1994. 	Met and frequently exceeded expectations ✓
Quantity <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 2003/04.</p>	✓
Timeliness <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.</p>	✓

Cost (\$000)

2003/04 Actual	3,983
Supp. Est - Voted	4,117
Main Est.	6,280
2002/03 Actual	4,776

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$134,000 or 3% under Supplementary Estimates budgets.

The appropriation for this output class was decreased by \$2.163 million in the Supplementary Estimates, reflecting savings from coordinating growth work programmes across branches, a focus on planning and prioritising in growth outputs, and staff vacancies.

* General service performance objectives are detailed on pages 63 to 64.

Policy Advice: Financial and Public Sector Management Systems

This output class involves policy advice on financial and public sector management systems in use across the Crown and contributes to:

- improved decision-making and performance management systems that facilitate the effective and efficient use of State resources and regulatory powers
- efficient management of the Crown balance sheet.

It covers the development and design of specific public sector management regimes applicable to departments and Crown entities. It also includes the 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.

Outputs will specifically include advice on:

- 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
- the range and nature of financial risks to which the Crown is exposed and the degree to which these can be managed more efficiently when considered as part of an integrated set of risks, assets and liabilities across the Crown.

Significant work completed during the year

- Provided ongoing analysis and research on how to manage the Government's assets, liabilities and associated risks effectively and efficiently when considered as an integrated portfolio.
- In conjunction with SSC and Te Puni Kōkiri, published the report *Formative Evaluation of Managing For Outcomes Project Support for Departments and Stakeholders for the 2002-03 Year*. This work evaluated the views of all departments and stakeholders on the support they received from central agency teams for the 2003/04 year.
- Provided support to departments on outcome-based management (managing for outcomes) and SOIs through seminars and direct advice to departments.
- Developed proposals to promote evaluative activity in the State sector, which were agreed by Cabinet. This included the provision of training for departments and the development of a Treasury circular (2003/13) which sets out new expectations of departments.
- Prepared revised guidelines for NGO contracting, which were agreed by Cabinet in December.
- Provided advice on and support for the development of the Public Finance (State Sector Management) Bill introduced in December 2003.
- Undertook a survey of the departmental insurance and risk management regime. As a result of the survey, updated the Treasury circular (2004/03) on Department Insurance and Risk Management.

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 2003/04.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.	✓ ¹

Cost (\$000)

2003/04 Actual	3,507
Supp. Est - Voted	3,743
Main Est.	4,204
2002/03 Actual	3,672

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$236,000 or 6% under Supplementary Estimates budgets due to staff vacancies and consultants' projects costing less than budget or being deferred following a review of priorities. In addition, there was a shift in resources to the Policy Advice: Regulation and Vote Purchase, Ownership and Performance Issues output class to meet increased demands for central agencies, and Audit Office outputs.

The appropriation for this output class was decreased by \$461,000 in the Supplementary Estimates owing to staff vacancies and low priority consultancy projects being deferred.

* General service performance objectives are detailed on pages 63 to 64.

¹ A report on proposals to enhance innovation in the State sector, to which we were contributing, was delayed to allow consultation.

Policy Advice: Tax

This class of outputs involves the provision of advice on tax policy and contributes to raising required tax revenue at least cost to the economy in line with fiscal strategy.

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

- 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 cost, quality and quantity of output sought by the Government, the financial performance of the departments, and the capability of the departments
- monitoring of payments for outputs against appropriations and advice on the non-departmental revenue and expenditure administered by the departments.

Significant work completed during the year

- Developed and published an officials' paper on offshore portfolio investment and undertook consultation on this paper. Report provided on the results of this consultation.
- Developed policy options and advice on the appropriate taxation of the banking sector.
- Provided advice on savings issues, including participating in the Periodic Report Group on Retirement Income Policy, advising on the establishment of the Work Place Savings Group and providing support for this group.
- Contributed to advice on the Working for Families package for the 2004 Budget.
- Negotiated international tax agreements with Spain, Mexico, Chile, United Arab Emirates, Austria and Poland.
- Led the Government's initiative on introducing regulation for the charitable sector.
- Completed research and provided advice on tax and the cost of capital and the impact of tax on investment.
- Undertook preparatory research on the taxation of domestic intermediaries and contributed to the establishment of a consultation group for this issue.

- Provided advice, published discussion documents and completed consultation on a number of areas, including the taxation of new migrants, fringe benefit tax, the taxation of Māori authorities, trans-Tasman imputation, and tax incentives for the film industry.
- Developed advice and published a discussion document on depreciation issues.
- Provided analysis and advice on the design of the Emissions Charge, including completing research into the behavioural impact of imposing such a charge.
- Provided advice and undertook extensive consultation on simplification measures for small and medium-sized business.
- Continued research into tax and labour market incentives; the relationship between taxes and economic growth.
- Contributed to advice on a range of base maintenance and remedial issues, including the deferred deductions, fuel taxes in relation to Auckland transport issues, GST issues (financial and imported services), excise taxes and support for the passage of the Tax Bills (two).
- Provided support for and advice on tax administration issues, including child support and debt write-offs.

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 are to be undertaken in conjunction with Inland Revenue and other relevant collection agencies where reports are produced on revenue policy issues. 	Met and frequently exceeded expectations ✓
Quantity <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 2003/04.</p>	✓
Timeliness <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.</p>	✓

Cost (\$000)

2003/04 Actual	1,859
Supp. Est - Voted	1,928
Main Est.	2,404
2002/03 Actual	2,296

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$69,000 or 4% under Supplementary Estimates budgets.

The appropriation for this output class was decreased by \$476,000 in the Supplementary Estimates owing to staff vacancies and some projects being deferred.

*General service performance objectives are detailed on pages 63 to 64.

Budget Management

This class of outputs covers the development of Budget strategy and the management and delivery of the Budget process. These outputs contribute to an efficient, effective and innovative State sector by providing credible public sector management and decision-making systems that encourage value for money.

In addition to managing the annual Budget, outputs include the provision of advice to identify and implement further improvements in the design of the Budget process. The focus is on:

- integration of fiscal assessment processes into Budget decision-making
- improvement of value for money, including better use of evaluation
- potential legislative amendments to the Public Finance Act.

Significant work completed during the year

- Assisted the Government with its 2004 Budget strategy and managed the 2004 Budget round.
- Managed Appropriation and Imprest Supply Bills, Estimates and Baseline Updates.
- Provided policy advice and prepared the Public Finance (State Sector Management) Bill for introduction in December 2003 to the House. We also supported, as appointed advisors, select committee consideration of the Bill.

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 <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 2003/04.</p>	✓
Timeliness <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.</p>	✓

Cost (\$'000)

2003/04 Actual	2,241
Supp. Est - Voted	2,287
Main Est.	2,512
2002/03 Actual	2,240

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$46,000 or 2% under Supplementary Estimates budgets.

The appropriation for this output class was decreased by \$225,000 in the Supplementary Estimates owing to staff vacancies and some resources being allocated to the Economic and Fiscal Forecasting and Reporting output class. However, this reduction has had no impact on outputs in this class.

* General service performance objectives are detailed on pages 63 to 64.

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.

Economic and fiscal updates are published in the middle of the financial year (typically in December) and at the time of the Budget (typically in May). Monitoring outputs include reports on major economic data releases and preparation of the annual and monthly financial statements of the Crown. In addition, the Minister is provided with regular assessments of how current events are affecting the economic and fiscal outlooks since the last update as an aid to Budget decision-making.

The output class also includes advice on the application and development of 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.

These outputs contribute to the understanding by Ministers, Parliament and the public of the expected and actual consequences of government decisions, by entity and in the aggregate.

Significant work completed during the year

- Prepared and published the annual financial statements for the year ended 30 June 2003 and the monthly financial statements for the Crown, the 2003 *December Economic and Fiscal Update* and the 2004 *Budget Economic and Fiscal Update*.
- 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.
- Provided advice on accounting policy issues including finance leases, valuation policies for NZSF assets, and harmonisation of GAAP to Government Financial Statistics and System of National Accounts frameworks.
- Provided advice and representation in relation to public sector accounting standard-setting issues. This included the conversion of New Zealand's financial reporting standards to the international standards, representation on Accounting Standards Review Board meetings and preparation of submissions to the Financial Reporting Standards Board on financial reporting exposure drafts to develop financial reporting from a public sector perspective.
- Conducted research into forecasting issues: investigating the New Zealand Institute of Economic Research measure of capacity utilisation and its relationships to other macroeconomic indicators; estimating the non-accelerating-inflation rate of unemployment; and completing the comparison between the Treasury and Reserve Bank macro-econometric models.
- Conducted an independent review of the New Zealand Treasury Model, to see whether it is consistent with international best practice for macro models, whether its structure and functionality are optimal and whether it can be used to throw light on policy issues.
- Obtained a comprehensive reassessment of the quality of financial internal controls in government departments (the Departmental Internal Control Evaluation process).

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. Forecasting publications produced under this output class will meet the requirements of the Fiscal Responsibility Act 1994. The Crown financial statements will conform with GAAP and fairly reflect the operations, cash flows and financial position of the Crown for the year ending 30 June 2003, the quarter ending 30 September 2003, and at monthly intervals after that until the end of the financial year. The daily Controller function will monitor accurately the year-to-date disbursements compared with the supply made available by Parliament, and a Controller statement will be prepared for the Controller 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. 	Met and frequently exceeded expectations ✓ ✓ ✓ ✓ ✓								
Quantity <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 2003/04.</p>	✓								
Timeliness <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.</p>	✓								
Cost (\$'000) <table> <tr> <td>2003/04 Actual</td><td>6,914</td></tr> <tr> <td>Supp. Est - Voted</td><td>7,003</td></tr> <tr> <td>Main Est.</td><td>6,355</td></tr> <tr> <td>2002/03 Actual</td><td>5,865</td></tr> </table>	2003/04 Actual	6,914	Supp. Est - Voted	7,003	Main Est.	6,355	2002/03 Actual	5,865	
2003/04 Actual	6,914								
Supp. Est - Voted	7,003								
Main Est.	6,355								
2002/03 Actual	5,865								

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$89,000 or 1% under Supplementary Estimates budgets.

The appropriation for this output class was increased by \$648,000 in the Supplementary Estimates due to increased resources being allocated to the Public Finance (State Sector Management) Bill and assessing the implications and implementation of international accounting standards.

*General service performance objectives are detailed on pages 63 to 64.

Debt and Related Financial Asset Management

Outputs in this class contribute to achieving an optimal Crown balance sheet and concern the operational management of the Crown's portfolio of sovereign-issued debt and associated financial assets. All expenses for this output class are incurred under section 61 of the Public Finance Act 1989. Specific activities include:

- developing and maintaining an appropriate framework for efficiently managing the portfolio and the risks associated with it
- issuing domestic-currency debt to meet the Government's funding requirements
- disbursing cash to departments and facilitating departmental cash management
- advancing funds to government entities in accordance with Government policy
- providing capital market services and derivative transactions for departments and government entities
- funding the Reserve Bank's foreign-exchange reserves
- managing foreign-currency assets required to meet net foreign-currency interest and principal payments
- maintaining hedges of foreign-currency debt that cannot be bought back from investors
- adding value to the Crown in undertaking activities whilst conforming to a risk-averse management framework
- maintaining a diversified funding base and, where appropriate, enhancing relationships with investors who hold, or are potential holders of, New Zealand government securities and with financial intermediaries and the international credit rating agencies
- developing and maintaining an appropriate infrastructure of systems, monitoring, accounting and reporting for the portfolio.

Gross domestic-currency debt is expected to range between \$22.6 billion and \$23.7 billion over the forecast period to June 2007. Gross foreign-currency debt is expected to range between \$6.3 billion and \$6.8 billion, whilst net foreign-currency debt is expected to be nil (2002 December Economic and Fiscal Update).

Significant work completed during the year

- Undertook the following domestic borrowing activities:
 - Issued \$2,200 million of Government bonds to meet the Government's funding requirement.
 - Completed \$500 million of New Zealand dollar interest-rate swaps.
- Completed a US\$100 million private placement transaction for a term of eight years under New Zealand's US\$3 billion Euro Medium-Term Note programme.
- Issued \$2.4 billion of non-market Treasury Bills to the NZSF, representing the full accumulation of capital by the Crown from 1 July 2001 up to 30 September 2003.
- Signed an Agreement for the Pricing of Foreign-Currency Transactions with the NZSF. The Agreement covers the pricing of foreign-currency outright and swap transactions between the NZSF and NZDMO through to 30 June 2005.
- Completed \$9.3 billion of foreign-currency transactions (including foreign-currency swaps) for the NZSF.

- Developed and reported on updated *Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure*. Distributed the new Guidelines to all departments and Treasury Vote analysts.
- Provided advice on funding options and other issues as part of the Treasury's overall advice on the Reserve Bank of New Zealand's proposal to intervene in foreign-currency markets.
- Signed a new Registry Services Agreement with Computershare Investor Services for the provision of a register of New Zealand dollar-denominated securities issued by NZDMO.
- Prepared a business case, risk and control document and Treasury report seeking approval to introduce mortgage-backed securities as a new financial instrument for NZDMO to invest in.
- Signed a new three-year Agency Agreement between NZDMO and the Reserve Bank of New Zealand for cash and domestic debt management services.

