The Treasury Annual Report

2011/12

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Contents

The Treasury's Annual Report for 2011/12 has two functions:

- to communicate who we are, what we do and why our work matters, and
- to provide information to Parliament and the public so that we are transparent about how we have spent taxpayer dollars, and our process of prioritisation.

The first part of this report explains our mission, vision and values. It explains our journey through the 2011/12 year and what we see as the big issues for the near future. Further into the report, there is more detailed information about our performance and finances.

Chief Executive's Introduction

I was appointed Chief Executive of the Treasury at the beginning of the 2011/12 year. It was yet another time of change in the development of our nation and the international outlook. The impact of the global financial crisis on Europe, a general election in New Zealand and the ongoing effects of the Canterbury earthquakes on the economy have all challenged the Treasury. As a new leader, I have tried to bring a fresh perspective to these and all the rich and diverse issues that the Treasury advises on.

Like many government departments, the Treasury is looking hard at the way we do things. We are recruiting a more diverse range of people, and we are reaching out to benefit from other public and private sector expertise. I'm proud of how the Treasury has responded to challenges. It is a privilege working with such committed and talented people.

New Zealand's overall growth performance has been weak for some time. An income gap of around 30% to 40% separates us from many advanced countries. We have lost competitiveness relative to our trading partners, and we have imbalances in our economy. The global economy is being re-shaped around us and it is vital in the next decade that we make good decisions, take the right actions and make the most of opportunities presented to us.

Our vision is to be a world-class Treasury working towards higher living standards for New Zealanders. We have a unique position of responsibility and influence in the New Zealand public sector. Under my leadership we will not be shy about entering public debate. We will use our credible analysis and well-researched evidence to present a more complete picture of complex issues. Achieving our vision requires us to provide sound advice that policy-makers and the public can be confident about.

The Changing Shape of the Treasury

Everyone working at the Treasury has a role in helping to achieve higher living standards for New Zealanders. To succeed in their work, my staff need to be bold in their thinking and behaviour, coming up with innovative ways to work with each other, with other State sector agencies and with the private sector. And they need to be passionate about making a difference, challenging themselves and others to remain focused on what really matters, supported by evidence and rigorous analysis.

We're re-shaping ourselves to ensure that we have the right capabilities to deliver on the Government's priorities and to achieve our vision, on a smaller budget. Much of our re-shaping is occurring through changes in our culture, capability and capacity. We've taken a far more outward looking approach to our work, compared with previous years. We are, for example, testing the quality of our work with external economists, academics and commentators and collaborating with a number of other agencies to help the Government develop its Business Growth Agenda. We have also engaged with high school students via a competition that helped broaden our understanding, and theirs, of long-term issues that affect their future.

We've organised ourselves to create a higher performing Treasury that drives to achieve improved economic performance, a stable and sustainable macroeconomic environment and a more efficient and effective State sector. These outcomes are directly intended to improve New Zealanders' living standards.

Shaping the Treasury to be the most effective organisation it can be is one of my most important roles as leader. My vision is that the Treasury is an exciting and energetic hothouse of ideas. I want us to be powered by intellectual curiosity and focused on work that has a real and positive impact. I want us to be one of the most influential and respected organisations in the country. By implementing our workforce strategy, we will become bolder, more outwardly focused and collaborative, more diverse in our thinking and adaptive in our behaviours.

Living Standards Framework

A highlight of the Treasury's year is the development of our Living Standards Framework. As we increased our understanding of the component parts of living standards, we saw the need for a robust and flexible tool to assess the contributions our day-to-day work makes towards our vision. The Living Standards Framework doesn't generate simple answers but it ensures that we acknowledge that there are both material and non-material factors that impact on living standards. It ensures that we recognise and articulate the choices we have to make in striving for a growing economy. Our Living Standards Framework is a clear demonstration that the Treasury's view of the world is far broader than many people realise. It provides a solid foundation for our advice to Ministers, giving them greater confidence when making their decisions.

Growing the Economy

In our Briefing to the Incoming Minister (BIM), we advised that the most immediate impact on people's incomes comes from helping businesses succeed. The Treasury's work aims to help keep economic activity close to full employment levels, keep economic variability to a minimum and avoid abrupt adjustments when hit by shocks. That's because macroeconomic stability provides households and firms with the predictability and certainty they need to make good decisions about employment, saving, investing, innovating and pursuing opportunities.

We advised in our BIM that reform is needed across government policies relating to education, welfare, tax, regulation, science and innovation, infrastructure and natural resources in order to achieve economic performance that matches New Zealanders' aspirations. Our policy advice includes consideration of the impact of government policies on the macroeconomic environment. Our advice, evidence and partnership have helped a number of agencies get work underway that will help support economic growth.

We have contributed to the development of coordinated education and welfare policies such as the Youth Guarantee and Youth Services that support youth achievement. We have also contributed to tertiary education policies encouraging the retention, achievement and progression of students to higher levels of study.

Working with the Ministry of Social Development (MSD), we developed a reform programme that significantly changes New Zealand's approach to welfare, to get people back into work and participating productively in society. We helped complete the policy changes necessary for legislation to be drafted for welfare reform, and the Treasury will now monitor Work and Income to ensure effective implementation of the investment approach.

We're seeking to lift New Zealand's youth achievement and our analysis and evidence supported development of the Government's policy agenda for schools. We engaged with teachers and the broader education sector and provided evidence and analysis that contributed to public debate about the quality of teaching.

Better Public Services

Another highlight of the 2011/12 year has been the evolution of the Better Public Services programme. I was a member of the Better Public Services Advisory Group that reported to Ministers after the 2011 general election. The Government accepted the recommendations of the advisory group and the Better Public Services work programme is now one of its priorities.

The Government is committed to changes in the public service in order to achieve its priorities, and the Treasury is part of the corporate centre that, along with the State Services Commission (SSC) and the Department of the Prime Minister and Cabinet (DPMC), will drive and support this change. We're providing assurance to Ministers that the results they want will be delivered, and improving the management of financial resources across all of government. We're getting alongside public service agencies to help them work better with each other and to help them find practical and innovative ways to use their taxpayer-funded and owned resources, organising themselves and their finances around results that make a difference. With our cross-agency view, we can get other agencies to view their work in a wider context and therefore get a greater understanding of what the Government needs them to deliver.

Thank you to all the Treasury staff who apply their skills and passion to the work they do. I'm proud to see their efforts driven by a desire to contribute to higher living standards for New Zealanders.

Gabriel Makhlouf
Secretary to the Treasury
28 September 2012

Statement from the Treasury Board

The Treasury Board is a governance body that supports the Chief Executive and Executive Leadership Team (ELT) in their work to make the Treasury's organisational strategy, capability and performance contribute to the achievement of the Treasury's goals. The Board steers and endorses organisational strategy, tests key strategic decisions and holds ELT to account for its performance.

We believe that the Treasury's vision – to be a world-class Treasury working toward higher living standards for New Zealanders – is very compelling. We have confidence in the leadership and management of the organisation to deliver on this objective.

The Treasury started the year with a new Chief Executive and a relatively new ELT. We are pleased to see that these leadership arrangements have bedded in well over the year. The team has performed well in making the Treasury's vision and values meaningful for the organisation, its staff and its stakeholders.

While still having a way to go, the Treasury has made significant progress on its external profile and engagement with the public, businesses and policy-makers. It has performed effectively in advising the Government on key economic and State sector policy issues, and implementing high-priority government policies.

We look forward to seeing further progress on delivering on the organisation's vision, and ensuring it is driven by its values.

Non-executive Board Members

The Treasury Board is currently made up of three non-executive members, the Chief Executive and Deputy Chief Executive. We are in the process of recruiting an additional two non-executive members. Current non-executive members of the Board are:

Paul Baines

Paul Baines has a significant background in financial and strategic management. He sits on the boards of the Institute of Economic Research, the Todd Corporation and the New Zealand School of Music. He is a former Chair of Barnardos and has served on the boards of the Reserve Bank and Telecom. He is a member of the Government's Regulatory Responsibility Bill Taskforce.

Susan Macken

Susan Macken is an experienced company director and consultant. She is a director of the Bank of New Zealand, Fertility Associates and Ultimate Care Group Ltd. She is Chair of Crown research institute Environmental Science and Research.

Joan Withers

Joan Withers is a full-time company director with significant senior executive and corporate governance experience. She is Chair of Mighty River Power Ltd, Deputy Chair of Television New Zealand and Chair of Auckland International Airport Ltd. She has temporarily stood aside from the Board in order to avoid any perceived or real conflicts of interest created by her role as Chair of Mighty River Power Ltd.

