

Annual Report

for the year ended 30 June 2000



THE TREASURY
Kaitohutohu Kaupapa Rawa

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Secretary to the Treasury's Overview

Introduction

The Treasury's role is to provide economic and financial advice to help the Government achieve higher living standards for New Zealanders. As the Government's lead agency on economic policy, we provide strategic advice on the future shape and direction of New Zealand's economy. We are also responsible for the ongoing monitoring and management of the Crown's financial affairs, advising on how the Government can get the best quality and value out of public spending.



Up until the election, the Treasury was actively involved in implementation of various policies for the previous Government, including the investment in Wellington Regional Hospital, the Bright Futures package, proposals to reduce income tax rates and business tax simplification.

The new Government started with a busy policy agenda and the Treasury was immediately involved in helping to give effect to policy changes outlined for the first 100 days, such as the new top marginal tax rate, and changes to the student loan scheme and workplace accident insurance.

More widely, the public sector refocused its efforts and resources on the new Government's priorities and goals. In a number of areas, major work was undertaken that has had significant implications for the Treasury. Several major reviews, including the review of monetary policy, are underway. The Ministry of Economic Development was established to lead the implementation of the Government's regional and industry development policy. The State Services Commission has initiated work to address concerns about public sector capability and values. Te Puni Kōkiri has been given an enhanced monitoring role to audit the effectiveness of spending to closing the gaps. Changes in the health sector saw the Crown Company Monitoring Advisory Unit's (CCMAU) health monitoring functions transferred to the Ministry of Health on 1 August 2000. In response to these changes, we have made sure we work closely with other agencies to develop coordinated policy that helps the Government achieve its objectives.



Within the Treasury, we have done a great deal of work to ensure that we have been well placed to respond to the Government of the day's priorities and goals. Specifically, we've focused on building up our analytical and intellectual capability.

Our election preparedness work helped us to anticipate the needs of an incoming Government and to come up to speed quickly in developing and implementing a work plan to respond to these needs. It also gave us a useful opportunity to consolidate our thinking about some of the key issues facing New Zealand over the next few years. It allowed us to set these issues in a broader policy framework and environmental context, and to identify information "gaps" across the organisation.

Our research programme - including the regular Treasury Working Paper series - was structured around our identification of where we needed to further develop our capability. For instance, we commissioned Des O’Dea to consolidate knowledge on changes in income distribution in New Zealand.

We also continued to implement our *Strategic Plan* this year - putting a strong emphasis on initiatives that help us increase our organisational flexibility and capability, so we can better meet the needs of our stakeholders. The Management section on pages 18 to 28 outlines our achievements for the year.

I am proud of how we have responded to change during 1999/2000, while continuing to deliver high quality outputs for the Government. Ministers from both Governments assessed our performance during the year. In 10 out of 11 output classes we more than met their expectations. I would like to thank my managers and staff for their professionalism, commitment to excellence and support during the year. There are new challenges ahead but I am confident we are well placed to meet them.

Outlined below are some of the highlights from the year.

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The Macroeconomic Situation and Policy

The New Zealand economy grew steadily over the year, with a particularly rapid period of growth in the second half of 1999. This growth was supported by economic growth in many of our key trading partners, favourable growing conditions after two years’ drought, and stimulatory monetary conditions for much of the year.

A marked increase in the price of oil and a reduction in the amount of spare capacity in the domestic economy increased inflation pressures, although inflation remained well within the 0-3% inflation target band.

There had been considerable speculation about the macroeconomic effects of Y2K. The Treasury’s analysis suggested that the economic impact was unlikely to be large. In the event, few significant Y2K problems were experienced in New Zealand or overseas.

The incoming Government reaffirmed the price stability focus of monetary policy but decided to review the operation of monetary policy. The Treasury provided advice on the scope of the review, the review process and the appointment of an independent reviewer. We will be providing support for the review, which is due to report back in February 2001.

The Treasury was also involved in helping the new Government establish its long-term fiscal objectives and short-term fiscal limits.

The Treasury was also involved in helping the new Government establish its long-term fiscal objectives and short-term fiscal limits. The Government's fiscal framework was outlined in the *Budget Policy Statement 2000* and *Fiscal Strategy Report*.

An ongoing feature of the New Zealand economy is a large current account deficit. Persistent high current account deficits leave New Zealand vulnerable to shocks and a

possible loss of investor confidence that could lead to economically disruptive falls in the exchange rate and rises in interest rates. The Treasury continues to monitor trends in the level and composition of the current account deficit. In 2000/01, we will continue to assess the risks arising from the current account position and to advise the Minister on policy implications and options.

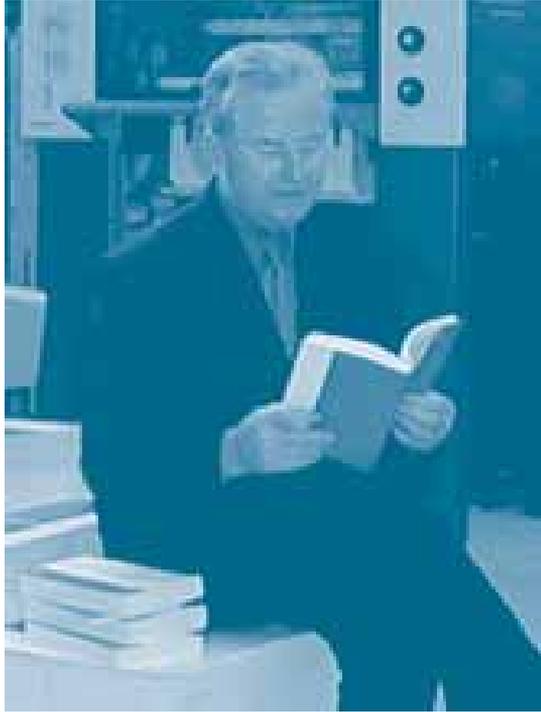
Closely related to the current account are issues relating to the levels of savings and investment in New Zealand. The Treasury report *Savings in New Zealand* analysed trends in savings to help inform policy development. A major econometric study was also completed on the determinants of household and national saving rates.

Budget Management

The *Pre-election Economic and Fiscal Update* was published in October 1999. This provided the basis for discussions with the new Government on its fiscal plans.

The timing of the election meant that Ministers prepared the 2000 Budget within a compressed timeframe. The new Government reaffirmed a number of the features of the Budget management system such as three-year baselines and the establishment of a three-year limit for the costs of Budget initiatives. This year's Budget process saw changes which reduced the duplication in budget documentation, improving the accessibility of those documents for users and reducing the costs of the Budget process.

The short timeframe available for the 2000 Budget limited the scope for Ministers to assess the effectiveness of existing spending to meet their objectives. A fuller examination of existing spending is planned for 2000/01. During the Budget process, the Treasury provided advice to the Minister of Finance on a value-for-money review of expenditure for selected Votes. Assisting the Minister with this review will be an important priority in 2000/01.



Microeconomic Policy

Achieving the Government's fiscal objectives clearly requires it to raise sufficient revenue for its spending needs. But how it raises that revenue is also important. The Treasury, jointly with the Policy Advice Division of Inland Revenue, provides advice on tax policy - how to raise revenue in the most fair and efficient way. Over the past year, the Treasury advised on the development and implementation of a 39% top personal tax rate and related matters. We also worked on options to simplify business tax, which resulted in the publication of the discussion document *Less Taxing Tax*. More recently, we have been involved in preparation for the Review of the Tax System.

At the micro-level, the Government has an important role in sustaining an environment that helps individuals and businesses to make their decisions. During 1999/2000 the Treasury contributed to producer board reform, which aimed to improve producer boards' incentives to use capital efficiently, and give farmers and processors room to respond quickly to market signals. The Treasury was also involved in providing advice on competition issues, including changes to the Commerce Act and matters arising from the Telecommunications and Electricity reviews.



The new Government came into office with a strong focus on regional and industry development, and a commitment to establish Industry New Zealand. The Treasury contributed to advice on the establishment of the Ministry of Economic Development and Industry New Zealand and the scope of the new Votes Economic Development, and Industry and Regional Development.

The Treasury took an active role in the West Coast economic adjustment package. This included developing a heads of agreement that reflected the Government's and the West Coast's interests. The Treasury also contributed to advice on the implementation of research and development grant schemes, announced in the 2000 Budget.

The location decisions of individuals and businesses are important for regional development. To improve our own understanding of how individuals and businesses make these decisions, the Treasury undertook research on economic geography and released a Working Paper to stimulate discussion. This research will feed into our work on New Zealand's economic performance and social outcomes, regional development and local government.

We also had the pleasure of hosting, with the Department of Labour, a series of seminars with Dr Edward Glaeser, Professor of Economics at Harvard University. Dr Glaeser was named by the *Economist* magazine as one of the top five economic thinkers of the past decade and he provided a series of thought-provoking seminars on economic geography issues.

This year, environmental issues have been very much on the agenda. The Treasury provided advice on domestic policy options on climate change, setting up the Royal Commission on genetic modification, and the biodiversity strategy.

The Treasury also contributed to advice on labour market issues, including the implementation of the policy to return sole coverage of at-work accident insurance to ACC, and the development of the Employment Relations Bill.

Continuing to work towards a more liberal global trading environment will help lift New Zealanders' incomes. APEC 1999 presented an opportunity to advance trade priorities and enhance New Zealand's reputation overseas. The

Auckland Leaders' meeting was the culmination of New Zealand's APEC year. New Zealand co-chaired the APEC Finance Ministers' process, which contributed to the agenda for the Leaders' meeting and the perception of APEC's credibility in responding to the economic situation in the region. New Zealand's role as Chair of the APEC Finance Ministers' process concludes in September 2000. The Treasury has also contributed to advice on developing a Singapore-New Zealand Closer Economic Partnership agreement and improving the existing relationship.

Improving Public Sector Performance

The Treasury has a significant role in ensuring that both Ministers and the public have confidence in the public sector.

During 1999/2000, the Treasury worked with the State Services Commission to provide advice on improved governance arrangements for Crown entities, including developing legislative proposals and advising on financial powers, reporting arrangements and the role of subsidiaries. This work has been endorsed by Ministers and is now being discussed with Crown entities themselves.

The Treasury also investigated ways of improving the quality of information supplied to Ministers and Parliament in accountability documents. This information will enhance the information available to decision makers when they assess the value for money of expenditure. Work is continuing in this area.

Departments can have relatively weak incentives to actively manage financial and other resources. For example, departments typically receive little recognition for reducing their costs. The Treasury has undertaken work on possible steps to improve incentives for better financial management in departments and this will continue in 2000/01.

The Treasury has also worked with the State Services Commission on improved departmental capability, accountability and performance arrangements. This work is being piloted in a number of departments with a view to wider implementation in 2002.

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Asset and Liability Management

The Treasury commenced advisory work on the design of a scheme to pre-fund a portion of the future costs of New Zealand Superannuation early in 2000. Further work on this is a key priority for 2000/01. We also advised on the accounting treatment of New Zealand Superannuation contributions and expenses in the Crown's accounts.

In September 1999, the Treasury successfully completed the sale of the Crown's shares in Vehicle Testing New Zealand Ltd, and second and final instalment receipts were collected from the sale of Capital Properties New Zealand Ltd at the end of June 2000. There has been no new work on asset sales since the change of Government.

There has, however, been ongoing work managing the Crown's liabilities. A settlement of the INCIS dispute was reached with IBM in October 1999.

The Crown has a substantial investment in Crown companies and financial institutions and the Treasury provides ongoing advice on managing this investment and reducing risk in the Crown balance sheet. During 1999/2000 we reviewed the investment policy for the Natural Disaster Fund, managed by the Earthquake Commission, and the Government Superannuation Fund.

The Treasury also provided advice to shareholding Ministers on the Crown's interest in managing state-owned enterprises, on business planning and financing issues. In particular, the Treasury has been looking at how best to manage the Crown's interest in companies for improved performance, given the Government's long-term hold strategy.



Advice was provided, both before and after the election, on investment in hospital redevelopment in central Auckland, North and West Auckland, Wellington and Nelson.

The New Zealand Debt Management Office (NZDMO) continued to manage the Crown's \$36 billion debt portfolio. Among the initiatives undertaken in 1999/2000 was the use of interest-rate swaps in the domestic market, in order to reduce the cost of New Zealand dollar interest payments.

Government and Social Services

Given the current Government's goals and policy priorities, our work has been increasingly focused in the social services area, with work on closing the gaps, housing, health, and superannuation.

The Treasury has an important role to play in helping the Government ensure it is getting value for money from its spending, including identifying areas where there is scope for value for money, to help the Government focus resources on its key priorities and goals.

In the social services area, the Treasury has been particularly involved in providing advice on proposed policy design and implementation for health and education, areas that account for 35% of government spending. The Treasury, in conjunction with other officials, advised on health sector changes - the overall policy framework, accountability and governance issues and on risk and financial management. In education we provided a range of advice, including funding tertiary education and proposals contained in the Education Amendment Bill.

Our involvement in the Government's closing the gaps strategy is set out on pages 13 to 15. Our work over the year included enhancing the roles of Te Puni Kōkiri and the Ministry of Pacific Island Affairs in the Budget process, reviewing planned expenditure in this area, and improving departments' reporting on their closing the gaps initiatives.