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 • The Secretary to the Treasury will monitor the operation of NZDMO with the assistance of an Advisory Board. Performance in portfolio management, debt issuance, capital market transactions and advice, transactional processing, and compliance with risk management policies will be reported regularly to the Secretary to the Treasury and the Advisory Board, and to the Minister in the context of the Treasury's quarterly and year-end reviews. • Policies regarding the strategic objectives for domestic- and foreign-currency debt, instruments and currencies for transactions, limits in respect of market and credit risk utilisation, composition requirements for the liquidity asset portfolio, and maturity profile requirements will be adhered to. • Policies, delegations, limits, reporting and performance management requirements, procedural manuals, and established processes, and other controls for managing internal operations will be adhered to. • Issuance of domestic-currency debt will be transparent and predictable. 	Met and frequently exceeded expectations ✓ ✓ ✓ ✓
Quantity <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 2003/04.</p>	✓
Timeliness <p>All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.</p>	✓

Cost (\$'000)

2003/04 Actual	5,274
Supp. Est - Voted	5,379
Main Est.	6,077
2002/03 Actual	5,436

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$105,000 or 2% under Supplementary Estimates budgets.

The appropriation for this output class was decreased by \$698,000 in the Supplementary Estimates due largely to input costs being less than forecast.

*General service performance objectives are detailed on pages 63 to 64.

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

This output class involves managing a range of commercial, contractual and Treaty of Waitangi-related claims against the Crown. Outputs in this class contribute to minimising Crown financial risk within the bounds of Government objectives. Specific outputs within this class include:

- management of commercial and contractual risks associated with the 1973 Maui gas contracts, 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 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 (MFAT) overseas properties that have been transferred to the Crown
- management of the export credit guarantee policy and scheme.

Specific outputs in this class often depend on the actions of third parties.

Significant work completed during the year

- Concluded the outstanding negotiations with other Maui parties and signed new gas agreements relating to future deliveries from the Maui gas field.
- Completed the transfer of the Crown's interest in the Kupe oil and gas field to Genesis.
- Provided advice on options for the Crown's geothermal interests.
- Managed the operations of the Export Credit Office (ECO) including:
 - continuing to develop relationships via education and marketing programmes, achieving or exceeding year-end targets for contacts
 - progressing a number of transactions to a point close to a deal.
- Continued the programme of identifying and transferring legal land title to various SOEs and other companies.
- Provided advice on various historic Treaty of Waitangi settlement negotiations.
- Managed a portfolio of properties occupied by MFAT, including routine refurbishment projects and investigating options to refurbish New Zealand House in London and accommodate New Zealand's diplomatic presence in the United Kingdom over the medium term.

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. <ul style="list-style-type: none"> • 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 ✓ - meet the Crown's contractual responsibilities and enforce the Crown's contractual rights. ✓ • The Secretary to the Treasury will monitor the operation of the ECO with the assistance of an Advisory Board. It is expected that performance will conform with international best practices for the provision of export credit insurance. ✓ 	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 2003/04.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.	✓

Cost (\$000)

2003/04 Actual	4,163
Supp. Est - Voted	4,691
Main Est.	3,319
2002/03 Actual	3,668

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$528,000 or 11% under Supplementary Estimates budgets. This variance was mainly due to Maui gas negotiations being successfully completed earlier than forecast, lower than expected applications submitted to ECO, and timing differences in the management of the Crown's overseas properties output.

The appropriation for this output class was increased by \$1.372 million in the Supplementary Estimates owing to increased demands for Maui gas and Crown properties outputs.

*General service performance objectives are detailed on pages 63 to 64.

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 Crown's ownership interest in Air New Zealand, Crown companies (including SOEs) and CFIs. This contributes towards enhancing and protecting the value of the Crown's interest in these institutions.

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 SOIs, capital structure, dividends, diversification and expansion proposals, and divestments. This also includes advice on Air New Zealand, Auckland rail infrastructure and other entities where the Crown has an ownership interest
- 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 and guarantee and indemnity obligations in relation to the Government Superannuation Fund, the National Provident Fund, the Public Trust, the Earthquake Commission and the NZSF, especially in relation to Crown financing, financial performance, management of risk (as owner or guarantor), unfunded Crown liabilities, and any residual implementation issues in relation to the NZSF.

Significant work completed during the year

- Provided advice on:
 - a review of the ownership framework for SOEs given Government policy to hold SOEs for the long term and commenced strategic reviews of individual SOEs flowing from this (two reviews completed and further two commenced)
 - the separation of Transmission Holdings Ltd from TVNZ
 - a review of the organisation of the Crown's interests in the housing sector and the appropriate capital structure of Housing New Zealand Corporation
 - various issues relating to the management of CFIs, including issues related to the commencement of investment activities by the NZSF
 - various SOE issues related to proposed acquisitions or expansions.

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. <ul style="list-style-type: none"> • 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 and in conjunction with the Ministry of Housing in relation to Housing New Zealand Corporation. 	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 2003/04.	✓
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.	✓

Cost (\$000)

2003/04 Actual	2,904
Supp. Est - Voted	2,998
Main Est.	3,742
2002/03 Actual	3,720

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$94,000 or 3% under Supplementary Estimates budgets.

The appropriation for this output class was decreased by \$744,000 in the Supplementary Estimates owing to the negotiation of Auckland rail output costing less than forecast and lower demand for Air New Zealand outputs.

*General service performance objectives are detailed on pages 63 to 64.

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

This class of outputs contributes primarily to ensuring that the State's resources and regulatory powers are used effectively and efficiently to achieve the Government's desired outcomes, including achieving prudent fiscal management.

The outputs include:

- advice on the cost, quality and quantity of output sought by the Government, the financial performance of departments and Crown entities, and the capability of departments and Crown entities
- monitoring of payments for outputs against appropriations and advice on the non-departmental revenue and expenditure administered by departments and Crown entities
- identification and assessment of opportunities for the Government to achieve its goals relating to improving economic performance, inclusive society, environmental management and an efficient and effective State sector.

Areas covered are:

- health
- education
- welfare (including housing and social services)
- justice
- labour market (including employment, immigration and ACC)
- population agencies
- external linkages, defence and national security
- research, science and technology
- economic development (regional and industry development and firm performance)
- the regulatory environment (for example business law and competition policy)
- infrastructure (including energy, telecommunications, water and transport)
- environment
- primary sector
- government services (for example Internal Affairs, SSC, local government)
- parliamentary agencies.

Significant work completed during the year

- Together with other departments, provided advice on meeting the Government's objectives across a range of portfolios in the context of the available resources in the 2004 Budget.
- Provided advice on the long-term sustainability of health funding.
- Continued to develop and pilot, in conjunction with the Ministry of Health and DHBs, a benchmarking methodology for comparing DHB performance and understanding reasons for variances.

- Worked jointly with MSD and other officials on designing and costing the Working for Families package, consisting of increased income assistance for low-income families, as well as changes to accommodation assistance and childcare assistance. Also provided second-opinion advice on the implementation plan for the package.
- Provided in-depth second-opinion advice on the fiscal and economic implications of a variety of labour market regulation issues, including amendments to the Employment Relations Act, the review of the Holidays Act and the Paid Parental Leave scheme, and participation in the Pay and Employment Equity Taskforce and subsequent Government response.
- Provided advice on the development and implementation of the Early Childhood Education Strategy, including regulatory issues and the provision of free early childhood education.
- Provided advice on tertiary funding issues, including community education.
- Provided advice on student support issues arising out of the student support review.
- Provided advice on the application of the Public Finance (State Sector Amendment) Bill to education institutions.
- Established an in-house project team to undertake a range of studies under the broad heading of “Human Capital and Growth”. As well as feeding into our advice to Ministers in this area, the results of this work formed a significant input into the deliberations of the Workplace Productivity Working Group.
- Chaired the First Principles Baseline Review of the Department of Child, Youth and Family Services, reported to Ministers in September 2003, and subsequently advised Ministers and supported the Acting Chief Executive of the Department on implementing the package of initiatives arising from the Review.
- Provided advice to Ministers on the results and conclusions of the Correction’s Output Price Review that resulted in immediate adjustments to 2003/04 baselines, and assisted funding decisions for the 2004 Budget. We also provided advice on the appropriateness of Corrections’ long-term capital programme to meet inmate forecasts to 2007/08, with particular emphasis on the costs, benefits and risks of different options meeting forecast demand. This work assisted capital funding decisions in the 2004 Budget.
- Prepared advice on options for the Government to improve and streamline building and housing service and policy. This led to the Government’s decision to establish the Department of Housing and Building.
- Contributed to advice on the decision to establish a Ministerial Review Unit (MRU) based in the SSC to review programmes and policies that target on the basis of need and ethnicity. Provided a secondees to the MRU and assisted in the development of guidelines for the selection of programmes for review and guidelines by which reviews will be carried out.
- Provided advice on business law reform, including regulatory harmonisation issues and closer integration with Australia including:
 - banking sector regulation
 - competition law.
- Worked with MED and other key agencies on the coordination of the Government’s growth and innovation policies.
- Provided advice on a package for the February lower North Island floods.
- Participated in the joint Parliamentary Counsel Office, Treasury and SSC overview of the Public Access to Legislation project.

- Provided advice on environment and primary sector new initiatives as part of the 2004 Budget process.
- Provided advice on the review of land tenure reform and on public land access policy.
- Provided advice on funding for the management of biosecurity pest incursions and the development of the Biosecurity Strategy.
- Provided advice on aquaculture reforms.
- Provided advice on possible reforms to the Resource Management Act.
- Contributed to the implementation of the sustainable development programme of action, including:
 - water allocation and quality issues
 - sustainable cities initiatives
 - new policy tools and processes to implement sustainability concepts.
- Provided input into the Government's policy package to meet its Kyoto Protocol commitments, including:
 - development of measures to reduce emissions, such as Negotiated Greenhouse Agreements
 - management and trading of emissions credits.
- Provided advice on the regulation of and funding for transport infrastructure, including the Auckland transport governance and regulation change package.
- Completed negotiations on the transfer of ownership of the national rail network to the Crown.
- Contributed to regulatory and governance issues in the energy sector, including:
 - management of the Whirinaki project
 - providing advice to the Sustainable Energy Working Group led by MED.
- Provided advice on governance arrangements for the gas sector.
- Provided local loop unbundling advice on the telecommunications sector.
- Completed negotiations on the purchase of Westhaven marina and its subsequent sale to Auckland City Council.
- Provided advice on and logistical support for the annual meeting of the Minister of Finance and the Australian Treasurer.
- Participated in closer economic partnership/trade agreement negotiations – providing the lead on investment issues, and also providing economic support and advice to Government negotiators.
- Organised the 2004 Forum of Economic Ministers' Meeting in Rotorua in early June 2004.
- Managed the Review of the Foreign Investment Screening Regime and provided advice to the Government on possible reform of the policy and governance arrangements around foreign investment.
- Provided policy advice on border funding – coordinated an interdepartmental working party to provide Ministers with advice on how best to fund border security for New Zealand.
- Participated in the development of Terms of Reference for a review of Defence capability which commenced in January 2004. The Treasury is participating in the review process, with staff seconded to the review team, and is helping to oversee progress. We have also provided advice to the Minister on Project Protector (the re-equipment project for the New Zealand Navy) and worked with Defence to advance other Defence acquisition processes (including helicopters, C130s and P3 Orion refurbishment) within the Government's Long-Term Development Plan for defence.

Service performance*

Performance Dimensions	Achieved?
Quality 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.	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 2003/04.	✓ ¹
Timeliness All outputs will be delivered to timeframes as agreed between the Minister and the Secretary to the Treasury for 2003/04.	✓

Cost (\$000)

2003/04 Actual	25,363
Supp. Est - Voted	25,564
Main Est.	22,168
2002/03 Actual	21,747

(Figures are GST inclusive)

Actual 2003/04 output class expenditure was \$201,000 or 1% under Supplementary Estimates budgets.

The appropriation for this output class was increased by \$3.396 million in the Supplementary Estimates due to Cabinet approving new funding for the national rail project and increased demand for the Forum of Economic Ministers' Meeting, Overseas Investment Commission and border control outputs.

*General service performance objectives are detailed on pages 63 to 64.

- 1 Some deadlines were extended, with the agreement of the Minister, because of:
- higher priority work
 - legislative delays
 - the need for more analysis and/or consultation than originally envisaged.