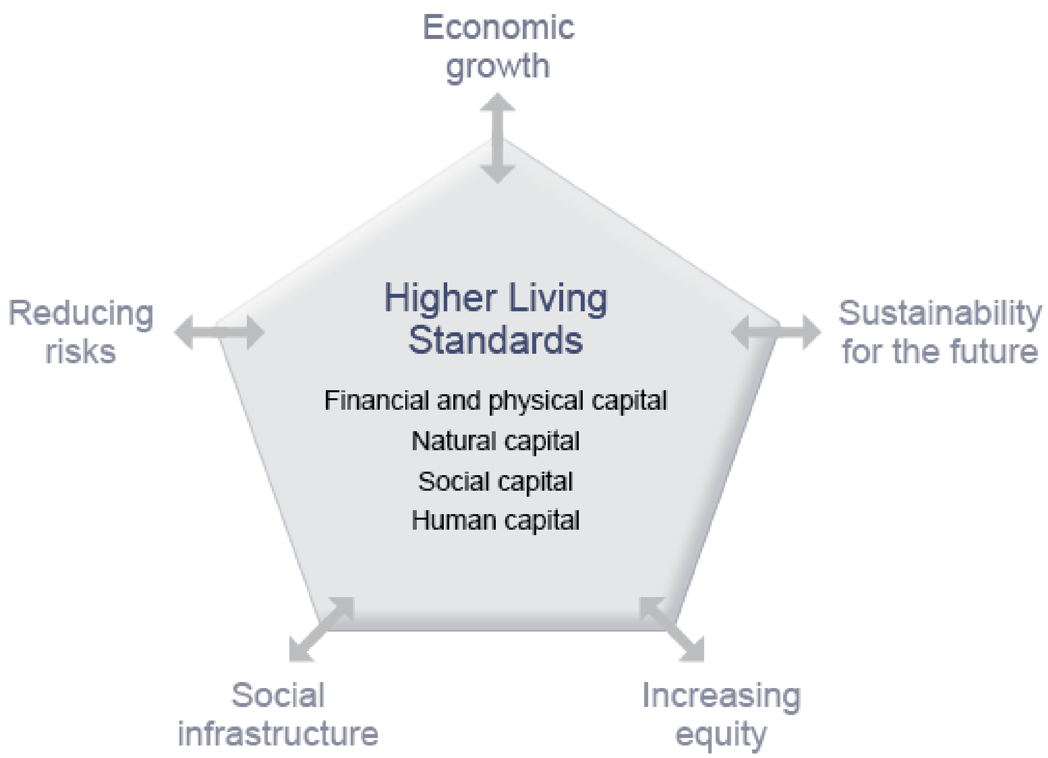
About Us

Our Vision – Higher Living Standards

The Treasury's overarching vision is to be a world-class Treasury working toward higher living standards for New Zealanders. We recognise that there are a number of factors underpinning living standards for every individual, and our Living Standards Framework identifies four essential factors that are essential to current and future living standards:

1. physical and financial resources such as infrastructure, housing and saved wealth
2. people's health, education and skills
3. social institutions and conventions that make our society work, and
4. natural resources such as a stable climate, quality water and biodiversity.

Assess the impact of policy across key living standards dimensions



The Treasury focuses on policies that increase the opportunities, capabilities and incentives for people to participate productively in economic life, and as the Government's lead economic and financial advisor we have a particular focus on the elements that improve the contribution of income to living standards. We also have an important role to play in supporting government agencies to build their capability to better deliver results now and in the future.

We've identified key outcomes that the Treasury and New Zealand need to achieve and organised ourselves to create a higher performing Treasury that drives to achieve: improved economic performance; a stable and sustainable macroeconomic environment; and a more efficient and effective State sector.

Detailed information about progress on each of the outcomes is included on pages 18 to 33.

Our People and Our Values

Every person working at the Treasury has a role in helping to achieve higher living standards for New Zealanders. The Treasury's staff bring specialist skills and expertise to the varied and complex challenges of government. We bring policy expertise and operational smarts to the table. We have the ability to pick up complex projects. We understand the power of strong stakeholder relationships so we work hard to develop and maintain them. The way we think and work is driven by behavioural norms and expectations reflected in the organisational values we collectively hold dear. To be successful, the values that all Treasury employees strive to uphold are:

- Bold and innovative. We will never achieve what we want unless we generate, and act on, new ideas and challenge the status quo.
- Passionate and ambitious. We need to attract, retain and motivate the best people, challenge them, treat them exceptionally well and keep them focused on significant work.
- Collaborative and challenging. We must work with others to achieve our outcomes – maintaining the rigour and analytical excellence that is our traditional strength, coupled with a collaborative approach that gets things done in the real world.
- Adaptable and focused. We do a lot of complex and important work, so we need to focus on what really matters, look beyond our own boundaries and common ways of working and shift gears when we need to.

Higher living standards for New Zealanders

Our goals:

- Improved economic performance
- A more effective and efficient State sector
- Stable and sustainable macroeconomic environment
- High-performing Treasury

Our roles:

- Navigators for overall economic and State sector direction setting
- Problem solvers where we need to be, fulfilling a Central Agency role
- Exemplars for wider State sector in organisational approach
- Experts in core roles such as macroeconomics and public sector management

Our values:

Bold and innovative

- We use new and different ways of thinking about and doing things
- We know where we can take measured risks – and take them

Passionate and ambitious

- We treat people with respect
- We behave constructively towards others
- We set challenging but achievable goals that will make a real impact for New Zealand

Collaborative and challenging

- We work in collaboration with others to achieve our outcomes
- We base our advice in expert analysis, research and reasoning
- We are open-minded, seeking out, listening to and understanding the views of others

Adaptable and focused

- We focus on what matters most
- We adapt our thinking and our work when it is right to do so
- We stay the course, seeing things through from ideas to implementation

The Treasury's Functions

The Treasury has five different roles:

1 Economic

We are the Government's lead economic advisor, concentrating on policy areas that have a significant impact on the economy. This includes leading improvement of the quality of regulation, removing barriers to growth and barriers to increased productivity.

2 Financial

We are the Government's lead financial advisor. We manage the financial affairs of the Crown, concentrating on issues that have significant fiscal implications on public sector financial management and standards.

3 Central agency

We form part of the State sector's Corporate Centre, along with SSC and DPMC, actively working with State sector agencies to improve their performance by helping them to organise themselves, their finances and their work around results that make a difference. Together we assist the Government to develop its strategy for the State sector and manage significant issues.

4 Performance monitoring

We monitor the performance of State sector agencies, including State-Owned Enterprises (SOEs) and Crown Financial Institutions (CFIs), and work with them to improve performance.

5 Commercial policy and operations

We provide policy advice on commercial matters such as financial markets, insurance, or asset utilisation and provide financial operational services through the New Zealand Debt Management Office (NZDMO), the New Zealand Export Credit Office (NZECO) and the Commercial Transactions Group.

The Way We're Organised

Executive Leadership Team

Gabriel Makhlouf Secretary & Chief Executive (CE)	Catherine Atkins Deputy Secretary (DS), Strategy, Change & Performance	Brendon Doyle DS, Financial Operations	Dr Girol Karacaoglu DS, Macroeconomics, International & Economic Research/ Chief Economist	Andrew Turner DS, Crown Ownership Monitoring Unit
Vicky Robertson Deputy Chief Executive (DCE)	John Crawford DS, Commercial Transactions	Richard Forgan DS, Budget & Public Services	Peter Martin DS, Growth & Public Services	Fergus Welsh Chief Financial Officer/ Chief Accountant

Strategy, Change & Performance**
- Business Support
- Communications
- Legal
- Ministerial Advisory Service
- Office of the Executive

Chief Financial Officer/ Chief Accountant**
- Fiscal Reporting
- State Sector Productivity

Macroeconomics, International & Economic Research*
- Economic & Fiscal Modelling
- Economic Research & Analysis
- Financial Markets
- Forecasting & Monitoring
- International
- Macroeconomic & Fiscal Policy

Growth & Public Services*
- Economic Performance Overview & Coordination
- Education & Skills
- Labour Market & Welfare
- National Infrastructure Unit
- Natural Resources
- Regulatory Quality
- Tax Strategy

Budget & Public Services*
- Earthquake Coordination
- Fiscal Management
- Health & Housing
- Justice & Security
- State Sector Management

Central Agencies Shared Services (CASS)**
- Finance
- Human Resources
- Information & Technology

Financial Operations**
- Debt Management Office
- Export Credit Office

Commercial Transactions**
- Commercial Transactions Group
- Deposit Guarantee Schemes

Crown Ownership Monitoring Unit**
- Crown Ownership Monitoring Unit
- Sector Performance & Balance Sheet

* Reports to CE
** Reports to DCE

Note: Positions are as at date of publication. Brief biographical information about the Treasury's ELT is on pages 121 to 122.

The Work We Do

Highlights of the Year

More detail about progress on achieving our outcomes is included on pages 18 to 33 but the most significant highlights of the 2011/12 year are:

- Living Standards Framework. We extended our work on the Living Standards Framework, developing a tool to assess the trade-offs involved in our recommendations to the Government. This tool enables us to provide higher-quality advice.
- Better Public Services. As a Central Agency, the Treasury worked with SSC and DPMC to help the Government determine its priorities for better public services. Action to achieve better public services now forms a core plank in the Government's programme and the three Central Agencies are now working closer together as a "Corporate Centre" for the State sector, to drive and support the Better Public Services programme goals.
- Growth Agenda. Advice and evidence that we provided to the incoming Government after the 2011 general election, and our work with other agencies, led to development of the Government's Business Growth Agenda. A number of agencies now have action under way to help support growth.
- Welfare Reform. Working collaboratively with MSD, we developed a reform programme that significantly changes New Zealand's approach to welfare. The investment approach established for the future will help get people back into work and participating productively in society.
- Fiscal Discipline. We provided analysis, policy advice and implementation advice that enabled the Government to deliver on its fiscal strategy during difficult and uncertain economic times, including helping the Government deliver a second near-zero Budget as part of its strategy to return to fiscal surplus in 2014/15.
- Borrowing Programme. NZDMO issued $13.5 billion worth of government bonds. The government bond maturity in November 2011 was repaid in full ($8.7 billion).
- Education. Our analysis and evidence supported development of the Government's policy agenda for schools. We engaged with teachers and the broader education sector. We provided evidence and analysis that contributed to public debate about improving the quality of teaching.
- Mixed Ownership Model. The Treasury's new Commercial Transactions Group made significant progress on preparing for the Mixed Ownership Model for the four energy SOEs and Air New Zealand. After the 2011 general election we provided advice to the incoming Government, assisted with the development of enabling legislation enacted by Parliament and helped Mighty River Power prepare itself for a public share offer.
- CASS. Working with SSC and DPMC, we created the Central Agencies Shared Services (CASS) agency in March. CASS provides back-office functions to all three Central Agencies, demonstrating our commitment to working together to deliver better public services, and our willingness to set the benchmark in terms of best practice shared services.
- Building the Treasury for the Future. In addition to CASS, we've put effort into shaping the Treasury for the future. Using learnings from external Peformance Improvement Framework (PIF) reviews, we are taking a longer-term view, developing and implementing a workforce and diversity strategy, four-year plans and have put in place a new financial information system that provides managers with information in a more timely manner to support effective decision-making.