Defence was another major area of work. The Treasury helped the Government determine its defence priorities and advised on the acquisition of F-16 strike aircraft.

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Crown Company Monitoring Advisory Unit

The Executive Director of CCMAU is accountable to the Secretary to the Treasury for the Crown's investment in CCMAU, and for CCMAU's performance in providing the outputs Ministers seek. CCMAU's achievements for the year are highlighted on pages 70 to 84 of this report.

The new Government's changes to the health sector brought a period of uncertainty for CCMAU, which culminated in the Government deciding to transfer the CCMAU Health Monitoring Group to the Ministry of Health on 1 August 2000. Notwithstanding this uncertainty, the Executive Director and staff have focused on maintaining and enhancing shareholder value in the portfolio of Crown companies they monitor.

The Treasury and the State Services Commission, in consultation with CCMAU and other affected agencies, are reviewing the functions of CCMAU with particular reference to scope, form and location. A report is due back to Ministers in September. This could involve more change for the Unit in the year ahead.



Dr A E Bollard
Secretary to the Treasury

Closing the Gaps

Closing the gaps for Māori and Pacific peoples in health, education, employment and housing is a key goal for the Government.

While we have no expenditure allocated specifically to closing the gaps, we are committed to contributing to the Government's objective of improving economic and social outcomes for Māori and Pacific peoples.

Enhancing the Budget Process

To strengthen the focus of the Budget on addressing the Government's key goal of closing the gaps, the Treasury advised Ministers on a process for Te Puni Kōkiri and the Ministry of Pacific Island Affairs to have greater involvement in the Budget process. Both agencies will assess the likely impact of closing the gaps bids on outcomes for Māori and Pacific peoples, and this information will contribute to the Treasury's assessment of Budget bids.

The Treasury also defined new requirements for departments submitting Budget bids, to identify how each bid would contribute towards closing the gaps.

In the 2000 Budget process, a large number of closing the gaps bids were put forward by departments. The Treasury played a coordinating role, assisting Ministers in their consideration of these bids, to try to ensure funding was allocated to the proposals that would have the greatest impact.

Increasing the Effectiveness of Spending

Improving the effectiveness of expenditure by departments to close the gaps offers a significant opportunity for improving outcomes for Māori and Pacific peoples.

To get a better understanding of the money the Government spends on improving outcomes for Māori throughout the public sector, the Treasury collected and analysed information from each department on its planned

expenditure for Māori in 2000/01 to 2003/04. This is the most comprehensive capture of this kind of expenditure information to date, and will help the Government make decisions about where to target future spending, and where the effectiveness of expenditure can be improved.

In the future, this exercise will be expanded to include information on spending on Pacific peoples.

The Treasury developed new reporting requirements for each department in relation to its spending on Māori and Pacific peoples.

In addition to this initiative, the Treasury developed new reporting requirements for each department in relation to its spending on Māori and Pacific peoples. To help Ministers identify where, and how effectively, funding is being spent, each department will now include a section on this spending in its *Annual Report*. Departments will also be required to report the rationale for this spending, and evidence of the effectiveness of the spending in achieving the desired results.

Researching the Causes of Disadvantage

While it is well documented that some Māori experience significantly worse outcomes than non-Māori in many facets of life, a better understanding of the nature and causes of these outcomes is needed for the Government to effectively address them.

The Treasury has carried out initial research and analysis on the extent and causes of the gaps between Māori and non-Māori across a variety of sectors. This sought to identify the nature of the gaps and provide reasons for why they exist. In time, and by undertaking more detailed work, this research will help us to advise the Government how best to close these gaps.

Providing Second-Opinion Advice

Throughout the year, the Treasury worked with other departments and agencies to assist them to implement the Government's policies for closing the gaps. This included:

- participating in the Officials' Group on Closing the Gaps (OGAP)
- contributing to advice on early childhood, compulsory and tertiary education initiatives - in particular, the development of a new strategy for Māori education, and the development of a Pacific Education Plan

- advising on the expansion of Te Puni Kōkiri's role to include effectiveness audits of government departments and the programmes they administer
- assisting with the development of the Government's capacity-building programme, which aims to strengthen the ability of Māori to build the strategies, systems, structures and skills that they need to control their own development and achieve their own objectives
- advising on policy to allow a pan-Māori trust to purchase management rights to 15MHz of third generation spectrum at a discounted price, in order to increase Māori participation in the knowledge economy, particularly in the information and telecommunications sectors.

Managing Treaty Claims

The Treasury provides advice on policies for resolving claims under the Treaty of Waitangi and assistance with the Crown's negotiation of specific settlements. While settling Treaty claims may contribute indirectly to closing the gaps objectives, the Treasury's chief responsibility is to advise on the economic, financial and commercial aspects of claims for the Crown. In dealing with Treaty issues, the Treasury seeks to understand not only the Crown's obligations to Māori, including how these might change over time, but also Māori views of the Treaty and aspirations for it.

Increasing the Treasury's Responsiveness

During the course of the year, a Māori Responsiveness Policy and Plan was developed. This policy outlines the Treasury's business needs with respect to Māori and Māori issues. It provides a context for the development of further policies and strategies on Māori language, research, communications, external relationships, and training and development needs.

A set of initiatives to give effect to this policy has been identified for 2000/01 and covers tikanga Māori in a broad sense as well as including some specific language-related initiatives.

Organisational Structure - the Department

as at 30 June 2000

Responsible Minister:

Treasurer/Minister of Finance

Vote Ministers:

Treasurer

Minister of Finance

Alan Bollard
Secretary to the Treasury

Branch Managers/Deputy Secretaries

Geoff Dangerfield **Asset and Liability Management Branch**

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

Iain Rennie **Budget Management Branch**

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

John Whitehead **Regulatory and Tax Policy Branch**

- Tax Policy
- Regulation & Vote Purchase, Ownership & Performance Issues [Commercial Markets, Land & Natural Resources, Science & Environment, Government Services & Defence, International Economics]

Peter Bushnell **Social Policy Branch**

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

Angela Hauk-Willis **Corporate Services Branch**

- Corporate Services
- Policy Co-ordination & Development

Vote Ministers:

Minister of Health

Minister for Crown Research Institutes

Minister for State-Owned Enterprises

Christopher Russell **Crown Company Monitoring Advisory Unit**
Executive Director

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

Management

for the year ended 30 June 2000

Setting Strategic Direction

The Treasury's vision is to achieve a world-class Treasury working for higher living standards for New Zealanders. To achieve this, we must find ways to keep improving what we do and how we do it.

The *New Zealand Treasury Strategic Plan 1999-2004* guides ownership development for the Treasury. Since July 1999, we have been implementing the *Strategic Plan* through a series of internal Action Plans. During 1999/2000, we incorporated the key management initiatives in the Action Plans into branch planning documents and the performance agreements of staff responsible for implementing these initiatives. This has helped to involve staff throughout the organisation in implementing the *Strategic Plan*.

The Treasury undertook an ambitious set of management initiatives for 1999/2000 and these initiatives have mostly been completed. However, a few of the larger projects are taking longer than originally envisaged, given other demands on staff and managers' time. Management initiatives for 2000/01 have been developed in light of experience to date and incorporated into planning documents for the year ahead.

The Senior Management Group reviewed and reconfirmed the *Strategic Plan* in March 2000, noting changes in output demands in some areas due to the change in Government.

Managing Priorities

We believe it's important to improve our own efficiency and effectiveness to ensure we can respond to the changing demands of government. This in turn requires us to manage work priorities effectively.



In 1999/2000, a more structured approach to prioritising aspects of our work was developed and agreed with Ministers. This will help us to ensure that we devote resources to higher priority outputs, and that we make space for work on key strategic issues. Branches have also reviewed their own prioritisation processes and are looking at ways to improve their work processes.

With the change in Government in November 1999, the Treasury renegotiated the Vote purchase agreements to reflect the Minister's work priorities. The Secretary's performance agreement was also updated, substituting a new Value for Money key priority for the previous Competitive Neutrality key result area.

We also combined the two Votes (Vote Treasurer and Vote Finance) into a single Vote Finance for 2000/01, and realigned our output classes more closely with the *Strategic Plan* and internal management needs. This work helped us to review our outputs and where we allocate resources as part of developing the 2000/01 purchase agreement. The revised output classes should help us improve our planning and reporting, and we plan further work during 2000/01 to improve output specification and performance measures.

Managing our Human Resources

A key priority for the Treasury and CCMAU management is to develop and retain a talented workforce with a broad range of expertise and experience.

The number of staff employed in the Treasury and CCMAU at 30 June 2000 was:

	1999	2000
The Treasury		
Secretary to the Treasury's office	2	2
Budget Management Branch	48	49
Asset and Liability Management Branch	57	60
Regulatory and Tax Policy Branch	61	58
Social Policy Branch	54	60
Corporate Services Branch	77	80
Full-time training	6	5
Total Treasury staff	305	314
Crown Company Monitoring Advisory Unit	34	38

In addition, at 30 June 2000 the Treasury had seven staff seconded to Ministerial offices, government departments or other agencies, employed 15 waged persons, had two staff seconded to international financial organisations, and 42 staff on leave without pay, including parental leave.

Both the Treasury and CCMAU continue to experience levels of turnover which place pressure on the Department to maintain institutional knowledge and output delivery. The Treasury had a staff turnover of 22% in 2000 and CCMAU had a turnover of 40%. As outlined in the Executive Director of CCMAU's overview (pages 70-73) turnover is high as a result of changes affecting the Unit. This turnover compares to 24% and 27% respectively for 1999/2000. The average length of service for Treasury staff has remained unchanged at 5.15 years, while CCMAU's has declined from 2.49 years to 1.9 years.

During 1999/2000, we carried out research which confirmed that turnover of the level experienced in the Treasury is common in similar organisations. Moving along the direction set out in the Treasury's *Strategic Plan* will assist us to reduce turnover over time and at the same time will ensure our policies and processes enable us to operate effectively in a high turnover environment.

The Treasury's *Strategic Plan* recognises the importance of making the Treasury attractive to existing and prospective employees. It also recognises the importance of ongoing development of the skills and expertise of our staff.

This year, we commissioned research on the factors that motivate staff in organisations like the Treasury. This highlighted the need for clarity of expectations between the employee and the organisation. We therefore



reviewed the pre-employment information we give to prospective employees to ensure it gives an accurate picture of working at the Treasury. Work has commenced looking at what else needs to be done to clarify expectations, particularly through coaching, feedback and recruitment training, and how we might develop tools that help identify changing staff expectations.

In addition to the motivation research, we commissioned a review of intellectual leadership, relationship management and communication competencies to clarify the skills necessary for high level management and leadership. These revised competencies will be used in the 2000/01 performance assessment process. The Treasury's study policy was also reviewed and changes made to make the most effective use of the funding available and increase the range of options for staff development.

Developing Flexible Organisational Arrangements

To respond to changes in output demand and newly emerging work areas there is a need for more flexible organisational arrangements. The *Strategic Plan* also identified the need for greater clarity of roles and responsibilities to maximise the contribution of staff. During 1999/2000 the Treasury undertook research on organisational design issues and there have been various initiatives looking at clarifying roles and responsibilities.

Cross-Treasury teams were put together at short notice in response to newly emerging work areas, such as INCIS and pre-funding New Zealand Superannuation.

Cross-Treasury teams were put together at short notice in response to newly emerging work areas.

Some significant organisational changes are also planned in the Budget Management Branch, following a review of work processes within the branch. The changes being made aim to increase the focus on delivery to clients, clarify roles and responsibilities for managers and staff, create opportunities for challenge and career enhancement, and improve interaction across the branch. Another change

during the year was the amalgamation of the Budget Publications Unit and the Corporate Services Publications Unit.

During 2000/01, we will undertake further policy development work on flexible organisational arrangements, incorporating what we've learned from the initiatives already underway, to identify options for future change.

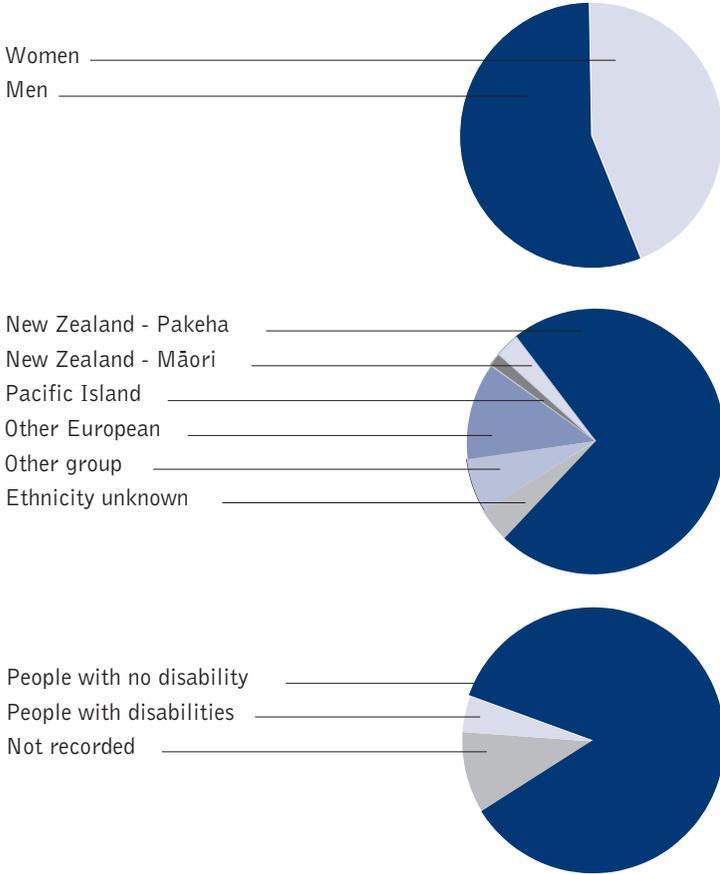
Improving Equal Employment Opportunities (EEO)

The Treasury's EEO management programme was finalised in August 1999. It contains a number of initiatives designed to make the culture of the Treasury and the way staff are managed more supportive, and to encourage target group staff to join, remain with and develop within the Treasury. All these initiatives specifically recognise the needs of target groups.