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 page 125. 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 level of satisfaction with the overall quality of the outputs produced. Met and frequently exceeded expectations 	
<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>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>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. Refer page 64 The Department will respond appropriately to requests for attendance at Parliament during debates and at Cabinet and select committee meetings. ✓ 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. ✓ 	

2003/04	PQs	MCs	OIAs
Policy Advice: General Economic & Fiscal Strategies			
Estimated	15-50	25-90	10-70
Actual draft replies	9	91	18
% answered by due date	100	91	94
Policy Advice: Financial & Public Sector Management Systems			
Estimated	0-5	10-20	0-5
Actual draft replies	1	5	-
% answered by due date	100	100	-
Policy Advice: Tax			
Estimated	10-20	100-150	10-20
Actual draft replies	12	169	9
% answered by due date	100	96	89
Budget Management			
Estimated	10-20	10-20	5-20
Actual draft replies	2	1	2
% answered by due date	100	-	100
Economic & Fiscal Forecasting & Reporting			
Estimated	10-20	10-20	5-15
Actual draft replies	70	-	4
% answered by due date	93	-	100
Debt & Related Financial Asset Management			
Estimated	0-5	0-5	-
Actual draft replies	1	1	1
% answered by due date	100	100	100
Management of Claims Against the Crown, Contractual Liabilities & Crown Properties			
Estimated	5-10	5-10	0-5
Actual draft replies	-	18	6
% answered by due date	-	100	100
Policy Advice: Ownership & Performance of Crown Companies & Financial Institutions			
Estimated	20-50	125-175	20-40
Actual draft replies	17	110	17
% answered by due date	100	97	76
Policy Advice: Regulation & Vote Purchase, Ownership & Performance Issues			
Estimated	150-200	200-325	150-200
Actual draft replies	195	322	53
% answered by due date	98	92	85
Ownership			
Estimated	80-100	0-5	0-5
Actual draft replies	32	4	3
% answered by due date	100	100	100

Explanation:

- All PQs were provided to the Clerk's office by the due date, but a few failed to meet our internal deadline to the Minister's office, typically by one day.
- Most 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.

CCMAU

– VISION AND PURPOSE

Vision

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

Purpose

CCMAU contributes to the efficient management of the Crown's balance sheet and net worth by providing services which enable shareholding Ministers to hold Crown company and entity boards accountable for their performance in maintaining and enhancing shareholder value.

CCMAU monitors companies and entities to advise Ministers on: company and entity performance; significant investment and divestment decisions by boards; and on strategies to achieve effective management of the Crown's assets.

CCMAU provides services in the following areas:

- Monitoring – reporting on business plans, company reports, performance against targets and sectoral trends.
- Ownership advice – advising on strategic issues, investment and diversification opportunities, restructuring issues, and the impact of policy positions.
- Ministerial servicing – managing issues and drafting replies to correspondence, parliamentary questions and Official Information Act requests.
- Governance – identifying and screening potential directors, managing the appointments' processes and promoting best-practice corporate governance of Crown companies and entities.

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

CCMAU provides ownership monitoring and governance advice on a portfolio of Crown-owned companies and entities¹ which collectively play a major part in New Zealand's overall economic performance. This year, we introduced a more sectoral focus to our work and made progress on a number of strategic projects.

During 2003/04 we focused on consolidating the organisational changes made at the start of the year. The three sector teams – Science and Innovation; Energy, Land and Environment; and Communications, Services and Infrastructure – enabled us to bring a more sectoral focus to our work, and they have actively sought to build enduring relationships with a wide range of stakeholders. They have been ably supported by our Corporate, Legal, and Appointments and Governance teams.

We have also made progress in developing value-based reporting of company performance and have been involved in implementing the Government's long-term hold ownership policy – in particular clarifying the shareholders' preferences for SOEs. Meanwhile, our Appointments and Governance team has completed a number of initiatives aimed at improving the standards of governance in the Crown companies and entities we monitor.

Despite the increase in staff turnover from last year, we have been able to attract a number of high-quality individuals to join us. CCMAU remains well placed to meet Ministers' expectations.

Science and innovation sector

Sector Manager – Donald Clark

The Crown-owned science and innovation companies (nine CRIs and the New Zealand Venture Investment Fund Ltd (VIF)) are making significant contributions to two of the Government's cornerstone strategies – the GIF and Sustainable Development.

¹ See page 22 for a full list of companies and entities monitored by CCMAU.

Through these strategies, the Government aims to move New Zealand towards an economy based on sustainable innovation. Scientific research, and the commercialisation of such research, has a pivotal and increasing role in achieving this goal.

The Government has established clear expectations for the CRIs and VIF. For CRIs, these are expressed through the Operating Framework and include:

- having a close regard to Government policy
- paying close attention to existing and emerging national needs in their own strategic planning
- leading and informing debate in areas where they have expertise.

For VIF, explicit Cabinet expectations are that it will help:

- accelerate the development of the New Zealand venture capital industry
- develop a larger pool of people in New Zealand's venture capital market.

During the year CCMAU developed its relationships across the innovation sector, all with the aim of being better able to advise shareholding Ministers and contribute to the development of relevant policy. This occurred mainly and most often with the MoRST and the Innovation Working Group of officials. However, in the year ahead we intend to enhance our relationships with other organisations in the sector, such as research users, economic policy-makers and financiers/investors.

Our role in the Equity Investment Fund (EIF) continued, notably through our work in the due diligence process for a \$6 million investment in two CRIs – the first new equity purchases by the shareholder since 1995. We expect to continue playing an active part in managing the increasingly commercial risk profile of the science and innovation sector portfolio, on behalf of the shareholders.

Increased funding for Vote CRIs has enabled us to enhance our team's capacity and capability and engage external support for significant work programmes such as non-financial performance measures and economic value added (EVA) reporting. This work will continue in the coming year, along with more focused activity on CRI capital structures and reinvestment.

Energy, land and environment sector

Sector Manager – Michael Moore

The Energy, Land and Environment (ELE) team advises the Minister for State-Owned Enterprises on the performance of, and issues relating to, 13 Crown companies in the energy, land and environment sectors.

These companies range from large electricity generator/retailers such as Meridian Energy Ltd (with an asset base of over \$4 billion) in the energy sector to Animal Control Products Ltd (with an asset base of around \$5 million) in the land and environment sector. The energy sector companies control over \$9 billion in assets and have annual revenues of over \$3 billion, while land and environment

sector companies control around \$1 billion in assets and have annual revenues of around \$335 million.

2003/04 provided many challenges, particularly for the energy companies on issues such as Project Aqua, the need for reserve generation, the impact of limited gas reserves, transmission concerns, and the need for investment in New Zealand's energy infrastructure. CCMAU worked closely with these companies as they developed strategies to meet New Zealand's energy needs, including, where financially viable, investment plans to help build the nation's energy infrastructure.

We were also closely involved with land and environment sector companies – such as in advising on land ownership options facing Molesworth station (where Landcorp Farming Ltd farms) and evaluating future options for AgriQuality Ltd and Asure New Zealand Ltd in a deregulated food safety and biosecurity environment.

The ELE team focused during the year on implementing the Government's long-term hold ownership policy, which will ultimately involve reviewing all SOEs. In 2003/04, we worked with the Treasury in reviewing Mighty River Power Ltd, Quotable Value Ltd, Landcorp Farming Ltd and Meteorological Service of New Zealand Ltd. These reviews covered key ownership expectations including:

- company strategy and scope of business
- company performance and benchmarking
- capital management – investment strategy, capital structure and dividend policy.

We expect our work in these reviews to not only provide Crown company boards with a much clearer understanding of the owner's expectations, but also provide us with a clearer framework for developing our ownership monitoring expertise in 2004/05 and beyond.

Communications, services and infrastructure sector

Sector Manager – James Cunningham

The communications, services and infrastructure (CSI) sector comprises a diverse group of companies in the broadcasting, telecommunications, services and transport infrastructure fields, as well as two Crown entities (Public Trust and the New Zealand Lotteries Commission).

These businesses collectively control approximately \$2.2 billion in total assets (after netting off Kiwibank's and Public Trust's liabilities from their assets to avoid distortion), play a key role in providing products and services to New Zealanders, and operate in a commercial way to generate profits and increase shareholder value.

The Government's long-term hold ownership policy for SOEs and Crown companies has increased our role in ensuring shareholder value is protected

and enhanced over the medium to long term, while allowing for a prudent level of commercial risk-taking in developing new initiatives.

During the past year, the CSI team assessed and advised shareholding Ministers on a number of matters, including:

- the separation of TVNZ's transmission and telecommunications division (Transmission Holdings Ltd) from TVNZ, which included resolving a potential capital gains tax liability issue for TVNZ's Australian-based subsidiary
- the redevelopment of Dunedin International Airport Ltd's terminal, the possible extension of Invercargill Airport Ltd's runway to allow for trans-Tasman flights (this is ongoing) and providing information on airports and the aviation industry to the New Zealand Defence Force as part of its consultation on the future use of the Whenuapai Air Force Base
- the Office of the Controller and Auditor-General's investigation into fees paid to the former Chairman of Learning Media Ltd
- New Zealand Post Ltd's strategies for its express and logistics group, and Kiwibank's condition of registration as a bank
- a number of transmission and telecommunications issues, such as Broadcast Communications Ltd's (BCL's) launch of its Broadband Wireless Access Network, the implications for BCL of local loop unbundling, and a major transaction for BCL's parent company, Transmission Holdings Ltd.

Appointments and governance

Appointments and Governance Manager – Steve Rich

Our Appointments and Governance team manages, on behalf of responsible Ministers, the board appointment process for the Crown companies and entities we monitor. In the year to June 2004 we advised Ministers on 70 separate appointments and reappointments to boards of SOEs, CRIs and other Crown companies and entities monitored by CCMAU.

We continued to strengthen our “position skill-profiling” with the aim of helping Caucus and a number of “nominations” agencies to identify people with the requisite skills. Position specifications are prepared for every role under consideration, and are used by responsible Ministers to call for nominations from their colleagues. CCMAU also makes these specifications available on its website.

A significant component of this role is managing expressions of interest from candidates wishing to be considered for Crown governance roles. In 2004 we received approximately 150 general expressions of interest from new candidates, in addition to approximately 500 applications or nominations for specific roles under consideration (the majority of the latter group were already registered on our database). One of our objectives is to meet as many of these people as possible and in the past year we met approximately 90 of the “new” candidates,

usually with an experienced Crown company director. These meetings aimed to obtain a full appreciation of the candidates' skills and advise them of the nature of board appointments and the associated process. We also began a programme to meet candidates who live outside the main centres and who have historically had to wait longer before being contacted.

CCMAU also helped to manage governance-related issues and ran specific development programmes for prospective directors. This included hosting three "Prospective Director" seminars for about 65 people during the year. Although oriented towards those being prepared for director appointments, the seminars cover many issues that are equally valuable for people appointed to other governance positions in the public and private sectors. The seminars are free in the interests of promoting good corporate governance in the wider New Zealand community – and where possible, nominations agencies (such as Te Puni Kōkiri and the Ministry of Women's Affairs) are invited to nominate candidates for these seminars.

In addition, we held three day-long induction seminars for newly appointed directors to introduce them to their new roles and shareholders' expectations.

Meanwhile, other Crown and private agencies continued to approach us for nominations of candidates whose attributes appear to meet the skill needs of non-CCMAU-monitored entities. In 2003/04 we recommended candidates in response to 44 such requests.

An important piece of work in early 2004 involved preparing a set of director fee guidelines for all Crown company boards. These detailed a new directors' fees methodology approved by Cabinet in December 2003, and addressed a number of issues raised by the Office of the Controller and Auditor-General in reports on the activities of two Crown company chairs. The guidelines were issued by all responsible Ministers in February 2004 and are available on CCMAU's website.

We continued to help Ministers to promote diversity in board appointments. Late in the year the New Zealand Women in Leadership Census was launched by Dr Judy McGregor. CCMAU provided the Census with information on the gender breakdown of its boards and the general appointment process. This highlighted the Crown's proactive stance in approaching the issue and the proportion of women on company boards, which at the end of the year stood at 36%. While there is still considerable room for improvement, we understand this is in advance of most, if not all, comparable boards.

At CCMAU's instigation a forum of governance officials was convened to develop a process for exchanging best practice information between government agencies active in governance. A steering committee chaired by the Cabinet Office has been agreed, and CCMAU will continue to participate. We are also represented in the advisory group for Massey University's Centre for Corporate and Institutional Governance.

Finally, CCMAU's long-serving Director of Appointments and Governance, Ron Hamilton, retired on 31 December 2003. Ron was instrumental in developing the appointments and governance function within CCMAU.

Maintaining and developing capability

Setting strategic direction

During the year we reviewed our *Strategic Plan* and confirmed that no major shifts were required in CCMAU's direction – in fact, we reaffirmed the four strategic focus areas underpinning our strategy. We have consolidated the organisational changes made at the beginning of the year through modest changes to our physical environment and have actively sought to develop a strong team culture, both within the new sector teams and across CCMAU as a whole.

We have worked hard to ensure our views are valued and sought, and that our position or approach is clearly identifiable as coming from CCMAU. In particular, we have paid close attention to the quality and content of our outputs to ensure Ministers' expectations are met and frequently exceeded.

We have a commercial focus that encompasses financial and non-financial performance, and our objective is to balance the views of the company, the portfolio as a whole and "New Zealand Inc" in formulating and providing our advice.

Managing our people

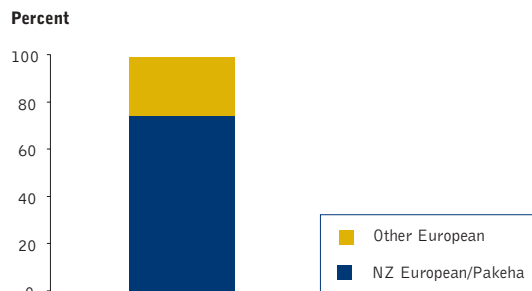
CCMAU's reputation depends on the quality, skills and experience of our staff. We have proactively sought to recruit, retain and develop people in a way that is aligned to our strategic objectives.

