



Annual Report of

# THE TREASURY

for the year ended

30 June 1999

*Presented to the House of Representatives Pursuant to Section 39  
of the Public Finance Act 1989*

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# Secretary to the Treasury's Overview

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The Treasury provides economic and financial policy advice to the Government, including advice on all issues with spending or revenue implications. The overall objective of our advice is to secure higher living standards for New Zealanders.



A key part of that role is to assess whether the Government is getting value for the money that goes to government agencies. Taxpayers expect value for money from public spending, and we help Ministers decide whether this expectation is being met.

Our role does not include monitoring the day-to-day spending of government agencies - for the very good reason that Chief Executives should be clearly accountable for the way they spend money allocated to them.

It also doesn't mean we look purely at cost when assessing new proposals. In reviewing new initiatives or policies with financial implications, our approach is always to assess the wider benefits for New Zealanders against the cost. This may mean a tension in our advice but every government must face such trade-offs. Pressure for fiscal discipline needs to be balanced against the benefits of extra spending.

Contrary to some reports, we don't set our own policies, follow any particular ideology, or push a particular "agenda". Like any government agency, we provide neutral, open and frank advice to the government of the day. Ministers ultimately make the decisions on the policies they want to follow, and it is then our task to implement these decisions to the best from our ability.

This year, we have worked hard to provide the Government with the services it has wanted. Our work has contributed to the Government's strategic objectives for 1998/99 and will contribute to the Government's goals and priorities for

1999-2002. As this overview clearly demonstrates, our role is a broad one, encompassing many different policy areas. But we have tried hard to define, and not overstep, the appropriate boundaries.

## THE MACRO ECONOMY

Throughout late 1997 and into 1998, financial distress and economic recession overtook many countries in Asia.

The effects of this recession spread around the world, but had a particularly serious impact on New Zealand. A significant reduction in demand from Asian countries for our exports, coupled with declining commodity prices, affected a wide range of our industries, from tourism to forestry.



Like many other forecasters, we were initially slow to pick up the severity of the implications for New Zealand. As events unfolded, we had to reassess our economic and fiscal projections considerably.

In July, the Government asked us to prepare an additional set of forecasts to reflect the rapidly changing international situation. These were published in September.

The deterioration in the Government's fiscal position flowing from the recession prompted the Government to assess options for improving New Zealand's medium-term fiscal position.

To this end, we provided a range of advice to the Government. This advice was incorporated into the Government's *Policies for Progress* - a set of policy initiatives announced in September.

At the end of the day, the news wasn't all bad: given the scale of the shock, our economy proved flexible, and began recovering quickly. After two quarters of negative growth in the first half of 1998, growth resumed in the September 1998 quarter.

## BUDGET PROCESS

The advice incorporated into *Policies for Progress* also influenced the design of the strategy for the 1999 Budget. This strategy was a key output of a full day discussion by Ministers at Premier House in late October, and was publicly released in the 1999 *Budget Policy Statement*.

An innovation in the 1999 Budget process was the use of Ministerial “teams” to bring together related portfolio areas in the preparation of Budget initiatives.

## FORECASTING

Last year, I commissioned Dr Arthur Grimes of the Institute of Policy Studies to undertake an independent review of the Treasury’s economic forecasting processes and record. His report was released in September 1998.

The report recommended that greater emphasis be put on formal modelling in the forecast process, more formal mechanisms for internal and external quality assurance be established, and ways to reduce the risk of short-term monitoring requests crowding out other important work be identified.

During 1998/99 we have focused more on formal modelling and restructured the forecasting process for the Budget to allow greater input from an external review panel. A project plan is under development for 1999/2000 to guide the continued upgrade of our macro forecasting capability in the longer term.

## MICROECONOMIC POLICY

Our work in this area focuses on helping the Government achieve better use of resources, and improved economic outcomes.

## REGULATORY REFORMS

Throughout 1998/99, we advised the Government on enhancing competition by reducing legislative impediments. This advice aims to ensure that when the Government intervenes in markets, it does so in a way that achieves maximum benefit - measured in terms



of improved living standards for New Zealanders. Obviously, this often involves balancing the competing interests of differing groups, including consumers and producers.

Over the past year, some key areas of work included advice on producer board and roading reform, and analysis of the regulatory regime in order to enhance the competitiveness of the New Zealand economy and address competition issues in electricity and other network industries. This advice was provided in association with other departments.

## ASIA-PACIFIC ECONOMIC COOPERATION

On conclusion of the Asia-Pacific Economic Cooperation (APEC) Finance Ministers' meeting in Malaysia in May, New Zealand assumed the chair of the Finance Ministers' process. Chairing this process is an integral part of New Zealand's wider responsibilities as host to APEC 1999, and we are directly responsible for managing the Finance Ministers' process.

## TAX POLICY

Together with Inland Revenue Department (IRD), we are responsible for providing tax policy advice to Ministers. Our work focuses on high-level policy, including "blue skies" analysis of future trends in tax policy.

In this area, we continually look for ways in which the Government can raise the revenue it requires at least cost to the economy. In practice, this involves often difficult trade-offs between efficiency, compliance and administration costs, and equity concerns.



Our work during the year included tax policy development and reviews, analysing remedial legislative issues, and contributing to a Parliamentary inquiry.

## PUBLIC SECTOR MANAGEMENT

Our work on public sector management involves advising Ministers on policy options, structures and financial arrangements across the wider public sector. This work covers a wide range of areas, from defence, to science and technology, to cultural affairs.

## ANALYSIS OF EXPENDITURE

In providing this advice, we assist Ministers to establish whether they are getting value for money for the services they purchase from departments, Crown entities, and third-party suppliers. Our role is to focus on the outputs that the Government purchases, their linkages to outcomes, and the financial strength of each department and Crown entity.

Our advice on departmental expenditure takes a medium-term view and has regard to the impact on ongoing departmental capability.

In general, our analysis of expenditure stops short of assessing how well each department or entity is managed, or examining how each uses its resources on a day-to-day basis. However, part of testing value for money involves challenging departments or entities on their operations if there is evidence that the price of the outputs they produce is higher than it should be, or if there are concerns with particular financial management practices.

Parliament authorises appropriations and we then monitor whether expenditure remains within Parliament's approved level.



## PUBLIC SECTOR POLICY

Together with the Audit Office, we provided advice on the proposed new Audit legislation. In early March, we published a booklet on guidelines for setting charges in the public sector to help government agencies set charges that are appropriate and fair.

We were also involved in ongoing work on competitive neutrality in the public sector. Competitive neutrality aims to increase the efficiency of the public sector by allowing private suppliers to compete with government agencies for the supply of inputs and/or outputs. One of the Government's strategic priorities is to encourage the contestable supply of resources and services in areas of public sector responsibility.

Outside the core state sector, we commissioned a detailed case study of the privatisation of New Zealand Rail. We also worked closely with the State Services Commission on Crown entity issues, including the Government's recent package of measures to clarify responsibilities and ongoing work to enhance the general performance and accountability of Crown entities.

## SOCIAL POLICY

Our main role in this area is to provide second-opinion advice on the economic and fiscal implications of social policy. This advice has two main objectives: to identify the risks and opportunities associated with government service delivery; and to help increase economic and social opportunities for all New Zealanders.

### SUPERANNUATION

As part of our contribution to the *Policies for Progress* work, we advised Ministers on changes to the floor for New Zealand Superannuation to ensure its continuing affordability, and to allow the development of a stable longer-term policy on retirement income.

In December, the Government established the Superannuation 2000 Taskforce to help find a sustainable and affordable solution to the problems associated with retirement income policy. As part of our ongoing policy development work in this area, we have provided policy analysis to support the Superannuation 2000 Taskforce's consideration of retirement income issues. This analysis contributes to the Government's priority of encouraging savings and investment within a stable and neutral investment environment.

### POLICY IMPLEMENTATION



Over the past year we provided advice on the economic and financial aspects of the detailed implementation of several major policies in the social policy area. In general this advice has been provided in conjunction with other departments.

These policies included: the establishment of the Department of Work and Income as a stand-alone department; examining funding, quality assurance, governance and research in tertiary educational institutions; a management review of the Police; and the 1999 health funding package, which purchased additional health services, including mental health and elective services.

We also provided advice on several major investments. In the health area, we provided ongoing advice on the new Auckland and Wellington hospitals. We provided advice to Ministers on issues relating to the implementation of the INCIS computer system for the Police and the FOCIS computer system for the Department of Work and Income.

## ASSET AND LIABILITY MANAGEMENT

Through 1998/99, we continued work on improving management of the Crown's assets and liabilities. We play an important role in managing the Crown's balance sheet and its associated ownership interests.

### ASSET SALES

Our work in this area supports the Government's policy to examine each state-owned asset on a case-by-case basis, and to consider sale where that is in the taxpayer's interest.

Asset sales involve an intense period of work, often over a very short space of time, and so place considerable demands on staff. Over the past year, we completed the sale of the Crown's shares in four major assets - Wellington and Auckland International Airports, Capital Properties New Zealand (CPNZ), and Contact Energy Limited - giving total proceeds to the Crown of almost \$3 billion.

Proceeds from asset sales totalled almost \$3 billion.

More than 225,000 New Zealanders bought shares in Auckland International Airport (AIAL), CPNZ, or Contact Energy, more than 170,000 becoming shareholders for the first time.

We also commissioned a scoping study on MetService. A decision to enter a sales process for Vehicle Testing New Zealand was announced in the 1999 Budget.

## ELECTRICITY RESTRUCTURING

Following the Government's in-principle decision in April 1998 to split the Electricity Corporation of New Zealand (ECNZ) into three new generating companies, the Electricity Reform Transition Unit was set up to advise how to implement the restructuring. We provided advice to Ministers throughout this process, and recommended that the split go ahead. We were also responsible for setting up the financial arrangements to establish the new electricity generation State-Owned Enterprises (SOEs).

## OTHER SOE WORK

We advised on the establishment of a number of new SOEs, including Quotable Value New Zealand Limited, At Work Insurance Limited, AgriQuality New Zealand Limited and Asure New Zealand Limited. At Work Insurance was established as part of the Accident Rehabilitation and Compensation Insurance Corporation (ACC) reforms to provide workplace insurance in the newly competitive market. Asure and AgriQuality New Zealand both arose out of MAF Quality Management New Zealand (MQM), part of the Ministry of Agriculture and Forestry.

We also advised Ministers on restructuring the Public Trust Office, to place the Office on a sustainable commercial footing.

## DEBT PORTFOLIO

In April, we commissioned PricewaterhouseCoopers to undertake a review of the New Zealand Debt Management Office's (NZDMO) risk management framework and operational control environment. The review concluded that we already had a solid risk management framework in place, and made a number of recommendations to enhance this framework.



Over the past year, we issued \$3.3 billion of nominal bonds and \$300 million of inflation-indexed bonds. The 1999 Budget announced that the issuing of inflation-indexed bonds would be suspended for 1999/2000. The Budget also announced that we would begin undertaking domestic swaps, and the first swap went ahead in July 1999.

For 1998/99, our settlements error rate was 0.08% over 13,027 transactions - a very good result.

## INSIDE THE TREASURY

In their assessment of the Treasury's performance for 1998/99, our Ministers assessed the Treasury's performance overall as meeting their expectations. In seven out of 11 output classes, we more than met Ministers' expectations.

These results are very pleasing, although we are continually looking for ways to improve our performance even further.

## STAFF

Over the past year, we continued with a series of initiatives aimed at improving our internal working environment, including changes to our promotion and selection policies, and work on improving the recruitment skills of managers. A progress report in August found that 85% of surveyed staff said things were improving.

Equal Employment Opportunity (EEO) continues to be a focus of our attention. While I have been pleased with our efforts to recruit and retain women, we are still finding it difficult to recruit and retain Maori and Pacific Island staff.

We continued to see relatively high levels of turnover - at around 24%. This is a continuing challenge for us.

## EXTERNAL RELATIONSHIPS

Over the past year, we continued to struggle to change often negative public perceptions of the Treasury and our work. While fair criticism is to be welcomed, we have continued to see stories in the media that go no way to presenting a balanced discussion about the Treasury or the issues we deal with. This makes it more difficult for us to help create an atmosphere of constructive public debate, and has a noticeable effect on staff morale.



Part of the solution is making sure we are as open and accessible as possible. A lot of the negativity we encounter is a result of a misunderstanding of the nature and scope of our role.

I believe the New Zealand Treasury is already one of the most open treasuries relative to those in comparable countries.

We have tried to build on this by making sure we take the opportunity whenever we can to let people know about the work we are doing - by holding media briefings on research we carry out, and publishing our work on our web site, for instance. We have continued to develop the communication skills of all our staff. We all take responsibility for building relationships with individuals and groups outside the public sector.

## YEAR 2000

We have put considerable effort during 1998/99 into managing Year 2000 (Y2K) risks both in the Treasury and across the public sector. We continued to exceed the standards set by the State Services Commission for government departments in Y2K preparedness.



In late 1998, we commissioned New Zealand Institute of Economic Research (NZIER) and PricewaterhouseCoopers to prepare a review of the economic impact of Y2K. The report found that, while there is a high level of uncertainty about the extent of the disruption caused by Y2K-related computer failures, there is little likelihood of significant effects on the overall economy, provided New Zealand is well prepared.

We've also been working with the State Services Commission to ensure Y2K compliance by departments, Health Service Providers (HSPs), SOEs and Crown Research Institutes (CRIs).

## CROWN COMPANY MONITORING ADVISORY UNIT

The Crown Company Monitoring Advisory Unit's (CCMAU's) Executive Director enters directly into purchase agreements with his Vote Ministers to provide independent advice on issues arising from the ownership of Crown companies. This includes advising on company performance, the appointment of directors,

and commercial opportunities and risks. However, the Executive Director is accountable to me for the Crown's investment in CCMAU, and for CCMAU's performance in providing the output classes Ministers seek.

During 1998/99, I commissioned an independent management assurance review of CCMAU. This review concluded that CCMAU had performed well in terms of the objectives set for it in 1996. However, the review recommended that more formal policies and systems be developed within CCMAU in order to sustain its performance into the future.

In February, I appointed a new Executive Director of CCMAU, and he will continue to address the issues raised in the review.

The final reports from CCMAU's Vote Ministers on performance against 1998/99 purchase agreements have also been satisfactory, with Ministers expressing confidence in the performance of CCMAU.

## **ACHIEVEMENTS AND CHALLENGES**

Once again, we have faced a demanding year. I'd like to thank my managers and staff for their much-appreciated professionalism, commitment to excellence and support. We have made a number of gains in 1998/99 - and there are many more challenges ahead for us. Looking back on what we've achieved, I feel confident we're extremely well placed to take on these challenges.



Dr A E Bollard  
Secretary to the Treasury

# Organisational Structure - the Department

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as at 30 June 1999

**Responsible Minister:**

The Treasurer

**Alan Bollard**

Secretary to the Treasury

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**Vote Ministers:**

The Treasurer

Minister of Finance

**Vote Ministers:**

Minister of Health

Minister for State-Owned Enterprises

Minister for Crown Research Institutes

Branch Managers/Deputy Secretaries	<b>Geoff Dangerfield</b>	<b>Asset and Liability Management Branch</b>
		<ul style="list-style-type: none"> <li>• Public Sector Management</li> <li>• Crown Debt Management</li> <li>• Crown Company Performance</li> <li>• Crown Risk &amp; Liability Management</li> </ul>
	<b>Iain Rennie</b>	<b>Budget Management Branch</b>
		<ul style="list-style-type: none"> <li>• Budget Process Management</li> <li>• Macroeconomic Policy Advice</li> <li>• Macroeconomic Forecasting &amp; Monitoring</li> <li>• Fiscal Forecasting &amp; Reporting</li> </ul>
	<b>John Whitehead</b>	<b>Regulatory and Tax Policy Branch</b>
	<ul style="list-style-type: none"> <li>• Sectoral Policy Advice</li> <li>• Tax Policy</li> <li>• International Policy</li> <li>• Departmental &amp; Vote Performance [Enterprise &amp; Innovation, Land &amp; Natural Resources, Science &amp; Environment, Government Services &amp; Defence]</li> </ul>	
<b>Peter Bushnell</b>	<b>Social Policy Branch</b>	
	<ul style="list-style-type: none"> <li>• Sectoral Policy Advice</li> <li>• Departmental &amp; Vote Performance [Health, Education, Welfare, Labour Market, Justice &amp; Law, Maori Affairs]</li> </ul>	
<b>Angela Hauk-Willis</b>	<b>Corporate Services Branch</b>	
	<ul style="list-style-type: none"> <li>• Corporate Services</li> <li>• Policy Co-ordination &amp; Development</li> </ul>	

**Christopher Russell**  
Executive Director

**Crown Company Monitoring Advisory Unit**

- Hospital & Health Services Monitoring
- State-Owned Enterprises Monitoring
- Crown Research Institutes Monitoring
- Appointments & Governance

# Management

for the year ended 30 June 1999

## SETTING STRATEGIC DIRECTION



The Treasury undertook a comprehensive strategic planning exercise during 1998/99 which culminated in the March 1999 release of the *New Zealand Treasury Strategic Plan 1999-2004*. This was developed after consultation with staff, Ministers and other stakeholders and will guide ownership development for the Treasury. A series of internal Action Plans have subsequently been developed to implement the Strategic Plan.