Looking Ahead

The dynamic times that we live in present both challenges and opportunities for the Treasury, with some big issues facing us in the near future. These include:

- Making the most of uncertainty and change. The formation of new trade blocs and alliances, innovative ideas and the march of technology are changing the way that business is done. Ongoing volatility in Europe is causing investors to be wary of excessive government debt. Financial markets remain volatile. The dynamic environment creates opportunities for New Zealand too. The world's economic centre of gravity is shifting closer to us, demand for our commodities is likely to remain high, technology is reducing the tyranny of distance and New Zealanders are reducing their debt to levels they consider more prudent. The Treasury will continue to monitor international developments and local economic indicators so we can help the Government create appropriate policies to counter these challenges and benefit from the opportunities.

- The Growth Agenda. New Zealand needs sustainable growth in incomes in order to achieve higher living standards. We'll continue to recommend improvements in tax and regulatory settings, we'll seek greater integration and connections with the global economy's resources, knowledge and economies of scale, and we'll seek enhanced skills and labour productivity as part of the plan to grow the economy.

- Fiscal discipline. A stable fiscal environment is important for New Zealand's future. The Government has set ambitious fiscal targets. By working to improve the State sector's performance, providing advice on fiscal policy, publishing the *Long-term Fiscal Statement* and managing the Government's budget and the Crown's balance sheet, we'll help New Zealand return to a sustainable surplus. This will restore the buffer provided by low debt, improving the country's ability to cope with future adverse events and providing this and future governments with a greater range of options to deliver public services.

- Better Public Services. People expect better public services, delivered to them in more accessible, responsive and flexible ways. State sector agencies need to change the way they deliver their services. We'll continue to work collaboratively in the Corporate Centre to find innovative ways of driving value in the State sector. We'll help agencies find new ways to work, behave and interact with each other and with New Zealanders.

- A higher performing Treasury. We'll continue striving to be a world-class Treasury that will be among the most influential and respected organisations in the country, where the best people come to do ambitious and innovative work built on quality analysis and excellent implementation. We'll achieve this within the budgets necessary in the fiscally constrained public sector.

State of the Economy

International comparisons of income, productivity and the quality of institutions comprise a wide set of indicators and are produced by a number of organisations.

The *Economic Development Indicators* report produced by the Ministry of Business, Innovation and Employment (MBIE), the Treasury and Statistics New Zealand includes a large number of such indicators, benchmarking New Zealand against the Organisation for Economic Co-operation and Development (OECD) countries and more recently, Australian states. Reports have been published in 2003, 2005, 2007 and 2011. Organisations such as OECD and the International Monetary Fund (IMF) regularly comment on New Zealand's economic performance and, to varying degrees, on the quality of policies and institutions.

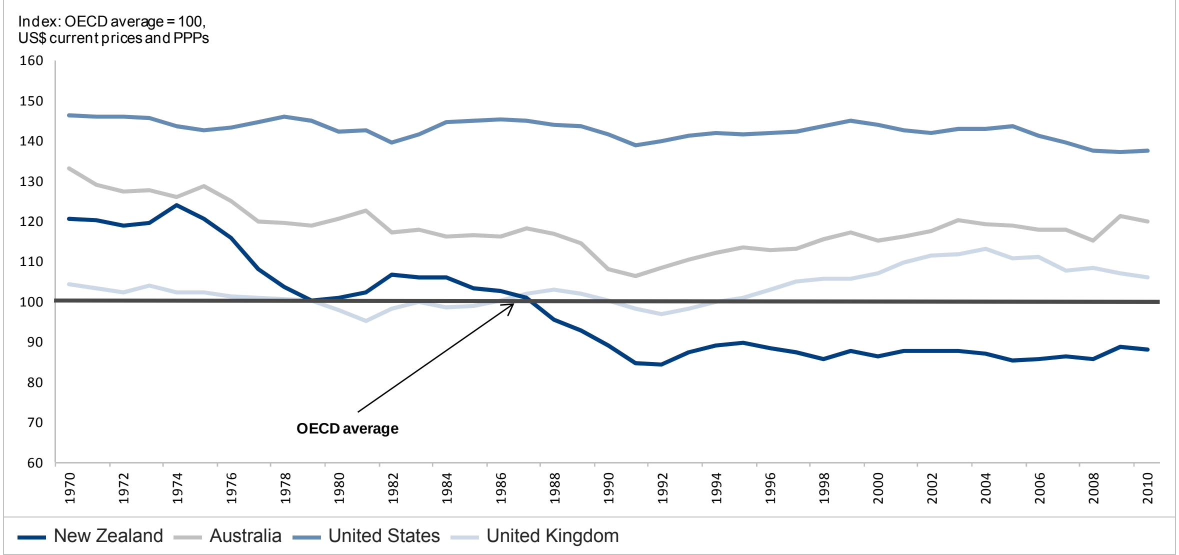
Given the wide range of existing reporting, we see the main features of the Treasury's annual reporting as comprising:

- an update of key indicators for income, productivity and quality of institutions, and
- external commentary on progress being made to improve the quality of institutions and raise productivity and income.

The most recent policy assessments from IMF and OECD are summarised in the tables below.

The decades-long decline in New Zealand's gross domestic product (GDP) per capita relative to the OECD average stabilised from the 1990s. Over the 1990s and 2000s, GDP per capita increased at around the same pace as the average OECD country.

GDP per capita as a proportion of OECD mean; 1970 to 2010



Source: OECD

The gap in New Zealand's GDP per capita reflects a gap in the level of labour productivity (output per hour) with some offset created by slightly higher than average labour utilisation (hours worked per capita). Since the mid-1990s, the period over which comparable official productivity statistics for Australia and New Zealand are available, labour productivity growth in New Zealand has been below Australia's. While growth in New Zealand's multifactor productivity has been slightly ahead of Australia's, the capital-to-labour ratio in Australia has grown twice as fast.

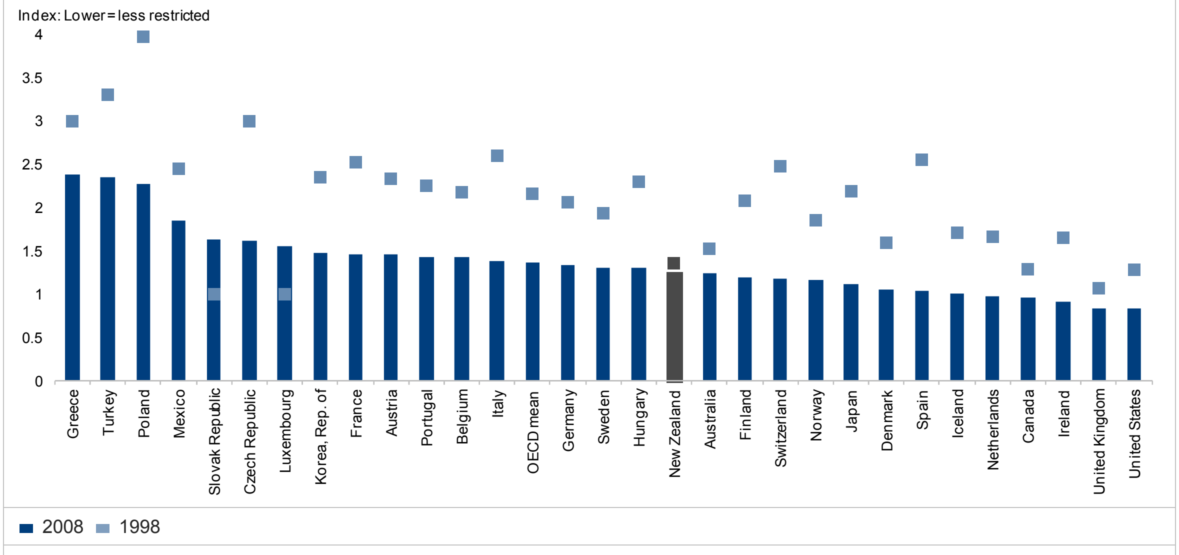
Australia and New Zealand productivity growth		
Australia's MFP16 and New Zealand's measured sector. Average annual growth rates, percent: 1996 to 2011		
	Australia	New Zealand
Output	3.5	2.5
Labour input	1.5	1.1
Capital input	5.3	2.9
Labour productivity	2.0	1.4
Multifactor productivity	0.4	0.6
Capital-to-labour ratio	3.7	1.8

Source: Statistics New Zealand

There are a number of indicators about the quality of New Zealand's institutions, including the International Institute for Management Development (IMD) *World Competitiveness Yearbook;* the Heritage Foundation Index of Economic Freedom; the World Bank Doing Business Database; and OECD cross-country product market regulation surveys. Many of these are included in the *Economic Development Indicators* report.

In terms of the quality of the regulatory framework for business, New Zealand has lost ground over the past decade, compared with other countries.