During 2003/04 we implemented a new performance development and remuneration framework. This clarified the performance required from staff to achieve the outcomes expected by shareholding Ministers, and identified professional development needs to build and enhance our capability.

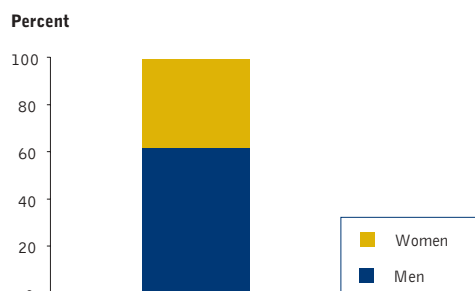
During the year, we seconded a senior advisor to New Zealand Railways Corporation to help with policy work on the Government's resumption of rail network ownership. As a result, we were able to accept a secondee from the Treasury for a corresponding period.

In the latter part of the year, we commissioned a staff climate survey to find out their priorities for making CCMAU a great place to work. We compared CCMAU with other organisations that have participated in the same survey – this revealed that, while CCMAU's overall performance index was satisfactory, there is room for improvement. Staff believe strongly in what we are trying to accomplish and we have a strong individual team culture, but they feel there are limited opportunities for advancement and scope to

CCMAU EEO 2004 - ETHNICITY



CCMAU EEO 2004 - GENDER



make better use of their knowledge and skills. We have already established a number of initiatives to address these concerns.

CCMAU employed 18 staff as at 30 June 2004, with three vacancies. Of the total staff, one person was seconded to a ministerial office and one was seconded to an SOE. We also had a legal advisor on secondment from a major legal firm. Staff turnover was 45.9% (11.8% in 2002/03) and the average length of service is now 2.66 years (3.29 years in 2002/03).

Improving communications and stakeholder relationships

CCMAU actively seeks stakeholder feedback to measure and enhance our performance. During 2003/04 Vote Ministers continued to express satisfaction with the quality of our advice. We decided not to undertake another stakeholder survey this year given the new organisational changes and the desire to see them bedded in.

We have increased our interactions with other key stakeholders and groups. This has enabled us to take a more active role in developing new policies through contributing ideas on their likely impact on the Crown companies and entities we monitor.

Our website is our main means of letting the public know what CCMAU does and how we do it. Unsolicited feedback suggests it is informative and easy to navigate. During the year we regularly updated it as new information, particularly on company performance, became available.

We also hosted a number of delegations from other jurisdictions interested in our monitoring and governance activities. We plan to nurture relationships with overseas CCMAU-like agencies as a way of benchmarking and continuously improving our own performance.



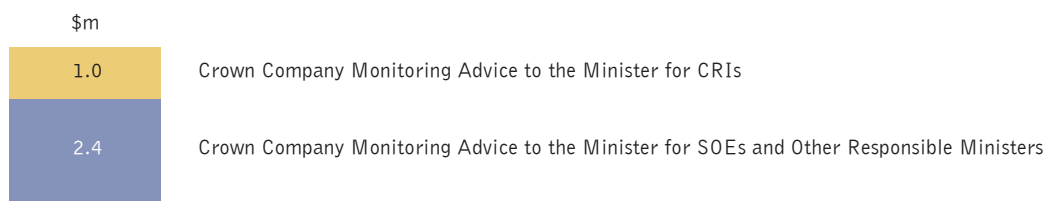
Murray Wright
Executive Director

OUTPUT PERFORMANCE – CCMAU

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

VOTES AT A GLANCE

Actual expenditure for 2003/04 by output class:



(Figures are GST inclusive)

VOTE CROWN RESEARCH INSTITUTES

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:

- advising the Minister for CRIs on the strategic direction of CRIs and the commercial and fiscal risks associated with Crown ownership
- providing advice which assists the Minister for CRIs to set ownership objectives and targets for CRIs
- monitoring and advising the Minister for CRIs of CRIs' performance against these objectives and targets
- providing policy advice on, and managing issues arising out of, the ownership of CRIs, including residual implementation issues
- managing, on behalf of the Minister, the appointment of CRI directors and monitoring the performance of those directors and boards.

Maintaining and enhancing the Crown's ownership interest in these entities contribute to the efficient management of the Crown's balance sheet and net worth. The CRIs have an important role to play in the New Zealand innovation system, thereby contributing to improving New Zealand's overall economic performance.

Significant work completed during the year

- Completion of the 2003/04 CRI strategic planning round.
- Convening of, and attendance at, a series of meetings in January 2004 between the Minister for CRIs and each CRI chair and chief executive to discuss a new Operating Framework statement for 2004/05 and other issues the companies wished to raise.
- Establishment of a process to assess applications to the EIF and the approval of two applications from Industrial Research and Crop & Food Research.
- Completion of the 2004/05 CRI director appointment round on time.
- Continued engagement with the SSC and CRIs and other Crown entity companies on the proposed Crown entity reforms and their potential impact.
- Management of a number of significant issues such as: AgResearch's campus redevelopment proposal (leading to the closure of the Wallaceville campus); AgResearch's farms' revenue problem; GNS's purchase of a new building in Lower Hutt; and the flow-on effects of the Foundation for Research, Science and Technology's funding decisions on HortResearch and Forest Research after the 2003 bidding round.
- Significant involvement with Land Information New Zealand and the Ministry of Defence on the future of hydrographic services in New Zealand and the impact on the NIWA's vessels.
- Involvement in the Growth and Innovation Working Group of officials.
- Completion of a thorough review of outstanding CRI contingent liabilities and the submission of two successful Budget bids to fund the remaining liabilities.

Service performance

Performance Dimensions	Achieved?
Quality The Minister for CRIs will expect advice to demonstrate a sound knowledge of the business, the environment within which the CRI operates and the consequences of shareholder or CRI actions. All reports will comply with the generic quality standards for analysis and advice outlined on page 125. Output quality will be assessed as follows: <ul style="list-style-type: none"> • The Minister will expect CCMAU to implement suitable quality control procedures to support the expectations for analysis and advice delivered under the relevant Votes. • Managerial and peer (internal and external, where appropriate) 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 level of satisfaction with the overall quality of the outputs produced. 	✓ ✓ More than satisfied
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister for CRIs and the Executive Director of CCMAU (as amended from time to time) for 2003/04. Quarterly and end-of-year reporting will enable the Minister to assess actual performance in output delivery against those expectations.	✓ ✓

Coverage

A comprehensive range of services will be provided as agreed with the Minister for CRIs. 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 shareholder decisions and company actions on the Government's desired outcomes.

✓

Cost Effectiveness

Analysis and advice will be delivered within the cost parameters agreed with the Minister for CRIs (or as subsequently modified by agreement).

✓

Timeliness

Timeframes will be agreed between the Minister and the Executive Director of CCMAU for the financial year.

- 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.
- CCMAU will respond appropriately to requests for attendance at Parliament during debates and at Cabinet and select committee meetings.
- Quarterly and end-of-year reporting will enable the Minister to assess actual performance in the timeliness of output delivery against those expectations.

✓

✓¹

✓

✓

2003/04	PQs	MCs	OIAs
Estimated	80-100	40	8-12
Actual draft replies	159	100	9
% answered by due date	99	89	78

Cost (\$000)

2003/04 Actual	1,004
Supp. Est - Voted	1,183
Main Est.	1,183
2002/03 Actual	921

(Figures are GST inclusive)

Output class expenditure was \$179,000 or 15% under Supplementary Estimates due to staff variances and lower consultant costs.

¹ The timeliness of responses was occasionally affected by the large volume of information sought, the complexity of the issues involved, and/or the need to consult with third parties such as the relevant CRIs to obtain additional information. In some cases, where necessary, extensions of time were obtained. Otherwise, of the "late" responses, the majority were provided shortly after the agreed deadline.

VOTE STATE-OWNED ENTERPRISES

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 the SOEs, Crown companies and Crown entities covered by Vote SOEs (collectively referred to below as "SOEs"). This includes:

- advising the Minister for SOEs and other responsible Ministers on the strategic direction of SOEs; the commercial and fiscal risks associated with Crown ownership; proposals to establish and restructure SOEs; and the processes and outcomes of significant SOE divestments and acquisitions
- providing advice which assists Ministers to set ownership objectives and targets for SOEs
- monitoring and advising Ministers of SOEs' performance against these objectives and targets
- providing policy advice on, and managing issues arising out of, the ownership of SOEs, including residual implementation issues
- managing, on behalf of Ministers, the appointment of SOE directors and monitoring the performance of those directors and boards.

Maintaining and enhancing the Crown's ownership interest in these entities contribute to the efficient management of the Crown's balance sheet and net worth.

Significant work completed during the year

- Completion of the 2003/04 SOE business planning round.
- Active involvement in long-term-holder owner's reviews of Mighty River Power and Quotable Value (completed), and MetService and Landcorp (substantially completed).
- Provision of advice on a number of issues involving the energy generators, including major projects (eg, Meridian Energy's cessation of Project Aqua and Genesis Power's gas contracts and Huntly expansion project (e3p)).
- Management and provision of advice on a number of other issues including the proposed merger of AgriQuality and Asure, Landcorp's continued management of Molesworth station, 'Timberlands' budgeting process, Transpower's upper South Island security of supply, the restructuring of TVNZ into two companies including the Australian capital gains tax issue, Dunedin International Airport's airport terminal redevelopment, the future strategies for New Zealand Post's express and logistics group, and Kiwibank's condition of registration.
- Provision of information on airports to the New Zealand Defence Force in respect of the Whenuapai Air Force Base.
- Convening of an SOE chairs' meeting in March with the Minister for SOEs and other Ministers.
- Completion of two SOE director appointment rounds.
- Presentations to various overseas delegations on the SOE model (eg, from Mongolia, Australia, Denmark and China).

- Provision of advice on the Office of the Controller and Auditor-General's investigation into Learning Media.
- Provision of advice on a number of transmission and telecommunications issues such as Broadcast Communications launch of its Broadband Wireless Access Network, implications for Broadcast Communications' local loop unbundling, and a major transaction for Transmission Holdings.

Service performance

Performance Dimensions	Achieved?
Quality The Minister for SOEs and other responsible Ministers will expect advice to demonstrate a sound knowledge of the Crown company's business, the environment within which the company operates and the consequences of shareholder or company actions. All reports will comply with the generic quality standards for analysis and advice outlined on page 125. Output quality will be assessed as follows: <ul style="list-style-type: none"> • The Minister will expect CCMAU to implement suitable quality control procedures to support the expectations for analysis and advice delivered under the relevant Votes. • Managerial and peer (internal and external, where appropriate) 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 level of satisfaction with the overall quality of the outputs produced. 	✓ ✓ No negative feedback ¹
Quantity The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister for SOEs and the Executive Director of CCMAU (as amended from time to time) for 2003/04. Quarterly and end-of-year reporting will enable the Minister to assess actual performance in output delivery against those expectations.	na ¹ na ¹
Coverage A comprehensive range of services will be provided as agreed with the Minister for SOEs. 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 shareholder decisions and company actions on the Government's desired outcomes.	✓
Cost Effectiveness Analysis and advice will be delivered within the cost parameters agreed with the Minister for SOEs (or as subsequently modified by agreement).	✓
Timeliness Timeframes will be agreed between the Minister and the Executive Director of CCMAU for the financial year. <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. • CCMAU will respond appropriately to requests for attendance at Parliament during debates and at Cabinet and select committee meetings. • Quarterly and end-of-year reporting will enable the Minister to assess actual performance in the timeliness of output delivery against those expectations. 	✓ ✓ ² ✓ na ¹

2003/04	PQs	MCs	OIAs
Estimated	120-160	80-120	12-20
Actual draft replies	157	154	11
% answered by due date	97	84	82

Cost (\$000)

2003/04 Actual	2,364
Supp. Est - Voted	2,588
Main Est.	2,588
2002/03 Actual	2,529

(Figures are GST inclusive)

Output class expenditure was \$224,000 or 9% under Supplementary Estimates due to staff variances and lower input costs.

- 1 While the Minister did not receive any reports against the Output Plan for 2003/04, as the content of the Output Plan was a matter for ongoing discussion throughout the year, he regularly provided oral feedback to CCMAU either directly or through his office staff on the quality and timeliness of the Unit's outputs. The Minister has not indicated that there are any particular areas of concern.
- 2 The timeliness of responses was occasionally affected by the large volume of information sought, the complexity of the issues involved, and/or the need to consult with third parties such as the relevant SOE Crown company/Crown entity to obtain additional information. In some cases, where necessary, extensions of time were obtained. Otherwise, of the "late" responses, the majority were provided shortly after the agreed deadline.

FINANCIAL STATEMENTS

for the year ended 30 June 2004

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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 non-departmental supplementary schedules, and the judgements made in the process of producing these financial statements and supplementary schedules.

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

In the opinion of the Secretary to the Treasury:

- the Department's financial statements fairly reflect the financial position and operations for the financial year ended 30 June 2004
- the supplementary schedules fairly reflect the assets, liabilities, contingencies and commitments managed by the Treasury on behalf of the Crown as at 30 June 2004 and revenues and expenses managed by the Treasury on behalf of the Crown for the year ended on that date.