The “LIPS” strategic goals of developing a **L**earning Organisation, **I**ntellectual Leadership, **P**rioritisation and **S**takeholder Relationships are now established as a set of reference points in the organisation. Various initiatives arising from the Action Plans have been incorporated into branch planning documents and will then be incorporated into relevant performance agreements. To ensure the process is effective long term, both staff and senior management have a strong interest in monitoring progress and measuring our achievements in giving effect to the Strategic Plan. This is the focus of the ownership key result area for 1999/2000.

CCMAU also released a Strategic Plan in August 1998 and is in the process of reviewing it in light of the findings of the November 1998 Management Assurance Review.

## MANAGING PRIORITIES

The Treasury needs to ensure it is well placed to respond effectively to ongoing and future requirements of government, and changes in the operating environment. There is a danger that short-term demands crowd out medium- to long-term development. The Treasury’s second opinion role creates

opportunities for providing advice to Ministers on a broad scope of issues. The Treasury has sought to define the boundaries of its roles but there is potential to more clearly define what it does not do.

During 1998/99 the Treasury reviewed its planning processes and shifted the focus from budgeting to looking more at strategic alignment and resource allocation. We are in the process of developing a more structured approach to prioritising work, which we plan to trial with Ministers during the coming year.

## MANAGING OUR HUMAN RESOURCES

A critical goal for the Treasury is to maintain and develop a talented workforce with broad expertise and experience as the essential asset base of the organisation. CCMAU is equally highly dependent on the quality of its staff.

The number of staff employed in the Department at 30 June 1999 was:

	1998	1999
<b>Treasury</b>		
Secretary to the Treasury's office	2	2
Budget Management Branch	50	48
Asset and Liability Management Branch	64	57
Regulatory and Tax Policy Branch	62	61
Social Policy Branch	52	54
Corporate Services Branch	78	77
Full-time training	5	6
<b>Total Treasury Staff</b>	<b>313</b>	<b>305</b>
<b>Crown Company Monitoring Advisory Unit</b>	<b>37</b>	<b>34</b>

In addition, at 30 June 1999 the Treasury had six staff seconded to Ministerial offices, government departments or other agencies, employed 11 waged persons, had three staff seconded to international financial organisations, and 50 staff on leave without pay, including parental leave.

Both the Treasury and CCMAU continue to experience high levels of turnover, which places pressure on the Department to maintain institutional knowledge and output delivery. The Treasury had a staff turnover of 24% in 1998/99 and CCMAU had a turnover of 27%. This turnover compares to 21% and 24% respectively for 1997/98. Average length of service for Treasury staff has remained unchanged at 5.2 years, while CCMAU's has declined from 2.1 years to 1.9 years.

The Treasury continued with a series of initiatives commenced in 1997 to improve its internal working environment. These initiatives and outstanding issues have been incorporated in the Strategic Plan and Action Plans.



The high turnover has led the Treasury to place considerable emphasis on policies and practices that will enhance recruitment and retention. These have included changes to our promotion and selection policies, work on improving recruitment skills of managers and remuneration changes. The Treasury also implemented the outcomes of a review of the performance assessment system. Coaching and feedback training was continued and extended to non-managerial staff. The results of a survey on the adequacy of feedback found that 85% of respondents rated feedback processes as adequate or better.

As part of continuing the work done on developing a supportive performance environment, the Secretary to the Treasury developed, in consultation with the Tangata Working Group, a document on supportive management values. A key part of the new Strategic Plan for the Treasury is a statement about its culture and how the Treasury would like to see it shift in five years' time.

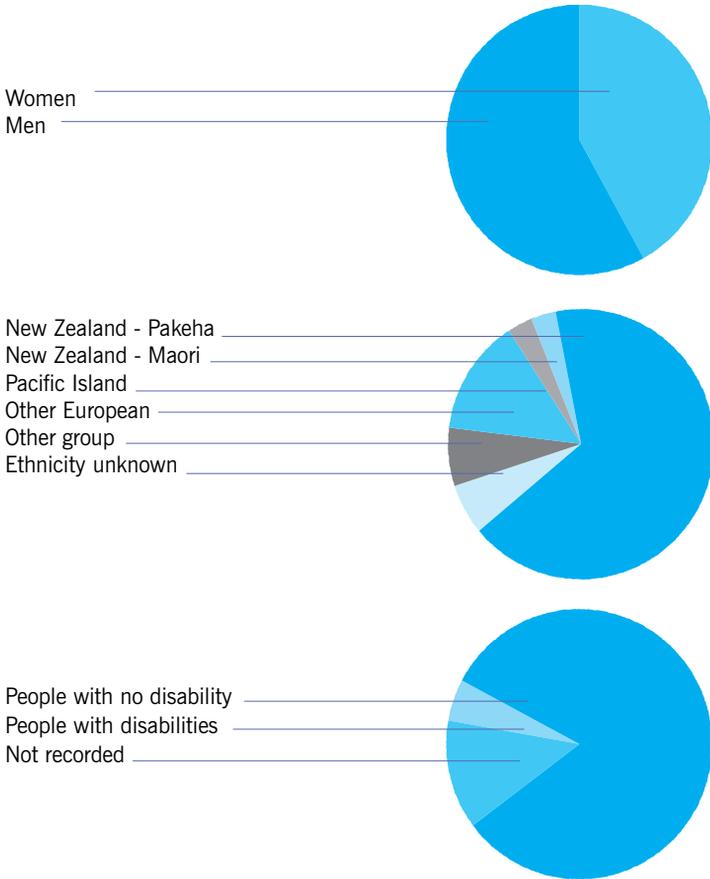
## IMPROVING EQUAL EMPLOYMENT OPPORTUNITIES



EEO continues to be a focus of management attention within the Treasury. The Treasury undertook work this year that ensures that its goals in this area are aligned to the Strategic Plan.

There has been continuous progress on recruitment and retention of women. However, recruiting and retaining Maori and Pacific Island staff remain a challenge.

### DEPARTMENTAL EEO STATISTICS



Staff (including secondees and staff on full-time training but excluding waged persons and staff on leave without pay) at 30 June 1999.

The Treasury analysed data on the size of the recruitment pool for Maori and Pacific Island graduates in relevant disciplines, and has continued, and extended, scholarships for these students as a means of attracting staff in the future.

The Treasury reviewed its Childcare Policy in consultation with staff. Childcare allowances and parental leave provisions have been retained and we have improved the availability of information on childcare provisions for staff.

## MAINTAINING PUBLIC SECTOR INTEGRITY

The Treasury firmly believes its staff must set the highest standards of integrity and this is critical if we are to maintain the trust of Ministers and other stakeholders. Public sector integrity is embedded in the culture of the organisation and supported by well developed systems and processes.

Protecting the Treasury's information assets is one of the key incentives for security management across the Treasury. Secure information, whether at

personal, document, building, or network level, is vital for the Treasury's performance. The effectiveness of the Treasury's advice and relationships depends on it.



The Secure Electronic Environment Project is an initiative between the Treasury, Department of Prime Minister and Cabinet, and State Services Commission, to pilot secure electronic communications and exchange of information

between departments. The Treasury has committed technical and Information Management expertise to this project. An aspect of this project will be the internal review of security classifications.

To avoid any real or apparent conflicts of interest or perceived advantage from inside information, the department has a policy prohibiting staff participating in the initial float of Crown companies. This policy was reissued to Treasury and CCMAU staff during the various asset sales undertaken in 1998/99.

## MANAGING Y2K RISKS

Managing the Y2K computer risk is a focus across the public sector and Treasury has a Y2K readiness project in place. The Treasury is deemed a "high impact" department because of risks associated with NZDMO operations. During 1998/99:

- an inventory of systems with possible date dependency was developed
- Y2K compliance assurances were sought from suppliers of systems
- non-compliant systems were updated or replaced

- systems were tested for compliance
- planning commenced for specific Y2K business continuity risks.

Independent reviews of the Treasury and CCMAU by PricewaterhouseCoopers, to satisfy State Services Commission requirements, in November 1998, March 1999 and August 1999 found that the Department was making steady progress and exceeded benchmark standards.

Both the Treasury and CCMAU have sought and obtained assurances that the supply of financial information necessary for the preparation of the Government's accounts will not be interrupted by Y2K problems.

## IMPROVING COMMUNICATIONS AND STAKEHOLDER RELATIONSHIPS

Over the last year, the Treasury has focused increasingly on external communications, as each branch develops an outreach plan to help it build relationships with priority groups outside the core public sector. In addition, individual Treasury Branch Managers are working on an outreach plan. As part of the Treasury's outreach programme, we plan to identify the new material required to support communication with key external stakeholders.



Direct communication with the public is generally mediated through the media. During 1998/99 the Treasury undertook a number of media briefings, for example on productivity change, possible macroeconomic effects of the Y2K issue, and how it scrutinises Information Technology (IT) projects.

The Treasury also responded daily to journalists' enquiries and requests for information. Much of this activity results in media coverage that is balanced and accurate. However, there have been some notable lapses, with some distorted depictions of the Treasury and its work to the public.

To stimulate informed debate among stakeholders as part of policy development, the Treasury introduced a Working Paper series based on our Internet site in early September 1998. The site has averaged 2,000-3,000 hits per quarter and the email subscription list is now up to 190.

The Treasury has continued to improve its processes for communicating with departments and government entities, particularly in relation to Vote Analysis and Budget Production processes. The Crown Financial Information System (CFISnet) is being developed to help improve communication with government agencies.

# The Treasury

## - Vision and Purpose

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### VISION

**A WORLD-CLASS TREASURY  
WORKING FOR HIGHER LIVING STANDARDS  
FOR NEW ZEALANDERS**

### PURPOSE

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

### TREASURY ROLES

The Treasury has three central 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.

The boundaries of our roles are set out in the Treasury's Strategic Plan.

### STRATEGIC GOALS

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.

Four strategic goals will enable us to do this:

- Develop the Treasury as a Learning Organisation.
- Build intellectual leadership for practical application.
- Prioritise so the Treasury can add most value.
- Improve stakeholder relationships.

# Organisational Responsibilities - the Treasury

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The Secretary to the Treasury heads the Department. The Treasury comprises five branches, each with specific areas of responsibility. However, in practice, there is a great deal of interaction at various levels across the Department.



## ASSET AND LIABILITY MANAGEMENT BRANCH

### GEOFF DANGERFIELD

The Asset and Liability Management Branch advises the Treasurer and Minister of Finance on the financial management of the Crown's aggregate assets and liabilities portfolio.

The Branch incorporates the NZDMO, which is responsible for the management of the Crown's debt portfolio, overall net cash flows, and interest-bearing assets.

The Branch is responsible for financial policy as it relates to the aggregate Crown balance sheet, advice on public sector financial management system design and development, and the management of commercial, contractual and litigation risks on behalf of the Crown. The Branch is also responsible for the provision of policy advice on the management and negotiation of Treaty of Waitangi claims.

The Branch provides advice on the performance and management of ownership risks in SOEs and other Crown companies, and on the guarantee and indemnity obligations relating to Crown financial institutions. It advises on and implements the divestment processes for Crown assets.



## BUDGET MANAGEMENT BRANCH

### IAIN RENNIE

The Budget Management Branch is responsible for advice on the macroeconomic situation and outlook. It also provides the Treasurer with advice on macroeconomic policy, especially in the area of fiscal policy.

The Branch advises on Budget strategy and the design and management of the Budget process. Documentation associated with the Budget is co-ordinated and prepared for publication by the Branch.

The Branch prepares fiscal projections, monitors the fiscal situation and prepares the Crown Financial Statements. The Branch also reviews financial management systems to provide assurance on the system of internal control together with providing advice on Crown accounting policy issues.

## REGULATORY AND TAX POLICY BRANCH

### JOHN WHITEHEAD

The Regulatory and Tax Policy Branch advises Treasury Ministers on regulatory issues that have important consequences for the economy. These include environmental policy, competition and trade policy, and major regulatory issues in transport, local government, agriculture, forestry and fishing.



Advice on tax policy includes all aspects of personal and corporate income taxation and indirect taxes. This includes the level and mix of taxes, the taxation of international income, and the taxation of particular business sectors and business types. This advice is prepared in conjunction with the IRD.

The Branch prepares analysis and advice on both ownership and output purchase issues across a broad range of government departments and entities. These include primary industries, conservation, environment, science and technology, transport, commerce, tax administration, customs, foreign affairs, defence, cultural affairs, internal affairs and parliamentary agencies.

## SOCIAL POLICY BRANCH

### PETER BUSHNELL

The Social Policy Branch provides Treasury Ministers with analysis and advice on issues relating to the Government's ownership of entities and its purchases or regulations of social services and public goods. These include health, education, welfare, housing, justice and law enforcement, Maori affairs and



the labour market. These areas involve a large share of government expenditure. The Branch is responsible for regular reporting on expenditure proposals of government agencies in these areas, as well as reporting on their budgets and financial performance.

Policy advice on major issues in areas covered by the Branch is typically the primary responsibility of other government agencies. However, the Branch often participates in inter-departmental working parties that provide the Government with advice on major reform proposals. The Branch advises the Treasury Ministers on policy developments in these areas.



## CORPORATE SERVICES BRANCH

### ANGELA HAUK-WILLIS

The Corporate Services Branch provides advice to the Chief Executive and Senior Managers on appropriate corporate policies and practices to manage the Crown's ownership interest in the Treasury. It also provides all branches of the Treasury with a wide range of services and advice. These include: management support; human resources (including recruitment, remuneration and staff development); support services (supply, travel and building services); information management (library and records); in-house finance and planning; legal advice; systems support (responsible for the Treasury's computing systems); and communications (both external and internal).

Corporate Services Branch is also home to the Policy Co-ordination and Development Directorate (PCD). This group focuses on medium-term strategic issues. PCD is primarily involved in monitoring and challenging strategy within the Treasury and providing strategic advice and co-ordination.

# Supporting Government Priorities - the Treasury

Treasury's contributions to the Government's strategic result areas are listed below:

## VOTE TREASURER

### Strong Economic Growth

The Treasury's Response	Output Classes
Providing policy advice on overall policy priorities, and the balance most likely to support sustained, non-inflationary growth	Policy Advice: General Economic and Fiscal Strategies
Keeping to the principles of responsible fiscal management as set out in the Fiscal Responsibility Act 1994	Economic and Fiscal Forecasting Budget Management
Managing risk in the Crown's balance sheet, and the efficient funding of the Crown's activities	Debt and Financial Asset Management
Contributing to: stable and balanced macroeconomic policy; an open, competitive enterprise economy; and distributional objectives	Sectoral Policy Advice

Enterprise & Innovation Education & Training External Linkages	Economic & Social Participation Treaty of Waitangi Health & Disability Services
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Keeping to the principles of responsible fiscal management as set out in the Fiscal Responsibility Act 1994	Economic and Fiscal Forecasting Budget Management
Managing risk in the Crown's balance sheet, and the efficient funding of the Crown's activities	Debt and Financial Asset Management

## VOTE FINANCE

### Strong Economic Growth

#### The Treasury's Response

Assisting in the effective control of public expenditure through efficient and effective public sector management

Measuring the Government's progress in achieving its fiscal strategy

Minimising the Crown's commercial risks, ensuring that the Crown's commercial activities perform as well as possible, and facilitating divestment of commercial assets once a decision to divest has been taken by the Government

#### Output Classes

Policy Advice:  
Crown Financial Management

Policy Advice:  
Revenue, Expenditure and  
Balance Sheet Management

Crown Financial Reporting

Management of Commercial  
Liabilities and Specific Claims  
Against the Crown

Policy Advice:  
Ownership and Performance  
of Crown Companies and  
Financial Institutions, and  
Management of Crown  
Overseas Properties

Implementation of Asset  
Divestments

#### Enterprise & Innovation Education & Training Treaty of Waitangi

#### The Treasury's Response

Providing analysis and advice, usually in a second-opinion role, on the performance of public sector entities and on the details of alternative government actions to best achieve the policy outcomes sought by the Government

#### Economic & Social Participation Health & Disability Services

#### Output Classes

Policy Advice:  
Revenue, Expenditure and Balance  
Sheet Management

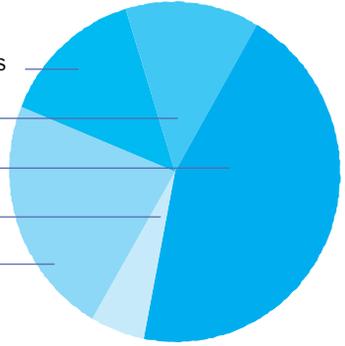
Management of Commercial  
Liabilities and Specific Claims  
Against the Crown

# The Treasury Votes at a Glance

Actual expenditure for 1998/99 by output class

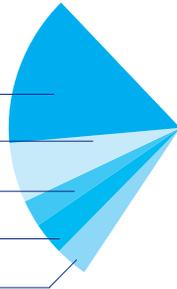
## VOTE TREASURER (\$27.017 MILLION)

- Policy Advice: General Economic & Fiscal Strategies \_\_\_\_\_
- Economic & Fiscal Forecasting \_\_\_\_\_
- Sectoral Policy Advice \_\_\_\_\_
- Budget Management \_\_\_\_\_
- Debt & Financial Asset Management \_\_\_\_\_



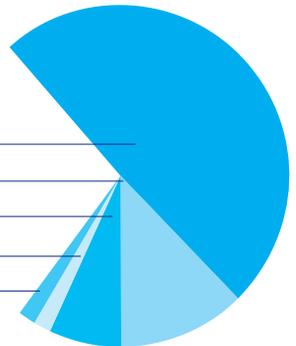
## VOTE FINANCE (\$75.686 MILLION)

- Revenue, Expenditure & Balance Sheet Management \_\_\_\_\_
- Ownership & Performance of Crown Companies \_\_\_\_\_
- Management of Commercial Liabilities \_\_\_\_\_
- Crown Financial Management \_\_\_\_\_
- Crown Financial Reporting \_\_\_\_\_



### Implementation of Asset Divestments

- Contact Energy: \$37.4 million \_\_\_\_\_
- Auckland International Airport: \$9.1 million \_\_\_\_\_
- Capital Properties NZ: \$5.3 million \_\_\_\_\_
- Wellington International Airport: \$1.2 million \_\_\_\_\_
- Solid Energy & Others: \$1.3 million \_\_\_\_\_



(Figures are GST inclusive)

# Output Performance - the Treasury

## VOTE TREASURER

### OUTPUT CLASS D1 - POLICY ADVICE: GENERAL ECONOMIC AND FISCAL STRATEGIES

This output class contributes to achieving more stable and balanced macroeconomic policy, supporting sustained non-inflationary growth.