Product market regulation – selected countries; 1998 and 2008



Source: OECD

While we might expect leading sources of indicators to produce similar results, there are often differences owing to the choices made by those preparing cross-country comparisons. In many cases there is no single "best" indicator. The Treasury is working on how to measure and report on international competitiveness, and the quality of regulatory policy and institutions. We are also working with Statistics New Zealand, MBIE and the Productivity Commission to improve our understanding of alternative economic performance data.

Some of the indicators reported here provide additional context to those set out in the Outcome Performance section of this *Annual Report*. These economic indicators, together with the broader assessment of New Zealand's institutions, are also relevant for the Living Standards Framework discussed previously. We expect the scope of annual reporting on economic performance and quality of institutions to expand somewhat over time as new information emerges and our understanding of the various indicators improves.

IMF 2012 Article IV Consultation: Summary of policy recommendations

Monetary policy
The current accommodative monetary stance is appropriate. If the recovery remains on track and downside risks dissipate, monetary policy will need to tighten gradually to contain inflationary pressures. However, if the global recovery stalls or international capital markets are disrupted, the Reserve Bank of New Zealand (RBNZ) has scope to cut the policy rate and provide liquidity support for banks.
Fiscal policy
The authorities' plan to return to budget surplus by 2014/15 should put New Zealand in a better position to deal with future shocks and the long-term costs of ageing. Moreover, it will relieve pressure on monetary policy and thereby the exchange rate, helping contain the current account deficit over the medium term. New Zealand's relatively modest public debt gives the authorities some scope to delay their planned deficit reduction path in the event of a sharp deterioration in the economic outlook.
External vulnerabilities and the exchange rate
Increasing national saving, including through the planned fiscal deficit reduction, would reduce external vulnerability.
Financial sector issues
While New Zealand's bank regulatory norms are more conservative than in many other countries, the authorities should assess on an ongoing basis the balance between banking sector vulnerability versus efficiency to minimise the risk that systemically important banks pose to the economy. Options to strengthen prudential norms if needed could include setting banks' capital requirements above the Basel III minimum or raising the core funding ratio more than the planned 75% to reduce short-term external debt further. RBNZ's continued work on the costs and benefits of macroprudential measures is welcome, as is the authorities' intention to implement key features of Basel III in early 2013.

Summarised from: IMF Executive Board Conclusion of 2012 Article IV Consultation with New Zealand, Public Information Notice (PIN) No.12/55

OECD Economic Survey of New Zealand 2011: Summary of policy recommendations

Reducing imbalances
- Return to fiscal surplus as soon as possible. - Consider whether further changes are needed to strengthen the existing fiscal framework to reduce the risk of pro-cyclical fiscal policy in the next upswing (eg, expenditure ceiling or independent fiscal watch dog). - Target a larger surplus in the medium term than the 2% of GDP signalled in the Half-year Economic and Fiscal Update (HYEFU). - Align the top corporate, capital and labour income tax rates at lower levels, or adopt dual income tax approach. - Reduce the tax on non-housing savings as long as New Zealand does not have a capital gains tax. - Tax the real component of interest income instead of nominal interest income. - Increase the retirement age, move to partial price indexation of NZ Superannuation and remove KiwiSaver subsidies.
Housing
- Introduce a capital gains tax, or at least reduce the ability to use tax losses on investment properties to reduce tax liabilities elsewhere (loss ring-fencing), or reduce taxation of alternative savings vehicles and introduce higher property taxes or land tax. - Extend regular needs reassessments to all existing tenants, to enhance the capacity for social housing to match household requirements.
Regulatory governance
- Further strengthen regulatory governance (eg, greater use of periodic review and sunset clauses, requiring clearer net public benefit justifications for any regulatory restrictions on competition), and passing a “suitably refined Regulatory Responsibility Bill”. - Need more political will to further embed, and make more disciplined use of, the regulatory management system, to change the regulatory culture within government.
Competition
Government intervention in network sectors needs to be more transparent and predictable. New Zealand’s competition policy framework needs updating, including: - stronger accountability on regulators through periodic independent assessments - giving the Commerce Commission a “wider range of interventions” (especially remedial orders, payment of damages, compensation and public warnings) - having ex post evaluations of Commerce Commission decisions, to act as an audit of their performance, and - harmonising anti-monopoly law with Australia or OECD best practice (s.36 and criminalising cartels).
Policy alignment and harmonisation
Increase policy harmonisation and mutual recognition of standards with Australia, and other counterparts where appropriate.
State-Owned Enterprises
If full privatisations are not feasible, partially float SOEs to improve commercial discipline and transparency.
Foreign direct investment
Amend the investment screening regime to provide greater clarity and certainty for foreign investors. In particular, ministerial veto powers should be removed.

Summarised from: OECD (2011), *OECD Economic Surveys: New Zealand 2011*, OECD Publishing.
http://dx.doi.org/10.1787/eco_surveys-nzl-2011-en

The Treasury's Performance Framework

The Treasury's Vision, Outcomes and Intermediate Outcomes

Our Vision: A World Class Treasury Working Towards Higher Living Standards for New Zealanders

Our Outcomes and Vision

Improved Economic Performance

To materially narrow the income gap between New Zealand and the most advanced economies will require average GDP growth per capita of 2% to 3% over the next five years, ultimately rising to 4%.

For a country of New Zealand's size, much of this growth will need to be driven by strong export performance.

A More Effective and Efficient State Sector

The quality of expenditure, regulation and other interventions by State sector agencies has a significant impact, both good and bad, on the incomes, opportunities and general wellbeing of New Zealanders.

A high-performing State sector is one that is effective, efficient and affordable.

A Stable and Sustainable Macroeconomic Environment

Extended periods of strong economic growth are not sufficient to ensure higher living standards for the current and future generations – the macroeconomic environment needs to be both stable and sustainable to deliver broad and enduring prosperity.

Our Intermediate Outcomes

Improved Business Environment

- The Treasury's work aims to influence the quality of New Zealand's tax, regulatory, infrastructure and other policy settings that make New Zealand an attractive place to do business.

New Zealand has a More Internationally Competitive Economy

- The Treasury provides economic strategy advice on improving our international competitiveness, seeks to develop and maintain effective international relationships in order to influence policy-making in other countries and provides Export Credit Guarantees to increase exports.

Enhanced Human Capital and Labour Supply

- Skills influence productivity and growth. The Government is pursuing a broad and interconnected agenda on youth achievement. The Treasury can support the achievement of this agenda by helping the Government weigh fiscal, economic and social objectives of proposals. We are also the joint lead on welfare reform designed to help get people back into work and participating productively in society.

State Institutions Deliver Sustained Performance Improvement in Results and Capability

- As a Central Agency, the Treasury provides advice on the design of State institutions and supports, and sometimes leads, changes to these. We provide the Government with advice on the economic and fiscal implications of proposed and existing government interventions so that the Government has confidence they do the right things in the right way. We work with agencies to build their capability to deliver better results both now and in the future.

The Crown Balance Sheet is Managed Efficiently and Effectively

- The State manages over $220 billion worth of assets. The Treasury provides advice on the composition and shape of the Crown's balance sheet, monitors the entities the Crown owns and raises debt on behalf of the Crown.

Fiscal Position Returned to a Sustainable Footing

- The Treasury seeks to help the Government reduce the fiscal deficit and reduce net government debt back to prudent levels.

A Stable Macroeconomic Environment

- The Treasury aims to help the Government reduce the risk of an abrupt negative economic adjustment.