John Whitehead
Secretary to the Treasury

24 September 2004



John Matheson
Chief Financial Officer
(countersigned)

24 September 2004

FINANCIAL STATEMENTS – DEPARTMENTAL

for the year ended 30 June 2004

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OVERVIEW OF DEPARTMENTAL FINANCIAL RESULTS

for the year ended 30 June 2004

The following significant movements in actual results between 2003/04 and 2002/03 are explained below.

	2004 Actual \$000	2003 Actual \$000
Revenue		
Revenue Crown	52,445	50,315
Expenses		
Personnel costs	31,507	29,499
Operating costs	16,822	15,548
Consultants	2,783	3,707
Non-current assets		
Property, plant and equipment	4,247	2,195
Taxpayers' funds		
General funds	7,127	5,427

Revenue

Revenue Crown for departmental outputs increased by \$2.1 million, mainly due to:

- new funding for national rail outputs of \$1.9 million
- new funding for accommodation operational costs of \$1.2 million incurred during the refit of No. 1 The Terrace
- new funding for border control outputs of \$0.2 million.

Which were partly offset by:

- Vote Finance funding totalling \$0.8 million not required and returned to the Crown
- accommodation project funding of \$0.4 million transferred to 2004/05 due to project timing differences.

Expenditure

Personnel costs increased by \$2.0 million due mainly to a 2.5% market increase, vacancies being of a shorter duration and a small increase in staff numbers.

Operating costs increased by \$1.3 million due mainly to:

- process management services increasing by \$0.6 million in rail and overseas properties outputs
- furniture and office equipment purchases of \$0.5 million
- other operating cost increases of \$0.4 million
- transport and travel returning to normal levels following the Iraq war and SARS in 2002/03, which contributed \$0.2 million to the increase
- write-off of \$0.1 million in leasehold improvements.

Which were partly offset by:

- an adjustment to reduce an onerous lease provision recorded in 2002/03 resulting in a \$0.5 million decrease between the years.

Consultants decreased by \$0.9 million due mainly to:

- rail consultancies decreasing by \$0.3 million as rail outputs moved from policy to implementation phase
- completion of various large projects in 2002/03 such as Air New Zealand (\$0.3 million)
- various other small decreases over a range of outputs (\$0.6 million).

Which were partly offset by:

- increased consultancies of \$0.3 million on Maui gas outputs.

Non-current assets

Property, plant and equipment costs increased by \$2.0 million mainly due to the purchase of leasehold improvements during the accommodation project.

Taxpayers' funds

General funds increased by \$1.7 million to provide capital for accommodation capital expenditure.

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

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 2004. Total Expenses plus GST equals Total Departmental Output Classes Expenditure and Appropriations in the Statement of Expenditure and Appropriations on page 90.

2003 Actual \$000		Notes	2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
Revenue					
50,315	Crown	1	52,445	53,860	54,315
236	Other revenue	2	510	213	336
50,551			52,955	54,073	54,651
Expenses					
29,499	Personnel costs		31,507	30,974	31,532
15,548	Operating costs	3	16,822	15,928	17,781
3,707	Consultants		2,783	4,716	3,420
1,336	Depreciation	4	1,382	1,692	1,400
461	Capital charge	5	461	763	518
50,551			52,955	54,073	54,651
-	Net Surplus		-	-	-

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS

for the year ended 30 June 2004

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.

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
5,427	Taxpayers' funds at the beginning of the year	5,427	5,427	5,427
	<i>Movements during the year</i>			
-	Net surplus	-	-	-
-	Total Recognised Revenues and Expenses for the Year	-	-	-
-	Capital contribution from the Crown	1,700	3,700	1,900
5,427	Taxpayers' Funds at the End of the Year	7,127	9,127	7,327

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

The Statement of Financial Position reports the total assets and liabilities of the Department, including CCMAU, as at 30 June 2004. Taxpayers' funds are represented by the difference between the assets and liabilities.

2003 Actual \$000		Notes	2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
	Taxpayers' Funds				
5,427	General funds		7,127	9,127	7,327
5,427	Total Taxpayers' Funds		7,127	9,127	7,327
	<i>Represented by:</i>				
	Assets				
	<i>Current assets</i>				
5,291	Cash and bank balances		4,050	5,819	1,137
367	Advances and prepayments		363	439	438
79	Accounts receivable		247	132	66
6,059	Debtor - Crown		6,913	4,456	6,932
11,796			11,573	10,846	8,573
	<i>Non-current assets</i>				
2,195	Property, plant and equipment	6	4,247	4,513	4,974
2,195			4,247	4,513	4,974
13,991	Total Assets		15,820	15,359	13,547
	<i>Less:</i>				
	Liabilities				
	<i>Current liabilities</i>				
3,725	Payables and accrued expenses		4,790	2,668	2,460
4,040	Provision for employee entitlements	7	3,395	2,976	3,131
125	Provision for onerous contracts	8	91	63	96
7,890			8,276	5,707	5,687
	<i>Non-current liabilities</i>				
376	Provision for employee entitlements	7	347	525	373
298	Provision for onerous contracts	8	70	-	160
674			417	525	533
8,564	Total Liabilities		8,693	6,232	6,220
5,427	Net Assets		7,127	9,127	7,327

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2004

The Statement of Cash Flows summarises the cash movements in and out of the Department during the financial year. It takes no account of money owed to the Department or owing by the Department and therefore differs from the Statement of Financial Performance on page 84.

2003 Actual \$000	Notes	2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
Cash Flows from Operating Activities				
<i>Cash was provided from:</i>				
49,519	Supply of outputs to the Crown	52,039	55,021	53,755
153	Net GST received	40	-	12
49,672		52,079	55,021	53,767
<i>Cash was disbursed to:</i>				
29,211	Personnel costs	32,181	30,763	32,444
18,039	Operating costs	18,804	21,308	22,486
461	Capital charge	461	763	518
47,711		51,446	52,834	55,448
1,961	Net Cash Flows from Operating Activities 9	633	2,187	(1,681)
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
2	Sale of property, plant and equipment	-	2	-
<i>Cash was disbursed to:</i>				
957	Purchase of property, plant and equipment	3,574	3,864	4,373
(955)	Net Cash Flows from Investing Activities	(3,574)	(3,862)	(4,373)
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
-	Capital contributions	1,700	3,700	1,900
-	Net Cash Flows from Financing Activities	1,700	3,700	1,900
1,006	Net (Decrease)/Increase in Cash and Bank Balances	(1,241)	2,025	(4,154)
4,285	<i>Cash and bank balances at the beginning of the year</i>	5,291	3,794	5,291
5,291	Cash and Bank Balances at the End of the Year	4,050	5,819	1,137

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF COMMITMENTS

as at 30 June 2004

The Department has non-cancellable leases on its principal premises at No. 1 The Terrace, Wellington. The Department also has a non-cancellable lease over office space in Boulcott Street, Wellington. The Department has other operating commitments consisting of computer maintenance contracts, building services contracts and contracts for services. These operating lease commitments have been recorded at their gross values in the Statement of Commitments. However, onerous contract provisions have been recorded for the office space the Department does not occupy, which are detailed in Note 8.

The Department's capital commitments relate to the accommodation project.

2003 Actual \$000		2004 Actual \$000
	Operating Lease Commitments	
4,976	Less than one year	4,922
4,632	One to two years	3,215
241	Two to five years	9,546
-	Greater than five years	31,299
9,849		48,982
-	Capital Commitments	2,489
9,849	Total Commitments	51,471

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF CONTINGENT ASSETS AND LIABILITIES

as at 30 June 2004

As at 30 June 2004, the Department had no departmental contingent assets and liabilities (30 June 2003: nil).

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

STATEMENT OF EXPENDITURE AND APPROPRIATIONS

for the year ended 30 June 2004

The Statement of Expenditure and Appropriations details expenditure (GST inclusive where applicable) against appropriations. Total Departmental Output Classes Expenditure and Appropriations less GST equals total expenses in the Statement of Financial Performance on page 84.

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
	Vote Finance: Departmental Output Classes		
4,776	Policy Advice: General Economic and Fiscal Strategies	3,983	4,117
3,672	Policy Advice: Financial and Public Sector Management Systems	3,507	3,743
2,296	Policy Advice: Tax	1,859	1,928
2,240	Budget Management	2,241	2,287
5,865	Economic and Fiscal Forecasting and Reporting	6,914	7,003
5,436	Debt and Related Financial Asset Management ¹	5,274	5,379
	Management of Claims Against the Crown, Contractual Liabilities and Crown Properties		
3,668		4,163	4,691
3,720	Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions	2,904	2,998
21,747	Policy Advice: Regulation and Vote Purchase, Ownership and Performance Issues	25,363	25,564
53,420		56,208	57,710
	Vote Crown Research Institutes: Departmental Output Classes		
921	Crown Company Monitoring Advice to the Minister for Crown Research Institutes	1,004	1,183
	Vote State-Owned Enterprises: Departmental Output Classes		
2,529	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2,364	2,588
56,870	Total Departmental Output Classes Expenditure and Appropriations	59,576	61,481
	Vote Finance: Capital Contributions to the Department		
-	Capital investment	1,700	1,900
56,870	Total Departmental Expenditure and Appropriations	61,276	63,381

The accounting policies on pages 91 to 93 and accompanying notes on pages 94 to 98 are an integral part of these financial statements.

¹ Appropriated under permanent legislative authority.

STATEMENT OF ACCOUNTING POLICIES

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 2004. The statements have been prepared pursuant to section 35 of that Act.

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

Measurement system

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

Accounting policies

Revenue

The Department derives revenue through the provision of outputs to the Crown and for services to third parties. 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.

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

“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

Corporate overhead costs are assigned to branches on an approximate resource usage basis.

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.

Indirect costs

Indirect costs, including corporate overhead 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, except for onerous lease provisions.

Property, plant and equipment

Property, plant and equipment are stated at the lower of cost less accumulated depreciation or fair value. All computer equipment assets and all other assets costing more than \$5,000 are capitalised.

Depreciation

Depreciation of property, plant and equipment is provided on a straight line basis so as to allocate the cost of assets, less 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:		8-12 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

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.

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 present value of the future net cash outflows expected to be incurred in respect of the contract.

Foreign currency

Foreign currency transactions, relating primarily to information, travel and training costs, are reported at the New Zealand dollar exchange rate at the date of the transaction.

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

Amounts in the financial statements are reported exclusive of GST except for:

- advances and prepayments, accounts receivable, debtor – Crown and payables
- figures in the Statement of Expenditure and Appropriations where applicable.

The amount of GST owing to or from the Inland Revenue Department as 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 (as appropriate).

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.

Commitments

Commitments disclosed include those operating and capital commitments arising from non-cancellable contractual obligations.

Contingent assets and liabilities

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

1 Revenue – Crown

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

2 Other revenue

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
202	Rental income	186	186	186
-	Court costs awarded	36	-	-
-	Study bond repayments	123	-	119
-	State Sector Retirement Superannuation Scheme	100	-	-
34	Miscellaneous	65	27	31
236		510	213	336

3 Operating costs

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
5,291	Lease of premises	5,400	5,322	5,402
117	Fees to KPMG for audit of the Department and NZDMO	117	115	117
118	Fees to Auditor-General for audit of Crown financial statements	118	105	119
22	Other fees to Department and NZDMO auditors	65	15	72
240	Other fees to Crown auditors	193	220	219
-	Write-offs - leasehold improvements	105	-	95
298	Provisions for onerous leases	(157)	-	(97)
3,235	Process management services	3,840	1,868	3,953
1,028	Transport and travel	1,208	1,393	1,355
838	Training and development	771	940	815
787	Information costs	778	920	774
747	Data processing costs	648	680	663
-	Furniture/Office equipment purchases	521	1,223	469
2,827	Other operating costs	3,215	3,127	3,825
15,548		16,822	15,928	17,781

4 Depreciation

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
22	Furniture and fittings	20	22	22
140	Leasehold improvements	142	428	130
136	Office machinery and electrical equipment	117	135	115
1,037	Computer equipment	1,102	1,107	1,132
1	Plant	1	-	1
1,336		1,382	1,692	1,400

5 Capital charge

The Treasury pays a capital charge to the Crown on its average taxpayers' funds for the six months ended 30 June and 31 December. The capital charge rate for the financial year ended 30 June 2004 was 8.5% (30 June 2003: 8.5%).

6 Property, plant and equipment

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

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
	Furniture and fittings			
477	Cost	509	482	521
(439)	Accumulated depreciation	(459)	(467)	(461)
38		50	15	60
	Leasehold improvements*			
1,877	Cost	3,042	4,493	4,546
(1,573)	Accumulated depreciation	(404)	(2,004)	(1,369)
304		2,638	2,489	3,177
	Office machinery and electrical equipment			
1,022	Cost	1,097	1,141	1,076
(866)	Accumulated depreciation	(978)	(1,127)	(982)
156		119	14	94
	Computer equipment			
7,187	Cost	7,508	9,809	7,888
(5,492)	Accumulated depreciation	(6,069)	(7,815)	(6,246)
1,695		1,439	1,994	1,642
	Plant			
5	Cost	5	5	5
(3)	Accumulated depreciation	(4)	(4)	(4)
2		1	1	1
2,195	Total Property, Plant and Equipment	4,247	4,513	4,974

* The 30 June 2004 actual cost balance includes \$716,000 of work in progress (30 June 2003: nil) which has not been depreciated.