This class of outputs supports the Government's commitment to a high performing, stable and open economy, and involves the purchase of advice spanning the whole economy or substantial subsections of it. During the 1998/99 year, this advice will include the current and medium-term fiscal priorities to be considered when the Government prepares reports required by the Fiscal Responsibility Act 1994. These reports are the *Budget Policy Statement* (required under the Act to be published before 31 March 1999) and the *Fiscal Strategy Report*. (This is to be tabled

concurrently with the introduction of the first Appropriation Bill for 1999/2000. By law this must be before the end of July 1999, but in practice it is tabled prior to the start of the new financial year, i.e., by 30 June 1999.)

### SIGNIFICANT WORK COMPLETED DURING THE YEAR



- Reported on policy responses to the economic situation, including the July 1998 Expenditure Savings Package and development of the *Policies for Progress package*.
- Provided advice on the process for prioritisation of Budget team packages and non-team initiatives.
- Publication of the *Budget Policy Statement 1999*. This document specified the broad priorities for the 1999 Budget consistent with achieving the Government's strategic priorities and goals, and the policy response to the revised medium-term fiscal outlook.

- Publication of the Budget Speech 1999.
- Publication of the *Fiscal Strategy Report 1999*.
- Provided reports to Treasury Ministers in July 1998 and December 1998 on priorities over the next six months.
- Undertook research on economic strategy and New Zealand's economic performance in order to provide medium-term advice on policy direction.

These outputs supported the Government in achieving its goal of strong, sustainable, economic growth by contributing to sound fiscal and economic policies. The publications assisted the Government in communicating its strategy. The advice on the prioritisation process helped ensure that the decision-making process generated decisions that were consistent with both the aggregate outcomes and focus of resource allocation set out in the *Budget Policy Statement*.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 42 to 43.

### Quality

The Treasurer will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Treasurer assessed the quality of outputs purchased as meeting his expectations.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Treasurer, will be met.

The Department met all contracted deadlines specified in the Vote Treasurer purchase agreement.

### Cost

30 June 1999 Actual (\$000)	3,808
Supp. Est. - Voted (\$000)	3,812
Main Est. (\$000)	4,013
30 June 1998 Actual (\$000)	3,949

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$201,000 in the Supplementary Estimates. The cost of output production was lower than initially forecast due to delays in recruiting staff into this area.

Expenditure in this output class was \$4,000 or 0.1% under the Supplementary Estimates.

## OUTPUT CLASS D2 - ECONOMIC AND FISCAL FORECASTING

This output class contributes to achieving more stable and balanced macroeconomic policy, supporting sustained non-inflationary growth.

This class of outputs involves the preparation and publication of macroeconomic, tax revenue and fiscal forecasts. Under the requirements of the Fiscal Responsibility Act 1994, three-year economic and fiscal forecast updates are to be published during December 1998, and again with the introduction of the first Appropriation Bill for the 1999/2000 financial year. Under the Fiscal Responsibility Act 1994, this must be before the end of July 1999, but past practice has been for this to occur before the start of the financial year (i.e., by 30 June 1999).

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Publication of the September 1998 *Economic and Fiscal Outlook*.
- Publication of the December 1998 *Economic and Fiscal Update*.
- Publication of the *Budget 1999 Economic and Fiscal Update*.
- Reported on the macroeconomic impacts of Y2K.

These outputs supported the Government in achieving its goal of strong, sustainable economic growth by contributing to sound fiscal and economic policies. In particular, the economic and fiscal forecasts contained in these publications provided Ministers with information on likely economic and fiscal trends, as background for decisions on overall policy priorities.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 42 to 43.

### Quality

The Treasurer will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Treasurer assessed the quality of outputs purchased as falling short of expectations in many respects.

The Treasury, recognising the importance of macroeconomic forecasting, has commenced a programme to maintain and enhance capability in this area. The then Treasurer acknowledged the Treasury's prompt identification of the need to enhance macroeconomic forecasting and development of a process for implementing change.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Treasurer, will be met.

The Department met all contracted deadlines specified in the Vote Treasurer purchase agreement.

### Cost

<b>30 June 1999 Actual (\$000)</b>	<b>3,510</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>3,731</b>
<b>Main Est. (\$000)</b>	<b>3,319</b>
<b>30 June 1998 Actual (\$000)</b>	<b>3,607</b>

(Figures are GST inclusive)

The appropriation for this output class was increased by \$412,000 in the Supplementary Estimates, primarily due to the additional September *Economic and Fiscal Outlook* which was not provided for in the 1998/99 Main Estimates. Additional resources were also allocated to this area to bring forward improvements to the economic forecasting processes.

However, expenditure in this output class was \$221,000 or 5.9% below the Supplementary Estimates due to the build-up in forecasting capability proceeding more slowly than originally forecast.

## OUTPUT CLASS D3 - SECTORAL POLICY ADVICE

This output contributes to stable and balanced macroeconomic policy, an open, competitive enterprise economy, and distributional objectives.

This class of outputs involves the provision of strategic advice on the most appropriate government actions, including: the regulation of markets affecting the demand for, and supply of, goods and services, labour and capital; the raising of revenue; and purchase, ownership, regulation and other interventions relating to specific sectors of the economy to achieve the Government's policy outcomes.

The outputs cover:

- advising on social policy including health, education, welfare, housing, accident compensation, labour force, justice and issues affecting Maori
- advising on the detailed implementation of welfare and employment reforms and the proposed Code of Social and Family Responsibility
- advising on the implementation of accident compensation reforms
- strategic advice on management and negotiation of specific Treaty of Waitangi claims
- tax strategy, including the design of possible future tax bases and tax cuts, and working with the Committee of Experts on Tax Compliance to improve the coherence and operation of tax law including the effective detection and closing of loopholes, and the effective detection and deterrence of non-compliance
- policy advice relating to:
  - business productivity, innovation and enterprise in all sectors (agriculture, manufacturing, forestry and science)
  - electricity regulation
  - roading
  - local government
  - the proposed Regulatory Responsibility Act
  - the Resource Management Act 1991
  - climate change
  - producer boards
- advising on policies and government operations which influence the quality of the links between the New Zealand economy and the rest of the world, with special emphasis on tariff and non-tariff barriers to international economic flows and promoting the liberalisation of international aviation.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Provided advice on implementation of the decision to introduce contestability for the employers' account of the accident insurance scheme. Advice included regulatory structures and arrangements, and the implications for the restructuring of ACC. The reform of the employers' account has assisted the government in meeting its goal to encourage the contestable supply of services that are currently within the realm of the public sector.
- Provided advice leading to the *Policies for Progress* package. This included advice on progressing retirement income policy, which led to the Superannuation 2000 Taskforce being established and the legislation governing the wage floor for New Zealand Superannuation being amended.
- Provided advice on welfare and employment strategies to improve the likelihood that working-aged beneficiaries can find paid work (including the progressive trialling and implementation of the Work Capacity Strategy).
- Provided advice on the deficit switch, Hospital Health Services (HHS) capital charge, treatment of HHS surpluses, incentive arrangements for HHS performance, and the management of the Hospital Services Plan.
- Contributed to the policy debate on the future of producer boards, including participation in a Project Team with other departments. Major progress was made in working towards the Government's objectives for advancing discussions with the producer boards themselves.
- Provided advice on competition issues, such as the review of the Commerce Act, which support an open and competitive economy.
- Provided advice on taxation issues, including: "Economic Reimbursement of Expenditure" tax planning schemes; the Committee of Experts on Tax Compliance; interest deductibility with the IRD; research into savings issues; analysis of effective tax rates on capital assets; Budget tax issues; the Finance and Expenditure Committee (FEC) inquiry into IRD operations; and directions for tax strategy. This work contributed to the Government's aim of reducing the costs of the tax system.



- Endorsement by APEC Finance Ministers of New Zealand/Brunei co-hosting proposals, leading to achievement of New Zealand objective to align Finance Ministers and other APEC processes. Development of key policy “themes” to guide New Zealand chairing of APEC Finance Ministers’ process in coming year.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 42 to 43.

### Quality

The Treasurer will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Treasurer assessed the quality of outputs purchased as meeting and sometimes exceeding his expectations.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Treasurer, will be met.

The Department met all contracted deadlines specified in the Vote Treasurer purchase agreement with one exception.

The single exception was advice on options for enhancing the effectiveness of the light-handed regulatory regime for vertically integrated properties, which was delayed until the second quarter of 1998/99. This delay was due to resources being diverted to Electricity Industry Reform Act work.

### Cost

<b>30 June 1999 Actual (\$000)</b>	<b>12,131</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>12,585</b>
<b>Main Est. (\$000)</b>	<b>12,107</b>
<b>30 June 1998 Actual (\$000)</b>	<b>11,163</b>

(Figures are GST inclusive)

The appropriation for this output class was increased by \$478,000 in the Supplementary Estimates largely due to higher than expected Committee of Experts on Tax Compliance and APEC costs.

Expenditure in this output class was \$454,000 or 3.6% below the Supplementary Estimates due to a number of forecast risks in relation to roading reform, ACC, the tertiary capital charge and foreign tax credits, which did not crystallise.

### OUTPUT CLASS D4 - BUDGET MANAGEMENT

This class of outputs covers the operational activities of the Budget process. For the 1998/99 year, this included management of:

- the mid-year and 1999 Budget baseline rounds
- the 1999 Budget Initiatives process
- the 1998/99 *Supplementary Estimates* and associated Appropriation Bill process
- the 1999/2000 *Main Estimates* and associated Appropriation Bill process.

This output class contributes to the achievement of sound fiscal management.

Also included in this class are the preparation and production of the 1999 *Budget Policy Statement* and associated material, documents required to be published under the Fiscal Responsibility Act 1994 (see output classes D1 and D2 for details), *Main Estimates* and *Supplementary Estimates* books, Appropriation Bills and Imprest Supply Bills.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Assisted Ministers in the management of the 1999 Budget Initiatives and 1999 Budget baseline processes.
- Publication of the *Supplementary Estimates of Expenditure* 1998/99.
- Publication of the *Main Estimates of Appropriation* 1999/2000.



These outputs supported the Government in achieving its goal of strong, sustainable economic growth, by meeting the objectives for sound fiscal management as set out in the Fiscal Responsibility Act 1994.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 42 to 43.

### Quantity

The Budget management outputs to be provided will be explicitly agreed with the Treasurer. These include:

- *Main Estimates*
- *Supplementary Estimates*
- Budget tables
- Imprest Supply Bill(s)
- Appropriation Bill(s) and three-year forecasts.

All outputs were explicitly agreed with the Treasurer. Outputs produced during the year included all of the above documents.

### Quality

All documents will be published to the agreed standard for Parliamentary papers.

Published documents met the agreed standard for Parliamentary papers.

The Treasurer will assess the outputs purchased to ensure that the performance standard achieved is satisfactory.

The then Treasurer assessed the quality of outputs purchased as meeting and sometimes exceeding his expectations.

### Timeliness

Outputs will be supplied according to the Government's and Parliament's timetable and within the statutory time limits of the Public Finance Act 1989 and the Fiscal Responsibility Act 1994.

Outputs were supplied in accordance with the above timetables and within the statutory time limits of the Public Finance Act 1989 and the Fiscal Responsibility Act 1994.

Timeframes for delivery of policy advice, implicitly agreed with the Treasurer, will be met.

The Department met all contracted deadlines specified in the Vote Treasurer purchase agreement.

### Cost

30 June 1999 Actual (\$000)	1,439
Supp. Est. - Voted (\$000)	1,519
Main Est. (\$000)	1,675
30 June 1998 Actual (\$000)	1,550

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$156,000 in the Supplementary Estimates due to the *Budget Policy Statement* and December *Economic and Fiscal Update* printing costs being lower than anticipated.

Expenditure in this output class was \$80,000 or 5.3% below the Supplementary Estimates. The cost of output production was lower than forecast due to lower Budget production costs.

## OUTPUT CLASS D5 - DEBT AND FINANCIAL ASSET MANAGEMENT

This class of outputs concerns the operational management of the Crown's debt portfolio and the central management of its financial investments. It comprises:

### Foreign Currency Portfolio Management

- maintaining a diversified funding base in order to meet the Government's gross financing requirements
- maintaining hedges of long-dated debt which could not be repurchased
- seeking opportunities to add value to the Crown in undertaking these activities, while conforming to a risk-averse management framework.

This output class contributes to reducing risk in the Crown's balance sheet and the efficient funding of the Crown's activities.

### Domestic Portfolio Management

- developing and implementing strategies to efficiently reduce the domestic debt portfolio.

This class includes all costs associated with running the debt and financial assets portfolio and all expenses are incurred under section 61 of the Public Finance Act 1989.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Undertook the following domestic borrowing activities:
  - the \$2.7 billion domestic bond programme announced at the time of the 1998 Budget was revised upwards to \$3.7 billion at the time of the September *Economic and Fiscal Outlook* and to \$4.0 billion in the December *Economic and Fiscal Update*
  - the final bond tender for the fiscal year was cancelled as a result of the sale of Contact Energy (the proceeds of asset sales are not included in the fiscal forecasts) giving a total bond programme for the year of \$3.3 billion nominal bonds and \$300 million of inflation-indexed bonds
  - introduced a new 2003 benchmark bond in October 1998 and a 2011 benchmark bond in April 1999.
- In the 1999 Budget, the domestic borrowing programme was announced:
  - a nominal bond programme of \$2.85 billion
  - suspension of issuance of inflation-indexed bonds
  - participation of the NZDMO in the domestic interest-rate swap market with a programme of up to \$500 million.
- Borrowed \$760 million in foreign currency including two public issues, to refinance maturing loans, which fund the Reserve Bank's foreign-exchange reserves.



- Advised on incorporating the Crown's financial relationship with the International Monetary Fund (IMF) within the NZDMO's risk management framework.
- Developed and maintained the portfolio policy, including externally commissioned reviews of the risk management and control environment and the IT system documentation.
- Advised on revisions of liquidity and funding risk policies, and established a framework for risk-adjusted performance measurement.
- Published the 1999 *New Zealand Economic and Financial Overview*.
- Managed rating agency relationships including annual visits, reviews and ratings changes.

These outputs contributed to the Government's desired outcomes by managing risk in the Crown's balance sheet, and efficiently funding the Crown's activities.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 42 to 43.

### Quality

The Secretary to the Treasury will monitor the operation of the NZDMO with the assistance of an Advisory Board. Performance in settlements, debt issuance, portfolio management and project management will be reported regularly to the Secretary and the Advisory Board, and to the Treasurer in the context of quarterly and year-end reviews.

The NZDMO provided monthly written reports on its operations to the Secretary to the Treasury. These reports were also submitted to the NZDMO's Advisory Board. The Advisory Board met four times in the reporting period. Reports on the performance of the NZDMO were provided to the Treasurer after each quarter.

Policies regarding instruments and currencies for transactions, limits and credit exposures, as explicitly agreed with the Treasurer, will be adhered to.

Adherence to the policy was monitored on a daily basis and reported to the NZDMO, the Treasurer and the Advisory Board.

Established internal control standards for transactions will be met.

Control standards were monitored throughout the reporting period. The settlements' error rate was 0.08% on 13,027 transactions. The accuracy of the debt servicing forecasting is monitored monthly.

The Treasurer will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Treasurer assessed the quality of outputs purchased as meeting and frequently exceeding his expectations.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Treasurer, will be met.

The Department met all contracted deadlines specified in the Vote Treasurer purchase agreement.

**Cost**

<b>30 June 1999 Actual (\$000)</b>	<b>6,129</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>6,168</b>
<b>Main Est. (\$000)</b>	<b>6,012</b>
<b>30 June 1998 Actual (\$000)</b>	<b>6,978</b>

(Figures are GST inclusive)

The appropriation for this output class was increased by \$156,000 in the Supplementary Estimates due to additional NZDMO costs in relation to a procedures and operations audit.

Expenditure in this output class was \$39,000 or 0.6% below the Supplementary Estimates.

## **SERVICE PERFORMANCE: ALL VOTE TREASURER OUTPUT CLASSES**

### **Quantity**

The quantity and nature of advice to be provided will be as explicitly agreed with the Treasurer and will contribute to the Government's strategic objectives.

At the commencement of the year the purchase agreement was discussed and agreed with the Treasurer. This agreement was then amended as required to ensure its continued relevance.

Agreement with the Treasurer regarding the scope of policy advice to be delivered included descriptions of the subject matter, breadth and depth of research, and relative priority with other work. In other cases, more specific agreement as to the scope of the advice was reached.