The Treasury's Outputs and Appropriations

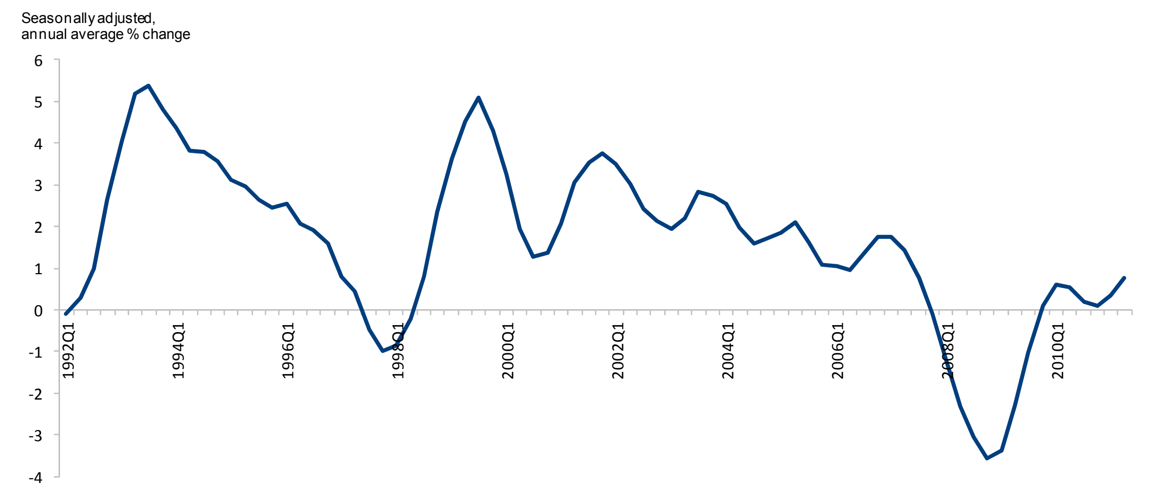
Outputs	Appropriations
Improved Business Environment ▸ First opinion policy advice on tax policy, the regulatory quality system, infrastructure frameworks, medium-term economic growth strategy ▸ Second opinion policy advice on key regulatory sectors, including better devolved management of our natural resources ▸ Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements, including Regulatory Impact Statement assessments	▸ Policy Advice – Finance ▸ Infrastructure Advice and Coordination ▸ Management and Administration of Financial Operations on Behalf of the Crown ▸ Provision of Financial Services to the New Zealand LGFA
New Zealand has a More Internationally Competitive Economy ▸ First opinion policy advice on International Financial Institutions (IFIs) and investment, and on medium-term economic growth strategy ▸ Second opinion policy advice on New Zealand's offshore presence ▸ Provision of export credit	▸ Policy Advice – Finance ▸ Management and Administration of Financial Operations on Behalf of the Crown
Enhanced Human Capital and Labour Supply ▸ Jointly lead the welfare reform programme ▸ Second opinion policy advice on education, schooling, youth achievement	▸ Policy Advice – Finance
State Institutions Deliver Sustained Performance Improvement in Results and Capability ▸ First opinion policy on institutional settings and the public management system ▸ Implementation of the Better Public Services reforms ▸ Second opinion policy advice on agency interventions ▸ Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements and to lift performance ▸ Monitoring advice on the performance of key departments and key areas of expenditure	▸ Policy Advice – Finance ▸ Infrastructure Advice and Coordination ▸ Shared Support Services
The Crown Balance Sheet is Managed Efficiently and Effectively ▸ First opinion policy advice on balance sheet management, Crown ownership, SOE governance and policy settings, Public Private Partnerships (PPPs), Capital Asset Management (CAM) framework ▸ Implementing the Mixed Ownership Model ▸ Monitoring advice and board appointments ▸ Managing New Zealand's debt ▸ Managing any residual issues arising from the expired Deposit Guarantee Scheme (DGS)	▸ Policy Advice – Finance ▸ Infrastructure Advice and Coordination ▸ Management and Administration of Financial Operations on Behalf of the Crown ▸ PLA funded outputs ▸ Crown Company Monitoring Advice to Ministers ▸ Extending and Implementation of Mixed Ownership Model
Fiscal Position Returned to a Sustainable Footing ▸ First opinion policy advice on fiscal policy, strategy and frameworks; fiscal reporting frameworks; and balance sheet management ▸ Fiscal monitoring, reporting and forecasting, including the production of the Crown financial statements and the *Long-term Fiscal Statement* ▸ Budget production ▸ Managing New Zealand's debt	▸ Policy Advice – Finance
A Stable Macroeconomic Environment ▸ First opinion policy advice on macroeconomic strategy; fiscal policy, strategy and frameworks; and financial stability ▸ Research and advice on savings policy ▸ Economic and fiscal monitoring, reporting and forecasting ▸ Second opinion policy advice on policies that impact on the macroeconomic environment	▸ Policy Advice – Finance

Our Outcome Performance

Improved Economic Performance

New Zealand's average GDP per capita growth for the past six decades has been poorer than all other OECD countries. In order to maintain New Zealand's living standards we need to materially narrow the income gap between New Zealand and the most advanced economies. New Zealand's economic growth performance relative to other countries is improving, albeit slowly.

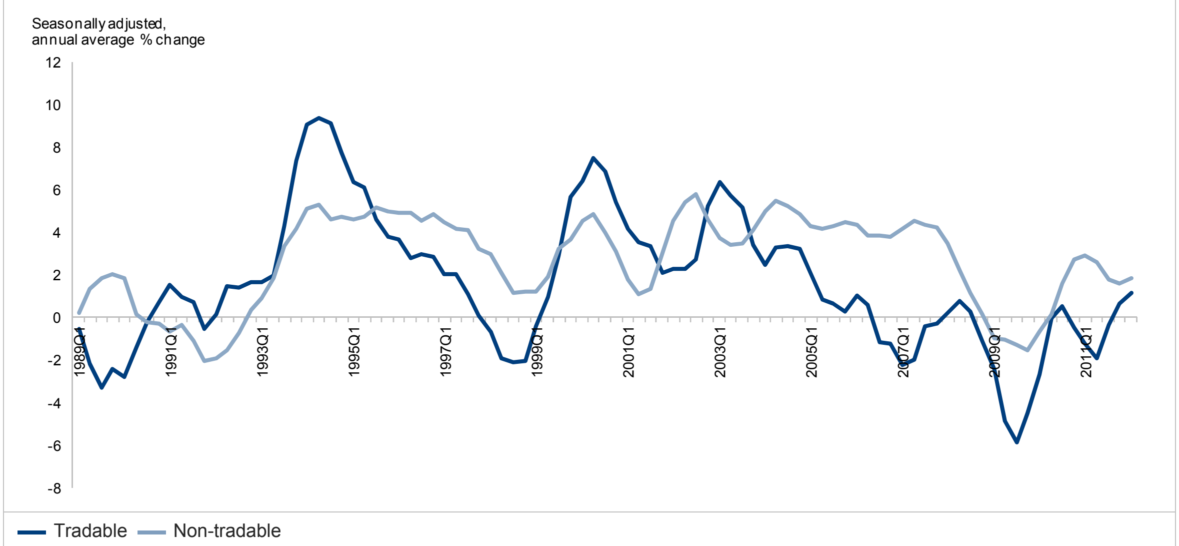
New Zealand real per capita GDP growth



Source: Eviews Databases – Statistics New Zealand

For a country of New Zealand's size, much of this growth will need to be driven by strong export performance as reflected in tradable sector growth, which is also improving but still lags behind non-tradable sector real GDP growth.

New Zealand real tradable and non-tradable GDP growth



Source: Eviews Databases – Statistics New Zealand

To achieve improved economic performance requires policy changes with the potential to lift productivity across the economy and support a substantial lift in export performance. The Treasury provides policy advice that focuses on three intermediate outcomes that will contribute towards improved economic performance.

Intermediate Outcome: Improved Business Environment

New Zealand's business environment needs to strongly outperform other countries to overcome the disadvantages of size and distance. Our business investment as a percentage of GDP remains below the OECD average (for the five years ending 2010 the New Zealand average was 10.4% compared to an OECD average of 11.2%), while our business expenditure on research and development (R&D) has been growing faster than the OECD mean but from a much lower base. It increased from 0.47% of GDP in 2006 to 0.54% in 2010 while the OECD average in 2008 was 1.63%.

The Government impacts on the business environment particularly through its policies relating to education, welfare, tax, savings incentives, regulation, science and innovation, infrastructure and the management of natural resources. The Treasury has provided policy advice in all of these areas, with a particular emphasis on tax, regulatory quality, savings and infrastructure; along with providing advice on priorities for medium-term economic growth strategy.

We have worked in a collaborative way with a number of other government agencies to create a shared view across State sector economic agencies on economic strategy (the *Internationally Focused Growth Strategy*). This assisted the Government to develop its Business Growth Agenda and 120-action plan. We undertook research on taxation which improved the evidence base around the impact of potential changes to the taxation of savings and investment.

The *National Infrastructure Plan* was well received by the business sector, which saw it as a good assessment of the issues in the sector and demonstration of government focus on this area. We engaged with various sector groups to test its thinking and these groups have provided cooperation and advice about progress on the implementation plan. The *National State of Infrastructure Report* has now been linked to the Government's *Business Growth Agenda Infrastructure Report*, with both now scheduled for publication in September 2012 – we have been testing the content of both reports with business and local government representatives.

Through our role in assessing major Regulatory Impact Statements and by helping to build agency capability, we have seen the proportion of significant Regulatory Impact Statements meeting most or all of Cabinet's regulatory impact analysis requirements rise from 60% in 2009/10 to 75% in 2011/12.

We provided advice to ensure that policy settings maximise the value of New Zealand's significant natural resource endowment. We informed government decisions to maintain the transition settings for the Emissions Trading Scheme, which will reduce business costs by an estimated $255 million between 2013 and 2015. We have been instrumental in initiating a water reform programme to provide central government direction to regional councils in giving effect to the National Policy Statement on Freshwater Management 2011, which requires that regions establish and manage to freshwater objectives and freshwater quality limits.

For more detail on our policy outputs in this area, see pages 37 and 41.

Intermediate Outcome: Being More Integrated and Connected into the Global Economy

New Zealand needs to have an internationally competitive business environment and be well integrated and connected into the global economy. We need to ensure that we take an international lens to our policy settings so that they are best aligned to facilitate the flows of trade, people, capital and ideas.

Our flows of trade and capital

New Zealand maintained its world export share at 0.21% in 2011, the same as 2010. New Zealand's inward foreign investment flows increased from 0.45% of GDP in 2010 to 2.07% in 2011. Outward foreign investment flows increased from 0.42% of GDP in 2010 to 1.76% of GDP in 2011.

The Treasury has adopted a far more collaborative approach to its work over the 2011/12 year. We've formed a joint venture with the Ministry of Foreign Affairs and Trade (MFAT) and MBIE to investigate the drivers and barriers to New Zealand's trade in services. The joint venture research will also touch on views about drivers and barriers to foreign direct investment. We have addressed gaps in the evidence base on the internationalisation of New Zealand firms.

We have sought to develop and maintain effective international relationships so that the Treasury and the Government can more widely influence policy-making by other countries and international institutions. Over the past year we have strengthened New Zealand's bilateral relationships with our key international partners, particularly with China, India and the US.

We have continued to manage New Zealand's ownership interests in IFIs and New Zealand's input into international Finance Ministers' forums, which has helped support New Zealand's international reputation. We have contributed policy advice to the negotiation of the Trans-Pacific Partnership negotiations and other free trade agreements. We also provided advice on improving the effectiveness and efficiency of New Zealand's offshore presence.

The Treasury also delivered NZECO products and services to increase exports that otherwise would not have occurred owing to constrained access to trade finance or appropriate risk mitigation techniques. For more information on NZECO outputs, see page 42.