7 Provision for employee entitlements

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
1,301	Retirement, resigning and long service leave	1,311	1,670	1,393
1,834	Annual leave	1,970	1,568	1,909
1,056	Accrued salaries	282	-	-
225	Accrued performance payments	179	263	202
4,416		3,742	3,501	3,504
	<i>Represented by:</i>			
4,040	Current	3,395	2,976	3,131
376	Non-current	347	525	373
4,416		3,742	3,501	3,504

8 Provision for onerous contracts

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
188	Balance at the beginning of the year	423	125	423
298	Additional provision made	-	-	-
-	Amount reversed	(157)	-	-
(63)	Amount utilised	(105)	(62)	(167)
423		161	63	256
	<i>Represented by:</i>			
125	Current	91	63	96
298	Non-current	70	-	160
423		161	63	256

The Department has two non-cancellable leases. These are at No. 1 The Terrace and Level 14, 47 Boulcott Street in Wellington. Owing to a change in its activities, the Department no longer occupies one level of the building at No. 1 The Terrace or Level 14 at the Boulcott Street premises. The floor at No. 1 The Terrace has been sublet. The Boulcott Street floor, which was previously sub-leased, is now vacant. Owing to market conditions, the rental income achieved is much lower than the rental expense being incurred. The net obligation under the lease agreements has been provided for as an onerous contract. The liability for No. 1 The Terrace will be incurred over the next year while the Boulcott Street liability will be incurred over the next four years.

9 Reconciliation of net surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the net surplus reported in the Statement of Financial Performance on page 84 to arrive at the net cash flow from operating activities disclosed in the Statement of Cash Flows on page 87.

2003 Actual \$000		2004 Actual \$000	2004 Main Estimates \$000	2004 Supp. Estimates \$000
-	Net Surplus from Statement of Financial Performance		-	-
	<i>Non-cash items</i>			
1,336	Depreciation	1,382	1,692	1,400
-	Write-offs - property, plant and equipment	105	-	95
	<i>Working capital movements</i>			
72	Decrease/(increase) in advances and prepayments	4	-	(72)
143	(Increase)/decrease in accounts receivable	(168)	-	14
(1,011)	(Increase)/decrease in debtor - Crown	(854)	948	(873)
965	Increase/(decrease) in payables, accrued expenses and provisions	1,066	(663)	(1,333)
345	(Decrease)/increase in other current liabilities	(645)	211	(912)
113	(Decrease)/increase in non-current liabilities	(257)	-	-
	<i>Investing activity items</i>			
(2)	Net gain on sale of property, plant and equipment	-	(1)	-
1,961	Net Cash Flow from Operating Activities	633	2,187	(1,681)

10 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, accounts receivable, debtor – Crown, and payables and accrued expenses.

Credit risk

In the normal course of its business the Department is subject to 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.

11 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 required to be disclosed as related party transactions.

SUPPLEMENTARY FINANCIAL SCHEDULES – NON-DEPARTMENTAL

for the year ended 30 June 2004

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The following supplementary financial schedules record the expenses, revenue and capital receipts, assets and liabilities that the Department manages on behalf of the Crown. These supplementary financial schedules include NZDMO balances reported on pages 115 to 116.

The Department administered \$3.1 billion of expenses, \$2.6 billion of revenue, \$0.4 billion of capital receipts, \$19.3 billion of assets and \$51.3 billion of liabilities on behalf of the Crown for the year ended 30 June 2004.

The financial information reported in these schedules is consolidated into the Crown financial statements, and therefore readers of these schedules should also refer to the Crown financial statements for the year ended 30 June 2004.

OVERVIEW

Auckland marinas

In May 2004, the Crown purchased Westhaven and Hobson West marinas from Ports of Auckland and on-sold them to Auckland City Council (pages 104 and 107).

Housing New Zealand Corporation (HNZC)

Responsibility for capital contributions to HNZC, and interest receipts and dividends from the company, was transferred to the Ministry of Housing from 1 July 2003 (pages 104 and 106).

International financial institutions

New Zealand's capital contributions to the IMF, which the IMF uses for medium-term loans to member countries, were significantly lower than in 2002/03, and returns of capital significantly higher. This reflects the cyclical nature of the IMF lending programme (pages 104 and 107).

GSF unfunded liability movement

The GSF and New Zealand Superannuation Corporation unfunded liabilities as at 30 June 2004 were \$10,169 million (page 109). This was a decrease of \$507 million compared with 30 June 2003 (page 103). The primary reason for the decrease in the gross liability has been the movements in economic assumptions of around \$480 million.

Transmission Holdings Ltd

Transmission Holdings Ltd (previously a subsidiary of TVNZ) was set up as an independent SOE during the year. A capital appropriation of \$93.3 million records the capitalisation of the new company, with an offsetting notional capital receipt from TVNZ (pages 104 and 107).

Rail issues

During the year, the Crown:

- purchased Wellington Railway Station and commenced a structural upgrade of the building (pages 103 and 104)
- purchased the national rail infrastructure and associated assets from Toll NZ Ltd (page 104)
- commenced work on double tracking part of the Western line in Auckland (page 104)
- provided a loan facility to Auckland Regional Council to assist with the purchase of new commuter rolling stock (page 104).

The establishment of "Track Co", a new Crown entity to manage the rail network on behalf of the Crown, was delayed into 2004/05 (page 104).

STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 June 2004

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

The financial information reported in these schedules is consolidated into the Crown financial statements, and therefore readers of these schedules should also refer to the Crown financial statements for the year ended 30 June 2004.

SCHEDULE OF EXPENSES

for the year ended 30 June 2004

The Schedule of Expenses summarises expenses that the Department administers on behalf of the Crown. Details of non-departmental expenditure and appropriations are provided on pages 103 to 104.

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
	Vote Finance		
8,085	Non-departmental output classes	11,655	13,916
2,479,379	Benefits and other unrequited expenses	242,561	842,537
2,616,011	Borrowing expenses	2,549,901	2,550,000
278,701	Other expenses incurred by the Crown	168,597	224,037
34,603	Other expenses - NZDMO	6,059	14,000
9,531	Depreciation	10,827	11,067
81,000	Rail assets writedowns	19,256	-
197,140	Change in NPF DBP(A) Scheme liability	9,231	-
12,950	Change in coins in circulation liability	-	-
8,384	Change in valuation of Maui gas receivable	4,424	-
855	Other changes	10	-
(199)	Loss/(gain) on sales	-	-
46,900	Amortisation of Air New Zealand goodwill	46,900	46,900
29,735	Foreign exchange losses/(gains)	9,612	20,643
5,803,075		3,079,033	3,723,100
	Vote Crown Research Institutes		
47	Other expenses incurred by the Crown	35	54
47		35	54
5,803,122	Total Non-Departmental Expenses	3,079,068	3,723,154

(Figures are GST inclusive where applicable)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

STATEMENT OF EXPENDITURE AND APPROPRIATIONS

for the year ended 30 June 2004

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

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
Vote Finance			
Non-Departmental Output Classes			
5,230	GSF Authority	4,297	4,596
2,361	Guardians of New Zealand Superannuation	3,000	3,000
-	Management of Auckland rail corridor	3,888	5,000
384	Management of Crown overseas properties	360	1,150
110	Management of Geothermal Trading	110	170
8,085		11,655	13,916
Benefits and Other Unrequited Expenses			
706,787	GSFA - subsidy to Government Superannuation Fund	731,428	740,743
14,278	GSFA - subsidy to judges' superannuation account	13,764	14,072
5,003	GSFA - subsidy to parliamentary superannuation account	4,349	4,693
351	GSFA - New Zealand Superannuation Corporation annuities	339	348
1,752,960	GSF unfunded liability movement	(507,319)	82,681
2,479,379		242,561	842,537
Borrowing Expenses			
2,616,011	Debt servicing	2,549,901	2,550,000
2,616,011		2,549,901	2,550,000
Other Expenses Incurred by the Crown			
250	Compensation payments	-	50
7,394	Crown overseas properties	6,157	10,100
129	Crown residual liabilities	10	587
1,525	Geothermal Trading	1,834	3,330
1	GSF Appeals Board	1	50
4,105	GSF: Crown share of custodial and investment management expenses	5,783	6,532
-	Loss on sale of Auckland marinas	5,688	-
243,025	Maui gas contracts	145,754	196,000
22,025	National Provident Fund	-	-
19	Overseas Investment Commission honoraria	19	25
-	Establishment of Track Co	1,112	4,500
-	Wellington Railway Station maintenance	2,185	2,363
228	Unclaimed money	54	500
278,701		168,597	224,037

(Figures are GST inclusive where applicable)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

STATEMENT OF EXPENDITURE AND APPROPRIATIONS (CONTINUED)

for the year ended 30 June 2004

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
Vote Finance (continued)			
Capital Contributions to Other Organisations			
-	Auckland Regional Council loan to purchase and upgrade rolling stock	4,600	12,000
300	Guardians of New Zealand Superannuation	-	-
36,206	HNZC - loans to finance new lending and community house acquisition	-	-
30,969	HNZC - loans to finance purchase of housing in Auckland	-	-
50,000	HNZC - loans to refinance third party debt	-	-
51,481	HNZC - acquisition and modernisation of housing stock	-	-
207,000	International financial institutions	110,000	200,000
-	NZSF	3,794,080	3,794,080
378,000	Television New Zealand Group Ltd	-	-
-	Track Co working capital	-	5,000
-	Track Co - infrastructure development	-	10,000
-	Transmission Holdings Ltd	93,302	93,302
44,000	Tranz Rail Ltd loan	-	-
8,646	University of Auckland Business School	16,354	16,354
806,602		4,018,336	4,130,736
Purchase or Development of Capital Assets			
-	Auckland marinas	60,464	60,750
-	Auckland rail corridor	441	2,000
598	Development of Crown overseas properties	1,996	3,500
-	Double tracking Auckland rail corridor	4,339	11,250
121	Geothermal Trading	227	3,000
-	Track Co - purchase of Wellington Railway Station	17,647	23,063
-	Track Co - purchase of rail network assets	54,978	47,250
719		140,092	150,813
Repayment of Debt			
48,000	ECNZ debt	-	-
925,135	Net domestic debt repayment	681,567	926,000
-	Net foreign debt repayment	654,015	365,000
973,135		1,335,582	1,291,000
7,162,632	Total Vote Finance	8,466,724	9,203,039
Vote Crown Research Institutes			
Other Expenses Incurred by the Crown			
47	Crown residual liabilities	35	54
47	Total Vote Crown Research Institutes	35	54
7,162,679	Total Non-Departmental Expenditure and Appropriations	8,466,759	9,203,093

(Figures are GST inclusive where applicable)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

STATEMENT OF UNAPPROPRIATED EXPENDITURE

for the year ended 30 June 2004

Vote Finance incurred two items of unappropriated expenditure during the year:

Vote Finance, Other Crown expenses: Loss on sale of Auckland marinas

On 19 April 2004, Cabinet approved the purchase of Westhaven and Hobson West marinas from Ports of Auckland, and the on-sale of the two marinas to Auckland City Council. At that time details of the sale were still being negotiated and the amount of any possible loss on sale was not known. No appropriation was sought in the Supplementary Estimates for 2003/04 for commercial reasons. A sale was concluded on 31 May, at a loss of \$5.688 million (GST inclusive). As the sale was below market price, an appropriation for this amount is required.

Vote Finance, Purchase or development of capital assets by the Crown: Track Co - purchase of rail network assets

On 30 June 2004, the Crown agreed to purchase the rail network assets from Toll NZ Ltd for a total of \$38.150 million (GST inclusive), plus a contribution towards capital works completed by Toll in May and June. The capital works component is expected to be approximately \$16.827 million (GST inclusive), making a total expenditure of \$54.977 million (GST inclusive).

A total of \$57.250 million was appropriated for this expenditure in the Vote Finance 2003/04 Supplementary Estimates under two headings:

- Purchase or development of capital assets by the Crown: \$47.250 million.
- Capital contributions to other organisations: \$10.000 million.

However, because Track Co had not been formally established at the time of the transaction, the full purchase amount must be appropriated under the "Purchase or development of capital assets by the Crown" appropriation. As a result, this item was over-spent by \$7.728 million.

The Minister of Finance has approved both items of unappropriated expenditure in accordance with section 12 of the Public Finance Act 1989.