During 1999/2000 the EEO programme has included investigating flexible work arrangements, and reviewing the information provided to staff and managers on human resource policies and provisions. Branches have also pursued branch-specific EEO initiatives. Following consultation with staff, the Treasury introduced a new Policy and Procedure on Flexible Working Arrangements. Underpinning this new policy is the Treasury's aim to respond to individual factors that motivate staff, including a balance between work and non-work life.

There has been continuous progress on the recruitment and retention of women. However, recruiting and retaining Māori and Pacific Island staff remains a challenge. Given the small pool of Māori and Pacific Island post-graduates we have continued the targeted scholarships - recognising that it will take a number of years before these translate into a changed staff profile at the Treasury.

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 2000.

Developing the Treasury as a Learning Organisation

We are committed to investing in knowledge management, capturing experience and facilitating learning. This requires a culture of knowledge and information sharing that promotes efficient access to knowledge as one of the inputs to provision of advice, and values knowledge and information as assets.

During 1999/2000, we ran a knowledge management pilot project looking at sharing information and best practice. The pilot project identified cultural preconditions and behavioural shifts needed to successfully implement information-sharing practices. This work is being used in the development of a new electronic document management system, with the first phase of the project currently under discussion. The scope and deliverables of the project are being considered in the context of a wider knowledge management strategy for the Treasury. The project will continue in 2000/01 and is aimed at both preserving Treasury output and advancing the sharing and re-use of information.

We continued to promote internal debate and discussion through regular branch forums on topics of interest. In addition to internal speakers, we invited academics, other policy advisors and working economists as speakers and attendees at some of these events. A highlight was the visit of Professor Ed Glaeser.

Building our Intellectual Leadership

The Treasury used the process for developing briefing material for the incoming Government as an opportunity to stand back and consolidate our thinking about the key issues we see New Zealand facing over the next few years. This resulted in the briefing document to the incoming Government,



Towards Higher Living Standards for New Zealanders, and enabled us to anticipate and respond to the immediate needs of Ministers. Information gaps identified in this exercise are being addressed as part of our research and development programme.

Recruiting and developing staff with the expertise and experience to provide intellectual leadership in the Treasury is also important. During 1999/2000 the Treasury has increased the level of senior analytical staff by more than 20% on the previous year. We have also experimented with more flexible work arrangements to attract visiting specialists to spend short periods of time with the Treasury. For instance, Professor Viv Hall spent time with the Policy Coordination and Development Unit (PCD), developing his work on the current account and contributing more broadly to Treasury thinking.

We are also committed to taking a more active part in the New Zealand economic community - this year demonstrated by active involvement in organising and participating in New Zealand Association of Economists activities. The 1999/2000 output from the Treasury's research programme is reflected in the Working Papers released during the year as outlined on pages 125 to 126.

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 performance of the Treasury and other government agencies.

The Treasury rolled out CFISnet to all departments in November 1999. CFISnet is a secure web-based system used to collect financial data from departments, to facilitate the Budget process and to automate various other processes relating to Crown financial management. Replacing a five-year-old system (CFIS), the system improved security, streamlined processes, and reduced workload for staff in the Treasury and other departments.

Public sector integrity is embedded in the culture of the organisation and supported by well developed systems and processes.

Treasury staff were also involved in the Secure Electronic Environment (SEE) project, an e-government project jointly undertaken by the Treasury, the State Services Commission and the Department of Prime Minister and Cabinet. The SEE project aims to develop a secure environment among the three agencies. In time, the project will be extended to electronically connect other agencies to share sensitive data and information. An evaluation of the project has been undertaken, with work continuing in 2000/01 on the next phase of the project.

Risk Management

To strengthen governance arrangements, the Treasury reactivated the Management Assurance Committee with Alan Isaac (KPMG National Chairman) recruited to provide an external perspective. The committee has overseen a busy programme of development work and assurance assessments of key risk areas. The Treasury now works to AS/NZS 4360:1999, the revised risk management standard, which places more emphasis on the communication aspect of risk. Protocols were agreed with Audit New Zealand to better align internal and external audit processes. Work has been undertaken to clarify objectives for risk management, and branch risk assessments undertaken to provide risk profiles for each branch. These branch profiles have been aggregated to provide a risk profile for the Treasury as a whole.

Managing Y2K Risks

Managing the Y2K computer risk was a major focus across the public sector for 1999/2000. The Treasury completed its Y2K Readiness Programme,

**The Department
experienced no Y2K-
related problems.**

including a comprehensive plan to ensure business continuity in the event of any Y2K-related problems occurring over the New Year transition period. The Treasury's Y2K preparations were independently assessed on four occasions. The last assessment by an

independent reviewer, as well as by the State Services Commission's Y2K Project Office, exceeded the Commission's October benchmark expectations.

In the event, the Department experienced no Y2K-related problems and was able to provide "green light" status reports to the Officials' Y2K Millennium Advisory Committee over the first week in January 2000.

Improving Communications and Stakeholder Relationships

Through 1999/2000, the Treasury continued to focus on external communications, developing an outreach programme of speaking activity for Branch Managers. Individual Branch Managers have reviewed outreach and relationship development activity within each branch and incorporated the outreach programme developed into branch work plans.

Media briefings have continued on key issues such as the economic welfare impacts of the privatisation of New Zealand Rail, the *Pre-election Economic and Fiscal Update*, income distribution, and the release of the post-election briefing paper.

To stimulate informed debate among stakeholders as part of policy development, the Treasury has continued to release a Working Paper series via our Internet site. The Working Paper series is generally published quarterly and contains work in progress on a variety of economic and financial issues written to inform internal policy discussions. The Working Papers released during the year are outlined on pages 125 to 126. The email subscription list is now up to 350.

The Treasury's work relating to Maori has two key dimensions: the Treaty of Waitangi and the social and economic outcomes of Maori. The Crown's obligations under the Treaty, the range of Maori outcomes, their causes and inter-relationships, and the responses to alternative policies are all issues on which the Treasury is called to advise. A Maori Responsiveness Policy and Plan developed during 1999/2000 is being finalised after further consultation with representatives from each branch, Te Aniwaniwa - the Maori Network - and the EEO consultative group. The policy provides a context for the design of strategies such as the Maori language initiatives, research, communication,



external relationships, and training and development needs for particular units or for the Treasury as a whole. These various initiatives should help the organisation to improve its relationship with, and responsiveness to, Māori.

During 1999/2000 the Treasury and the Historical Branch of the Department of Internal Affairs jointly commissioned a formal history of the Treasury. The history will formally document for the first time the Treasury's role in New Zealand's economic history and development. It will aim to improve understanding of the economic, fiscal and other frameworks that underpin Treasury advice.

Measuring Achievement

The "LIPS" strategic goals of developing a Learning Organisation, Intellectual Leadership, Prioritisation and Stakeholder Relationships are now established as a set of reference points in the organisation. Research was undertaken in 1999/2000 on developing a framework to monitor overall organisational performance and work will continue in 2000/01 to develop potential measures focused on our achievement in terms of the *Strategic Plan* and the four strategic goals in particular. A process was established during 1999/2000 for monitoring progress against the Action Plans with achievements highlighted in quarterly reports to the Minister.

Ministerial assessment of output performance is important and we have in place a formal process for seeking feedback from the Minister, at least every six months.

**In 10 out of 11
output classes, we more
than met Ministers'
expectations.**

During 1999/2000 Ministerial assessments were sought prior to the General Election in November, then again for the December - March period and the April - June quarter. We have also continually sought to take on board informal feedback from the Minister and other stakeholders.

Ministers assessed the Treasury's overall performance for 1999/2000 as meeting and sometimes exceeding their expectations. In 10 out of 11 output classes, we more than met Ministers' expectations, an improvement on seven out of 11 for the previous year.

The Treasury - Vision and Purpose

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

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 Ministers on the efficient management and financing of the Crown's aggregate assets and liabilities portfolio. 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 providing policy advice on the management and negotiation of Treaty of Waitangi claims.

The branch includes the New Zealand Debt Management Office (NZDMO), which manages the Crown's debt portfolio, overall cash flows and interest-bearing deposits.

The branch advises on the performance and management of ownership risks and obligations in state-owned enterprises (SOEs), Crown companies and Crown financial institutions.

Budget Management Branch

Iain Rennie

The Budget Management Branch is responsible for monitoring the economic situation and preparing macroeconomic forecasts. The branch provides advice on macroeconomic policy, particularly fiscal policy. It advises the Government on Budget strategy, and the design and management of the Budget process.

The branch also prepares fiscal projections, monitors the fiscal situation and prepares the Crown Financial Statements. It also reviews departmental financial management systems to provide assurances that there is a reasonable system of internal control and advises on Crown accounting policy issues.



Regulatory and Tax Policy Branch

John Whitehead

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

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

The branch also advises on ownership and output purchase issues across a broad range of government departments and entities, from science and technology to foreign affairs.



Social Policy Branch

Peter Bushnell



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

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

The branch provides advice which aims to provide assurance to the Minister about the robustness of departmental proposals. It often participates in inter-departmental working parties on major reform proposals and advises the Minister of Finance on policy developments in these areas.

Policy advice on major issues in areas covered by the branch is typically the primary responsibility of other government agencies.

Corporate Services Branch

Angela Hauk-Willis

The Corporate Services Branch provides advice to the Secretary to the Treasury and the Senior Management Group on appropriate corporate policies and processes to manage the Crown's ownership interest in the Treasury. The branch also manages the Treasury's infrastructure services (including technology and information management) and provides the organisation with support and advice in a range of specialist areas (legal, communications, human resources, corporate finance and planning).

The branch is also home to PCD. PCD's job is to maintain an overview across Treasury policy development, keep abreast of emerging ideas and research and review and challenge existing Treasury thinking. In 1999/2000 key areas of focus were understanding changes in income distribution, savings and the current account, and the application of the new economic geography, including the development of a regional database for New Zealand.

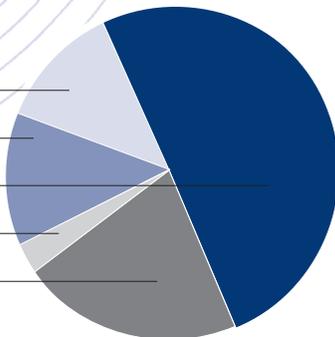


The Treasury Votes at a Glance

Actual expenditure for 1999/2000 by output class

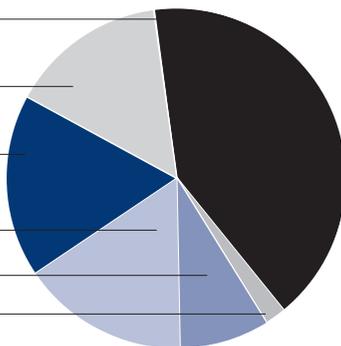
Vote Treasurer (\$28.646 million)

- Policy Advice: General Economic and Fiscal Strategies
- Economic and Fiscal Forecasting
- Sectoral Policy Advice
- Budget Management
- Debt and Financial Asset Management



Vote Finance (\$22.919 million)

- Policy Advice: Revenue, Expenditure and Balance Sheet Management
- Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions and Management of Crown Overseas Properties
- Management of Commercial Liabilities and Specific Claims Against the Crown
- Policy Advice: Crown Financial Management
- Crown Financial Reporting
- Implementation of Asset Divestments



(Figures are GST inclusive)

Output Performance - the Treasury

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

Vote Treasurer

Output Class D1

Policy Advice: General Economic and Fiscal Strategies

This class of outputs supports the achievement of the Government's overarching goals and strategic priorities by running sound fiscal and economic policies, and by enhancing the environment for savings and investment. It involves the provision of advice spanning the whole economy. During the 1999/2000 year, this advice includes the current and medium-term fiscal priorities to be considered when the Government prepares reports required by the Fiscal Responsibility Act 1994 (FRA). These reports were the *Budget Policy Statement* 2000 (required under the Act to be published before 31 March 2000) and the *Fiscal Strategy Report* (FSR) 2000 (tabled concurrently with the introduction of the first Appropriation Bill for 2000/01).