Intermediate Outcome: Enhanced Human Capital and Labour Supply

Skills influence productivity and growth directly, through their impact on labour productivity and labour utilisation; and indirectly, through their effect on other drivers of growth, such as innovation and international connectedness.

Along with MSD, the Treasury continues to be the joint lead on the suite of reforms to the welfare system, with a particular focus on the accountability and funding arrangements. The purpose of welfare reforms is to reduce the number of people who remain on a benefit for more than 12 months thereby reducing the long-term liability of the benefit system, increasing labour force participation and ultimately economic performance. We have helped complete the policy changes necessary for the legislation to be drafted for the first phase of welfare reform (including Youth Services and changes to work expectations for sole parents); and began work on the second phase of welfare reform (including establishing an investment approach for the benefit system). From next year the Treasury will become the external monitor of Work and Income, to ensure effective implementation of the investment approach.

We have contributed to the development of coordinated education and welfare policies to support youth achievement, such as the Youth Guarantee and Youth Services. We have also contributed to tertiary education policies encouraging the retention, achievement and progression of students to higher levels of study, as well as the development of student support settings. Together these are seeking to lift our youth achievement as outlined in the box below. We decided to be bold in our public communications on education policy to help stimulate the public debate.

Our youth achievement

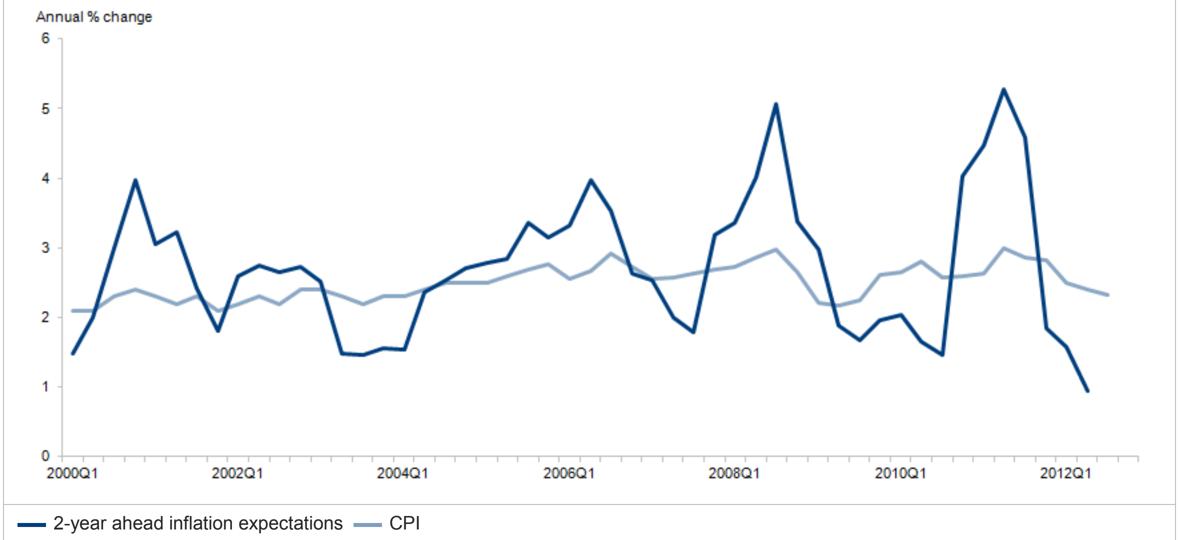
The New Zealand NEET (not in education, employment or training) rate for June 2011 was 12.5%, compared to the OECD average NEET rate in 2011 of 12.2%. In the September 2011 quarter, the unadjusted NEET rate for 15–24-year-olds was 11.7% (down from 12.2% in September 2010) indicating a continued downward trend in New Zealand's NEET rate.

In 2010, 68.8% of school leavers achieved National Certificate of Educational Achievement (NCEA) Level 2 or above; this compares to 69.8% in 2009. However, 2010 NCEA data include students not captured in previous years. When these students are excluded (to enable trend comparisons) the data indicate that 74.5% of school leavers achieved NCEA Level 2 in 2010. In 2009, 38% of those aged 25 and younger had completed a tertiary qualification at Level 4 or above.

A Stable and Sustainable Macroeconomic Environment

A stable and sustainable macroeconomic environment is necessary for broad and enduring prosperity. Macroeconomic stability (as partly indicated through inflation, see graph below) provides households and firms with the predictability and certainty they need to make good decisions about employment, saving, investing, innovating and pursuing opportunities.

Inflation and inflation expectations



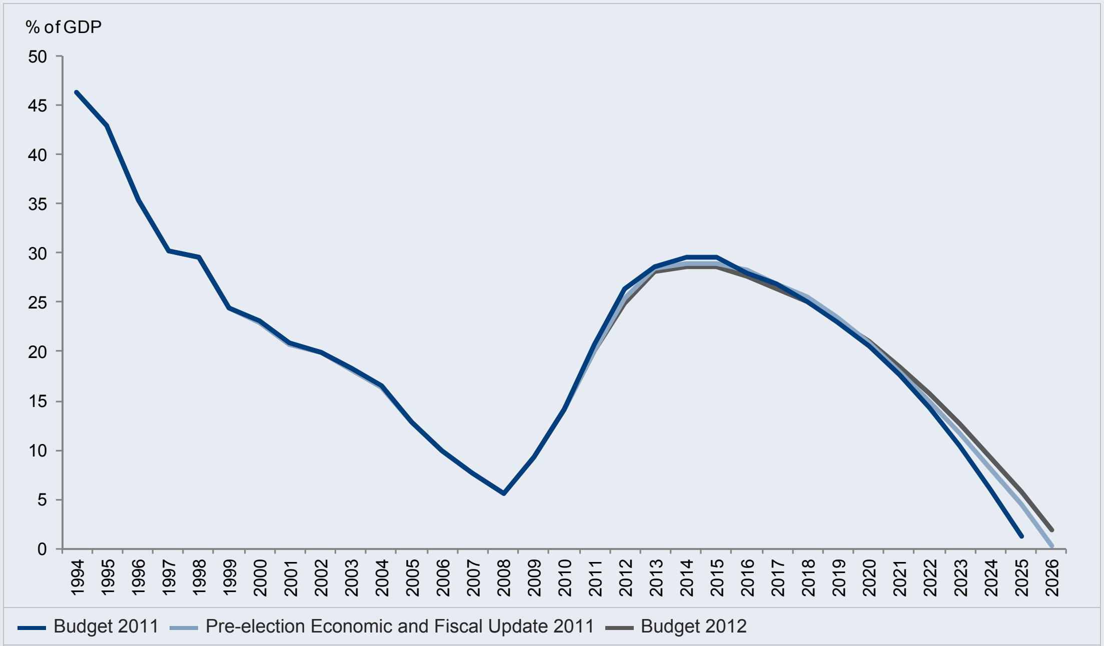
Sources: Eviews Databases – Statistics New Zealand, RBNZ

Global economic and financial conditions continue to have a major bearing on domestic economic and financial developments and overall macroeconomic stability.

Our vulnerable macroeconomic environment

During the year the rating agency Standard and Poor's (S&P) reduced New Zealand's sovereign credit rating one notch. They cited New Zealand's external vulnerability as highlighted by our low savings rates (although successive forecast updates, including Budget 2012 forecasts, show gross national saving increasing to around 20% of GDP over the next five years compared to a recent low of around 14% in 2008/09) and net debt position.

Core Crown net debt



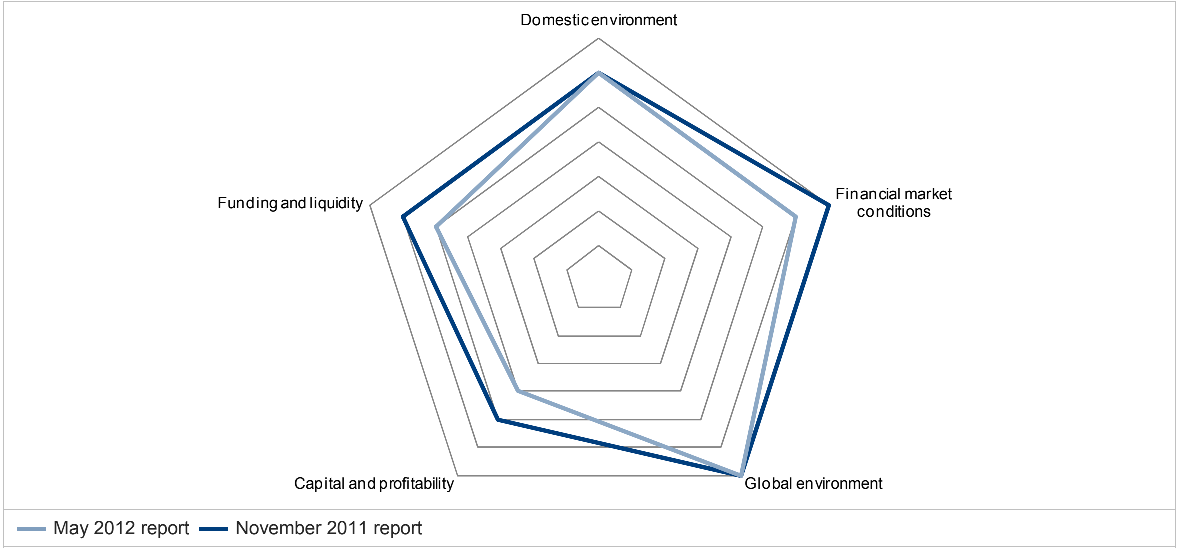
Sources: The Treasury, Budget 2011, PREFU 2011, Budget 2012 for forecasts, http://www.treasury.govt.nz/government/data

Managing and ultimately reducing the risks associated with these vulnerabilities is central to macroeconomic stability. Macroeconomic stability is supported by having sound macroeconomic and microeconomic settings and environment in place to ensure that we can weather the external shocks that come our way, as well as ensuring that policy itself is not a source of domestic imbalances. A sustainable fiscal position contributes directly towards macroeconomic stability. The Treasury provides advice and services on both these elements.