### **Quality**

The Treasury will operate appropriate quality controls over the production of policy advice. This will include ensuring that only managers, or their equivalents, sign out reports to Ministers and internal peer review or external review is sought as appropriate. Reviews will also be formally monitored on a six-monthly basis by the Senior Management Group through a quality assurance process.

An examination of the daily output of advice provided during 1998/99 confirmed that all reports were signed out by managers or their equivalents.

The Senior Management Group reviewed one quality assurance report covering the entire 1998/99 year. They found that the quality of outputs in this Vote was maintained.

The Treasurer will assess the outputs purchased to ensure the performance standard achieved is satisfactory. Output performance is assessed on a five point scale ranging from not satisfactory to greatly exceeded expectations.

The then Treasurer assessed the Treasury's overall Vote Treasurer performance for 1998/99 as meeting and sometimes exceeding his expectations.

### Timeliness

Parliamentary Questions (PQs), Ministerial correspondence (MCs) and Official Information Act requests (OIAs) will be responded to within agreed and statutory timeframes.

### Vote Treasurer Ministerial Servicing

As at 30/06/99	PQs	MCs	OIAs
<b>Output Class D1:</b>			
Estimated	10-20	75-150	0-5
Actual draft replies	46	164	16
% answered by due date	100	94	94
<b>Output Class D2:</b>			
Estimated	10-20	10-20	0-5
Actual draft replies	13	9	3
% answered by due date	100	100	100
<b>Output Class D3:</b>			
Estimated	50-75	600-800	50-75
Actual draft replies	58	444	61
% answered by due date	100	98	93
<b>Output Class D4:</b>			
Estimated	0	0	0
Actual draft replies	0	1	0
% answered by due date	0	100	0
<b>Output Class D5:</b>			
Estimated	0	0	0
Actual draft replies	2	3	0
% answered by due date	100	100	0

## VOTE FINANCE

### OUTPUT CLASS D1 - POLICY ADVICE: REVENUE, EXPENDITURE AND BALANCE SHEET MANAGEMENT

This output class contributes to assisting in the effective control and value for money of public expenditure through efficient and effective public sector management.

This class of outputs involves the purchase of advice on the detail of government actions (purchase and ownership) to achieve the Government's overall strategic objectives, the means of funding them and the assessment of the financial performance of departments and Crown entities.

This includes advice on:

- general revenue, expenditure and balance sheet management on an ex-ante and ex-post basis
- the operation of, and reforms to, the New Zealand tax system including:
  - further work on the economic framework for taxing cross-border income
  - re-writing parts C, D and E of the Income Tax Act
  - reviewing GST and proposing changes to improve its effectiveness
  - reducing filing requirements for wage and salary taxpayers
  - developing policy on timing issues and interest deductibility
  - the design of possible future tax cuts
- the cost, quality and quantity and alternative sources of supply of the outputs sought by the Government, and the interventions and outcomes relating to departmental Votes and Crown entities (including purchase decisions, monitoring of payments for outputs produced against appropriations and funding of non-departmental revenue and expenditure which is administered by departments and Crown entities). In 1998/99 this will include monitoring the implementation of the Customs Service's Strategic Business Plan and IRD's "Minimising Customer Requirements" project
- the financial performance of departments and Crown entities.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Advised on Department of Social Welfare restructuring, including: the merging of housing and welfare policy; the proposed new department to deliver child, youth and family services; and the proposed Ministry of Social Policy.
- Provided advice on the establishment of the Department of Work and Income including baseline funding, capital base, output classes, and the implications for the Departments of Social Welfare and Labour. By co-locating employment and income support services the Department of Work and Income is expected to reduce unemployment and thereby assist in breaking the cycle of disadvantage.
- Advised on proposals to Strengthen Families, including: allocating the \$50 million contingency set aside in the 1998 Budget for new Children, Young Persons and Their Families Service (CYPFS) initiatives; and new initiatives in the 1999 Budget (such as expanding Family Start).
- Provided advice on the resources required by the Police and the effectiveness of the proposed accountability measures to focus Police performance on reducing crime. Advised on options for meeting Police IT requirements particularly on the future of the contract with IBM for INCIS.
- Provided advice on the HHS business plans, HHS investment proposals including Auckland Healthcare's Health Services Delivery Plan (HSDP), HHS letters of comfort, various HHS performance and ownership issues, the implications of Standard & Poor's credit rating of Capital Coast Health, and the UK private finance initiative.
- Provided advice on the Health Funding Authority's (HFA's) 1999/2000 accountability cycle, including: the Medium-term Strategy for the Health and Disability Sector; the Crown's Statement of Objectives for the HFA; and the HFA's Funding Agreement and Statement of Intent.
- Advised on taxation issues including: the re-write of Parts C, D and E of the Income Tax Act; Taxation of Life Insurance and Superannuation (TOLIS), a trading stock discussion document, accrual rules, the Committee of Experts



on Tax Compliance, a discussion document on GST, stamp duties and the broadcasting fee in the context of the development of the 1999 Budget. This work contributed to the Government's aim of reducing the costs of the tax system.

- Advised on New Zealand Defence Force and Ministry of Defence capital purchase programme.
- Advised on issues associated with automation of business processes within Land Information New Zealand (LINZ), focusing on the business case itself, to minimise the fiscal risks for the Crown.
- Finalised memorandum of understanding on purchase and ownership monitoring of Trade New Zealand, including the Treasury's role as purchase advisor to the Minister for International Trade.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 and 62.

### Quality

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs purchased as meeting his expectations.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Minister of Finance, will be met.

The Department met all contracted deadlines specified in the Vote Finance purchase agreement except for three projects that were completed after the deadlines, and two projects that were deferred due to higher priority work.

### Cost

<b>30 June 1999 Actual (\$000)</b>	<b>10,576</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>10,588</b>
<b>Main Est. (\$000)</b>	<b>10,607</b>
<b>30 June 1998 Actual (\$000)</b>	<b>10,315</b>

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$19,000 in the Supplementary Estimates due to minor forecast changes.

Expenditure in this output class was \$12,000 or 0.1% below the Supplementary Estimates.

### **OUTPUT CLASS D2 - POLICY ADVICE: OWNERSHIP AND PERFORMANCE OF CROWN COMPANIES AND FINANCIAL INSTITUTIONS, AND MANAGEMENT OF CROWN OVERSEAS PROPERTIES**

This output class involves the purchase of policy advice on the Crown's financial position and the ownership interest in SOEs, CRIs, other Crown entities such as Housing New Zealand, and the Crown's interest in airport companies. It involves advice on the Crown's ownership, guarantee and indemnity obligations in relation to the Government Superannuation Fund, the National Provident Fund, the Public Trust Office and the Earthquake Commission. It also involves advice on, and management of, the Crown's overseas properties.

This output class contributes to ensuring that the Crown's commercial activities perform as well as possible.

The outputs in this class include:

- advising on the levels of investment in each Crown company or entity, on their areas of business, projected performance and risk, and capital injections/withdrawals and dividends as appropriate
- assessing the financial performance of Crown companies and other Crown entities including undertaking business evaluations and/or scoping studies, and monitoring of ECNZ (which is not undertaken by the CCMAU given its responsibilities to monitor Contact Energy)
- advising on the restructuring of ECNZ into competing generating companies
- undertaking business evaluations and/or scoping studies at the request of Ministers on options for the Crown's future ownership interest in SOEs and other Crown companies

- advising on the Crown's ownership interests and guarantee obligations relating to the Government Superannuation Fund, the National Provident Fund and the Earthquake Commission
- advising on the Public Trust Office's social, statutory and commercial functions and the ownership of the net assets of the Office
- assessing the welfare gains from privatisation and corporatisation
- advising on, and managing, the Crown's overseas properties.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Advised on the valuation transfer agreements and establishment issues arising from the corporatisation of Quotable Value New Zealand and the new MQM Meat and Food SOEs (Asure New Zealand and AgriQuality New Zealand).
- Advanced the study of the economic welfare impacts of the privatisation of NZ Rail, as a case study of the economic effects arising from the privatisation of previously Crown-owned businesses.
- Commissioned a scoping study of the Crown's interests in Contact Energy, and advised on the options for possible sale.
- Advised on the commercial impact on Timberlands Limited of options for the early termination of the overcut of Buller indigenous forests.
- Advised on the corporatisation of the Public Trust Office, including overseeing legal action over ownership of residual equity, strategic direction of new entity, and legislation to achieve restructuring.
- Advised on and managed the financial and legal transactions enabling the establishment of three new generation SOEs from the split of ECNZ. Advised on preliminary business plans and performance measures. Undertook necessary implementation tasks, including consultation with Maori.
- Advised on the establishment of At Work Insurance including capitalisation requirements, business plans and transactions requirement for incorporation. This work was undertaken in conjunction with the Department of Labour.



- Advised on the strategic direction for Solid Energy in light of financial position and performance.
- Advised on an appropriate investment strategy for the Government Superannuation Fund in the context of the wider Crown balance sheet.
- Advised on policy and Treaty issues relevant to the successful sale of Cobb, Matahina, Coleridge and Highbank power stations by ECNZ.

These outputs contributed to the Government's desired outcome of strong economic growth by ensuring that the Crown's commercial activities perform as well as possible.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 to 62.

### Quality

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs purchased as meeting and frequently exceeding his expectations.

Reports of the financial performance of SOEs will take account of the analysis performed by CCMAU and the views of the external advisors to the Treasury and CCMAU.

During the course of the financial year, analysis by CCMAU and the views of external advisors were considered where appropriate.

The agreed principles and procedures for the employment of consultants will be followed.

Agreed principles and procedures for the employment of consultants were followed.

### Timeliness

Timeframes for delivery of policy advice, implicitly agreed with the Minister of Finance, will be met.

The Department met all contracted deadlines specified in the Vote Finance purchase agreement.

Cost	
30 June 1999 Actual (\$000)	4,290
Supp. Est. - Voted (\$000)	4,950
Main Est. (\$000)	6,678
30 June 1998 Actual (\$000)	6,009

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$1.728 million in the Supplementary Estimates due to reduced asset scoping work. This decrease in appropriation was transferred to the Implementation of Asset Divestments output class.

Expenditure in this output class was \$660,000 or 13.3% below the Supplementary Estimates primarily due to a resource shift to the Implementation of Asset Divestments output class and several consultancy projects either being delayed, being performed in-house or not going ahead.

**OUTPUT CLASS D3 - MANAGEMENT OF COMMERCIAL LIABILITIES AND SPECIFIC CLAIMS AGAINST THE CROWN**

This output class contributes to minimising the Crown’s commercial risks.

This output class involves managing various contractual and commercial issues arising from:

- the Crown’s previous or ongoing involvement in the energy sector
- the wind-up of the Crown’s ownership interest in financial institutions

- the management of liabilities which remain with the Crown following the completion of corporatisation divestment processes
- the provision of policy advice on the management and negotiation of specific Treaty of Waitangi claims.

Outputs within this class include:

- management of commercial, contractual and litigation risks associated with the 1973 Maui Gas Contract, including contracting for 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, financial institutions and other entities, and negotiation of settlement of liabilities where appropriate

- advice on the management of specific Treaty of Waitangi claims and assistance with the Crown's negotiation of settlements
- providing legal title to land assets sold to SOEs and other Crown companies as a part of their sale and purchase agreements.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Managed the Crown's day-to-day gas operating obligations and contractual issues arising under the Maui Gas Contracts.
- Advised and implemented consultation with Maori, on the potential sale of the Crown's 11% interest in the Kupe oil and gas field.
- Advised on financial and economic aspects of Treaty of Waitangi claims.
- Contributed to the Crown's discussions and negotiations with iwi claimants including Taranaki iwi, and implemented Ngai Tahu settlement.
- Continued the programme of identifying and transferring legal land title to various SOEs and other companies.
- Finalised details on the environmental indemnity deed agreed with Fletcher Challenge New Zealand in relation to the sale of Forestry Corporation of New Zealand.
- Advised on Alexandra Flooding claims against the Crown.

These outputs contributed to the Government's desired outcome of strong economic growth by minimising the Crown's commercial risk exposure in relation to its assets and liabilities.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 to 62.

### Quality

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs purchased as meeting and frequently exceeding his expectations.

**Timeliness**

Timeframes for delivery of policy advice, implicitly agreed with the Minister of Finance, will be met.

The Department met all contracted deadlines specified in the Vote Finance purchase agreement.

**Cost**

<b>30 June 1999 Actual (\$000)</b>	<b>1,950</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>2,541</b>
<b>Main Est. (\$000)</b>	<b>7,780</b>
<b>30 June 1998 Actual (\$000)</b>	<b>6,253</b>

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$5.239 million in the Supplementary Estimates largely due to savings following the completion of the Maui Post Facto Review and other major liability management issues.

Expenditure in this output class was \$591,000 or 23.3% lower than the Supplementary Estimates due to fewer than anticipated issues arising from National Provident Fund, Development Finance Corporation, gas issues and land titles.

**OUTPUT CLASS D4 - POLICY ADVICE: CROWN FINANCIAL MANAGEMENT**

This output class involves the provision of policy advice on Crown financial management and public sector management. Specific products include:

This output class contributes to the effective control and value for money of public expenditure through efficient and effective public sector management.

- policy development and review of the financial management mechanisms introduced to date, and enhancement of the New Zealand public sector management system, with a particular focus on designing pricing and governance systems which deliver efficient and accountable performance by departments and Crown entities
- Crown balance sheet policy, including policy for the management of financial assets and advice on the identification and management of financial and other risks across the Crown estate

- the development and refinement of generally accepted accounting practice (GAAP) as it applies to the Crown, and provision of advice to ensure that the Crown accounts for its operations, assets and liabilities in accordance with GAAP and that the accounting implications of policy initiatives are understood.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Prepared papers on the governance of Crown financial agencies and on portfolio analysis of the Crown Balance Sheet.
- Developed rules for determining the appropriate institutional arrangements for government agencies.
- Reported on developing competitive neutrality principles and use of private sector capital in the production of public sector outputs.
- Developed new policies for Cabinet financial delegations that were incorporated in a revised Cabinet Office circular.
- Reported on controlling non-departmental appropriations.
- Published Treasury guidelines on Setting Charges in the Public Sector.
- Provided advice on improving Crown entity Statements of Intent and purchase agreements.
- Reported on the rationale for managing the Crown's aggregate level of investments.



These outputs contributed to the Government's desired outcomes by assisting in the effective control of public expenditure through efficient and effective public sector management.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 to 62.

**Quality**

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs as meeting his expectations.

**Timeliness**

Timeframes for delivery of policy advice, implicitly agreed with the Minister of Finance, will be met.

The Department met all contracted deadlines specified in the Vote Finance purchase agreement except for two reports on governance structures, one of which was completed after the deadline; the other was deferred due to staff shortages and other higher priority work.

**Cost**

<b>30 June 1999 Actual (\$000)</b>	2,306
<b>Supp. Est. - Voted (\$000)</b>	2,608
<b>Main Est. (\$000)</b>	2,095
<b>30 June 1998 Actual (\$000)</b>	1,586

(Figures are GST inclusive)

The appropriation for this output class was increased by \$513,000 in the Supplementary Estimates. This was due to additional work in the Governance of Public Sector Entities output being performed during the year.

Expenditure in this output class was \$302,000 or 11.6% lower than the Supplementary Estimates. Fewer outputs were produced than forecast due to staff vacancies in this area.

## OUTPUT CLASS D5 - CROWN FINANCIAL REPORTING

This class of outputs involves the purchase of reporting, advice and review products. These include:

- preparation and publication of financial reports (including the annual and monthly financial statements of the Crown)
- operation of the Controller function including monitoring and reporting on Imprest Supply
- management of the set of Crown bank accounts, including the delegations to departments and management of the trust money regime
- provision of reviews of departments' management controls to detect or prevent errors in the financial information submitted to the Treasury
- the 1997/98 unappropriated expenditure approvals process.

This output class contributes to measuring the Government's progress in achieving its fiscal strategy.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Publication of the Crown Financial Statements for the year ended 30 June 1998.
- Publication of Crown Financial Statements for the periods ended 30 September, 31 October, 30 November, 31 December 1998, and 31 January, 28 February, 31 March, 30 April, and 31 May 1999 (the last set released on 2 July 1999).



These outputs supported the Government in achieving its goal of strong, sustainable economic growth, by measuring the Government's progress in achieving its fiscal strategy.

- The 1998/99 Financial Management Reviews programme included departmental reviews of cash management, personnel systems, and physical asset management.

These reviews supported the Government in achieving its goal of strong economic growth by assisting in the effective control of public expenditure through efficient and effective public sector management.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 to 62.

### Quality

Management statements required under section 29 of the Public Finance Act 1989 will be signed within the time limits set out in the Act and will be supported by analysis and reviews of departmental financial management.

The management statements for the Crown Financial Statements met these standards.

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs purchased as meeting and frequently exceeding his expectations.

The Crown Financial Statements will conform to GAAP and fairly reflect the operations and financial position of the Crown.

The Crown Financial Statements produced during the year conformed with GAAP.

Each day the Controller function will accurately monitor the year-to-date disbursements compared with the supply made by Parliament, and prepare for the Controller and Auditor-General's signature a controller statement that will authorise the release of public money.

The Controller function was operated daily throughout the financial year. All disbursements to departments were certified by the Audit Office in accordance with section 22(4) of the Public Finance Act 1989.

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.

Delegations were provided to departments as appropriate. Examinations of Crown bank account and trust account delegations detected a small number of breaches, which were pursued with the departments concerned and resolved.