Significant work completed during the year

- Researched and released post-election briefing paper *Towards Higher Living Standards for New Zealanders*.
- Prepared and published the *Budget Policy Statement* 2000. This outlined the Government's goals, short-term and long-term fiscal policy objectives and 2000 Budget priorities, as well as updating the economic and fiscal forecasts published in the *Pre-election Economic and Fiscal Update*.
- Prepared and published the *Budget Speech* and FSR 2000. This built on the Government's goals and fiscal policy objectives laid out in the *Budget Policy Statement* 2000. In particular, the FSR 2000 signalled the potential long-term fiscal impacts of the proposed New Zealand Superannuation Fund.
- Completed the initial stages of the Review of the Operation of Monetary Policy, including the process design, terms of reference, and selection and appointment of the independent reviewer.

- Reported on New Zealand's current account position, including trends in the current account position, the structure of New Zealand's external liabilities and the policy implications of the current account position.
- Research and reporting on:
 - changes in New Zealand's income distribution and factors explaining the rise in income inequality
 - savings in New Zealand
 - economic geography and economic integration.

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

Service performance

General service performance objectives are detailed on pages 49 to 50.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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 except for the delivery of responses to Official Information Act requests as detailed on page 50.

Cost

1999/2000 Actual (\$000)	3,693
Supp. Est. - Voted (\$000)	3,782
Main Est. (\$000)	3,896
1998/99 Actual (\$000)	3,808

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$114,000 in the Supplementary Estimates due to lower than forecast demand for Budget strategy advice.

Output class expenditure was \$89,000 or 2% under Supplementary Estimates.

Output Class D2 Economic and Fiscal Forecasting

This class of outputs involves the preparation and publication of macroeconomic, tax revenue and fiscal forecasts, and monitoring of the domestic and international economies. Under the requirements of the FRA, three-year economic and fiscal forecast updates were to be published prior to the 1999 General Election and, depending upon the timing of the *Pre-election Economic and Fiscal Update*, during December 1999, and again with the 2000 Budget.

Significant work completed during the year

- Prepared and published updated economic and fiscal forecasts in the:
 - *Pre-election Economic and Fiscal Update*
 - *Budget Policy Statement 2000*
 - *Budget Economic and Fiscal Update 2000*.
- Monitored domestic and international economic trends over the year.

By providing advice on the development of sound fiscal and economic policies, these outputs contributed to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Service performance

General service performance objectives are detailed on pages 49 to 50.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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

1999/2000 Actual (\$000)	3,742
Supp. Est. - Voted (\$000)	4,033
Main Est. (\$000)	4,269
1998/99 Actual (\$000)	3,510

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$236,000 in the Supplementary Estimates. The reduction was due to the cost of the macroeconomic forecasting outputs being lower than anticipated, reflecting the involvement of fewer staff than forecast.

Output class expenditure was \$291,000 or 7% under Supplementary Estimates due to a staff vacancy, reduced information costs and less expenditure on consultants than forecast.

Output Class D3 - Sectoral Policy Advice

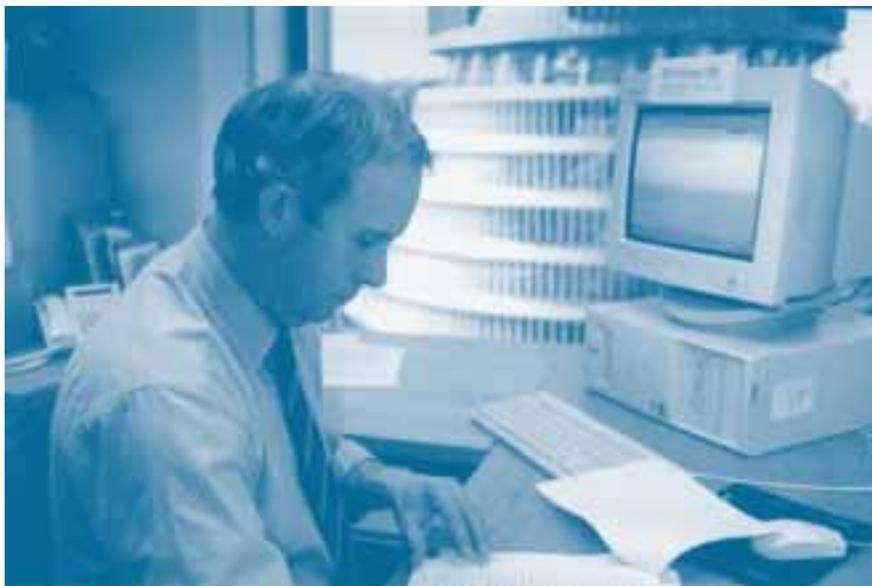
This class of outputs involves the provision of strategic advice on the most appropriate Government actions, including: the regulation of markets affecting the demand for, and supply of, goods and services, labour and capital; the raising of revenue; and purchase, ownership, regulation and other interventions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

- strategic advice on management and negotiation of generic policy for Treaty of Waitangi claims
- policy advice on the Crown's ownership strategy for Crown companies, appropriate organisational form, and whether to divest Crown-held assets
- advice on social policy including health, education, welfare, housing, accident compensation, labour force, justice and issues affecting Maori
- policy advice relating to: the competition policy framework; network industries; local government; the Resource Management Act 1991; climate change; producer boards; and defence

- advice on the implementation of accident compensation reforms
- advice on tax strategy
- advice on policies and operations affecting the quality of the links between the New Zealand economy and the rest of the world, with special emphasis on: New Zealand's chairing of the APEC Finance Ministers' process; removing impediments to international economic flows; and promoting the effective liberalisation of international trade in goods and services, investment and capital.

Significant work completed during the year

- Provided advice on review of policy framework for settlement of historical Treaty grievances.
- Provided advice on the "closing the gaps" work programme including budget bids for the 2000 Budget and collated government baseline and new initiative spending on Māori.
- Advised on the health sector changes, in conjunction with other officials, in particular on the overall policy framework, the accountability regime and governance arrangements for the new District Health Boards, the content of the new health legislation, shared services arrangements, costs and fiscal risks associated with the changes, investment and balance sheet management issues.





- Provided advice on the implementation of the policy to return accident insurance to ACC, and on potential changes to benefits and entitlements.
- Provided advice on the implementation of the income-related rents policy for Housing New Zealand houses.
- Provided advice on increasing the rate of New Zealand Superannuation to 65% of the average wage.
- Provided advice on environmental issues including domestic policy options on climate change, setting up the Royal Commission on genetic modification, and biodiversity strategy. This supported the Government's environment objectives.
- Provided advice on competition issues including changes to the Commerce Act and the setting up of the Telecommunications and Electricity reviews.
- Advised on the West Coast economic adjustment package. This included developing a heads of agreement that reflected the Government's and the West Coast's interests.
- Successfully hosted and organised the APEC Finance Deputies' meeting in Wellington in August 1999, which provided finance-related input to the Auckland APEC Leaders' meeting. Organised two further APEC Finance technical working group meetings and a Deputies' meeting which have progressed the finance agenda within APEC. Progressed the Voluntary Action Plan for Promoting Freer and More Stable Capital Flows. Worked

with colleagues in Brunei to ensure that the APEC Finance Ministers' meeting in September 2000, to be co-chaired by Brunei and New Zealand, is successful.

- Advised on the development and implementation of the 39% top personal tax rate and consequential measures including:
 - changes to Fringe Benefit Tax
 - Specified Superannuation Contribution Withholding Tax
 - use of intermediaries to alienate income
 - taxation of minor beneficiaries of trusts.
- Work on business tax simplification, which resulted in the publication of the discussion document *Less Taxing Tax*.
- Advised Ministers on the Finance and Expenditure Select Committee's inquiry into the powers and operations of Inland Revenue; appeared before the Committee and monitored other submissions; and advised on the Government response to the committee's report.
- Work on the Post-Implementation Review of Tax Systems Compliance and Penalties Regime, including developing terms of reference and commencing the review.
- Preparation for the Review of the Tax System, including developing terms of reference, developing a budget and advising on operating procedures.
- Advised Ministers on the proposed increase in tobacco excise and supported Ministers during the passage of legislation.

By providing advice on value for money through effective and efficient Government intervention, these outputs contributed to various Government goals:

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

Service performance

General service performance objectives are detailed on pages 49 to 50.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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 except for Ministerial servicing. The delivery of Ministerial correspondence and responses to Official Information Act requests are detailed on page 50.

Cost

1999/2000 Actual (\$000)	13,744
Supp. Est. - Voted (\$000)	14,338
Main Est. (\$000)	13,049
1998/99 Actual (\$000)	12,131

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1,289,000 in the Supplementary Estimates. The increase reflected an increase in output demand for strategic advice and was funded by fiscally neutral transfers from Vote Finance.

Output class expenditure was \$594,000 or 4% under Supplementary Estimates.

Output Class D4 Budget Management

This class of outputs covers the operational activities of the Budget process. For the 1999/2000 year, this included management of:

- the 2000 Budget Baseline round
- the 2000 Budget Initiatives process

- the 1999/2000 Supplementary Estimates and associated Appropriation Bill process
- the 2000/01 Main Estimates and associated Appropriation Bill process.

Also included in this class is the production of the Budget documents and related material required to be published under the FRA (e.g. *Main Estimates* and *Supplementary Estimates* books).

Significant work completed during the year

- Designed and assisted Ministers in the management of the 2000 Budget Initiatives and Baseline processes.
- Streamlined Budget documentation by reducing duplication in the *Estimates* publication.
- Prepared and published the *Supplementary Estimates of Appropriation 1999/2000* and the *Estimates of Appropriation 2000/2001*.
- Prepared Budget-related legislation, including Imprest Supply and Appropriation Bills.
- After the 2000 Budget, designed a process aimed at encouraging improved value for money in government expenditure.

By providing advice on sound fiscal management, these outputs contributed to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Service performance

General service performance objectives are detailed on pages 49 to 50.

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 Vote Minister. 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.

Vote Ministers assessed the quality of outputs purchased as meeting their 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 FRA.

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

1999/2000 Actual (\$000)	1,365
Supp. Est. - Voted (\$000)	1,522
Main Est. (\$000)	1,736
1998/99 Actual (\$000)	1,439

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$214,000 in the Supplementary Estimates. The reduction was due to lower *Pre-election Economic and Fiscal Update* printing costs than forecast and the budget for *December Economic and Fiscal Update* printing costs not being required due to the timing of the *Pre-election Economic and Fiscal Update*.

Output class expenditure was \$157,000 or 10% under Supplementary Estimates. This variance was due to lower Budget production costs from reducing the *Estimates* volumes from three to two.

Output Class D5

Debt and Financial Asset Management

This class of outputs concerns advice on, and the operational management of, the Crown's debt portfolio and the central management of its financial investments.

The management of the Crown's domestic and foreign currency portfolio includes all costs associated with running the debt and financial assets portfolio. All expenses for this output class are incurred under section 61 of the Public Finance Act 1989. The specific activities are:

Portfolio policy

- developing and maintaining a portfolio framework which promotes the Crown's debt management policies.

The portfolio framework encompasses a portfolio structure and management practices which enable an appropriate trade-off to be made between risk and cost of debt.

Domestic portfolio management

- developing and implementing strategies to efficiently manage the domestic debt portfolio
- issuing domestic government debt
- cash management for government departments
- intermediating the debt of Crown entities.



Foreign currency portfolio management

- maintaining a diversified funding base and funding the Reserve Bank's foreign currency reserves
- maintaining hedges of long-dated foreign currency debt which cannot be bought back from investors
- seeking to add value to the Crown in undertaking these activities, while conforming to a risk-averse management framework.

Gross foreign currency debt is expected to be in the range of \$7.0 billion to \$8.0 billion, whilst net foreign currency debt is expected to be nil.

Significant work completed during the year

- Undertook the following domestic borrowing activities:
 - issued \$2,050 million of domestic Government bonds. At the time of the *Pre-election Economic and Fiscal Update* the 1999/2000 domestic bond programme was revised down by \$800 million from the programme of \$2,850 million announced at the time of the 1999 Budget
 - completed \$500 million of domestic interest rate swaps
 - bought back \$1,239 million of domestic Government bonds for liquidity management purposes.
- In the 2000 Budget announced in June, the domestic borrowing programme included:
 - a nominal bond programme of \$2,850 million, of which \$2,350 million meets the Government's gross funding requirement and \$500 million is to be used in conjunction with currency swaps to refinance a portion of the Government's foreign currency debt
 - continued suspension of issuance of inflation-indexed bonds
 - participation of the NZDMO in the New Zealand dollar swap market with a programme of up to \$1,000 million. Up to \$500 million of currency and interest rate swaps may be undertaken to refinance foreign currency debt. A further \$500 million of interest rate swaps may be executed for cost savings on the Government's domestic borrowing.
- Borrowed \$200 million in foreign currency to refinance maturing loans, which fund the Reserve Bank's foreign-exchange reserves.

- Advised on revisions of liquidity and funding risk policies, and established a framework for risk-adjusted performance measurement.
- Developed and maintained the portfolio management policy, including adding a new section on operational risk management. This was one of the outcomes of a project undertaken during the year to analyse the NZDMO's existing operational risk management practices.
- Published the 2000 *New Zealand Economic and Financial Overview*.
- Managed rating agency relationships including annual visits and reviews.

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

Service performance

General service performance objectives are detailed on pages 49 to 50.