Intermediate Outcome: A Stable Macroeconomic Environment

The Treasury's work aims to help keep economic activity close to full employment levels, keep economic variability to a minimum and avoid abrupt negative economic adjustments when hit by shocks. The May 2012 RBNZ *Financial Stability Report* showed decreased risk to the New Zealand financial system relative to earlier in 2011/12 (see graph below) and for the 10 years ended 2011 New Zealand's variability in real GDP was ranked 12th out of 34 OECD countries.

Financial stability cobweb



Source: RBNZ *Financial Stability Report* May 2012 http://rbnz.govt.nz/finstab/fsreport

We provided advice on macroeconomic policy settings and frameworks; fiscal policy and strategy; and with RBNZ, advice on financial stability. This included advice to the Government on the impact of government policy on the macroeconomic environment. This advice enabled the Government to operate fiscal policy in a way that contributes to macroeconomic stability, balancing short- and medium-term requirements. We reviewed the Public Finance Act 1989 and provided advice to supplement the principles of responsible fiscal management. We helped strengthen the "rules of the game" in areas like fiscal and financial policy drawing on the experience of the past decade.

We participated in a trans-Tasman banking crisis exercise, working collaboratively with our trans-Tasman colleagues to help determine the scope for refinements to our cross-border financial crisis management arrangements. We continued to provide economic and fiscal monitoring, reporting and forecasting. The Treasury remains amongst the top two forecasters of the New Zealand economy; maintaining our reputation as a credible and trusted advisor.

Intermediate Outcome: Fiscal Position Returned to a Sustainable Footing

Reducing the fiscal deficit and reducing government net debt back to prudent levels will contribute to macroeconomic stability and increase fiscal sustainability. Reducing the fiscal deficit as the economy expands and spare capacity is used up will lean against upward pressure on interest rates and the exchange rate, thereby supporting a more growth friendly macroeconomic policy mix. It also helps offset some of the risk associated with New Zealand's large net external liability position. Returning to surplus on a sustained basis will restore the fiscal buffer provided by low debt, better positioning the economy to cope with future adverse economic shocks. Alongside this, maintaining a broad-base, low-rate tax system minimises economic distortions.

The Treasury, through our advice on fiscal policy and budget and balance sheet management, has worked to assist the Government to reduce future deficits with the aim of bringing the operating balance back to surplus by 2014/15. This included helping deliver a second consecutive near zero increase in operating spending in Budget 2012. IMF's 2012 Article IV report endorsed the current direction of fiscal policy and international rating agencies continue to note the relative strength of the fiscal position. They also highlight the high quality of New Zealand fiscal institutions, transparency of fiscal reporting and management of the Crown's finances.

The Treasury is required to produce a *Long-term Fiscal Statement* in 2012/13. The Treasury is taking an open approach to the development of the third of these statements by testing its assumptions and analysis with an independent panel of economists, academics and commentators and seeking alternative views from key experts through a conference in late 2012. This has helped create an environment for open debate and commentary about the policy options available to achieve long-term fiscal sustainability.

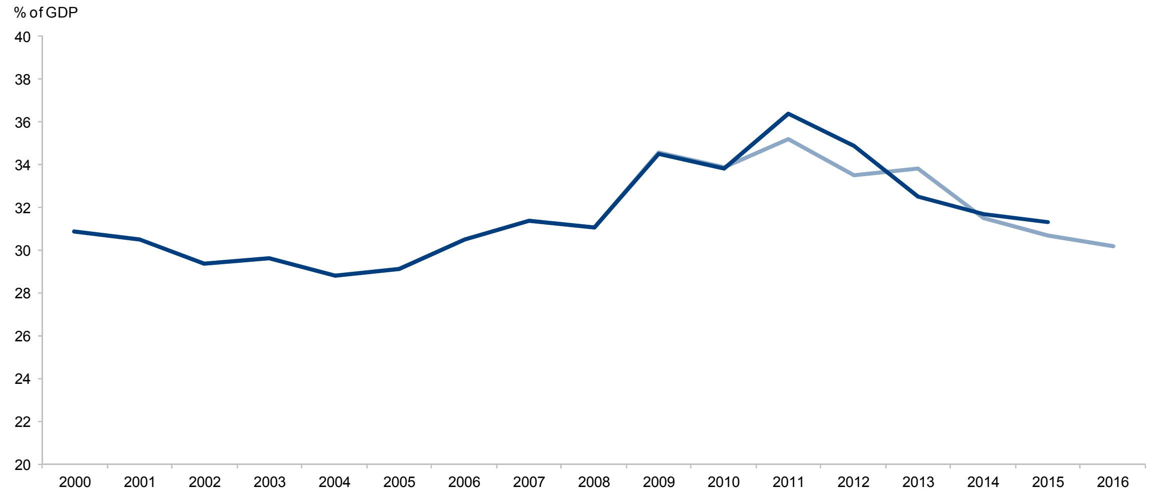
In addition, the Treasury continued to manage and administer financial operations on behalf of the Crown (for more information on these outputs, see pages 42 to 44) and continued to manage Crown debt and related financial assets (see pages 43 and 48 to 50). NZDMO issued $13.5 billion worth of government bonds, with the cost of new borrowing being 3.34%, compared with a benchmark of 6%.

A More Effective and Efficient State Sector

The quality of expenditure, regulation and other interventions by State sector agencies has a significant impact on the living standards of New Zealanders. It impacts both directly and indirectly on New Zealand's stocks of financial and physical capital, human capital, social capital and natural capital. Given the significant impact it has, the State sector needs to do the right things in the right ways at the right time – and they must be affordable.

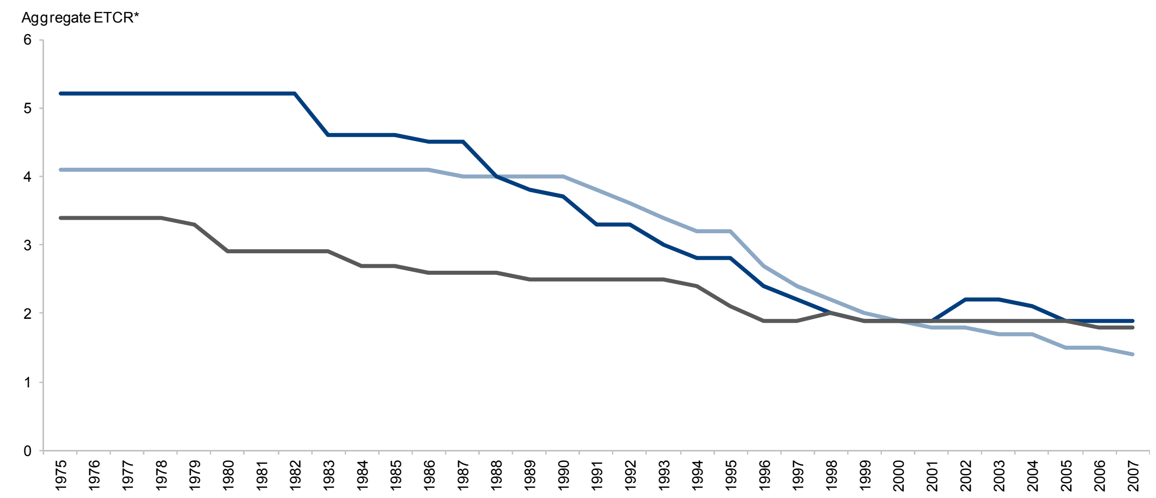
The size of the State sector has grown dramatically over the past decade, both in terms of expenditure and the size of the balance sheet. The *Fiscal Strategy Report* (FSR) specifies the Government's long-term objective is to reduce core Crown expenses to below 30% of GDP. Current forecasts show an improvement in the reduction in core Crown expenses as a proportion of GDP compared with the *Budget Economic and Fiscal Update* (BEFU) in 2011.

Core Crown expenses



Sources: BEFU 2011, BEFU 2012

OECD indicators of product market regulation



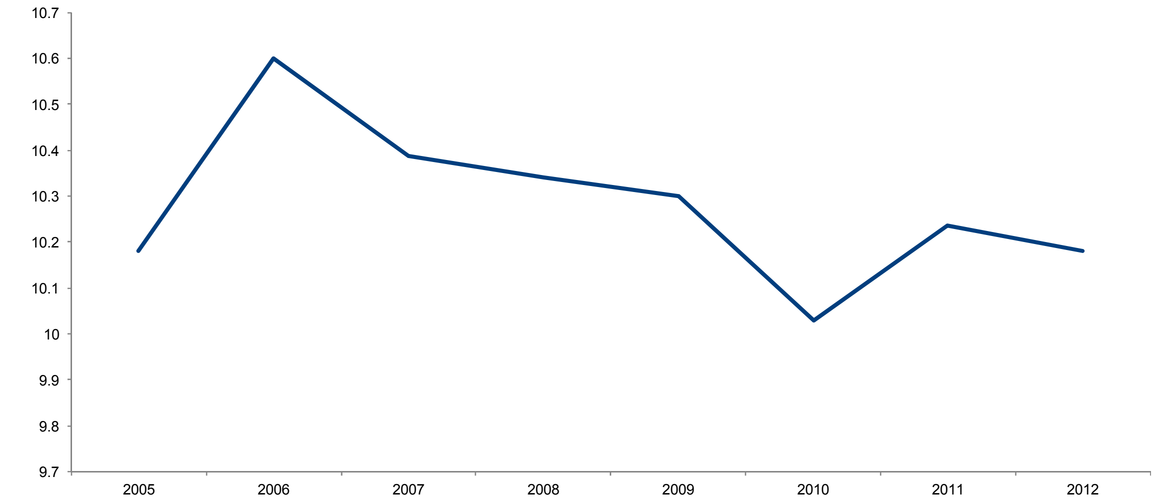
Source: OECD

* Aggregate Energy Transport and Communication Regulation Indicators (ETCR)

Note: The product market regulation survey is untaken every five years with the last available data being for 2007.