### Timeliness

The Crown Financial Statements will, as required by statute, be produced to the specified standard for the year ended 30 June 1998, for the quarter ended September 1998, and at monthly intervals thereafter until the end of the financial year.

Financial statements of the Crown were prepared for the year ended 30 June 1998 and quarter ended September 1998. Monthly statements were prepared for the months October 1998 through May 1999.

### Cost

<b>30 June 1999 Actual (\$000)</b>	2,262
<b>Supp. Est. - Voted (\$000)</b>	2,430
<b>Main Est. (\$000)</b>	2,939
<b>30 June 1998 Actual (\$000)</b>	2,241

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$509,000 in the Supplementary Estimates as resources were reprioritised to other Treasury output classes during the year.

Expenditure in this output class was \$168,000 or 6.9% below the Supplementary Estimates. The cost of output production was lower than forecast due to staff vacancies in this area. In addition, some resource was re-prioritised into output class D4 of Vote Finance, to progress key Crown accounting policy developments such as consolidation of the Crown's accounts.

## OUTPUT CLASS D6 - IMPLEMENTATION OF ASSET DIVESTMENTS

This class of outputs is concerned with advising on and implementing the divestment processes for Crown assets. This involves advising Ministers on the appropriate divestment process that meets the Government's objectives while minimising risks and, depending on the process the Government chooses:

This output class facilitates divestment of commercial assets once a decision has been taken by the Government.

- marketing, implementing and executing an initial public offering including preparation of a prospectus, the public listing of the Crown's shares in the company, and the domestic and international placement of shares
- marketing, implementing and executing a trade buyer process in which potential buyers are provided with a specially prepared information memorandum, preparing data rooms for buyers to undertake due diligence, and managing a bidding process to maximise price.

The delivery of outputs under this output class commences once a decision to enter into a divestment process has been made by the Government. Asset divestment decisions are taken on a case-by-case basis and are not forecast as a matter of policy, just as the proceeds from potential asset divestments are not forecast in the Crown accounts.

At the beginning of the year, a number of asset sales were in progress, in relation to the following businesses:

- CPNZ
- AIAL
- Solid Energy New Zealand Limited.
- WIAL
- Geothermal Trading.

It may also involve completion of asset divestment processes initiated in 1997/98 but not fully completed by 30 June 1998. Other asset divestments may come within the outputs of this class once decisions are made by the Government.

## SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Successfully completed the sale of the Crown's shares in AIAL, WIAL, CPNZ and Contact Energy. The Crown also sold its shares in Rotorua Regional Airport Limited and Palmerston North Airport Limited.
- Reported on indicative bids for Solid Energy, although no sale was concluded.



The sale of state assets contributes to the Government's desired outcomes by allowing the Government to shed the risk associated with continued ownership of commercial assets. A sale places the operation of assets in the hands of the private sector which generally improves the overall efficiency of those assets and as a result their contribution to the New Zealand economy.

## SERVICE PERFORMANCE

General service performance objectives are detailed on pages 61 to 62.

### Quality

Divestments of Crown assets will meet the objectives and parameters as determined by the Cabinet in terms of the preferred method of sale, value for taxpayers, and appropriate sale terms and conditions.

The divestments of Crown assets met the objectives and parameters as determined by the Cabinet in terms of the preferred method of sale, value for taxpayers, and appropriate sale terms and conditions.

Asset divestments will comply fully with all legal requirements.

Asset divestments complied fully with all legal requirements.

All possible impediments and risks in the sales processes will be identified and appropriately managed.

All possible impediments and risks in the sales processes were identified and appropriately managed.

The Treasury’s policies and procedures for the employment of advisors and consultants will be followed.

The Treasury’s policies and procedures for the employment of advisors and consultants were followed.

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory.

The then Minister of Finance assessed the quality of outputs purchased as meeting and frequently exceeding his expectations.

**Timeliness**

Timeframes for delivery of policy advice, implicitly agreed with the Minister of Finance, will be met.

The Department met all contracted deadlines specified in the Vote Finance purchase agreement.

**Cost**

<b>30 June 1999 Actual (\$000)</b>	<b>54,302</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>56,419</b>
<b>Main Est. (\$000)</b>	<b>3,650</b>
<b>30 June 1998 Actual (\$000)</b>	<b>8,895</b>

(Figures are GST inclusive)

The appropriation for this output class was increased by \$52.769 million in the Supplementary Estimates. This increase relates to the transfer of unexpended appropriation from 1997/98 relating to the sale processes for AIAL, WIAL, CPNZ and Solid Energy. Also contributing to the increase was the sale of Contact Energy which was approved by the Government during 1998/99.

Expenditure in this output class was \$2.117 million or 3.8% below the Supplementary Estimates. This was due to the Contact Energy sale costs being less than forecast.

## SERVICE PERFORMANCE: ALL VOTE FINANCE OUTPUT CLASSES

### Quantity

The quantity and nature of advice to be provided will be as explicitly agreed with the Minister of Finance and will contribute to the Government's strategic objectives.

At the commencement of the year the purchase agreement was discussed and agreed with the Minister of Finance. This agreement was then amended as required to ensure its continued relevance.

Agreement with the Minister of Finance regarding the scope of policy advice to be delivered included descriptions of the subject matter, breadth and depth of research, and relative priority with other work. In other cases, more specific agreement as to the scope of the advice was reached.

### Quality

The Treasury will operate appropriate quality controls over the production of policy advice. This will include ensuring that only managers, or their equivalents, sign out reports to Ministers and internal peer review or external review is sought as appropriate. These reviews will also be formally monitored on a six-monthly basis by the Senior Management Group through a quality assurance process.

An examination of the daily output of advice provided during 1998/99 confirmed that all reports were signed out by managers or their equivalents.

The Senior Management Group reviewed one quality assurance report covering the entire 1998/99 year. They found that the quality of outputs in this Vote was maintained.

The Minister of Finance will assess the outputs purchased to ensure the performance standard achieved is satisfactory. Output performance is assessed on a 5 point scale ranging from not satisfactory to greatly exceeded expectations.

The then Minister of Finance assessed the Treasury's overall performance for 1998/99 as meeting his expectations.

## Timeliness

Parliamentary Questions (PQs), Ministerial correspondence (MCs) and Official Information Act requests (OIAs) will be responded to within agreed and statutory timeframes.

### Vote Finance Ministerial Servicing

As at 30/06/99	PQs	MCs	OIAs
<b>Output Class D1:</b>			
Estimated	50-75	600-800	50-75
Actual draft replies	15	377	21
% answered by due date	100	97	100
<b>Output Class D2:</b>			
Estimated	5-10	100-125	5-20
Actual draft replies	6	217	37
% answered by due date	100	97	89
<b>Output Class D3:</b>			
Estimated	0	0	0
Actual draft replies	1	35	1
% answered by due date	100	100	100
<b>Output Class D4:</b>			
Estimated	5-10	5-10	5-10
Actual draft replies	0	4	3
% answered by due date	0	100	100
<b>Output Class D5:</b>			
Estimated	0	0	0
Actual draft replies	0	0	0
% answered by due date	0	0	0
<b>Output Class D6:</b>			
Estimated	20-30	50-100	20-30
Actual draft replies	14	73	3
% answered by due date	100	95	100

# CCMAU

## - Purpose and Roles

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### PURPOSE

CCMAU provides ownership monitoring advice to, and manages issues on behalf of, the shareholding Ministers of Hospital and Health Services, State-Owned Enterprises, Crown Research Institutes, and other Crown companies, which enables shareholding Ministers to hold boards of Crown companies accountable for their performance in maintaining and enhancing shareholder value.

### ROLE OF CCMAU

CCMAU's current roles are:

- providing advice which assists Ministers to set ownership objectives for Crown companies
- monitoring the performance of Crown companies in meeting their objectives and targets
- managing, on behalf of Ministers, the appointment of Crown company directors
- monitoring the performance of those directors
- providing policy advice on, and managing issues arising out of, the ownership of Crown companies.

# Executive Director of CCMAU's Overview

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1998/99 has been a significant year for the sectors monitored by the Crown Company Monitoring Advisory Unit (CCMAU or the Unit). During this period, seven new companies commenced operation and there was a significant improvement in the financial performance of the HHSs. CCMAU has continued to work closely with the Treasury and during the year formalised the organisations' respective responsibilities in the health sector.

CCMAU receives its revenue Crown through three Votes: HSPs, SOEs and CRIs and has produced the outputs that it contracted for with the Vote Ministers. The final reports from Ministers on performance against 1998/99 purchase agreements have been satisfactory, with Ministers expressing confidence in the performance of the Unit.

Maintaining and enhancing shareholder value has been our primary objective. CCMAU's advice to shareholding Ministers focuses on maximising the performance of the individual companies in which the Crown has an ownership interest with the objectives of enhancing the organisation's ability to perform in future and maximising the value of the Crown's investment. The ownership interest CCMAU monitors and advises on addresses a wide range of issues from ongoing financial viability to the internal health of the organisation. Essentially, the Unit covers everything that contributes to the ability of the organisation to deliver its goods and services in future years in addition to monitoring the organisation's current performance.

## HEALTH

At the end of the 1998/99 financial year, nine of the 23 HHSs achieved at least break-even and 19 had performed better than plan. CCMAU anticipates that almost all HHSs will break even or better within three years of their 1999/2000 Business Plans.

Incentives contributing to HHS performance include the quarterly publication of the HHSs' "League Tables", the ability of HHSs to retain and apply surpluses and the introduction of a graduated monitoring framework. There has also been the cross appointment of directors and chairs between HHSs to improve co-operation, sharing of best practice and better use of relatively scarce skills and experience. Finally, and very importantly, 1998/99 was also the first full year since the introduction for HHSs of a capital charge, which has impacted favourably on HHS decision making in 1998/99.

The increased stability evident in the HHS sector over the past year is enabling HHSs to focus more on improving internal processes, allowing them to have more clarity of vision and be better prepared to meet the current and future purchasing requirements of the HFA. It also makes it easier for HHSs to make significant capital investment decisions with greater certainty.

## STATE-OWNED ENTERPRISES

In 1998/99 the SOE team supervised the establishment process for new companies arising from departmental restructuring and the ACC reforms. Working closely with the Electricity Reform Transition Unit (ERTU), the SOE team advised on the design and implementation of the restructuring of the electricity generation industry, enabling the three new generating SOEs to commence operations on 1 April 1999.

During this period, the SOE team continued work on implementing a Statement of Shareholder Expectations for Crown companies.

## CROWN RESEARCH INSTITUTES

The CRI team completed reviews on creating incentives and maximising the retention of CRIs' human resource capabilities. The team also researched the potential to improve future performance through effective transfer of technology.

## APPOINTMENTS AND GOVERNANCE

In early 1999, CCMAU reviewed its appointment and governance processes to identify opportunities for improvement. As a result, the Unit is working closely



alongside experienced chairs and directors to strengthen the director appointment process. We are also focusing on improving the identification of boards' skills requirements and enhancing the director education and board evaluation processes.

## GOING FORWARD

CCMAU will continue to work towards enhancing high quality governance in the companies it monitors. Good corporate governance relies on a focused shareholder and a strong independent board, comprising of directors who have the appropriate skill mix to assist the company to meet its strategic imperatives as agreed between the board and the shareholder.

Many of the issues arising from 1998/99 will continue to feature in the Unit's work in the coming year. These issues include: the development of the new SOEs into mature companies; the evolution of the CRIs through the maximisation of the reservoir of intellectual capital built up over many years; and the significant capital investment decisions made in HHSs in the 1998/99 financial year. The Unit will also continue to define and drive best practice in the director selection and appointment process, a cornerstone of good corporate governance.

Christopher E Russell  
Executive Director

# Organisational Structure - CCMAU

as at 30 June 1999



**Christopher Russell**  
Executive Director



# Supporting Government Priorities - CCMAU

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CCMAU's contributions to the Government's strategic result areas are listed below:

## VOTE HEALTH SERVICE PROVIDERS

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### Health & Disability Services

#### CCMAU's Response

Providing advice on ownership aspects of HHSs, monitoring HHSs' performance, managing the HHSs' director appointments process and monitoring the performance of appointees

### Enterprise & Innovation

#### Output Classes

Crown Company Monitoring Advice to the Minister of Health

## VOTE STATE-OWNED ENTERPRISES

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### Strong Economic Growth

#### CCMAU's Response

Providing advice on ownership aspects of SOEs, monitoring SOEs' performance, managing the SOEs' director appointments process and monitoring the performance of appointees

### Enterprise & Innovation

#### Output Classes

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

Electricity Restructuring

Establishment of MQM SOEs

## VOTE CROWN RESEARCH INSTITUTES

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### Strong Economic Growth Protecting & Enhancing the Environment

#### CCMAU's Response

Providing advice on ownership aspects of CRIs, monitoring CRIs' performance, managing the CRIs' director appointments process and monitoring the performance of appointees

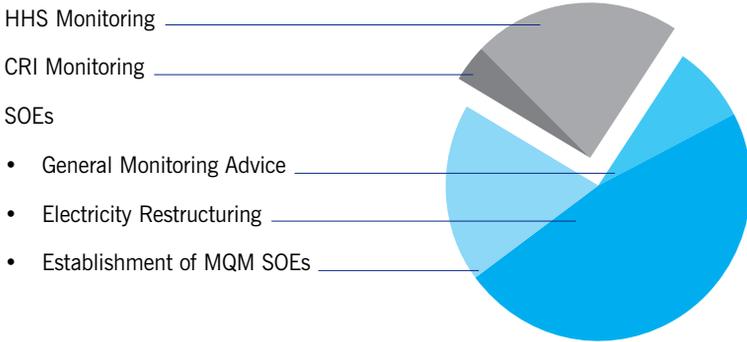
### Enterprise & Innovation

#### Output Classes

Crown Company Monitoring Advice to the Minister for Crown Research Institutes

# CCMAU Votes at a Glance

Actual expenditure for 1998/99 by output class



Two thirds of CCMAU’s expenditure for 1998/99 related to the restructuring of ECNZ into three new generating SOEs and the establishment of MQM SOEs. The restructuring of ECNZ, involving the Electricity Reform Transition Unit, three Interim Development Groups (IDGs) and CCMAU’s SOE team, commenced in the 1997/98 financial year and was completed in March 1999.

The Establishment of MQM SOEs output class involved two Establishment Boards which were responsible for managing the transition of the services for the inspection of meat and food by MQM to two SOEs. This commenced in the 1997/98 financial year and was completed by November 1998.

# Output Performance - CCMAU

## VOTE HEALTH SERVICE PROVIDERS

### OUTPUT CLASS D1 - CROWN COMPANY MONITORING ADVICE TO THE MINISTER OF HEALTH

This class of outputs involves the provision of policy and ownership monitoring advice on 23 HHSs and includes:

This output class contributes to the effective governance and management of the Crown's investment in HHSs.

- advising on setting ownership objectives and targets for HHSs, strategic direction, the size and nature of the Crown's investment in this sector and residual implementation issues
- monitoring and advising shareholding Ministers of HHSs' performance against their Business Plan objectives
- managing, on behalf of shareholding Ministers, the director appointment process and performance assessment process of HHSs' boards
- advising on the impact of proposed health policy options on HHSs and identifying policy options that will assist in meeting the shareholders' ownership objectives.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Produced the 1999 Statement of Owners' Expectations, further clarifying shareholding Ministers' expectations for HHS performance.
- Reviewed performance incentives and established a formal monitoring and intervention framework for HHSs. Undertook monitoring of HHSs in accordance with the framework.
- Implemented further improvements in the business planning process for the 1999/2000 HHS business plans and held a sector workshop on best practice in business planning.

- Facilitated discussions between the HFA and HHSs to assist in the completion of the 1999/2000 contracting round.
- Provided strategic advice on major capital projects including assessment of the business case for the Auckland hospital redevelopment.
- Managed the implementation of the capital charge to create the right incentives for appropriate investment.
- Assisted resolution of ongoing technical issues including common costing, service definitions, pricing and needs analysis.
- Introduced the balanced scorecard approach to assist the monitoring of HHS comparative performance.
- Facilitated the exchange of information and HHS responses to the industrial pay round.



## SERVICE PERFORMANCE

### Quantity/Timeliness

The quantity, nature and timeliness of advice on monitoring and ownership issues; advice on, and the implementation of, residual implementation issues; managing the Crown company director appointments process; and advice on the impact of proposed health policy options on HHSs will be as specifically agreed between the Executive Director of the Unit and the Minister of Health.

A purchase agreement was agreed between the Minister of Health and the Executive Director of CCMAU defining the principal elements in the work programme. This was supplemented by discussion with the Minister and his staff to determine issues of scope, direction and detail and to allow for variation.

Parliamentary Questions (PQs), Ministerial correspondence (MCs) and Official Information Act requests (OIAs) will be responded to within agreed and statutory timeframes.

As at 30/06/99	PQs <sup>1</sup>	MCs	OIAs <sup>2</sup>
<b>Output Class D1:</b>			
Estimated	600-700	800-1000	25-35
Actual draft replies	208	275	35
% answered by due date	100	86	77

- When prior enquiries to HHSs are required an interim response is provided. In these instances, the purchase agreement provides a timeframe for these details to be collected and reported.*
- All draft replies were referred to the Minister within the statutory deadline and 77% reached him prior to the purchase agreement deadline.*

## Quality

The Ministers' view of the relevance and quality of the support provided by the Unit, including policy advice required to meet quality standards in the purchase agreement, will be sought in the context of quarterly and year-end reviews.