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 0.17% on 11,573 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.

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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

1999/2000 Actual (\$000)	6,102
Supp. Est. - Voted (\$000)	6,524
Main Est. (\$000)	6,335
1998/99 Actual (\$000)	6,129

(Figures are GST inclusive)

The appropriation for this output class was increased by \$189,000 in the Supplementary Estimates. The increase reflected a change in the process of allocating overheads. This change was made at the commencement of the year so as to better reflect output costs. A fiscally neutral adjustment from Vote Finance funded the increase.

Output class expenditure was \$422,000 or 6% under Supplementary Estimates. The variance reflects lower personnel costs, delays in filling vacancies and more work on the strategic debt management project being performed in-house than forecast.

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. The purchase agreement was substantially renegotiated following the election to reflect the priorities of the new Minister.

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 1999/2000 confirmed that all reports were signed out by managers or their equivalents.

During the year the Senior Management Group agreed to replace the six-monthly assurance process with a process operating to the revised risk management standard AS/NZS 4360:1999 (see page 26). This new process will be performed annually.

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.

Vote Ministers assessed the Treasury's overall Vote Treasurer performance for 1999/2000 as meeting and sometimes exceeding their 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

1999/2000	PQs	MCs	OIAs
Output Class D1:			
Estimated	40-50	75-150	10-20
Actual draft replies	18	95	12
% answered by due date	100	100	92
Output Class D2:			
Estimated	10-20	10-20	0-5
Actual draft replies	13	9	1
% answered by due date	100	100	100
Output Class D3:			
Estimated	50-75	600-800	50-75
Actual draft replies	66	365	48
% answered by due date	100	99	96
Output Class D4:			
Estimated	0	0	0
Actual draft replies	0	0	0
% answered by due date	0	0	0
Output Class D5:			
Estimated	0	0	0
Actual draft replies	0	3	0
% answered by due date	0	100	0
Ownership			
Actual draft replies	44	0	2
% answered by due date	100	0	100

The quality standards for Ministerial servicing were met for all output classes except output class D3 with two Ministerials requiring redrafting to meet the new Minister's expectations.

Vote Finance

Output Class D1

Policy Advice: Revenue, Expenditure and Balance Sheet Management

This class of outputs involves the purchase of advice on the detail of Government actions (both 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
- strategically important aspects of the tax system
- 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)
- the financial performance of departments and Crown entities.

Significant work completed during the year

- Advised on major hospital redevelopments in central Auckland, North and West Auckland, Wellington and Nelson.
- Provided advice on the establishment of the Ministry of Economic Development and Industry New Zealand, which contributed to the Government goal of growing an inclusive, innovative economy.
- Participated in the Producer Board Reform Project Team's work to design and implement restructuring proposals for the apple and pear, kiwifruit and dairy industries.
- Advised on Land Information New Zealand's automation project, to minimise project risks to the Crown and to ensure the public interests in the project had a central focus.
- Advised on defence priorities and in particular on the F-16 strike aircraft deal and the ability to unwind it.

- Work on business tax simplification, which resulted in the publication of the discussion document *Less Taxing Tax*.
- Advised Ministers on the need for new legislation protecting the tax base in relation to films-based tax planning and supported Ministers in the passage of that legislation.
- Reported to Ministers on the management of the re-write of the Income Tax Act.

By providing advice on sound fiscal and economic policies these outputs contributed to various Government goals:

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



Service performance

General service performance objectives are detailed on pages 67 to 68.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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 delivery of responses to Official Information Act requests as detailed on page 68.

Cost

1999/2000 Actual (\$000)	9,395
Supp. Est. - Voted (\$000)	10,118
Main Est. (\$000)	11,104
1998/99 Actual (\$000)	10,576

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$986,000 in the Supplementary Estimates. The reduction largely reflected a shift in output demand from this output class to Vote Treasurer, Sectoral Policy Advice. A fiscally neutral transfer to Vote Treasurer was made to fund this change in demand.

Output class expenditure was \$723,000 or 7% under Supplementary Estimates. This variance was largely due to staff vacancies and delays in the INCIS Commission of Inquiry output, owing to later than forecast return of papers from the Commissioner of the Inquiry.

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, Crown research institutes (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.

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
- 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 restructuring of the Public Trust Office; advising on governance arrangements and ownership of the office's net assets; and monitoring performance against its strategic business plan
- 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 asset revaluation exercises for the three SOE electricity generation companies - Genesis, Mighty River Power and Meridian Energy.
- Advised on Television New Zealand's digital strategy.
- Advised on the refinancing strategy of Solid Energy including the provision of loans from the Crown.

- Provided advice on ending harvesting of beech on the Crown's indigenous forest land on the West Coast. Managed, in conjunction with Crown Law Office, the Crown's position on subsequent litigation.
- Advised on business plans, Statements of Corporate Intent and ownership issues for SOEs and CRIs.
- Published a study on the impact on economic welfare of New Zealand Rail privatisation.
- Ongoing advice on the financing of At Work Insurance. Advice on the issues and process for disestablishment of At Work following the transition of workplace accident insurance to ACC.
- Advised on the modernisation of the Public Trust Office.
- Advised on diversification of the Government Superannuation Fund and consequential changes to management of the fund, including setting up a new Crown entity.
- Advised on diversification of the Natural Disaster Fund, managed by the Earthquake Commission.

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

Service performance

General service performance objectives are detailed on pages 67 to 68.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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

1999/2000 Actual (\$000)	3,767
Supp. Est. - Voted (\$000)	4,097
Main Est. (\$000)	5,957
1998/99 Actual (\$000)	4,290

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$1,860,000 in the Supplementary Estimates. Savings were made as a result of changed priorities in respect to Public Trust Office corporatisation, the Housing Capital Structure Review and At Work Insurance. These savings were used to fund an increase in demand for Public Sector Management outputs in D4 Policy Advice: Crown Financial Management. A transfer to Vote SOEs of \$113,000 was also made to reflect the transfer of responsibility of monitoring some SOEs to CCMAU.

Output class expenditure was \$330,000 or 8% under Supplementary Estimates. The variance was due to changed work demands in relation to the Public Trust Office, and the sale of the Brussels embassy not proceeding in 1999/2000.

Output Class D3

Management of Commercial Liabilities and Specific Claims Against the Crown

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 Contracts, 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.
- Agreement reached on substantive elements of the Crown's tax indemnity previously granted to the National Provident Fund.
- Contributed to the Crown's discussions and negotiation on heads of agreements between the Crown and iwi claimants including Te Atiawa, Ngati Ruanui, Ngati Tama and Ngati Mutunga, and the deed of settlement with Pouakani.
- Continued the programme of identifying and transferring legal land title to various SOEs and other companies.
- Negotiated settlement of the INCIS dispute with IBM and presented evidence to the INCIS inquiry.

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

Service performance

General service performance objectives are detailed on pages 67 to 68.

Quality

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

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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

1999/2000 Actual (\$000)	3,605
Supp. Est. - Voted (\$000)	3,893
Main Est. (\$000)	4,303
1998/99 Actual (\$000)	1,950

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$410,000 in the Supplementary Estimates. The reduction largely represents savings made as the result of reduced work in relation to Maui Gas Contracts.

Output class expenditure was \$288,000 or 7% under Supplementary Estimates. The variance was due to lower than anticipated costs on gas issues, and a reduction in demand for Treaty claims negotiation outputs.

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:

- 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

- Reported on improvements to accountability documents for government departments.
- Reported on steps to improve incentives for better financial management in departments.
- Scoped opportunities for greater collaboration between departments and efficiency gains through the sharing of support services between departments.
- Provided advice on improved governance arrangements for Crown entities, including legislative proposals, financial powers, reporting arrangements and role of subsidiaries.
- Developed pilots for improved departmental capability, accountability and performance arrangements with the State Services Commission and participating departments.

- Advised on a scheme for pre-funding the future cost of New Zealand Superannuation.
- Progressed and reported on the Crown Financial Asset Management Project, which is looking at the appropriateness of current arrangements for managing the Crown's financial assets.
- Advised on the accounting treatment (reporting) of New Zealand Superannuation contributions and expenses on the Crown's balance sheet.
- Prepared submissions to the Financial Reporting Standards Board on ED 86: Provisions, Contingent Liabilities and Contingent Assets, on ED 82: Basis for Revaluation of Property, Plant and Equipment, and on The Reporting of Purchase Performance.

By providing policy advice on achieving value for money of public expenditure through efficient and effective public sector management and financial policy, these outputs contribute to the Government goals of:

- growing an inclusive, innovative economy for the benefit of all
- restoring trust in Government and providing strong social services.

Service performance

General service performance objectives are detailed on pages 67 to 68.

Quality

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

Vote Ministers assessed the quality of outputs as meeting and sometimes exceeding their 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 advice on memorandum accounts which was subsumed into a wider review and completed in the fourth quarter.

Cost

1999/2000 Actual (\$000)	3,682
Supp. Est. - Voted (\$000)	4,307
Main Est. (\$000)	2,691
1998/99 Actual (\$000)	2,306

(Figures are GST inclusive)

The appropriation for this output class was increased by \$1,616,000 in the Supplementary Estimates. The increase largely reflects an increase in demand for public sector management and accounting development outputs and was funded by fiscally neutral transfers from within Vote Finance.

Output class expenditure was \$625,000 or 15% under Supplementary Estimates. The variance was due to lower output costs owing to staff vacancies, the shared services review starting later than forecast, less consultancy expenditure on New Zealand Superannuation pre-funding than forecast and less work completed on governance of public sector entities owing to delays in the draft Crown Entity Review bill.

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
- assessments of the adequacy of departments' management controls to detect or prevent errors in the financial information submitted to the Treasury
- the 1998/99 unappropriated expenditure approvals process.

Significant work completed during the year

- Prepared and published the Crown Financial Statements for the 12 months ended 30 June 1999.

- Prepared and published the Crown Financial Statements for the six months ended 31 December 1999.
- Prepared and published monthly Crown Financial Statements for the periods ended 31 May, 30 September, 31 October, 30 November 1999, and 31 January, 29 February, 31 March, 30 April and 31 May 2000.
- Completed the review of the management of physical assets by departments and the review of financial internal assurance controls operating within departments, as part of the programme of financial management reviews to provide assurance on the Crown Financial Statements.

By measuring the Government's progress in achieving its fiscal strategy, these outputs contribute to the Government's goal of growing an inclusive, innovative economy for the benefit of all.

Service performance

General service performance objectives are detailed on pages 67 to 68.

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.

Vote Ministers assessed the quality of outputs purchased as meeting and sometimes exceeding their 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 1999, for the quarter ended September 1999, 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 1999 and periods ended 31 May and 30 September 1999. Monthly statements were prepared for the months October 1999 through May 2000.



Cost

1999/2000 Actual (\$000)	2,049
Supp. Est. - Voted (\$000)	2,147
Main Est. (\$000)	2,474
1998/99 Actual (\$000)	2,262

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$327,000 in the Supplementary Estimates. The reduction was largely due to fewer financial management reviews being undertaken pending a review of the financial management review process. As a result, resources were transferred to meet increased output demands in the Policy Advice: Crown Financial Management output class.

Output class expenditure was \$98,000 or 5% under Supplementary Estimates.

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:

- 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 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.

It may also involve completion of asset divestment processes initiated in 1998/99 but not fully completed by 30 June 1999.

Significant work completed during the year

- Successfully completed the sale of the Crown's shares in Vehicle Testing New Zealand Ltd (VTNZ).
- Undertook the collection process for the second and final instalment payment due from the 1998 sale of instalment receipts in Capital Properties New Zealand Ltd.

This output class was substantially completed in September 1999 with the sale of VTNZ. By facilitating agreed asset divestments these outputs contributed to the goals of the previous Government.

Service performance

General service performance objectives are detailed on pages 67 to 68.

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 for the four months from July to October 1999.

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

1999/2000 Actual (\$000)	421
Supp. Est. - Voted (\$000)	914
Main Est. (\$000)	34
1998/99 Actual (\$000)	54,302

(Figures are GST inclusive)

The appropriation for this output class was increased by \$880,000 in the Supplementary Estimates. The increase largely reflects the funding to cover the costs of the VTNZ sale process. The balance of the increase relates to administration costs of the Capital Properties New Zealand shares' instalment.

Output class expenditure was \$493,000 or 54% under Supplementary Estimates. The variance was due to the costs of administering the second instalment on Capital Properties New Zealand shares being less than forecast, and accrued expenses relating to the 1999 sale of Contact Energy being less than previously recorded.

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. The purchase agreement was substantially renegotiated following the election to reflect the priorities of the new Minister.

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 1999/2000 confirmed that all reports were signed out by managers or their equivalents.

During the year the Senior Management Group agreed to replace the six-monthly assurance process with a process operating to the revised risk management standard AS/NZS 4360:1999 (see page 26). This new process will be performed annually.

The Minister of Finance 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.