SCHEDULE OF REVENUE

for the year ended 30 June 2004

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
Vote Finance			
-	Auckland rail corridor access fee	5,343	7,000
-	Auckland rail double tracking - grant from Infrastructure Auckland	847	10,000
997,668	Capital charge - departments	1,091,288	1,093,011
7	Contact Energy Ltd Crown margin	1,062	1,298
3,902	Dividends from Crown entities	7,784	6,584
196,890	Dividends from SOEs	227,458	181,582
4,168	Dividends - other	2,530	2,530
10,000	Earthquake Commission guarantee fee	10,000	10,000
84,101	Employers' superannuation contributions	66,883	79,896
-	Export Credit Office	2	59
811	Interest from Contact Energy Ltd	-	-
33,726	Interest from HNZC	-	-
741,066	Interest from investments	736,875	678,000
19,111	Interest income - other	20,223	20,653
32,365	Other income - NZDMO	4,822	32,000
216,011	Maui gas contracts	129,559	174,000
25,465	Rentals from Crown overseas properties	24,755	26,376
168,930	Reserve Bank of New Zealand net surplus	184,419	184,419
25,565	Sale of goods and services	42,851	39,156
10,562	Other current revenue	8,030	6,398
1,504	Unclaimed money	1,590	1,300
2,571,852		2,566,321	2,554,262
Vote Crown Research Institutes			
3,450	Dividends from CRIs	350	350
3,450		350	350
2,575,302	Total Non-Departmental Revenue	2,566,671	2,554,612

(All figures are GST exclusive)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF CAPITAL RECEIPTS

for the year ended 30 June 2004

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

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
	Vote Finance		
281	Capital withdrawals from Crown companies	-	-
29,410	Contact Energy Ltd Crown margin	38,400	40,342
1,381,309	Net foreign borrowing	-	-
48,000	Loan repayments from Contact Energy Ltd	-	-
70	Loan repayments from other parties	44,070	44,070
57,000	Return of capital from the IMF	222,000	222,000
213	Sale of investments	-	-
-	Sale of Auckland marinas	48,690	-
378,000	TVNZ	-	-
-	Transmission Holdings	93,302	93,302
1,894,283		446,462	399,714

(All figures are GST exclusive)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF ASSETS

as at 30 June 2004

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

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
3,251,643	Cash and bank accounts	1,349,305	686,146
1,439,387	Accounts receivable and advances	2,770,993	2,556,165
16,118,932	Marketable securities, deposits and equity investments	14,170,958	13,871,958
59,284	Inventory	35,223	41,146
398,650	Intangibles and goodwill (Air New Zealand)	351,750	351,750
214,216	Other investments	204,791	194,770
415,562	Property, plant and equipment	440,879	540,370
21,897,674		19,323,899	18,242,305

(All figures are GST exclusive)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF LIABILITIES

as at 30 June 2004

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

2003 Actual \$000		2004 Actual \$000	2004 Supp. Estimates Voted \$000
3,302,000	Overdrafts	2,578,000	3,319,000
10,676,208	GSF unfunded liability	10,168,889	10,758,889
881,789	NPF DBP(A) Scheme unfunded liability	891,020	881,789
986,378	Other payables and provisions	859,314	620,347
87,604	Coins in circulation	87,604	87,604
38,090,617	Borrowings	36,727,000	36,246,000
54,024,596		51,311,827	51,913,629

(All figures are GST exclusive)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF COMMITMENTS

as at 30 June 2004

30 June 2003 \$000		30 June 2004 \$000
	By Type	
2,036	Non-cancellable property lease	2,019
801	Other non-cancellable operating commitments	609
2,837		2,628
	By Term	
-	Operating commitments	-
245	Less than one year	249
245	One to two years	249
537	Two to five years	341
1,810	More than five years	1,789
2,837		2,628
	Capital Commitments	
-	Crown overseas properties	1,500
-	National rail network upgrades	185,000
-	Wellington Railway Station	5,416
-		191,916
2,837	Total Commitments	194,544

(All figures are GST exclusive)

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF CONTINGENT LIABILITIES

as at 30 June 2004

30 June 2003 \$000		30 June 2004 \$000
	Quantifiable Contingent Liabilities	
53,715	Guarantees and indemnities	52,232
2,627,043	Uncalled capital	2,488,797
10,952	Legal proceedings and disputes	3,852
1,353,211	Other contingent liabilities	1,213,222
4,044,921		3,758,103

(All figures are GST exclusive)

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

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

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

Unquantifiable Contingent Liabilities

The Treasury also administers a number of contingent liabilities which cannot be quantified. These arise primarily from institutional guarantees and indemnities. Readers are referred to the Crown financial statements for further details.

The Crown's accounting policies are an integral part of these supplementary financial schedules.

STATEMENT OF TRUST MONIES

for the year ended 30 June 2004

30 June 2003 Actual \$000		30 June 2004 Actual \$000
1,330	Balance at the beginning of the year	934
196	Contribution	60
(27)	Distribution	(1)
82	Revenue	48
(647)	Unclaimed money returned to the Crown	(129)
934	Balance at the end of the year	912

(All figures are GST exclusive)

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

The source of funds is principally estates of deceased persons where the beneficiaries cannot be traced. Funds are retained in the Trust Account for six years, and are then transferred to the Crown as unclaimed money. During the financial year ended 30 June 2004, \$1,000 was paid to claimants and interest of \$48,000 was earned from trust money on term deposit.

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

The Crown's accounting policies are an integral part of these supplementary financial schedules.

NEW ZEALAND DEBT MANAGEMENT OFFICE

for the year ended 30 June 2004

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The following supplementary financial schedules report the assets and liabilities, revenue and expenses, and risk management activity that the NZDMO manages on behalf of the Crown.

These schedules reflect the activity of NZDMO as though it were a stand-alone entity. Cross-holdings or other financial positions between NZDMO and other government entities are not eliminated.

NZDMO managed \$11,949 million of assets, \$40,081 million of liabilities, \$747 million of revenue and \$2,556 million of expenses on behalf of the Crown for the year ended 30 June 2004.

Further information on NZDMO's performance in managing the Crown's sovereign-issued debt and related financial assets is provided in the Debt and Related Financial Asset Management output performance section of this report. NZDMO's contribution to the "efficient management of the Crown's assets and liabilities" outcome is also discussed elsewhere in this report.

The financial information reported in these schedules is consolidated into the Crown financial statements. Readers should refer to the Crown financial statements for the year ended 30 June 2004.

Nature and extent of activities

NZDMO, established in 1988, is part of the New Zealand Treasury and is responsible for the efficient management of the Crown's debt and associated assets within an appropriate risk management framework. NZDMO's strategic objective is to maximise the long-term economic return on the Crown's financial assets and debt in the context of the Government's fiscal strategy, particularly its aversion to risk. NZDMO's major responsibilities involve:

- financing the Crown's gross borrowing requirement, managing foreign currency assets required to meet net foreign currency interest and principal payments, and settling and accounting for all related debt transactions
- maintaining and developing an appropriate framework for efficiently managing the portfolio and the risks associated with it
- disbursing cash to departments and facilitating departmental cash management
- advancing funds to government entities in accordance with Government policy
- providing capital markets services and derivative transactions for departments and government entities
- providing reporting for fiscal forecasting and financial statements
- maintaining a diversified funding base and, where appropriate, enhancing relationships with investors who hold, or are potential holders of, New Zealand government securities and with financial intermediaries and the international credit rating agencies.

SCHEDULE OF ASSETS AND LIABILITIES

as at 30 June 2004

The Schedule of Assets and Liabilities summarises the assets and liabilities managed by NZDMO.

Book Value 2003 \$m	Fair Value 2003 \$m		Book Value 2004 \$m	Fair Value 2004 \$m
		Foreign Currency Assets		
3,216	3,251	Marketable securities	2,576	2,589
479	479	External deposits	335	335
4,397	4,397	Advances to Reserve Bank of New Zealand (RBNZ)	3,842	3,842
(2,841)	(2,549)	Derivatives ¹	(1,655)	(1,505)
1,067	1,067	IMF reserve position	916	916
128	128	Debtors and receivables	254	254
29	29	Foreign bank accounts	11	11
6,475	6,802		6,279	6,442
		New Zealand Dollar Assets		
3,142	3,142	Crown settlement account	1,242	1,242
243	247	Advances to Crown Financing Agency	861	858
758	764	Advances to Housing New Zealand	1,259	1,259
3,311	3,482	Derivatives ¹	2,202	2,198
41	41	Debtors and receivables ²	53	53
89	120	Other	53	80
7,584	7,796		5,670	5,690
14,059	14,598	Total Assets	11,949	12,132
		Foreign Currency Liabilities		
4,851	5,283	Debt	4,049	4,269
962	1,068	Derivatives ¹	1,763	1,814
434	434	Creditors and payables ²	293	293
-	-	Other	-	-
6,247	6,785		6,105	6,376
		New Zealand Dollar Liabilities		
5,592	5,600	Treasury bills	5,701	5,694
25,076	26,551	Government bonds ³	24,333	24,595
1,645	1,985	Inflation-indexed bonds	1,678	1,898
487	489	Kiwi bonds	441	440
3,302	3,302	Crown balances with Westpac ⁴	2,578	2,578
(552)	(540)	Derivatives ¹	(1,262)	(1,204)
495	495	Creditors and payables	483	483
29	37	Other	24	29
36,074	37,919		33,976	34,513
42,321	44,704	Total Liabilities	40,081	40,889

1. Each derivative transaction is recorded as an asset or a liability based on its year-end value.
2. Accrued interest, including on derivatives, is recognised under payables or receivables.
3. Government bonds include non-market issues to the Reserve Bank of New Zealand.
4. Crown balances with Westpac at 30 June 2004 include the NZDMO Disbursement account (\$2.677 billion O/D). NZDMO disburses funds from this account to bank accounts maintained by departments and the account operates as an effective contra to the balances held by departments.

The Crown's accounting policies are an integral part of these supplementary financial schedules.

SCHEDULE OF REVENUES AND EXPENSES

for the year ending 30 June 2004

The Schedule of Revenues and Expenses summarises the revenues and expenses associated with the assets and liabilities managed by NZDMO.

2003 \$m		2004 \$m
	Foreign Currency Revenue	
62	Marketable securities	60
9	External deposits	6
144	Advances to RBNZ	103
226	Derivatives	246
16	IMF reserve position	13
22	Unrealised gains/losses on advances to RBNZ	(69)
479		359
	New Zealand Dollar Revenue	
201	Crown settlement account	179
10	Advances to Crown Financing Agency	23
34	Advances to Housing New Zealand	51
83	Derivatives	130
5	Other	5
333		388
812	Total Revenue	747
	Foreign Currency Expenses	
243	Debt	194
119	Derivatives	100
23	Foreign exchange gains/losses	3
1	Other	4
386		301
	New Zealand Dollar Expenses	
314	Treasury bills	343
1,759	Government bonds	1,710
129	Inflation-indexed bonds	112
26	Kiwi bonds	24
11	Derivatives	51
26	Other	15
2,265		2,255
2,651	Total Expenses	2,556

The Crown's accounting policies are an integral part of these supplementary financial schedules.

Risk management

With ministerial approval, NZDMO maintains a portfolio and risk management framework within which it operates. That includes NZDMO's strategic objective, objectives for New Zealand-dollar and foreign-currency debt, the instruments in which NZDMO may transact, limits in respect of market and credit risk utilisation, composition requirements for the liquidity asset portfolio and maturity profile requirements.

The risk management framework has been in place since NZDMO was established. The specifics of implementation have been subject to continuous improvement as resources allow and as information technology capability and analytical techniques have improved. Careful prioritisation ensures that resources are allocated to managing the most significant risks first and that fundamental risks are covered. In addition, NZDMO periodically commissions reviews by external experts of its risk management framework and practices, including the strategic parameters of the portfolio.

The basis of operation is well defined, including the legal authority to borrow and service debt and NZDMO's internal organisation. Internal operations are managed through an established risk culture, body of policies, ethical guidelines and codes of conduct, defined responsibilities and accountabilities, formal delegations, segregated duties, limits, reporting and performance management requirements, procedural manuals and established processes.

Credit risk

Credit risk refers to the risk of a counterparty failing to discharge an obligation.

Credit losses arise when NZDMO is required to find a transaction counterparty to replace one that is no longer of acceptable credit quality. In finding a suitable replacement, NZDMO would incur transaction costs and potentially suffer a loss in the market value of the original transaction. Credit losses also arise when the issuer of a financial obligation that NZDMO holds as an asset is downgraded or defaults.

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

NZDMO manages credit risk through the use of credit exposure limits. Credit exposures are maintained only with highly rated institutions for which the probability of default is low. To diversify credit exposure, NZDMO limits its exposure to any one institution. The creditworthiness of counterparties is continuously monitored. Credit risk is further controlled by incorporating credit support annexes into master swap agreements with swap and foreign exchange counterparties. Credit risk is measured using an in-house credit model that conforms to industry best practice.

As at 30 June 2004, total credit exposure was calculated as follows:

2003 \$m		2004 \$m
14,059	Total NZDMO assets	11,949
	Less	
8,543	Crown-related balances	7,207
59	Crown-related derivatives	78
169	Receivables	308
5,288	Total Credit Exposure	4,356
	Comprising	
29	Foreign bank accounts	11
86	Advances	50
479	External deposits	335
3,216	Marketable securities	2,576
411	Derivatives	468
1,067	IMF	916
5,288		4,356

As at 30 June 2004, concentrations of credit exposure by industry type were as follows:

2003 \$m		2004 \$m
339	Sovereign issuers	407
1,136	Supranationals	1,063
2,957	Banks	2,473
856	Other	413
5,288	Total Credit Exposure	4,356

As at 30 June 2004, concentrations of credit exposure by geographical area were as follows:

2003 \$m		2004 \$m
1,132	United States	771
1,770	Europe	1,737
72	Japan	26
842	Australia	462
330	New Zealand	284
1,136	Supranationals	1,063
6	Other	13
5,288	Total Credit Exposure	4,356

As at 30 June 2004, concentrations of credit exposure by credit rating were as follows:

2003 \$m		2004 \$m
1,543	AAA	1,339
2,240	AA	1,857
438	A	244
1,067	IMF reserve position	916
5,288	Total Credit Exposure	4,356

Collateral

For swaps and foreign exchange contracts transacted under NZDMO's customised International Swaps and Derivatives Association (ISDA) swap documentation, collateral is required when the mark-to-market exposure exceeds the credit exposure limit for a counterparty.