During 1998/99 CCMAU reported to the Minister of Health on a quarterly basis on performance against the purchase agreement and also sought the Minister's feedback on the quality of advice. The Minister expressed satisfaction with the relevance and quality of advice provided.

The Executive Director of the Unit will oversee the quality and consistency of support to Ministers. All written advice to Ministers will be signed out by the Executive Director or a person designated for that purpose.

All written advice to Ministers was signed out by the Executive Director, Principal Advisor or a designated advisor.

## Cost

<b>30 June 1999 Actual (\$000)</b>	<b>3,939</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>4,295</b>
<b>Main Est. (\$000)</b>	<b>3,189</b>
<b>30 June 1998 Actual (\$000)</b>	<b>3,626</b>

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1.106 million in the Supplementary Estimates as a result of a fiscally neutral transfer from Vote Health to purchase additional outputs.

Expenditure for this output class was \$356,000 or 8.3% below the Supplementary Estimates. This was largely achieved as a result of cost recoveries in respect of the Hospital Services Development Plan for the Auckland hospital redevelopment and several other projects being deferred until 1999/2000.

## VOTE STATE-OWNED ENTERPRISES

### OUTPUT CLASS D1 - CROWN COMPANY MONITORING ADVICE TO THE MINISTER FOR STATE-OWNED ENTERPRISES AND OTHER RESPONSIBLE MINISTERS

This class of outputs involves the provision of policy and ownership monitoring advice on SOEs and Crown-Owned Companies (CROCs) including:

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

This output class contributes to the effective governance and management of the Crown's investment in SOEs.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Supervised the establishment process for several new companies including Quotable Value New Zealand, Asure New Zealand and AgriQuality.
- Established the ERTU to advise on the split of ECNZ, including the establishment of three new generation SOEs and the transfer of contracts, staff, assets and liabilities from ECNZ to the SOEs.
- Continued work to implement a Statement of Shareholder Expectations for Crown companies.
- Advised on the establishment of At Work Insurance as a provider of accident insurance cover for employers and the self-employed.



- Provided additional advice to the Minister on potential divestment of the Crown's share in a number of companies including AIAL, WIAL, GPS, Contact Energy and Solid Energy.
- Supported the development of the Public Trust Office in its commercialisation process.

## SERVICE PERFORMANCE

### Quantity/Timeliness

The quantity, nature and timeliness of monitoring advice to be provided will be as agreed between the Executive Director of the Unit and the Minister for SOEs.

A purchase agreement was agreed between the Minister for SOEs and the Executive Director of the Unit defining the principal elements in the work programme. This was supplemented by discussion with the Minister and his staff to determine issues of scope, direction and detail and to allow for variation.

Parliamentary Questions (PQs), Ministerial correspondence (MCs) and Official Information Act requests (OIAs) up to the agreed numbers will be responded to within agreed and statutory timeframes.

As at 30/06/99	PQs	MCs	OIAs
<b>Output Class D1:</b>			
Estimated	15	150	15
Actual draft replies	752	347	63
% answered by due date	94	72	81

CCMAU will report quarterly to Cabinet on the performance against expectations of SOEs and CROCs in line with the work programme agreed with the Minister for SOEs.

These reports have been completed on time and in the format required.

### Quality

The Minister's view of the relevance and quality of the support provided by CCMAU will be sought in the context of six-monthly and year-end reviews.

During 1998/99 CCMAU reported to the Minister for SOEs on a six-monthly basis on performance against the purchase agreement and also sought the Minister's feedback on the quality of advice. The Minister expressed satisfaction via informal feedback with the relevance and quality of advice provided.

The Executive Director of the Unit will oversee the quality and consistency of support to Ministers. All written advice to Ministers will be signed out by the Executive Director of CCMAU or the relevant Principal Advisor or their delegates.

All written advice to the Minister was signed out by the Executive Director of the Unit, Principal Advisor or a designated advisor.

#### Cost

<b>30 June 1999 Actual (\$000)</b>	1,431
<b>Supp. Est. - Voted (\$000)</b>	1,534
<b>Main Est. (\$000)</b>	1,502
<b>30 June 1998 Actual (\$000)</b>	1,459

(Figures are GST inclusive)

The appropriation for this output class was increased by \$32,000 in the Supplementary Estimates, reflecting the transfer of monitoring duties for Housing New Zealand to the CCMAU for the last quarter of 1998/99.

Expenditure in this output class was \$102,000 or 6.6% below the Supplementary Estimates due to several projects that did not proceed during the year as planned because of priority being given to SOE establishment work.

### OUTPUT CLASS D2 - ELECTRICITY RESTRUCTURING

This class of output involves the provision of advice on the proposed restructuring of the electricity generation industry. This advice will be provided by a Transition Team made up of experts appointed by shareholding Ministers, and three Interim Development Groups whose work will be overseen by the Transitional Team.

This output class contributes to the creation of a competitive economy.

It is expected that advice will cover:

- the proposed transfer of staff, assets and liabilities, and contracts from ECNZ to the new generation SOEs
- the viability of the new generation SOEs
- the financial parameters for a restructuring to proceed.

The Interim Development Groups will be expected to consider as part of their advice:

- the legal framework, managerial and administrative systems and policies that will ensure that staff, assets and systems are defined and operational for the intended commencement date for the new SOEs if implementation proceeds
- the accountability documents, including an agreed business plan, in accordance with the provisions of the State-Owned Enterprises Act 1986.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

This project commenced at the end of the 1997/98 financial year. The agreed work programme was completed on time and within budget. Following certification of viability by ERTU and the three IDGs, the Government determined to proceed with the split of ECNZ. ECNZ's assets and associated staff transferred to the three new generation SOEs on 1 April 1999, and the new companies commenced operations on this date. This project has now been completed. The new SOEs are now operating as fully fledged electricity generators, and ERTU and the three IDGs have been disbanded.

### SERVICE PERFORMANCE

#### Quantity

The Minister for SOEs expects the Transitional Team's and three Interim Development Groups' outputs to be supplied on the basis of a work programme agreed between shareholding Ministers and the Chair of the Transitional Team (as amended from time to time).

Advice provided accorded with the purchase agreement between the Minister for SOEs and the Executive Director of CCMAU, which defined principal elements of the work programme. This was supplemented by discussion with shareholding Ministers and their staff, to determine issues of scope, direction and detail as issues arose.

### Quality

The Minister for SOEs will expect policy advice to be delivered in accordance with the policy advice quality standards detailed in the purchase agreement.

Advice was delivered in accordance with the policy advice quality standards detailed in CCMAU's purchase agreement with the Minister for SOEs. In addition, informal feedback was sought at the regular, usually weekly, briefing of the Minister and at other meetings to discuss outputs.

### Timeliness

The Minister for SOEs expects the new SOEs to be operational by 1 January 1999 and that:

- all reports and oral advice will be delivered within the agreed or statutory timeframes as outlined in the Transitional Team's and IDGs' terms of reference, and associated project plan (as amended from time to time)
- an appropriate response will be received to requests for attendance at Parliament during debates and at Cabinet and Select Committee meetings
- any drafting instructions in the form of draft legislation which may be required to implement the electricity restructuring will be provided to the Parliamentary Counsel Office within the timeframe agreed with that Office.

This project was completed on schedule. All key reports and oral advice were delivered within the agreed or statutory timeframes outlined in the terms of reference for ERTU and the three IDGs (as amended by agreement with Ministers).

### Cost

<b>30 June 1999 Actual (\$000)</b>	<b>8,512</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>8,780</b>
<b>Main Est. (\$000)</b>	<b>8,000</b>
<b>30 June 1998 Actual (\$000)</b>	<b>650</b>

(Figures are GST inclusive)

The appropriation for this output class increased by \$780,000 in the Supplementary Estimates, being a carry-forward of expenditure approved in the previous year. This was due to the majority of the restructuring costs in relation to ECNZ being incurred in 1998/99 rather than 1997/98, and funding being brought forward to 1998/99.

Expenditure in this output class was \$267,000 or 3% below the Supplementary Estimates.

### OUTPUT CLASS D3 - ESTABLISHMENT OF MQM SOES

This output class contributes to the creation of a competitive economy.

This class of outputs involves the implementation of the Government's decision to set up the operations of MQM as two SOEs. Two Establishment Boards appointed by Ministers will be responsible for managing the transition of the existing services for the inspection of meat and food by MQM to two SOEs. These outputs are expected to be completed by 1 November 1998.

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- The Establishment Boards confirmed the viability of the new companies.
- Business plans for each company established were developed.
- The established SOEs became fully operational on 1 November 1998.

### SERVICE PERFORMANCE

#### Quantity

The Minister for SOEs expected the Establishment Boards to establish viable commercial operating companies with the core business of competing for the provision of meat inspection and livestock and food services on a fully commercial basis. In doing so, the Minister expected Boards to:

- confirm the viability assessment for each SOE, including identification and review of risks and opportunities that may impact on viability
- manage the establishment of the viable SOEs to full corporate status so that they can operate from 1 November 1998
- establish a legal framework, accountability documents and draft any required legislation.

The Establishment Boards confirmed that the SOEs are viable and are operating within the required framework.

### Quality

The Minister for SOEs will expect advice to be delivered in accordance with the policy advice quality standards detailed in the purchase agreement.

Policy advice to the Minister was delivered in accordance with the policy advice quality standards detailed in the purchase agreement. In addition, informal feedback was sought at the regular, usually weekly, briefing of the Minister and at other meetings to discuss specific outputs.

### Timeliness

The Minister for SOEs expects the boards to comply with the agreed terms of reference and associated project plan timeframes so that:

- all reports and oral advice will be delivered within the agreed or statutory timeframes
- an appropriate response will be received to requests for attendance at Parliament during debates and at Cabinet and Select Committee meetings
- the viable SOEs should become operational by 1 November 1998.

This project was completed on schedule. All key reports and oral advice were delivered within the agreed or statutory timeframes outlined in the terms of reference with boards.

### Cost

<b>30 June 1999 Actual (\$000)</b>		<b>3,322</b>
<b>Supp. Est. - Voted (\$000)</b>		<b>3,636</b>
<b>Main Est. (\$000)</b>		<b>2,300</b>
<b>30 June 1998 Actual (\$000)</b>	<b>351</b>	

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1.336 million in the Supplementary Estimates, being a carry-forward of expenditure approved in the previous year. This was due to the majority of the establishment costs in relation to the two new SOEs being incurred in 1998/99 rather than 1997/98 and funding being brought forward to 1998/99.

Expenditure in this output class was \$314,000 or 8.6% below the Supplementary Estimates due to time saved in the establishment process arising from CCMAU's close involvement.

## VOTE CROWN RESEARCH INSTITUTES

### OUTPUT CLASS D1 - CROWN COMPANY MONITORING ADVICE TO THE MINISTER FOR CROWN RESEARCH INSTITUTES

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

This output class contributes to the effective governance and management of the Crown's investment in CRIs.

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

### SIGNIFICANT WORK COMPLETED DURING THE YEAR

- Managed the CRI strategic planning round on behalf of shareholding Ministers. Strategic plans were evaluated and reports were prepared on the content and implications of each plan, and on the content and acceptability of each Statement of Corporate Intent (SCI). The Minister met with each CRI board to discuss its plan. SCIs were finalised and provided to the Minister's office for tabling in Parliament.
- Provided monitoring advice was provided to shareholding Ministers on a quarterly basis, detailing both the financial and non-financial performance of each CRI, and science highlights during the quarter. Where necessary, separate, more detailed reports were provided to Ministers on those CRIs whose performance was well below budget.
- Undertook a review on how to create incentives and maximise the maintenance of human resource capabilities in CRIs.
- Undertook a review of current performance and the potential to improve future performance with respect to the effective transfer of technology.

- A number of significant residual liabilities arising from the formation of CRIs were settled during the year.
- Managed the appointment of CRI directors on behalf of shareholding Ministers. This included identifying and interviewing candidate directors and providing advice to Ministers on potential directors to fill vacancies. For the first time a director resident overseas was appointed.



## SERVICE PERFORMANCE

### Quantity/Timeliness

The quantity, nature and timeliness of monitoring advice to be provided will be as specifically agreed between the Executive Director of the Unit and the Minister for CRIs.

A purchase agreement was agreed between the Minister for CRIs and the Executive Director of CCMAU defining the principal elements in the work programme. This was supplemented by discussion with the Minister and his staff to determine issues of scope, direction and detail, and to allow for variation.

Parliamentary Questions (PQs), Ministerial correspondence (MCs) and Official Information Act requests (OIAs) will be responded to within agreed and statutory timeframes.

As at 30/06/99	PQs	MCs	OIAs
<b>Output Class D1:</b>			
Estimated	50-70	100-200	5-15
Actual draft replies	24	44	-
% answered by due date	100	95	-

### Quality

The Minister's views of the relevance and quality of the policy advice provided by the Unit will be sought in the context of quarterly and year-end reviews.

During 1998/99 CCMAU reported to the Minister for CRIs on a quarterly basis on performance against the purchase agreement and also sought the Minister’s feedback on the quality of advice. The Minister expressed satisfaction in quarterly feedback with the relevance and quality of advice provided. In addition, informal feedback was sought at the regular, usually weekly, briefing of the Minister and at other meetings to discuss specific outputs.

The Executive Director of the CCMAU will oversee the quality and consistency of support to the Minister. All written advice to the Minister will be signed out by the Executive Director of CCMAU or the relevant Principal Advisor or their delegates.

All written advice to the Minister was signed out by the Executive Director, Principal Advisor or a designated advisor.

**Cost**

<b>30 June 1999 Actual (\$000)</b>	<b>687</b>
<b>Supp. Est. - Voted (\$000)</b>	<b>889</b>
<b>Main Est. (\$000)</b>	<b>897</b>
<b>30 June 1998 Actual (\$000)</b>	<b>681</b>

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$8,000 in the Supplementary Estimates due to minor forecast changes.

Expenditure in this output class was \$202,000 or 22.7% below the Supplementary Estimates due to efficiencies in output delivery and a greater reliance on internal resources rather than using external consultants as planned.

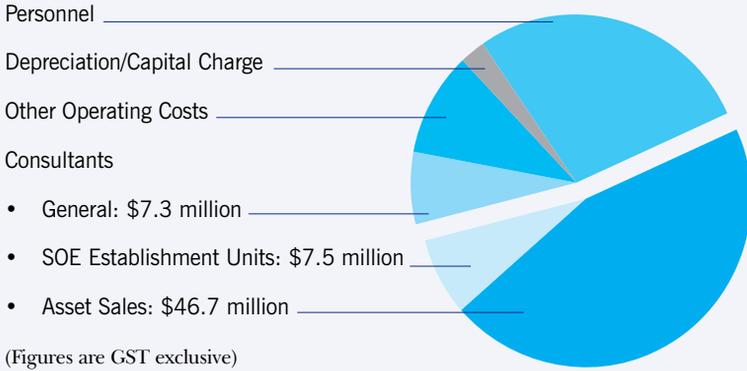
# Financial Statements for 1999 - Departmental

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# Expenditure at a Glance

for the year ended 30 June 1999



This chart illustrates the make-up of expenditure by significant categories for both the Treasury and CCMAU.

Consultants' expenditure was significantly higher in 1998/99 than in 1997/98 and the Main Estimates forecast due to increased asset divestments, electricity restructuring and SOE establishment unit outputs.

# Statement of Financial Performance

for the year ended 30 June 1999

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Department including CCMAU.

30 June 1998			30 June 1999		
Actual (\$000)		Notes	Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
<b>Revenue</b>					
62,986	Crown	(1)	106,995	67,929	112,241
243	Other	(2)	200	303	190
72	Interest	(4)	61	50	21
<b>63,301</b>	<b>Total Revenue</b>		<b>107,256</b>	<b>68,282</b>	<b>112,452</b>
<b>Expenditure</b>					
26,014	Personnel costs		28,405	27,706	27,736
14,239	Operating costs	(5)	14,574	14,289	14,768
19,595	Consultancy		61,519	23,359	67,033
2,736	Depreciation		2,052	2,233	2,249
645	Capital charge	(6)	645	645	645
	<b>Net Output Expenses</b>		<b>107,195</b>	<b>68,232</b>	<b>112,431</b>
-	Other expenses	(7)	343	-	346
<b>63,229</b>	<b>Total Expenses</b>		<b>107,538</b>	<b>68,232</b>	<b>112,777</b>
<b>72</b>	<b>Net Surplus</b>		<b>(282)</b>	<b>50</b>	<b>(325)</b>

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Movements in Taxpayers' Funds

for the year ended 30 June 1999

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

30 June 1998		30 June 1999		
Actual (\$000)		Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
	Taxpayers' funds brought			
5,865	forward as at 1 July	5,865	5,865	5,865
72	Net operating surplus	61	50	21
	<b>Total Recognised Revenues and</b>			
<b>72</b>	<b>Expenses for the Year</b>	<b>61</b>	<b>50</b>	<b>21</b>
	Change in provision for			
-	employee entitlement	(343)	-	(346)
	Provision for repayment of			
(72)	surplus to the Crown	(61)	(50)	(21)
5,865	Taxpayers' funds as at 30 June	5,522	5,865	5,519

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Financial Position

as at 30 June 1999

The Statement of Financial Position reports the total assets and liabilities of the Department including CCMAU. The difference between the assets and liabilities is called 'Taxpayers' Funds'.