Vote Ministers assessed the Treasury's overall Vote Finance performance for 1999/2000 as meeting and sometimes exceeding their 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

1999/2000	PQs	MCs	OIAs
Output Class D1:			
Estimated	50-75	600-800	50-75
Actual draft replies	120	155	31
% answered by due date	100	100	94
Output Class D2:			
Estimated	5-10	100-125	5-20
Actual draft replies	95	95	33
% answered by due date	100	100	100
Output Class D3:			
Estimated	0	0	0
Actual draft replies	2	4	3
% answered by due date	100	100	100
Output Class D4:			
Estimated	5-10	5-10	5-10
Actual draft replies	33	25	2
% answered by due date	100	100	100
Output Class D5:			
Estimated	0	0	0
Actual draft replies	0	0	0
% answered by due date	0	0	0
Output Class D6:			
Estimated	20-30	50-100	20-30
Actual draft replies	0	1	0
% answered by due date	0	100	0

The quality standards for Ministerial servicing were met for all output classes except output class D2 with 10 of the 95 Ministerials requiring redrafting to meet a new Minister's expectations.

CCMAU - Purpose and Roles

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.

Roles 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



Maintaining and enhancing shareholder value and maximising organisational success and health are CCMAU's primary objectives for all of the companies it monitors on behalf of the Crown: Crown research institutes (CRIs), Hospital and Health Services (HHSs) and state-owned enterprises (SOEs).

CCMAU's advice to shareholding Ministers focuses on maximising the performance of the companies in these three sector groups, in accordance with their legislative imperatives, with the twin objectives of enhancing the organisations' ability to perform in the future and maximising the value of the Crown's investment.

The changes the Government has promoted in the health sector have brought a period of uncertainty for CCMAU. The new Government's health policy will change the accountability structure of the public health sector and will remove the corporate status of HHSs, bringing them under the direct control of authorities established by statute. The Cabinet agreed in May to transfer the health ownership monitoring and advisory functions of CCMAU to the Ministry of Health by no later than 1 September 2000. CCMAU and the Ministry of Health completed the implementation of this transfer on 1 August. As a consequence of the decision to relocate the health ownership monitoring, shareholding Ministers have requested that the Treasury and the State Services Commission, in consultation with CCMAU and other affected agencies, commence a review of the functions of CCMAU with particular reference to scope, form and location. The review team is due to report back to Ministers in September.

Health

The task to make the hospital companies organisationally healthy and successful, commenced by CCMAU in 1993 when it inherited what was then the Crown health enterprise monitoring role, has been largely achieved. Most HHSs are organisationally healthy, and the sector is now receiving significant and appropriate investment to address long-outstanding healthcare infrastructure issues. They have been able to, for the most part, negotiate a more favourable cost of capital and have achieved an efficient capital structure.

Continuing the improvement in last year's performance, the HHS sector achieved a year-end net deficit of \$10.4 million which is an improvement of \$58.1 million over the previous year's net deficit of \$68.5 million. At the end of the 1999/2000 financial year, 13 of the 23 HHSs achieved at least break-even operating performance and 15 had performed better than plan. As a direct result of this good performance, and the consequent reduced call on equity support and the pursuit of more efficient capital structures, the drawings on capital funding from Vote Health Service Providers (HSP) were \$140 million less than budgeted.

This improvement in the sector's organisational performance provides for the sustainable provision of health services into the future. Under the 2000/01 Statement of Owner's Expectations, HHSs are allowed to retain and are encouraged to reinvest all financial surpluses achieved, in both public health services and public healthcare infrastructure.

CCMAU is handing over to the Ministry of Health a generally successful HHS sector with the incentives on HHSs to perform, and their accountabilities now largely in place to meet the Government's needs as shareholder and owner.

State-Owned Enterprises

The 1999/2000 year has mainly been one of consolidation in the SOE sector, particularly establishing the three new electricity generating SOEs, formed as a result of the split of the Electricity Corporation of New Zealand (ECNZ), as successful businesses.

SOEs are making a solid contribution to the Crown's finances and to the economy. The SOE sector is a significant component of the Crown balance sheet. The sector has total assets of around \$15 billion, which comprise approximately 20% of total Crown assets. It is, therefore, important that the

Crown ensures adequate ongoing rates of return from its investment in these organisations and copes with the changing environments and opportunities that arise.

Crown Research Institutes

All CRIs are in a sound financial state. They are profitable and have largely recapitalised their asset bases since establishment. They are now looking at strategic investments that will enable them to continue to grow and be successful companies without compromising their principles of operation under the CRI Act 1992.

Looking towards the future, all CRIs have an active role to play in the development of the capacity of New Zealand's innovation system by undertaking research for the benefit of New Zealand and focusing on the transfer of technology to industry.

Appointments and Governance

In late 1999, CCMAU's Crown Company Board Appointment Process, which has been operating within the Unit since 1994, was codified by the Cabinet. The objective of the process is to ensure that Crown company boards comprise people with the requisite governance competencies and skills to provide the appropriate level of stewardship to maintain and enhance the value of the company on behalf of the Crown shareholders. It is a process that ensures responsible Ministers have an active role in identifying the competencies and skills required on each board, appointing suitable candidates and reviewing the performance of the directors and boards. It also requires Ministers to certify that they have followed the process. This process, which was summarised in booklet form, has been distributed to Ministers, MPs, government agencies, chairs of Crown companies and participants attending CCMAU's and the Institute of Directors' director seminars. The Crown company appointment process has also been highly commended by officials in other countries, as has the Unit's revised board and director performance evaluation regimes.

Since 1 July 1999, CCMAU has screened and interviewed 137 prospective director candidates. This excludes the 2,000 applicants that CCMAU's Appointments and Governance team was responsible for screening and the 200 it interviewed associated with the Government's changes in the health sector, in preparation for the transition to District Health Boards. On

1 August 2000, CCMAU handed over the HHS board appointment process to the Ministry of Health as part of the transfer of the CCMAU health ownership monitoring and advisory functions.

CCMAU's Appointments and Governance team implemented during the year a new sector-specific induction programme to assist Crown companies with director development. This programme is additional to the formal induction that the chair of each Crown company provides to a new director. CCMAU also held two prospective director-training seminars in Wellington during the year.



Christopher E Russell
Executive Director



Organisational Structure - CCMAU

as at 30 June 2000

Christopher Russell
Executive Director



Output Performance - CCMAU

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

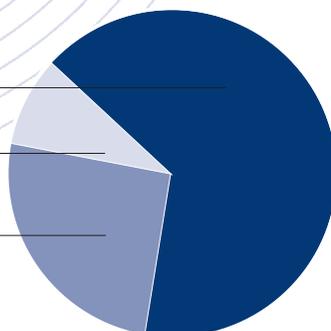
Votes at a Glance

Actual expenditure for 1999/2000 by
output class:

HHS Monitoring
\$4.235 million

CRI Monitoring
\$0.563 million

SOE Monitoring
\$1.869 million



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:

- advice on setting ownership objectives, targets and strategic direction for HHSs
- advice to shareholding Ministers so they can hold boards of HHSs accountable for delivering health and disability services while operating as successful and efficient businesses
- advice on the size and nature of the Crown's investment in HHSs
- managing the director appointment process and performance assessment of HHS boards
- advice on the impact and implementation of health policy options on HHSs and identifying policy options that will help meet the shareholders' ownership objectives.

Significant work completed during the year

- Managed the health provider sector on behalf of shareholding Ministers leading up to the November 1999 General Election and had major input into the health policy development for the incoming Government.
- Continued progress in improving HHSs' ability to pursue more efficient capital structures and make subsequent operating cost savings.
- Evaluated the business case for Auckland Healthcare's Health Services Delivery Plan and recommended that Ministers authorise major investments in new hospitals for both Auckland and Wellington.
- Reviewed and recommended that Ministers authorise other important and large healthcare developments.
- Facilitated the closure of a number of more difficult contracts in the 2000/01 Health Funding Authority and HHS contracting round.
- Continued to develop non-financial monitoring tools for HHSs and introduced the (Harvard University originated) Balanced Scorecard approach to the sector. The development included significant improvements in "consumer satisfaction" surveying and measurement.

By providing advice on the effective governance and management of the Crown's investment in HHSs, these outputs contributed to the Government goals of:

- restoring trust in Government and providing strong social services
- closing the gaps for Māori and Pacific people in health, education, employment and housing.

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/her 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.

1999/2000	PQs ¹	MCs	OIAs ²
Output Class D1:			
Estimated	600-700	800-1,000	25-35
Actual draft replies	236	180	19
% answered by due date	100	81	78

1 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.

2 All draft replies were referred to the Minister within the statutory deadline and 78% reached him prior to the purchase agreement deadline.

Quality

The Minister's 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 1999/2000 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

1999/2000 Actual (\$000)	4,235
Supp. Est. - Voted (\$000)	4,292
Main Est. (\$000)	4,292
1998/99 Actual (\$000)	3,939

(Figures are GST inclusive)

The appropriation for this output class was unchanged during the Supplementary Estimates.

Output class expenditure was \$57,000 or 1% under Supplementary Estimates.

Vote Crown Research Institutes

Output Class D1

Crown Company Monitoring Advice to the Minister for Crown Research Institutes

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

- providing advice on setting ownership objectives and targets for CRIs, strategic direction, the size and nature of the Crown’s investment in this sector, and residual implementation issues
- monitoring and advising Ministers of CRIs’ performance against these objectives and targets
- 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 to discuss its plan. SCIs were finalised and provided to the Minister's office for tabling in Parliament.

- Provided monitoring advice to shareholding Ministers on a quarterly basis, detailing both 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 of the applicability and benefits of economic value added reporting by CRIs.
- Completed a briefing to the incoming Minister for CRIs.
- Convened a working group to recommend a set of performance indicators for all CRIs to monitor the maintenance of human resource capabilities.
- Further 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. A successful new director induction seminar was held.

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

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.

1999/2000	PQs	MCs	OIAs
Output Class D1:			
Estimated	50-70	100-200	5-15
Actual draft replies	59	57	1
% answered by due date	97	95	100

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 1999/2000 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 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

1999/2000 Actual (\$000)	563
Supp. Est. - Voted (\$000)	743
Main Est. (\$000)	889
1998/99 Actual (\$000)	687

(Figures are GST inclusive)

The appropriation for this output class was decreased by \$146,000 in the Supplementary Estimates. The decrease was due to a fiscally neutral transfer to Vote SOEs to fund increased demands for SOE monitoring outputs.

Output class expenditure was \$180,000 or 24% under Supplementary Estimates due to greater use of internal resources than external consultants as forecast.

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) to the Minister for SOEs including:

- advising 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
- managing, on behalf of Ministers, the director appointment process and performance assessment of SOE and CROC boards.

Significant work completed during the year

- Provided advice on the asset revaluations undertaken by Meridian Energy Ltd, Genesis Power Ltd and Mighty River Power Ltd.
- Implemented the disestablishment of At Work Insurance Ltd.

- Advised on the provision of a subordinated Crown loan to Solid Energy Ltd, and on the subsequent refinancing package.
- Advised on the implications of Government forestry policy on Timberlands West Coast Ltd - including the impact of the cessation of beech harvesting and the proposal for an early end to rimu harvesting.
- Provided advice relating to a number of specific company proposals for acquisition and divestment of assets.
- Advised on Television New Zealand Ltd's proposed digital television strategy.

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

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.

1999/2000	PQs	MCs	OIAs
Output Class D1:			
Estimated	15	150	15
Actual draft replies	346	602	57
% answered by due date ³	-	-	-

³ Timeliness data was not accurately collected for Ministerial servicing in this output class. The process for collecting timeliness data has now been corrected.



CCMAU will report quarterly to the 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 1999/2000 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

1999/2000 Actual (\$000)	1,869
Supp. Est. - Voted (\$000)	1,916
Main Est. (\$000)	1,657
1998/99 Actual (\$000)	1,431

(Figures are GST inclusive)

The appropriation for this output class was increased by \$259,000 in the Supplementary Estimates. The increase was due to increased demands for monitoring outputs and was funded by fiscally neutral transfers from Votes Finance and CRIs.

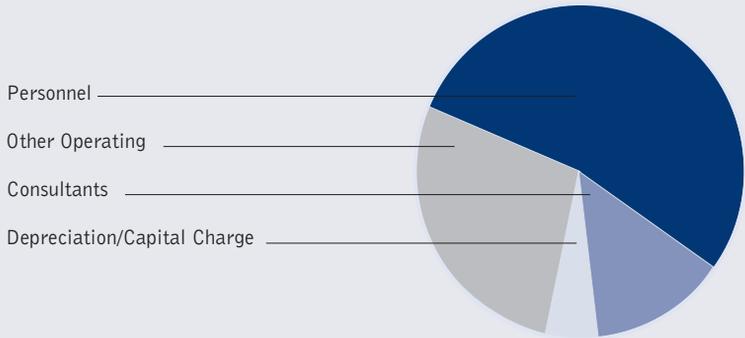
Output class expenditure was \$47,000 or 2% under Supplementary Estimates.

Financial Statements for 1999/2000 - Departmental

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Expenditure at a Glance

for the year ended 30 June 2000



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

Net output expenditure in 1999/2000 was \$3.9 million less than Supplementary Estimates forecasts. This variance was largely due to lower expenditure on consultants because more work was performed in-house, some projects started later than forecast, certain risks did not crystallise and the Capital Properties New Zealand Ltd second instalment receipts process cost less than forecast.

Expenditure on consultants was significantly lower in 1999/2000 than in 1998/99 due to several large asset divestments and the SOE establishment unit outputs being completed in 1998/99.