As at 30 June 2004, NZDMO held the following as collateral against counterparties under credit support annexes to master swap agreements:

2003 \$m		2004 \$m
480	Cash deposits	213
-	US Treasury bills	-
480	Total Collateral Held	213

Settlement exposure

The settlements process involves the receipt and payment of funds and securities, and default by a settlement agent would result in NZDMO being unable to make or receive payments with that agent.

The nature of NZDMO's business is such that large amounts may be settled on one day. For that reason, monetary limits are not placed on NZDMO's exposure to transaction banks, custodians, fiscal agents and clearing brokers. Risk in respect of those institutions is managed through procedures for selecting and monitoring transaction settlement agents.

Interest rate and foreign exchange risk

Interest rate risk refers to the risk of loss due to adverse movement in interest rates. Foreign exchange risk refers to the risk of loss due to adverse movements in foreign exchange rates.

New Zealand-dollar assets and liabilities

The New Zealand-dollar portfolio is driven by a set of principles that support NZDMO's debt management objective, rather than one strategic benchmark. These principles are used to manage the risks and costs of the New Zealand-dollar portfolio and help NZDMO issue debt cost effectively. The market value of New Zealand-dollar debt is not actively managed.

In general, interest rate risk is managed strategically. To diversify interest rate risk and lower the cost of the portfolio, NZDMO maintains a mix of fixed-rate and floating-rate debt and uses interest rate swaps. Inflation-indexed debt makes up a component of the portfolio and has been issued when it was cost effective to do so. Bonds are issued into benchmark lines to improve liquidity in the market and, consequently, reduce the Crown's cost of borrowing. When issuing domestic securities, NZDMO samples interest rates throughout the year by conducting monthly auctions of Government bonds and weekly auctions of treasury bills. NZDMO is committed to transparency, predictability and even-handedness in its domestic securities' issuance.

Foreign currency assets and liabilities

NZDMO manages interest rate and foreign exchange risk in the foreign currency portfolio in an integrated manner.

Unless otherwise directed by the Minister of Finance, NZDMO's net foreign currency debt position is kept close to zero when measured on a market value basis. With ministerial approval, there are specified conservative position and loss limits that allow some discretionary trading to take place. Market risk is

incurred from that discretionary activity due to movements in interest rates and foreign exchange rates. The range of instruments used to minimise exposure to market risk includes foreign exchange contracts, currency swaps, interest rate swaps and futures contracts.

Market risk associated with discretionary trading is managed through the use of value at risk (VAR) limits and stop-loss limits. VAR limits are maintained for the overall foreign currency portfolio and individual foreign currency sub-portfolios. The limits are expressed over daily, monthly and annual time horizons at a 95% confidence level and reflect the risk tolerance of the Government in respect of discretionary activity undertaken by NZDMO.

Stop-loss limits are in place to protect NZDMO from further losses once actual losses reach a certain point. They reflect the tolerance of the Government in respect of maximum acceptable losses over monthly, quarterly and annual time horizons.

NZDMO uses back-testing to evaluate the performance of the VAR model. Actual profit and loss are compared with the market risk estimates calculated using the VAR model to determine its integrity and performance. Consistent with industry best practice, VAR is supplemented with stress-testing to understand how extreme or unusual events would impact on the portfolio.

Refinancing and repricing risk

Refinancing and repricing risk refers to the risk that maturing debt is refinanced, maturing assets are reinvested or instruments repriced at an unacceptable yield.

To manage the refinancing risk associated with New Zealand-dollar borrowing, NZDMO establishes a relatively even maturity profile for debt across the yield curve to manage the funding requirement, and the uncertainty around it arising from fiscal shocks, flexibly and without putting undue pressure on interest rates. In respect of foreign currency borrowing, NZDMO establishes a maturity profile for debt that reduces the likelihood of being unable to access markets in a timely manner or raise funds at an acceptable cost.

As at 30 June 2004, assets and liabilities will mature or reprice within the following periods:

	2004 \$m	0-12 Months \$m	1-2 Years \$m	2-5 Years \$m	5-10 Years \$m	>10 Years \$m
Foreign Currency Assets						
Marketable securities	2,576	2,142	188	176	70	-
External deposits	335	335	-	-	-	-
Advances to RBNZ	3,842	2,886	397	559	-	-
Derivatives	(1,655)	(2,194)	280	259	-	-
IMF reserve position	916	916	-	-	-	-
Debtors and receivables	254	254	-	-	-	-
Foreign bank accounts	11	11	-	-	-	-
	6,279	4,350	865	994	70	-
New Zealand Dollar Assets						
Crown settlement account	1,242	1,242	-	-	-	-
Advances to Crown Financing Agency	861	497	91	258	15	-
Advances to Housing New Zealand	1,259	1,179	30	50	-	-
Derivatives	2,202	1,951	96	155	-	-
Debtors and receivables	53	53	-	-	-	-
Other	53	51	1	1	-	-
	5,670	4,973	218	464	15	-
Total Assets	11,949	9,323	1,083	1,458	85	-
Foreign Currency Liabilities						
Debt	4,049	1,991	286	1,068	518	186
Derivatives	1,763	1,625	569	45	(288)	(188)
Creditors and payables	293	293	-	-	-	-
Other	-	-	-	-	-	-
	6,105	3,909	855	1,113	230	(2)
New Zealand Dollar Liabilities						
Treasury bills	5,701	5,701	-	-	-	-
Government bonds	24,333	3,720	3,361	3,596	11,208	2,448
Inflation-indexed bonds	1,678	-	-	-	-	1,678
Kiwi bonds	441	273	95	73	-	-
Crown balances with Westpac	2,578	2,578	-	-	-	-
Derivatives	(1,262)	2,420	(68)	(1,293)	(2,321)	-
Creditors and payables	483	461	22	-	-	-
Other	24	18	1	3	1	1
	33,976	15,171	3,411	2,379	8,888	4,127
Total Liabilities	40,081	19,080	4,266	3,492	9,118	4,125

Liquidity risk

Liquidity risk refers to the risk of loss due to the lack of market liquidity preventing timely or cost-effective liquidation of products, positions or portfolios. To manage liquidity risk, NZDMO holds readily liquefiable assets in sufficient quantity to cover off all obligations falling due over rolling six-week and 12-week horizons.

Derivatives

NZDMO's involvement in derivatives comprises foreign exchange contracts, currency swaps, interest rate swaps and futures contracts.

As at 30 June 2004, the value of derivatives¹ was as follows:

Book Value 2003 \$m	Fair Value 2003 \$m		Book Value 2004 \$m	Fair Value 2004 \$m
Foreign Exchange Contracts				
106	98	In gain position	102	95
(30)	(30)	In loss position	(84)	(85)
76	68	Net Position	18	10
Currency Swaps				
211	269	In gain position	330	349
(376)	(374)	In loss position	(409)	(399)
(165)	(105)	Net Position	(79)	(50)
Interest Rate Swaps				
209	686	In gain position	169	332
(28)	(213)	In loss position	(15)	(162)
181	473	Net Position	154	170
Futures				
12	12	In gain position	3	3
-	-	In loss position	-	-
12	12	Net Position	3	3

1. Derivatives' positions include accrued interest.

As at 30 June 2004, the notional value of derivatives was as follows:

Notional Value 2003 \$m		Notional Value 2004 \$m
3,440	Foreign exchange contracts	7,688
4,881	Currency swaps	4,560
6,349	Interest rate swaps	6,551
1,643	Futures	1,186

Operational risk

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

Operational risks are managed in a number of ways. Operational risk policies span, for instance, transaction processing, legal and regulatory issues, ethical standards, physical and systems security, and business continuity. Independent experts, such as external auditors, provide additional support in managing operational risk. NZDMO managers assess the organisation's operational risk profile annually.

AUDIT REPORT



Report of the Auditor-General

To the Readers of the Financial Statements of the Treasury
For the year ended 30 June 2004

The Auditor-General is the auditor of the Treasury. The Auditor-General has appointed me, Andrew Dinsdale, using the staff and resources of KPMG, to carry out the audit of the financial statements of the Department, on his behalf, for the year ended 30 June 2004.

Unqualified opinion

In our opinion the financial statements of the Department on pages 42 to 64, pages 73 to 98, and the supplementary schedules on pages 99 to 122:

- comply with generally accepted accounting practice in New Zealand, and
- fairly reflect:
 - the Department's financial position as at 30 June 2004
 - the results of its operations and cash flows for the year ended on that date
 - its service performance achievements measured against the performance targets adopted for the year ended on that date, and
 - the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2004.

The audit was completed on 24 September 2004, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

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

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

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

Responsibilities of the Chief Executive and the Auditor

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Department as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. In addition, they must fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2004. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 38(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of taxation and accounting advice, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Department.



Andrew Dinsdale

KPMG

On behalf of the Auditor-General

Wellington, New Zealand

Important Disclaimer by the Auditor-General on audited financial statements on this

This audit report relates to the financial statements of the Treasury for the year ended 30 June 2004 included on Treasury's website. The Secretary of the Treasury is responsible for the maintenance and integrity of the Treasury's website. We have not been engaged to report on the integrity of the Treasury's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 24 September 2004 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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	Any 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. CCMAU's advice is undertaken in the context of the Government's ownership expectations for SOEs and/or CRIs.
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.
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, 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	Material is presented to suit the target audience and: <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 2004

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 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

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 2004

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 website:

www.treasury.govt.nz/workingpapers

Working papers added during 2003/04 include:

2004

- 04/09 Global Connectedness and Bilateral Economic Linkages – Which Countries? by Jim Rose and Wayne Stevens
- 04/08 The Impact of Workplace and Personal Superannuation Schemes on Net Worth: Evidence from the Household Savings Survey by Grant M Scobie and Trinh Le
- 04/07 Labour Force Participation and GDP in New Zealand by John Bryant, Veronica Jacobsen, Matthew Bell and Daniel Garrett
- 04/06 Theory vs Reality: Making Environmental Use Rights Work in New Zealand by Kevin Guerin
- 04/05 Measuring Productivity using the Index Number Approach: An Introduction by Nathan McLellan
- 04/04 Healthy, Wealthy and Wise? A Review of the Wider Benefits of Education by Grant Johnston
- 04/03 Youth Minimum Wage Reform and the Labour Market by Dean Hyslop and Steven Stillman
- 04/02 Theories of the Family and Policy by Veronica Jacobsen, Lindy Fursman, John Bryant, Megan Claridge and Benedikte Jensen
- 04/01 The Effects on New Zealand Households of an Increase in the Petrol Excise Tax by John Creedy

2003

- 03/35 Qualifications, Employment and the Value of Human Capital, 1986-2001 by Dean Hyslop, Dave Maré and Jason Timmins
- 03/34 Population Ageing in New Zealand: The Impact on Living Standards and the Optimal Rate of Saving with a Flexible Real Exchange Rate by Ross Guest, Grant Scobie and John Bryant
- 03/33 Reweighting the New Zealand Household Economic Survey for Tax Microsimulation Modelling by John Creedy and Ivan Tuckwell
- 03/32 Household Saving Behaviour in New Zealand: Why do Cohorts Behave Differently? by Grant M Scobie and John K Gibson
- 03/31 Competition Policy in Small Distant Open Economies: Some Lessons from the Economics Literature by Lewis Evans and Patrick Hughes
- 03/30 Three Policy Options for Crown Financial Policy by Eric Hansen
- 03/29 The Excess Burden of Taxation and Why it (Approximately) Quadruples When the Tax Rate Doubles by John Creedy
- 03/28 Geometric Return and Portfolio Analysis by Brian McCulloch
- 03/27 The Ageing of the New Zealand Population, 1881-2051 by John Bryant
- 03/26 Work and Family Balance: An Economic View by Jason Varuhas, Lindy Fursman and Veronica Jacobsen
- 03/25 A Comparison of the NZTM and FPS Models of the NZ Economy by Kam Leong Szeto, Paul Gardiner, Richard Gray and David Hargreaves
- 03/24 Encouraging Quality Regulation: Theories and Tools by Kevin Guerin
- 03/23 New Zealand Labour Supply from 1991-2001: An Analysis Based on a Discrete Choice Structural Utility Model by Guyonne Kalb and Rosanna Scutella
- 03/22 Does Consumer Confidence Forecast Consumption Expenditure in New Zealand? by Khoon Lek Goh
- 03/21 Objectives, Targets and Instruments for Crown Financial Policy by Eric Hansen
- 03/20 Discrete Hours Labour Supply Modelling: Specification, Estimation and Simulation by John Creedy and Guyonne Kalb
- 03/19 Asymmetric Information, Financial Intermediation and the Monetary Transmission Mechanism: A Critical Review by Iris Claus and Arthur Grimes
- 03/18 New Zealand's Social Assistance System: Financial Incentives to Work by Patrick Nolan
- 03/17 Survey Reweighting for Tax Microsimulation Modelling by John Creedy
- 03/16 New Zealand's Production Structure: An International Comparison by Iris Claus and Kathy Li