30 June 1998			30 June 1999		
Actual		Notes	Actual	Main	Supp.
(\$000)			(\$000)	Estimates	Estimates
				(\$000)	(\$000)
	Taxpayers' funds				
<b>5,865</b>	<b>Total Taxpayers' Funds</b>		<b>5,522</b>	<b>5,865</b>	<b>5,519</b>
	<b>Represented by:</b>				
	<b>Current Assets</b>				
3,240	Cash		2,918	3,481	3,630
-	Short-term deposits	(8)	3,000	1,190	1,000
565	Advances and prepayments		235	423	544
204	Accounts receivable		128	62	102
12,580	Debtors - Crown		7,194	7,967	7,000
<b>16,589</b>	<b>Total Current Assets</b>		<b>13,475</b>	<b>13,123</b>	<b>12,276</b>
	<b>Non-Current Assets</b>				
3,764	Fixed assets	(9)	3,616	4,164	3,975
<b>3,764</b>	<b>Total Non-Current Assets</b>		<b>3,616</b>	<b>4,164</b>	<b>3,975</b>
<b>20,353</b>	<b>Total Assets</b>		<b>17,091</b>	<b>17,287</b>	<b>16,251</b>
	<b>Current Liabilities</b>				
3,485	Payables and provisions		1,861	2,993	2,464
	Provisions for accrued				
6,220	expenses		4,278	4,324	3,000
4,711	Employee entitlements	(10)	5,040	4,055	4,878
	Provision for repayment of				
72	surplus to the Crown		61	50	21
<b>14,488</b>	<b>Total Current Liabilities</b>		<b>11,240</b>	<b>11,422</b>	<b>10,363</b>
	<b>Term Liabilities</b>				
	Provision for retiring and				
-	long service leave	(10)	329	-	369
-	<b>Total Term Liabilities</b>		<b>329</b>	<b>-</b>	<b>369</b>
-	<b>Total Liabilities</b>		<b>11,569</b>	<b>11,422</b>	<b>10,732</b>
<b>5,865</b>	<b>Net Assets</b>		<b>5,522</b>	<b>5,865</b>	<b>5,519</b>

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Cash Flows

for the year ended 30 June 1999

The Statement of Cash Flows summarises the cash movements in and out of the Department during the year. It does not include money owed to the Department or owing by the Department, and therefore differs from the Statement of Financial Performance on page 85.

30 June 1998		30 June 1999		
Actual (\$000)		Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
<b>Cash Flows from Operating Activities</b>				
Cash was provided from:				
57,855	Supply of outputs to the Crown	112,381	67,262	117,821
203	Supply of outputs to third parties	244	423	232
84	Interest	53	50	18
(362)	Net GST	258	18	375
<b>57,780</b>	<b>Total</b>	<b>112,936</b>	<b>67,753</b>	<b>118,446</b>
Cash was disbursed to:				
Produce outputs				
25,410	Personnel	27,747	27,706	27,200
29,999	Operating	79,770	37,119	86,427
645	Payment of capital charge	645	645	645
<b>56,054</b>	<b>Total</b>	<b>108,162</b>	<b>65,470</b>	<b>114,272</b>
<b>Net Cash Flow from Operating Activities</b>				
<b>1,726</b>	<b>Activities</b>	<b>4,774</b>	<b>2,283</b>	<b>4,174</b>
<b>Cash Flows from Investing Activities</b>				
Cash was provided from:				
82	Sale of fixed assets	80	-	65
Cash was disbursed for:				
1,587	Purchase of fixed assets	2,104	2,368	2,777
<b>Net Cash Flows from Investing Activities</b>				
<b>(1,505)</b>	<b>Activities</b>	<b>(2,024)</b>	<b>(2,368)</b>	<b>(2,712)</b>
<b>Cash Flows from Financing Activities</b>				
Cash was disbursed for:				
178	Payment of surplus to the Crown	72	50	72
<b>(178)</b>	<b>Net Cash Flows from Financing Activities</b>	<b>(72)</b>	<b>(50)</b>	<b>(72)</b>
43	Net increase/(decrease) in cash held	2,678	(135)	1,390
3,197	Plus opening cash brought forward	3,240	4,806	3,240
<b>3,240</b>	<b>Closing Cash Carried Forward</b>	<b>5,918</b>	<b>4,671</b>	<b>4,630</b>

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Reconciliation of Net Cash Flows

for the year ended 30 June 1999

The Reconciliation of Net Cash Flows discloses the non-cash adjustments applied to the surplus reported in the Statement of Financial Performance on page 85 to arrive at the Net Cash Flow disclosed in the Statement of Cash Flows on page 88.

30 June 1998		30 June 1999		
Actual (\$000)		Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
	<b>Surplus/(Deficit) from Statement of</b>			
<b>72</b>	<b>Financial Performance</b>	<b>(282)</b>	<b>50</b>	<b>(325)</b>
	<i>Add/Less Non-Cash Items:</i>			
2,736	Depreciation	2,052	2,233	2,249
	Increase in non-current			
-	employee entitlement	329	-	369
	<i>Movements in Working</i>			
	<i>Capital Items</i>			
	Decrease/(increase) in advances			
(108)	and prepayments	330	-	21
	Decrease/(increase) in			
(115)	accounts receivable	61	100	87
	Decrease/(increase) in payables			
1,041	and provisions	(1,478)	(22,128)	(764)
	Decrease/(increase) in			
(5,131)	debtor crown	5,386	22,028	5,580
	Increase/(decrease) in other			
3,217	short-term liabilities	(1,627)	-	(3,053)
	<i>Items Classified as Investing</i>			
	<i>Activity</i>			
	Net loss on sale of			
14	fixed assets	3	-	10
	<b>Net Cash Flows from</b>			
<b>1,726</b>	<b>Operating Activities</b>	<b>4,774</b>	<b>2,283</b>	<b>4,174</b>

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Commitments

as at 30 June 1999

The Treasury has a long-term lease on its principal premises at No 1 The Terrace in Wellington. The Treasury also has a lease over a Boulcott Street premise which is currently subleased.

Operating commitments consist of computer maintenance contracts, building services contracts and contracts for services totalling \$399,000.

The timing of operating and lease commitments is as follows:

1997/98 (\$000)		1998/99 (\$000)
5,216	Less than one year	4,836
4,556	One to two years	4,368
13,033	Two to five years	13,063
9,065	More than five years	4,658
<b>31,870</b>	<b>Total</b>	<b>26,925</b>

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Contingent Liabilities

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as at 30 June 1999

As at 30 June 1999, the Department had no departmental contingent liabilities (30 June 1998: nil).

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Expenditure and Appropriations

for the year ended 30 June 1999

		30 June 1999	
		Actual	Supp.
		Expenditure	Estimates
		(\$000)	- Voted
			(\$000)
<b>The Treasury</b>			
<b>Vote Treasurer</b>			
D1	Policy Advice: General Economic and Fiscal Strategies	3,808	3,812
D2	Policy Advice: Economic and Fiscal Forecasting	3,510	3,731
D3	Sectoral Policy Advice	12,131	12,585
D4	Budget Management	1,439	1,519
D5	Debt and Financial Asset Management <sup>3</sup>	6,129	6,168
<b>Total Vote Treasurer</b>		<b>27,017</b>	<b>27,815</b>
<b>Vote Finance</b>			
D1	Policy Advice: Revenue, Expenditure and Balance Sheet Management	10,576	10,588
D2	Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions and Management of Crown Overseas Properties	4,290	4,950
D3	Management of Commercial Liabilities and Specific Claims Against the Crown	1,950	2,541
D4	Policy Advice: Crown Financial Management	2,306	2,608
D5	Crown Financial Reporting	2,262	2,430
D6	Implementation of Asset Divestments	54,302	56,419
<b>Total Vote Finance</b>		<b>75,686</b>	<b>79,536</b>

(Figures are GST inclusive where applicable)

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

<sup>3</sup> Expenses to be incurred pursuant to section 61(1) of the Public Finance Act 1989.

# Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 1999

		30 June 1999	
		Actual Expenditure (\$000)	Supp. Estimates - Voted (\$000)
<b>CCMAU</b>			
<b>Vote Health Service Providers</b>			
D1	Crown Company Monitoring Advice to the Minister of Health	3,939	4,295
<b>Vote State-Owned Enterprises</b>			
D1	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	1,431	1,534
D2	Electricity Restructuring	8,512	8,780
D3	Establishment of MQM SOEs	3,322	3,636
<b>Total Vote State-Owned Enterprises</b>		<b>13,265</b>	<b>13,950</b>
<b>Vote Crown Research Institutes</b>			
D1	Crown Company Monitoring Advice to the Minister for Crown Research Institutes	687	889

(Figures are GST inclusive where applicable)

The accompanying notes on pages 94 and 98 and accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 30 June 1999

## 1 REVENUE - CROWN

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

## 2 OTHER REVENUE

Actual 1997/98 (\$000)		Actual 1998/99 (\$000)	Main Estimates 1998/99 (\$000)	Supp. Estimates 1998/99 (\$000)
85	Rental income	25	130	25
158	Miscellaneous	175	173	165
<b>243</b>	<b>Total Other Revenue</b>	<b>200</b>	<b>303</b>	<b>190</b>

## 3 GAIN/(LOSS) ON SALE OF FIXED ASSETS

Actual 1997/98 (\$000)		Actual 1998/99 (\$000)	Main Estimates 1998/99 (\$000)	Supp. Estimates 1998/99 (\$000)
(5)	Office equipment	-	-	-
5	Computer equipment	5	-	2
(14)	Motor vehicles	(12)	-	(12)
-	Furniture and fittings	4	-	-
	<b>Net Gain/(Loss) on Sale of Assets</b>			
<b>(14)</b>	<b>(Note 5)</b>	<b>(3)</b>	<b>-</b>	<b>(10)</b>

## 4 INTEREST

The Treasury earns interest at variable rates on cash held with the NZDMO.

## 5 OPERATING COSTS

These include:

Actual 1997/98 (\$000)		Actual 1998/99 (\$000)	Main Estimates 1998/99 (\$000)	Supp. Estimates 1998/99 (\$000)
4,444	Lease of premises	4,549	4,483	4,382
	Audit fees to auditors for audit			
209	of financial statements	204	224	204
	Fees to auditors for audit			
98	of Crown Financial Statements	108	116	107
-	Other write-offs	(100)	-	-
25	Fees to auditors for other services	19	-	20
14	Loss on sale of fixed assets (Note 3)	3	-	10
9,449	Other operating costs	9,791	9,466	10,045
<b>14,239</b>	<b>Total Operating Costs</b>	<b>14,574</b>	<b>14,289</b>	<b>14,768</b>

## 6 CAPITAL CHARGE

The Treasury pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December. The capital charge rate for 1998/99 was 11% (1997/98: 11%).

## 7 OTHER EXPENSES

Actual 1997/98 (\$000)		Actual 1998/99 (\$000)	Main Estimates 1998/99 (\$000)	Supp. Estimates 1998/99 (\$000)
	Provisions for retiring and			
-	long service leave	343	-	346

To comply with a recent change in GAAP, the provision for long service, and retirement leave has been calculated on an actuarial basis based on the present value of expected future entitlements. This provision was previously calculated based on actual entitlements at current rates of pay. This change has resulted in a one-off adjustment for this financial year.

## 8 SHORT-TERM DEPOSITS

As at balance date the following term deposit had been placed with the NZDMO.

Actual 1997/98 (\$000)	Counterparty	Interest Rate	Term	Actual 1998/99 (\$000)
-	NZDMO	4.25%	30 days	3,000

## 9 FIXED ASSETS

The following categories of assets are in use by the Treasury:

As at 30 June 1999			Net Book Value (\$000)
	Cost (\$000)	Accumulated Depreciation (\$000)	
Furniture and fittings	483	411	72
Office machinery and electrical equipment	1,988	1,305	683
Computer equipment	8,099	6,001	2,098
Motor vehicles	24	5	19
Leasehold improvements	5,200	4,456	744
<b>Total Fixed Assets</b>	<b>15,794</b>	<b>12,178</b>	<b>3,616</b>

As at 30 June 1998			Net Book Value (\$000)
	Cost (\$000)	Accumulated Depreciation (\$000)	
Furniture and fittings	453	390	63
Office machinery and electrical equipment	1,622	1,121	501
Computer equipment	7,822	5,688	2,134
Motor vehicles	101	13	88
Leasehold improvements	5,139	4,161	978
<b>Total Fixed Assets</b>	<b>15,137</b>	<b>11,373</b>	<b>3,764</b>

## 10 EMPLOYEE ENTITLEMENTS

Actual 1997/98 (\$000)		Actual 1998/99 (\$000)	Main Estimates 1998/99 (\$000)	Supp. Estimates 1998/99 (\$000)
<b>Current Liabilities</b>				
	Retirement, resigning, long service			
650	and parental leave	830	502	637
1,742	Annual leave	1,688	1,543	1,742
471	Accrued salaries	454	420	420
1,834	Provision for at risk pay	2,068	1,576	2,065
14	Accrued superannuation	-	14	14
<b>4,711</b>	<b>Total Current Liabilities</b>	<b>5,040</b>	<b>4,055</b>	<b>4,878</b>
<b>Term Liabilities</b>				
-	Retirement and long service leave	329	-	369
-	<b>Total Term Liabilities</b>	<b>329</b>	<b>-</b>	<b>369</b>
<b>4,711</b>	<b>Total Employee Entitlements</b>	<b>5,369</b>	<b>4,055</b>	<b>5,247</b>

## 11 FINANCIAL INSTRUMENTS

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

### Credit Risk

In the normal course of its business the Department incurs credit risk from trade debtors.

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

### Fair Value

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

### Currency and Interest Rate Risk

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

## 12 RELATED PARTY INFORMATION

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

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

Apart from those transactions described above, the Department has not entered into any related party transactions.

# Financial Statements for 1999 - Non-Departmental

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# Statement of Expenditure and Appropriations

for the year ended 30 June 1999

	Actual (\$000)	Voted (\$000)
<b>Vote Treasurer</b>		
<i>Borrowing Expenses</i>		
Debt servicing <sup>4</sup>	2,660,681	2,686,000
<i>Other Expenses</i>		
Overseas Investment Commission Honoraria	12	18
<i>Capital Contributions to Other Organisations</i>		
International financial institutions <sup>5</sup>	383,698	450,000
Loan to South Korea	-	200,000
Loan to Wellington Stadium Trust	3,803	3,825
<b>Total Capital Contributions</b>	<b>387,501</b>	<b>653,825</b>
<i>Purchase of Assets</i>		
Crown coin collection	2	5
<i>Repayment of Debt</i>		
ECNZ debt <sup>6</sup>	11,015	11,015
Net foreign debt repayment <sup>6</sup>	512,280	1,090,000
Net domestic debt repayment <sup>6</sup>	179,713	-
<b>Total Repayment of Debt</b>	<b>703,008</b>	<b>1,101,015</b>
<b>Total Non-Departmental Appropriations: Vote Treasurer</b>	<b>3,751,204</b>	<b>4,440,863</b>

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

4 Expenses incurred pursuant to section 60 and 61(1) of the Public Finance Act 1989.

5 Expenses incurred pursuant to section 5 of the International Finance Agreements Act 1961.

6 Expenses incurred pursuant to section 60 of the Public Finance Act 1989.

## COMMENTARY ON VARIANCES OVER 5%

### VOTE TREASURER

#### Other Expenses

##### Overseas Investment Commission (OIC) Honoraria

Fewer claims than expected were received from the OIC.

#### Capital Contributions to Other Organisations

##### Loan to South Korea

The Republic of Korea did not take up the loan facility.

#### Purchase of Assets

##### Crown coin collection

Fewer new coins were issued by the Reserve Bank than forecast.

#### Repayment of Debt

##### Net foreign debt repayment

The lower than forecast foreign debt repayment stems from new USD borrowing (NZ\$558 million) to fund Reserve Bank deposits, offset by an unforecast return to normal levels of commercial paper liabilities (\$200 million) and other repayments.

In addition, responsibility for the International Monetary Fund (IMF) Special Drawing Rights (SDR) liability, created when New Zealand was allocated SDR reserve assets by the IMF, was transferred from the Reserve Bank to the NZDMO during the year, which had the effect of reducing the NZDMO's net foreign debt repayments and allowing for increased net domestic debt repayments compared to forecast.

##### Net domestic debt repayment

Final out-turn of domestic debt repayment varies significantly from the forecast domestic borrowing due to an improved fiscal situation since the *December Economic and Fiscal Update* and sale proceeds relating to Contact Energy. Some of this additional inflow has been utilised to repay Reserve Bank bills (\$1,120 million) and reduce Treasury Bill liabilities (\$1,690 million) beyond the forecast reductions.

# Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 1999

	Actual (\$000)	Voted (\$000)
<b>Vote Finance</b>		
<i>Non-Departmental Output Classes</i>		
Heaphy House management costs	56	56
Management of Crown overseas properties	849	1,490
<b>Total Non-Departmental Output Classes</b>	<b>905</b>	<b>1,546</b>
<i>Other Expenses</i>		
Compensation payments	-	758
Crown Forestry Management Limited	10,031	10,500
Crown residual liabilities	231	700
Geothermal Trading	3,087	3,000
Heaphy House rental payments	2,247	2,300
Housing Corporation suspensory loan write-offs	2,874	6,750
Maui Gas contracts	396,915	450,000
Unclaimed money <sup>7</sup>	30	513
<b>Total Other Crown Expenses</b>	<b>415,415</b>	<b>474,521</b>
<i>Capital Contributions to Other Organisations</i>		
At Work Insurance	31,000	40,000
CPNZ	127,289	127,289
ECNZ residual liabilities	-	70,000
Electricity SOEs	2,469,093	3,000,000
MQM SOEs	24,200	29,000
Quotable Value New Zealand	7,700	11,000
Taitokerau Forests Limited	3,599	4,600
<b>Total Capital Contributions</b>	<b>2,662,881</b>	<b>3,281,889</b>

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

<sup>7</sup> Expenses incurred pursuant to section 74(5) of the Public Finance Act 1989.