Statement of Financial Performance

for the year ended 30 June 2000

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

1998/99		1999/2000			
Actual (\$000)	Notes	Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)	
Revenue					
106,995	Crown (1)	51,604	55,530	55,476	
200	Other (2)	158	190	190	
61	Interest (3)	20	21	22	
107,256	Total Revenue	51,782	55,741	55,688	
Expenditure					
28,405	Personnel costs	29,299	29,799	29,574	
14,574	Operating costs (4)	13,163	13,238	13,418	
61,519	Consultants	6,949	9,957	10,215	
2,052	Depreciation	1,799	2,174	1,904	
645	Capital charge (6)	552	552	555	
107,195	Net Output Expenses	51,762	55,720	55,666	
343	Other expenses (7)	-	-	-	
107,538	Total Expenses	51,762	55,720	55,666	
(282)	Net Surplus	20	21	22	

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Movements in Taxpayers' Funds

for the year ended 30 June 2000

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.

1998/99		1999/2000		
Actual		Actual	Main	Supp.
(\$000)		(\$000)	Estimates	Estimates
			(\$000)	(\$000)
5,865	Taxpayers' funds brought forward as at 1 July	5,522	5,519	5,522
61	Net operating surplus	20	21	22
61	Total Recognised Revenues and Expenses for the Year	20	21	22
(343)	Change in provision for employee leave entitlements	-	-	-
(61)	Provision for repayment of surplus to the Crown	(20)	(21)	(22)
5,522	Taxpayers' funds as at 30 June	5,522	5,519	5,522

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Financial Position

as at 30 June 2000

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 1999		30 June 2000		
Actual (\$000)	Notes	Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
5,522	Taxpayers' funds	5,522	5,519	5,522
5,522	Total Taxpayers' Funds	5,522	5,519	5,522
Represented by:				
Current Assets				
2,918	Cash	3,398	3,710	1,707
3,000	Short-term deposits (8)	2,000	1,000	2,000
235	Advances and prepayments	357	544	141
128	Accounts receivable	54	102	55
7,194	Debtors - Crown	6,358	7,000	8,226
13,475	Total Current Assets	12,167	12,356	12,129
Non-Current Assets				
3,616	Fixed assets (9)	3,023	3,895	3,847
3,616	Total Non-Current Assets	3,023	3,895	3,847
17,091	Total Assets	15,190	16,251	15,976
Current Liabilities				
1,861	Payables and provisions	1,493	2,464	1,582
4,278	Provisions for accrued expenses	2,061	3,000	3,302
5,040	Employee entitlements (10)	5,710	4,878	5,169
61	Provision for repayment of surplus to the Crown	20	21	22
11,240	Total Current Liabilities	9,284	10,363	10,075
Term Liabilities				
329	Employee entitlements (10)	384	369	379
329	Total Term Liabilities	384	369	379
11,569	Total Liabilities	9,668	10,732	10,454
5,522	Net Assets	5,522	5,519	5,522

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2000

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 87.

1998/99		1999/2000		
Actual		Actual	Main	Supp.
(\$000)		(\$000)	Estimates	Estimates
		(\$000)	(\$000)	(\$000)
Cash Flows from Operating Activities				
<i>Cash was provided from:</i>				
112,381	Supply of outputs to the Crown	52,336	55,180	54,100
244	Supply of outputs to third parties	157	190	179
53	Interest	25	21	30
258	Net GST	(4)	350	344
112,936	Total	52,514	55,741	54,653
<i>Cash was disbursed to:</i>				
107,517	Production of outputs	51,139	52,994	53,990
645	Payment of capital charge	552	552	555
108,162	Total	51,691	53,546	54,545
Net Cash Flow from Operating				
4,774	Activities	823	2,195	108
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
80	Sale of fixed assets	16	16	-
<i>Cash was disbursed for:</i>				
2,104	Purchase of fixed assets	1,298	2,110	2,261
(2,024)	Net Cash Flows from Investing	(1,282)	(2,094)	(2,261)
Activities				
Cash Flows from Financing Activities				
<i>Cash was disbursed for:</i>				
72	Payment of surplus to the Crown	61	21	58
(72)	Net Cash Flows from Financing Activities	(61)	(21)	(58)
2,678	Net increase/(decrease) in cash held	(520)	80	(2,211)
3,240	Plus opening cash brought forward	5,918	4,630	5,918
5,918	Closing cash carried forward	5,398	4,710	3,707

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Reconciliation of Net Cash Flows

for the year ended 30 June 2000

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

1998/99 Actual (\$000)	1999/2000		
	Actual (\$000)	Main Estimates (\$000)	Supp. Estimates (\$000)
Surplus/(Deficit) from Statement (282) of Financial Performance	20	21	22
<i>Add/Less non-cash items:</i>			
2,052 Depreciation	1,799	2,174	1,904
329 Increase in non-current employee entitlement	55	-	50
- Fixed asset write-offs	10	-	-
<i>Movements in Working Capital Items</i>			
330 Decrease/(increase) in advances and prepayments	(122)	-	94
61 Decrease/(increase) in accounts receivable	75	-	73
5,386 Decrease/(increase) in debtor Crown	836	-	(1,032)
(1,478) Increase/(decrease) in payables and provisions	(2,519)	-	(1,003)
(1,627) Increase/(decrease) in other short-term liabilities	671	-	-
<i>Items Classified as Investing Activity</i>			
3 Net loss on sale of fixed assets	(2)	-	-
4,774 Net Cash Flows from Operating Activities	823	2,195	108

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Commitments

as at 30 June 2000

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 \$1,382,000.

The timing of operating and lease commitments is as follows:

30 June 1999 (\$000)		30 June 2000 (\$000)
4,836	Less than one year	5,318
4,368	One to two years	4,870
13,063	Two to five years	13,214
4,658	More than five years	-
26,925	Total	23,402

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Contingent Liabilities

as at 30 June 2000

As at 30 June 2000, the Department had no departmental contingent liabilities (30 June 1999: nil).

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Expenditure and Appropriations

for the year ended 30 June 2000

		1999/2000	
		Actual	Supp.
		Expenditure	Estimates
		(\$'000)	- Voted (\$'000)
The Treasury			
Vote Treasurer			
D1	Policy Advice: General Economic and Fiscal Strategies	3,693	3,782
D2	Economic and Fiscal Forecasting	3,742	4,033
D3	Sectoral Policy Advice	13,744	14,338
D4	Budget Management	1,365	1,522
D5	Debt and Financial Asset Management ⁴	6,102	6,524
Total Vote Treasurer		28,646	30,199
Vote Finance			
D1	Policy Advice: Revenue, Expenditure and Balance Sheet Management	9,395	10,118
D2	Policy Advice: Ownership and Performance of Crown Companies and Financial Institutions and Management of Crown Overseas Properties	3,767	4,097
D3	Management of Commercial Liabilities and Specific Claims Against the Crown	3,605	3,893
D4	Policy Advice: Crown Financial Management	3,682	4,307
D5	Crown Financial Reporting	2,049	2,147
D6	Implementation of Asset Divestments	421	914
Total Vote Finance		22,919	25,476

(Figures are GST inclusive where applicable)

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

⁴ 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 2000

		1999/2000	
		Actual	Supp.
		Expenditure	Estimates
		(\$000)	- Voted (\$000)
CCMAU			
Vote Health Service Providers			
D1	Crown Company Monitoring Advice to the Minister of Health	4,235	4,292
Vote Crown Research Institutes			
D1	Crown Company Monitoring Advice to the Minister for Crown Research Institutes	563	743
Vote State-Owned Enterprises			
D1	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	1,869	1,916

(Figures are GST inclusive where applicable)

The accompanying notes on pages 96 to 100 and accounting policies on pages 115 to 119 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2000

1 Revenue - Crown

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

2 Other Revenue

Actual 1998/99 (\$000)		Actual 1999/00 (\$000)	Main Estimates 1999/00 (\$000)	Supp. Estimates 1999/00 (\$000)
25	Rental income	32	37	24
175	Miscellaneous	126	153	166
200	Total Other Revenue	158	190	190

3 Interest

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

4 Operating Costs

These include:

Actual 1998/99 (\$000)		Actual 1999/00 (\$000)	Main Estimates 1999/00 (\$000)	Supp. Estimates 1999/00 (\$000)
4,549	Lease of premises	4,633	4,399	4,367
204	Fees to auditors for audit of the Department and NZDMO	200	203	198
108	Fees to auditors for audit of Crown Financial Statements	95	115	87
19	Fees to auditors for other services	26	-	-
(100)	Other write-offs	10	-	-
3	Gain/(loss) on sale of fixed assets (Note 5)	(2)	-	-
9,791	Other operating costs	8,201	8,521	8,766
14,574	Total Operating Costs	13,163	13,238	13,418

5 Gain/(Loss) on Sale of Fixed Assets

Actual 1998/99 (\$000)		Actual 1999/00 (\$000)	Main	Supp.
			Estimates 1999/00 (\$000)	Estimates 1999/00 (\$000)
5	Computer equipment	-	-	-
(12)	Motor vehicles	2	-	-
4	Furniture and fittings	-	-	-
(3)	Net Gain/(Loss) on Sale of Assets (Note 4)	2	-	-

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 1999/2000 was 10% (1998/99: 11%).

7 Other Expenses

Actual 1998/99 (\$000)		Actual 1999/00 (\$000)	Main	Supp.
			Estimates 1999/00 (\$000)	Estimates 1999/00 (\$000)
343	Provisions for retiring and long service leave	-	-	-

To comply with a change in GAAP, the provision for long service and retirement leave was calculated for the first time in 1998/99 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 resulted in a one-off adjustment in the 1998/99 financial year being recorded as an other expense. However, since 30 June 1999, movements in this provision have been recorded as output expenses.

8 Short-term Deposits

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

Actual 1998/99 (\$000)	Counterparty	Interest Rate	Term	Actual 1999/00 (\$000)
3,000	NZDMO	5.875%	14 days	2,000

9 Fixed Assets

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

As at 30 June 2000	Cost (\$000)	Accumulated Depreciation (\$000)	Net Book Value (\$000)
Furniture and fittings	491	440	51
Office machinery and electrical equipment	1,601	1,016	585
Computer equipment	7,663	5,789	1,874
Motor vehicles	-	-	-
Leasehold improvements	5,223	4,710	513
Total Fixed Assets	14,978	11,955	3,023

As at 30 June 1999	Cost (\$000)	Accumulated Depreciation (\$000)	Net Book Value (\$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
Total Fixed Assets	15,794	12,178	3,616

10 Employee Entitlements

Actual 1998/99 (\$000)		Actual 1999/00 (\$000)	Main Estimates 1999/00 (\$000)	Supp. Estimates 1999/00 (\$000)
Current Liabilities				
830	Retirement, resigning, long service and parental leave	805	668	780
1,688	Annual leave	1,782	1,688	1,766
454	Accrued salaries	762	312	38
2,068	Provision for performance bonuses	2,361	2,210	2,585
5,040	Total Current Liabilities	5,710	4,878	5,169
Term Liabilities				
329	Retirement and long service leave	384	369	379
329	Total Term Liabilities	384	369	379
5,369	Total Employee Entitlements	6,094	5,247	5,548

11 Financial Instruments

The Department is party to financial instrument arrangements as part of its everyday operations. These financial instruments include 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.

13 Post Balance Date Events

On 1 August 2000, the CCMAU Health Unit transferred to the Ministry of Health. As a consequence of this transfer, the unspent 2000/01 Vote HSP appropriation and outyear baselines, together with the Unit's assets, liabilities and taxpayers' equity were transferred to the Ministry of Health. The Treasury's taxpayers' equity was reduced accordingly by \$0.095 million.

Financial Statements for 1999/2000 - Non-Departmental

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Statement of Expenditure and Appropriations

for the year ended 30 June 2000

	1999/2000	
	Actual Expenditure (\$000)	Supp. Estimates - Voted (\$000)
The Treasury		
Vote Treasurer		
<i>Borrowing Expenses</i>		
Debt servicing ⁵	2,529,562	2,497,000
<i>Other Expenses</i>		
Overseas Investment Commission Honoraria	19	25
<i>Capital Contributions to Other Organisations</i>		
International financial institutions ⁶	72,991	170,000
<i>Purchase of Assets</i>		
Crown coin collection	-	5
<i>Repayment of Debt</i>		
ECNZ debt ⁷	101,170	101,170
Net domestic debt repayment ⁷	925,863	778,000
Net foreign debt repayment ⁷	158,479	549,000
Total Repayment of Debt	1,185,512	1,428,170
Total Non-Departmental Appropriations: Vote Treasurer	3,788,084	4,095,200

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

⁵ Expenses incurred pursuant to sections 60 and 61(1) of the Public Finance Act 1989.

⁶ Expenses incurred pursuant to section 5 of the International Finance Agreements Act 1961.

⁷ Expenses incurred pursuant to section 60 of the Public Finance Act 1989.

Commentary on Variances Over 5%

Vote Treasurer

Other Expenses

Overseas Investment Commission Honoraria

Total reimbursements were lower than expected.

Capital Contributions to Other Organisations

International financial institutions

The International Monetary Fund did not request any assistance with loan funding during the year.

Purchase of Assets

Crown coin collection

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

Repayment of Debt

Net foreign and domestic debt repayment

The variances are the result of the NZDMO's liquidity management requirements. These items are appropriated under Permanent Legislative Authority.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2000

	1999/2000 Actual Expenditure (\$'000)	Supp. Estimates - Voted (\$'000)
Vote Finance		
<i>Non-Departmental Output Classes</i>		
Management of the lease on Heaphy House	34	56
Operation & management of Crown overseas properties	539	900
Total Non-Departmental Output Classes	573	956
<i>Borrowing Expenses</i>		
Crown indemnities⁸	9,075	15,000
<i>Other Expenses</i>		
Compensation payments	20	908
Crown Forestry Management Ltd	10,666	13,000
Crown residual liabilities	241	863
Geothermal Trading	1,599	2,400
Heaphy House rental and related expenses	1,786	2,500
Heaphy House buy out of lease	8,863	8,863
Housing Corporation suspensory loan write-offs	27,000	27,000
Maui Gas Contracts	389,060	402,000
Operational expenses for Crown overseas properties	1,008	1,300
West Coast package	135,000	135,000
Unclaimed money ⁹	172	500
Total Other Expenses	575,415	594,334

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

⁸ Expenses incurred pursuant to section 59(4) of the Public Finance Act 1989.

⁹ 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 the lease on Heaphy House

The Crown exited from the lease in March 2000.

Operation and management of Crown overseas properties

The appropriation has a margin for exchange rate movements, which were not as great as expected.

Borrowing Expenses

Crown indemnities

A tax indemnity to the National Provident Fund was agreed at a lower level than expected.

Other Expenses

Compensation payments

Fewer settlements came to charge than expected.

Crown Forestry Management Ltd

The sale of forests to Ngai Tahu during the year reduced total operating expenses.

Crown residual liabilities

Fewer liabilities came to charge than expected.

Geothermal Trading

Operating expenses were lower than forecast.

Heaphy House rental and related expenses

The Crown exited from the lease in March 2000.

Maui Gas Contracts

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

Operational expenses for Crown overseas properties

The appropriation has a margin for exchange rate movements, which were not as great as expected.

Unclaimed money

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

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2000

	1999/2000	
	Actual Expenditure (\$000)	Supp. Estimates - Voted (\$000)
Vote Finance <i>(continued)</i>		
<i>Capital Contributions to Other Organisations</i>		
At Work Insurance	149,000	185,000
Housing Corporation loans	25,000	25,000
Quotable Value New Zealand	-	3,000
New Zealand Symphony Orchestra	3,000	3,000
Solid Energy	39,466	39,466
Taitokerau Forests Ltd	3,032	3,900
Total Capital Contributions	219,498	259,366
<i>Purchase of Assets</i>		
Development of Crown overseas properties	580	580
Geothermal Trading	1,010	1,100
Total Purchase of Assets	1,590	1,680
Total Non-Departmental Appropriations: Vote Finance	806,151	871,336

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

Commentary on Variances Over 5%

Capital Contributions to Other Organisations

At Work Insurance

The amount of capital required was reduced as a result of the change of government policy towards the company.

Quotable Value New Zealand

The company did not require the capital assistance that was budgeted for.

Taitokerau Forests Ltd

The company's loan requirements were less than forecast.

Purchase of Assets

Geothermal Trading

The cost of a new well drilled during the year was slightly less than forecast.

Statement of Expenditure and Appropriations (continued)

for the year ended 30 June 2000

	1999/2000	
	Actual Expenditure (\$000)	Supp. Estimates - Voted (\$000)
CCMAU		
Vote Health Service Providers		
<i>Capital Contributions to Other Organisations</i>		
Capital injections to HHSs	45,821	186,451
Loans to RHMU	-	500
Total Non-Departmental Appropriations: Vote Health Service Providers	45,821	186,951
Vote Crown Research Institutes		
<i>Other Expenses</i>		
Crown residual liabilities	84	100
Total Non-Departmental Appropriations: Vote Crown Research Institutes	84	100
Total Non-Departmental Appropriations: Managed by the Treasury	4,640,140	5,153,587

(Figures are GST inclusive where applicable)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

Commentary on Variances Over 5%

Vote Health Service Providers

Capital Contributions to Other Organisations

Capital injections to HHSs

Demand was much lower than forecast.

Loans to Residual Health Management Unit (RHMU)

No loans were requested during the year.

Vote Crown Research Institutes

Other Expenses

Crown residual liabilities

Fewer payments were required than forecast.

Crown Revenue and Receipts

for the year ended 30 June 2000

	1999/2000	
	Actual (\$000)	Budgeted ¹⁰ (\$000)
Vote Treasurer		
<i>Current Revenue</i>		
Interest on investments	415,408	374,000
Reserve Bank surplus	150,818	150,818
Total Current Revenue	566,226	524,818
<i>Capital Revenue</i>		
Stadium Trust loan repayment	3,803	3,803
Total Revenue: Vote Treasurer	570,029	528,621
Vote Finance		
<i>Current Revenue</i>		
Capital charge	1,043,759	1,041,443
Capital charge from Crown Health Service Providers	99,503	108,800
Contact Energy Crown margin	16,566	16,000
Dividends		
Crown entities	99,225	99,225
SOEs	335,275	331,163
Other dividends	9,727	9,727
EQC guarantee fee	10,000	10,000
Income from Crown trading entities	23,129	28,100
Interest		
Contact Energy	14,935	21,000
Housing Corporation	-	3,200
Other	4,320	5,210
Maui Gas Contracts	345,831	357,000
Net surplus from SOEs and Crown entities	157,701	221,740
Rentals from Crown overseas properties	16,334	15,758
Unclaimed money	1,491	500
Other current revenue	30,101	28,001
Total Current Revenue	2,207,897	2,296,867

(All figures are GST exclusive)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

¹⁰ The budgeted figures are those reported in the Supplementary Estimates.

Commentary on Variances Over 5%

Vote Treasurer

Current Revenue

Interest on investments

Interest on investments is higher than forecast due to higher interest rates and portfolio movements.

Vote Finance

Current Revenue

Income from Crown trading entities

The sale of Crown Forestry Management Limited forests to Ngai Tahu during the year reduced trading revenue.

Interest

Interest from Contact Energy

Actual interest rates applying to Contact's loans were lower than forecast.

Interest from Housing Corporation

The Housing Corporation of New Zealand (HCNZ) took up its loan from the Crown much later than forecast.

Interest from other

Some smaller loans were repaid earlier than forecast, reducing interest receipts.

Net surplus from SOEs and Crown entities

The three electricity companies formed from ECNZ were required to revalue their assets as at 30 April 2000. Whilst most of the movements were reported through the revaluation reserve there were some significant unforecast adjustments to net surplus.

Unclaimed money

This item cannot be forecast with any certainty.

Other current revenue

There was an un-forecast receipt of \$2 million from the United Nations for New Zealand's military assistance in East Timor.

Crown Revenue and Receipts (continued)

for the year ended 30 June 2000

	1999/2000	
	Actual (\$'000)	Budgeted ¹¹ (\$'000)
Vote Finance		
<i>Capital Revenue</i>		
Capital withdrawals from Crown companies	121,000	121,000
Contact Energy Crown margin	19,800	19,800
Loan repayments from Contact Energy Ltd	101,170	101,170
Loan repayments from HCNZ	29,000	29,000
Loan repayments from other parties	212	196
Sale of physical assets	45,193	45,193
Sale of investments	19,203	19,203
Total Capital Revenue	335,578	335,562
Total Revenue: Vote Finance	2,543,475	2,632,429
Vote Health Service Providers		
<i>Current Revenue</i>		
Interest from RHMU	6,566	7,400
RHMU surplus repaid to the Crown	2,055	2,255
Surplus from RHMU	(2,000)	2,000
Net surplus/(deficit) from HHSs	(10,421)	5,417
Total Current Revenue	(3,800)	17,072
<i>Capital Revenue</i>		
Repayments from RHMU	46,703	51,300
Total Revenue: Vote Health Service Providers	42,903	68,372
Vote Crown Research Institutes		
<i>Current Revenue</i>		
Net surplus from CRIs	17,000	11,646
Dividends from CRIs	4,750	4,750
Total Revenue Vote: CRIs	21,750	16,396
Total Crown Revenue Managed by the Treasury	3,178,157	3,245,818

(All figures GST exclusive)

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

¹¹ The budgeted figures are those reported in the Supplementary Estimates.

Commentary on Variances Over 5%

Vote Health Service Providers

Current Revenue

Interest from RHMU

Loans were repaid earlier than forecast, reducing interest receipts.

Surplus from RHMU

Lending activity in 1999/2000 was much lower than forecast, reducing the surplus.

Net surplus/(deficit) from HHSs

The final results include year-end adjustments, which are not forecast.

Capital Revenue

Repayments from RHMU

A small number of loans due to be repaid in 1999/2000 were extended.

Vote Crown Research Institutes

Current Revenue

Net surplus from CRIs

AgResearch made a significantly higher profit than forecast.

Statement of Trust Monies

for the year ended 30 June 2000

	As at 1/7/99 (\$000)	Contribution (\$000)	Distribution (\$000)	Revenue (\$000)	Expenses (\$000)	As at 30/6/00 (\$000)
Trustee Act 1956						
Trust Account	1,253	5	119	66	-	1,205

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 1999/2000, \$1,103 was paid to claimants and \$117,897 was transferred to the Crown revenue account. Interest of \$66,000 was earned from unclaimed money on term deposit.

Details of funds held in the account are gazetted annually.

The accompanying accounting policies on pages 115 to 119 are an integral part of these financial statements.

Statement of Accounting Policies

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 Inland Revenue at balance date, being the difference between Output GST and Input GST, is included in the Statement of Financial Position as either a payable or a receivable.

Income tax

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 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 2000.



Dr A E Bollard
Secretary to the Treasury

18 September 2000



John Matheson
Chief Financial Officer

18 September 2000

Report of the Audit Office

To the Readers of the Financial Statements of the Treasury for the Year Ended 30 June 2000

We have audited the financial statements on pages 35 to 68, and 75 to 119. The financial statements provide information about the past financial and service performance of the Treasury and its financial position as at 30 June 2000. This information is stated in accordance with the accounting policies set out on pages 115 to 119.

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 2000, the results of its operations and cash flows and the service performance achievements for the year ended 30 June 2000.

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
- 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.

We have performed assurance-related assignments for the Treasury. Other than these assignments 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 35 to 68 and 75 to 119:

- comply with generally accepted accounting practice *and*
- fairly reflect:
 - the financial position as at 30 June 2000
 - 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 18 September 2000 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

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

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.

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

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



Working papers added during 1999/2000 include:

2000

- 00/17 Management of Key Purchaser Risks in Devolved Purchase Arrangements in Health Care
by Jackie Cumming
- 00/16 Economic Explanations of Earnings Distribution Trends in the International Literature and Application to New Zealand
by Jeff Borland
- 00/15 A Preliminary Analysis of the Dynamics of Individual Market and Disposable Incomes
by Dean Hyslop
- 00/14 Does Benefit Receipt Affect Future Income? An Econometric Explanation
by Dean Hyslop
- 00/13 The Changes in New Zealand's Income Distribution
by Des O'Dea
- 00/12 Economic Geography - Key Concepts
by Sarah Box
- 00/11 Economic Geography and Spatial Statistics: Theory and Empirics of New Zealand Regions
by Suzi Kerr and Jason Timmins
- 00/10 A Theoretical Framework for Operational Risk Management and Opportunity Realisation
by Adrian Sparrow

- 00/9 New Zealand's Economic Growth
by David Galt
- 00/8 Securitisation: A Public Policy Tool?
by Nick Davis
- 00/7 Why Welfare Caseloads Fluctuate: A review of research on AFDC,
SSI, and the Food Stamps Program
by Susan E Mayer
- 00/6 Final Regression Results on the Cognitive Achievement of Children
in the Christchurch Health and Development Study with Corrections
for Attrition from this Longitudinal Study
by Dr George Barker and Dr Tim Maloney
- 00/5 Economic Regulation of Network Industries
by Brian Williamson and Yogita Mumssen - National Economic
Research Associates (London)
- 00/4 Allocating Vote: Health - 'Needs Assessment' and an Economics-
Based Approach
by Nancy Devlin and Paul Hansen
- 00/3 School Leaving, Labour Supply and Tertiary Education Choices of
Young Adults: An Economic Analysis Utilising the 1977-1995
Christchurch Health and Development Surveys
by Sholeh A Maani
- 00/2 Manual for the Long Term Fiscal Model
by John Woods
- 00/1 Finland and New Zealand: A Cross-Country Comparison of
Economic Performance
by Dave Frame

1999

- 99/12 Effective Tax Rates on Capital in New Zealand - Changes 1972-1998
by Alowin Moes
- 99/11 The Structure and Dynamics of Schools and Business: Do they face
similar issues?
by Veronica Jacobsen, Alex Duncan and Alister Hunt from Arthur
Andersen
- 99/10 The Privatisation of New Zealand Rail
by NZ Institute for the Study of Competition and Regulation Inc
- 99/9 Saving Rates and Portfolio Allocation in New Zealand
by Joint Working Group, Government officials and ISI