## COMMENTARY ON VARIANCES OVER 5%

### VOTE FINANCE

#### Non-Departmental Output Classes

##### Management of Crown overseas properties

Less property maintenance was required than forecast.

##### Other Expenses

##### Compensation payments

No payments were made during the year.

##### Crown Forestry Management Limited

Lower log prices, and consequently lower harvesting, led to lower operating costs.

##### Crown residual liabilities

Fewer liabilities than forecast arose during the year.

##### Housing Corporation suspensory loan write-offs

Fewer loans were taken up than forecast.

##### Maui Gas contracts

The actual out-turn is affected by the weather, gas prices and demand.

##### Unclaimed money

This item is entirely demand driven and cannot be forecast with any certainty.

#### Capital Contributions to Other Organisations

##### At Work Insurance

A lower amount of opening capital was required than forecast.

##### ECNZ residual liabilities

The appropriation was precautionary in nature, to cover possible liabilities arising from the split of ECNZ. However, the appropriation was not required.

##### Electricity SOEs

The final amount of capital required by the new SOEs was less than forecast.

##### MQM SOEs

The final amount of capital required by the MQM SOEs was less than forecast.

##### Quotable Value New Zealand

The final amount of capital required by QVNZ was less than forecast.

##### Taitokerau Forests Limited

The final amount of capital required by TFL was less than forecast.

# Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 1999

	Actual (\$000)	Voted (\$000)
<b>Vote Finance (continued)</b>		
<i>Purchase of Assets</i>		
Development of foreign properties	324	345
Whanganui forests	4,838	8,910
<b>Total Purchase of Assets</b>	<b>5,162</b>	<b>9,255</b>
<b>Total Non-Department Appropriations:</b>		
<b>Vote Finance</b>	<b>3,084,363</b>	<b>3,767,211</b>
<b>Vote Health Service Providers</b>		
<i>Other Expenses</i>		
Capital charge funding	<b>97,762</b>	<b>108,800</b>
<i>Capital Contributions to other Organisations</i>		
Capital injections to HHSs	44,519	171,270
Loans to Residual Health Management Unit (RHMU)	37,350	128,000
<b>Total Capital Contributions</b>	<b>81,869</b>	<b>299,270</b>
<b>Total Non-Departmental Appropriations:</b>		
<b>Vote Health Service Providers</b>	<b>179,631</b>	<b>408,070</b>
<b>Vote Crown Research Institutes</b>		
<i>Other Expenses</i>		
Crown residual liabilities	304	550
<b>Total Non-Departmental Appropriations:</b>		
<b>Vote Crown Research Institutes</b>	<b>304</b>	<b>550</b>
<b>Total Non-Departmental Appropriations:</b>		
<b>Managed by the Treasury</b>	<b>7,015,502</b>	<b>8,616,694</b>

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

## COMMENTARY ON VARIANCES OVER 5%

### VOTE FINANCE (CONTINUED)

#### Purchase of Assets

##### Development of foreign properties

The final cost of the capital developments was less than forecast.

##### Whanganui forests

The agreed transfer value of the forests was less than forecast.

### VOTE HEALTH SERVICE PROVIDERS

#### Other Expenses

##### Capital charge funding

Capital injections to HHSs were lower than expected, hence the capital charge was lower than forecast.

##### Capital Contributions to Other Organisations

##### Capital injections to HHS

Requirements for capital injections were less than forecast.

##### Loans to Residual Health Management Unit (RHMU)

Fewer HHSs than forecast required Crown debt funding.

### VOTE CROWN RESEARCH INSTITUTES

#### Other Expenses

##### Crown residual liabilities

Fewer liabilities arose than forecast.

# Statement of Unappropriated Expenditure

for the year ended 30 June 1999

	30 June 1999		
	Actual (\$000)	Appropriation (\$000)	Unappropriated (\$000)
<b>Vote Finance</b>			
Other Crown expenses			
<b>Geothermal Trading</b>	<b>3,087</b>	<b>3,000</b>	<b>87</b>

(Figures are GST inclusive where applicable)

Vote Finance incurred unappropriated expenditure of \$87,000 in the item "Other Crown expenses, Geothermal Trading".

## Reasons for Unappropriated Expenditure

Geothermal Trading manages the Crown's geothermal interests, and the appropriation covers the gross operating expenditure.

A forecasting error occurred when the appropriation was revised at Supplementary Estimates time. The error was not detected until the Supplementary Estimates had been finalised.

Geothermal Trading expenditure is offset by revenue of \$9.1 million (GST exclusive).

The Minister of Finance has approved \$87,000 of unappropriated expenditure in accordance with section 12 of the Public Finance Act 1989.

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Statement of Trust Monies

for the year ended 30 June 1999

	As at 1/7/98 (\$000)	Contribution (\$000)	Distribution (\$000)	Revenue (\$000)	Expenses (\$000)	As at 30/6/99 (\$000)
<b>Trustee Act 1956</b>						
<b>Trust Account</b>	<b>825</b>	<b>421</b>	<b>(60)</b>	<b>67</b>	<b>-</b>	<b>1,253</b>

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

Sources of funds are principally deceased estates where the beneficiary(s) cannot be traced. Funds are retained in the trust account for six years, and are then transferred to the Crown revenue account as unclaimed money. In 1998/99, \$18,000 was paid to claimants and \$42,000 was transferred to the Crown revenue account. Interest of \$67,000 was earned from unclaimed money on term deposit.

Details of funds held in the account are gazetted annually.

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

# Crown Revenue and Receipts

for the year ended 30 June 1999

	30 June 1999	
	Actual (\$'000)	Budgeted <sup>8</sup> (\$'000)
<b>Vote Treasurer</b>		
Current revenue		
Interest on investments	332,886	305,000
Reserve Bank surplus	151,890	151,890
<b>Total Current Revenue</b>	<b>484,776</b>	<b>456,890</b>
Capital revenue		
Domestic borrowing	-	2,541,000
<b>Total Revenue: Vote Treasurer</b>	<b>484,776</b>	<b>2,997,890</b>
<b>Vote Finance</b>		
Current revenue		
Unclaimed money	808	750
Capital charge	1,199,612	1,207,101
Contact Energy Crown margin	16,643	18,289
EQC guarantee fee	10,000	10,000
Income from Crown trading entities	23,309	22,500
Maui Gas contracts	352,813	400,000
Net surplus from SOEs/Crown Entities	544,377	397,757
Overseas property rentals	12,006	12,000
<i>Interest</i>		
Contact Energy	17,166	21,000
Housing Corporation	4,307	4,100
Other	2,296	4,752
<i>Dividends</i>		
Crown entities	191,667	206,867
SOEs	347,223	259,125
Other dividends	1,882	1,828
Other revenue	5,132	5,015
<b>Total Current Revenue</b>	<b>2,729,241</b>	<b>2,571,084</b>
Capital revenue		
Sale of AIAL	390,913	390,913
Sale of CPNZ	122,788	122,788
Sale of Contact Energy	2,333,410	2,000,000
Sale of WIAL	96,360	96,360
Sale of investments - other	2,513	2,513

(All figures are GST exclusive)

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

<sup>8</sup> The budgeted figures are those reported in the Supplementary Estimates.

## COMMENTARY ON VARIANCES OVER 5%

### VOTE TREASURER

#### Current Revenue

##### Interest on investments

The actual out-turn is affected by movements in interest rates, exchange rates, and the quantity of financial assets held.

#### Capital Revenue

##### Domestic borrowing

The actual out-turn arises from NZDMO's liquidity requirements, which cannot be forecast with any certainty.

### VOTE FINANCE

#### Current Revenue

##### Unclaimed money

This item is entirely demand driven and cannot be forecast with any certainty.

##### Maui Gas contracts

The actual out-turn is affected by the weather, gas prices and demand.

##### Net surplus from SOEs and Crown Entities

The main contributors to the variance were a gain by TVNZ on the sale of its shareholdings in Clear and Sky, and a gain on sale of the Cobb Power Station by Meridian Energy.

##### Contact Energy Crown margin

The actual out-turn is affected by the weather, gas prices and demand.

##### Interest: Contact Energy

Interest rates were lower than forecast.

##### Interest: Other

Fewer loans were issued than expected.

##### Dividends from Crown Entities

The main contributor to the variance was a lower than forecast dividend from Housing New Zealand.

##### Dividends from SOEs

The main contributor to the variance was a special dividend from TVNZ of \$70 million.

# Crown Revenue and Receipts (continued)

for the year ended 30 June 1999

	30 June 1999	
	Actual (\$000)	Budgeted <sup>9</sup> (\$000)
<b>Vote Finance</b>		
Capital revenue (cont'd)		
Capital withdrawals from		
SOEs /Crown Entities	2,567,176	2,595,000
Contact Energy Crown margin	22,600	22,600
Quotable Value NZ	350	350
MQM SOEs	15,755	15,755
Repayments from Contact Energy	11,015	11,015
Repayments from Housing Corporation	211,828	153,000
Other loan repayments	4,373	4,373
Sales of surplus assets	80	-
<b>Total Capital Revenue</b>	<b>5,779,161</b>	<b>5,414,667</b>
<b>Total Revenue: Vote Finance</b>	<b>8,508,402</b>	<b>7,985,751</b>
<b>Vote Health Service Providers</b>		
Current revenue		
Interest from RHMU	12,009	16,081
RHMU surplus repaid to the Crown	2,940	1,590
Surplus from the RHMU	4,000	2,000
Net surplus/(deficit) from HHSs	(68,519)	(92,259)
<b>Total Current Revenue</b>	<b>(49,570)</b>	<b>(72,588)</b>
Capital revenue		
Repayments from RHMU	<b>79,784</b>	<b>28,100</b>
<b>Total Revenue: Vote Health Service Providers</b>	<b>30,214</b>	<b>(44,488)</b>
<b>Vote Crown Research Institutes</b>		
Net surplus from CRIs	22,000	16,734
Dividends from CRIs	5,000	5,000
<b>Total Revenue Vote: CRIs</b>	<b>27,000</b>	<b>21,734</b>
<b>Total Crown Revenue Managed by Treasury</b>	<b>9,050,392</b>	<b>10,960,887</b>

(All figures GST exclusive)

The accompanying accounting policies on pages 112 to 116 are an integral part of these financial statements.

9 The budgeted figures are those reported in the Supplementary Estimates.

## COMMENTARY ON VARIANCES OVER 5%

### VOTE FINANCE - (CONTINUED)

#### Capital Revenue

##### Contact Energy Crown margin

The final price for the Contact Energy shares was higher than expected.

##### Repayments from Housing Corporation

Housing Corporation sold more mortgages than forecast.

##### Other loan repayments

Fewer loans were issued than expected.

##### Sales of surplus assets

This item is not forecast.

### VOTE HEALTH SERVICES PROVIDERS

#### Current Revenue

##### Interest from RHMU

Higher loan repayments led to lower interest receipts.

##### RHMU surplus repaid to the Crown

This item is not forecast.

##### Surplus from RHMU

RHMU's operating surplus was higher than forecast.

##### Net surplus/(Deficit) of HHSs

HHS's operating surpluses were much better than forecast.

#### Capital Revenue

##### Repayments from RHMU

HHS repaid more RHMU debt than forecast, hence RHMU repaid its Crown debt earlier than forecast.

### VOTE CROWN RESEARCH INSTITUTES

#### Current Revenue

##### Net surplus from CRIs

CRI surpluses were higher than forecast.

# Statement of Accounting Policies

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## 1 REPORTING ENTITY

These are the financial statements of the Treasury, a government department as defined by section 2 of the Public Finance Act 1989. The statements have been prepared pursuant to section 35 of that Act.

The activities of CCMAU have been incorporated into the financial statements. In addition, the Treasury has reported the Crown activities and trust monies which it administers.

## 2 MEASUREMENT SYSTEM

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

## 3 ACCOUNTING POLICIES

### REVENUE

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

### COST ALLOCATION

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

#### Definition of Terms

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

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

“Indirect costs” are costs that cannot be identified with an output in an economically feasible manner. They are incurred for the common benefit of more than one output.

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

### **Basis for Assigning Corporate Overhead Costs to Branches**

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

### **Direct costs**

Where possible costs are assigned directly to outputs.

### **Direct labour costs**

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

### **Basis for allocating indirect costs to outputs**

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

## **ACCOUNTS RECEIVABLE**

Accounts receivable are recorded at the amounts expected to be ultimately collected.

## **LEASES**

The Department leases office premises. As all the risk and ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

## **FIXED ASSETS**

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

## DEPRECIATION

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

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

## PROVISION FOR EMPLOYEE ENTITLEMENTS

Provision is made in respect of the Department's liability for annual leave, long service leave, retirement leave and resigning leave. Annual leave and resigning leave have been calculated on an actual entitlement basis at current rates of pay while the other provisions have been calculated on an actuarial basis based on the present value of expected future entitlements.

## STATEMENT OF CASH FLOWS

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

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

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

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

## FOREIGN CURRENCY

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

## FINANCIAL INSTRUMENTS

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

## GOODS AND SERVICES TAX

The Statement of Unappropriated Expenditure and the Statements of Departmental and Non-Departmental Expenditure and Appropriations are inclusive of GST. The Statement of Financial Position is exclusive of GST except for Accounts Payable, Debtors Crown and Accounts Receivable, which are GST inclusive. All other statements are GST exclusive.

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

## INCOME TAX

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1976. Accordingly, no charge for income tax has been provided for.

## TAXPAYERS' FUNDS

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

## COMMITMENTS

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

## ACCIDENT COMPENSATION LEVIES

The Accident Insurance Act 1998 provides that all employers will have to pay a levy to meet the cost of unfunded claims as they exist at 30 June 1999. The levy will be payable for up to 15 years.

The Treasury will recognise the levy obligation on an accrual basis.

## CONTINGENT LIABILITIES

Contingent liabilities are recognised in the Statement of Contingent Liabilities at the point at which the contingency is evident. Contingent assets are not disclosed.

# 4 CHANGES IN ACCOUNTING POLICIES

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

## Statement of Responsibility

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

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

In the opinion of the Secretary to the Treasury, these financial statements fairly reflect the financial position and operations of the Department for the year ended 30 June 1999.



Dr A E Bollard  
Secretary to the Treasury

30 September 1999



John Matheson  
Chief Financial Officer

30 September 1999

# Report of the Audit Office

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## **TO THE READERS OF THE FINANCIAL STATEMENTS OF THE TREASURY FOR THE YEAR ENDED 30 JUNE 1999**

We have audited the financial statements on pages 29 to 62 and 69 to 116. The financial statements provide information about the past financial and service performance of the Treasury and its financial position as at 30 June 1999. This information is stated in accordance with the accounting policies set out on pages 112 to 116.

### **RESPONSIBILITIES OF THE SECRETARY**

The Public Finance Act 1989 requires the Secretary to prepare financial statements in accordance with generally accepted accounting practice, which fairly reflect the financial position of the Treasury as at 30 June 1999, the results of its operations and cash flows and service performance achievements for the year ended 30 June 1999.

### **AUDITOR'S RESPONSIBILITIES**

Section 38(1) of the Public Finance Act 1989 requires the Audit Office to audit the financial statements presented by the Secretary. It is the responsibility of the Audit Office to express an independent opinion on the financial statements and report its opinion to you.

The Controller and Auditor-General has appointed Paul D Helm, of Audit New Zealand, to undertake the audit.

### **BASIS OF OPINION**

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

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

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

Audit New Zealand seconded a staff member to the Treasury. Other than the foregoing, and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Treasury.

## UNQUALIFIED OPINION

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

In our opinion the financial statements of the Treasury on pages 29 to 62 and 69 to 116:

- comply with generally accepted accounting practice and
- fairly reflect:
  - the financial position as at 30 June 1999
  - the results of its operations and cash flows for the year ended on that date and
  - the service performance achievements in relation to the performance targets and other measures set out in the forecast financial statements for the year ended on that date.

Our audit was completed on 30 September 1999 and our unqualified opinion is expressed as at that date.

Paul D Helm  
Audit New Zealand  
On behalf of the Controller and Auditor-General  
Wellington, New Zealand

# Legislation

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## **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 1992  
Finance Acts (Various)  
Fiscal Responsibility Act 1994  
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  
New Zealand Railways Corporation Restructuring Act 1990  
Post Office Bank Act 1987  
Public Finance Act 1977  
Public Finance Act 1989  
Radio New Zealand Act 1995  
Radio New Zealand Act (No 2) 1995  
State-Owned Enterprises Act 1986  
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

Electricity Industry Reform Act Commencement Orders (Various)

International Finance Agreements Amendment Act Commencement Order  
1978

National Savings Investment Account Regulations (Various)

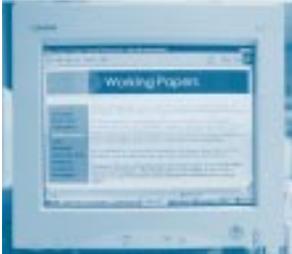
Public Finance Act Orders (Various)

Radio New Zealand Orders (Various)

State-Owned Enterprises Orders (Various)

# Working Papers

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

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