The results achieved have not always matched this growth nor have increases in spending always been targeted to those most in need. The limited indicators of the impact of State sector activity that have been available to date have moved only in quite narrow bands in recent years, although there has been improvement in the broad indicator of quality (Kiwis Count), as set out in the graph and box below.

Percentage of State sector employees as a proportion of the working-age population



Source: Statistics New Zealand

Kiwis Count

Kiwis Count is a comprehensive survey that measures New Zealanders' satisfaction with 42 frequently used public services.

The overall service quality score for public services between February and June 2012 was 72, an increase over the 2009 score of 69.

The overall increase in service quality, from 69 to 72, is reflected at the service group level, with increases in the service quality scores for all 10 service groups. The largest improvements were in the service groups Border services and Taxation & business.

Twenty-seven services improved since Kiwis Count 2009. Twelve of these increases were statistically significant. Six services recorded decreases in service quality, although only one, Applying for or receiving a student loan or student allowance, was a statistically significant decrease.

For more information, see http://www.ssc.govt.nz/kiwis-count-update-aug12

Intermediate Outcome: State Institutions Deliver Sustained Performance in Results and Capability

The Treasury worked with SSC, DPMC and the Better Public Services Advisory Group to produce the *Better Public Services* report. The report's recommendations now form a core plank in the Government's programme to achieve its priorities. The three Central Agencies are now working more closely together as a "Corporate Centre" for the State sector. The three agencies are working collaboratively to drive and support the Better Public Services programme goals: strengthen leadership; deliver better results; and develop a culture and practice of innovation and continuous improvement in delivering better services and value-for-money.

Legislative reform to the Public Finance Act 1989, Crown Entities Act 2004 and State Sector Act 1988 in support of this programme has been agreed by Cabinet.

Managing with a longer-term time horizon

The Treasury continued its efforts to shift the State sector management system onto a much longer-term focus, at a system level and in relation to specific areas of government activity. Four-year plans have been put at the heart of the fiscal management and budget process, providing a medium-term understanding of cost pressures and the strategies required to manage them over the next few years. In the welfare sector, we worked collaboratively with MSD to commission an actuarial calculation of the long-term liability of the working-age benefit system, to make the long-term costs to the Crown more transparent and become a key part of management in the welfare system.

Measuring performance

We continued our focus on developing or enhancing tools to understand performance in the State sector. We ran the second year of the Better Administrative and Support Services (BASS) benchmarking exercise[1]; we trialled a common indicator set for policy advice; and assisted SSC in the review and updating of PIF. We have made progress in tracking and improving agency performance in regulatory impact analysis; the proportion of significant Regulatory Impact Statements meeting most or all of Cabinet's regulatory impact analysis requirements has risen from 60% in 2009/10 to 75% in 2011/12.

These measurement tools, together with Gallup, audit results and other published data sources, now enable a much better understanding of State sector performance, at an agency, sector and system level. Alongside and supporting the Better Public Services focus on delivering results, this is creating a stronger focus on performance across the sector.

Performance Improvement Framework

PIF has now been applied to 22 agencies and covers 88% of the workforce of the 33 agencies originally in scope. We will reach 99% by the end of the year.

PIF findings indicate that:

- Generally, agencies appear to perform well at defined short- to medium-term tasks, but struggle at providing advice on what their programmes are achieving, and what they could do better or differently. There is scope for much improvement in the planning, formulation and communication of organisational logic, especially in purpose, vision and strategy. The lack of good long-term strategies and flow-through within organisations tends to result in poor prioritisation decisions and impacts negatively on both agencies' sector contributions and their stakeholder engagement.
- Sustained delivery and stewardship is rare. There is scope for much improved performance in delivery and some agencies are moving in that direction. However, the gains are likely to be limited until an emphasis on continuous improvement (eg, through regulatory quality, review and improving efficiency) is built into agency systems and well supported by accountability information and driven by Ministers. Performance management is reasonably good for high-performing staff, but not for lower-performing staff.

[1] See http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2010-11

Assisting lifting performance

As well as measuring performance, the Treasury has worked to assist in enabling or delivering improved performance across the State sector. Innovations include our work with the Ministry of Education (MOE) and Department of Corrections on New Zealand's first PPPs; facilitating HR and Finance Improvement Programmes involving 19 agencies; working with a large number of agencies on business cases; and implementing new flexible financial arrangements to support collaboration in the justice sector.

Intermediate Outcome: The Crown Balance Sheet is Managed Efficiently and Effectively

The New Zealand State sector manages over $240 billion worth of assets – around half of which are physical assets – across three portfolios of social assets (such as roads and schools), commercial assets and financial assets and liabilities. Over time, we are seeking to align the composition and shape of the Crown's assets and liabilities with the Government's value, performance and risk objectives (eg, through advising on choices about the scale of new investment in social infrastructure assets versus reducing Crown debt).

The Treasury's roles with respect to these assets include ensuring there are incentives to use existing capital well, introducing private sector capital and commercial disciplines where this is appropriate and advising on the allocation of capital to its highest value use. These activities and interventions are designed to increase State sector productivity and the ability of the Crown to deliver more for less. We continued to roll out the Better Business Cases approach and undertook an inaugural round of asset management maturity assessments in capital-intensive agencies. We started to develop asset performance metrics with selected capital-intensive agencies. The Government's Investment Intentions are starting to be embedded into decisions around capital allocation. We supplemented the intentions with directions for investment in social, financial and commercial assets. For more information on these outputs, see pages 45 and 46.

We provided advice on the performance of SOEs and CFIs. We undertook a significant revision of the *Owners' Expectations Manual*. We analysed the extent to which the Crown's financial and commercial assets met their cost of capital and benchmark returns, publishing the results in the Treasury's *Annual Portfolio Report* (APR). As a consequence of Treasury engagement with companies on their dividend policies, some companies resumed dividend payments or established a timeframe for when they intend to do so. There is solid evidence that CFIs are well managed, with fee structures that are currently appropriate although it is worth keeping this under review. For more information on these outputs, see pages 54 to 55.

We provided the Government with advice on extending the Mixed Ownership Model and since the election have been working towards the implementation of this. For more information on these outputs, see pages 51 and 52.

A Higher Performing Treasury: Our Organisational Health and Capability

To be a world-class Treasury working towards higher living standards for New Zealanders requires an ongoing programme to develop the capability of our staff and systems.

We have three objectives that reinforce each other:

- We are an adaptable and productive workforce.
- Our leadership role models and drives our values in order to lift our performance.
- We are a well-managed public sector organisation focused on continuous improvement.

We are an Adaptable and Productive Workforce

In order to be a high-performing organisation, we need all our staff to know what we are seeking to achieve and how we are going to achieve this. Over the year, we have undertaken a number of initiatives in support of this, including improving the line of sight between our outcomes and individual work plans; improving the clarity of our *Statement of Intent* (SOI) (including our performance measures) and Output Plan; developing the four-year Budget Plan; improving our prioritisation process; and finalising a Workforce Strategy.

Our Briefing to the Incoming Government is an example of the progress we have made in bringing together coherent and forward-looking advice to Ministers on what matters for New Zealand's living standards.

We've developed and begun implementing a number of key strategies (including a Diversity Strategy and Workforce Strategy) that will enable and support a higher performing Treasury in the future.

We have put in place measures to lift the Treasury's capability to carry out our Ministry of Finance function. Our aim is to achieve a step change in our strategic finance analysis. We have also progressed work on how we are going to more effectively join up our functions with DPMC and SSC as part of an effective Corporate Centre.

The Treasury undertook its third Gallup Q^{12} survey over August and September 2011. The participation rate was 94%. Employee engagement at the organisational level has been steady year-on-year with the Treasury sitting on the 43rd percentile in Gallup's worldwide database (from the 44th percentile in 2010) and the 64th percentile in the Worldwide Public Administration database. The percentage of engaged employees increased from 34% to 37%. While this is positive movement, we aim to improve our engagement scores significantly.

Equal Employment Opportunities

The Treasury places importance on diversity to ensure our thinking and actions are informed by a diverse range of views. We need to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence so an emphasis on diversity positively impacts the Treasury's reputation, credibility and performance. In line with the Workforce Strategy, the Treasury's Diversity Policy was reviewed in 2011/12 and enhanced to ensure diversity is considered and valued throughout the Treasury's work programmes and contribution to higher living standards for New Zealanders. As a result of the review the Treasury has developed a Diversity Strategy and implementation plan. The strategy was launched formally in February 2012 with a focus on three key areas: diversity of thinking including new approaches to problemsolving and creativity; ethnic diversity to better reflect the views of the broader society that we serve; and the proportion of women in senior leadership roles. Activities to date have focused on demonstrable senior management commitment, improved recruitment strategies and processes to attract a more diverse applicant base, improved data collection and reporting and development programmes focused on Māori engagement, implications for policy advice and language.

Key people metrics for 2011/12						
As at 30 June	2012	2011	2010	2009	2008	2007
	Staff numbers					
Total full-time equivalent	372	363	341	343	324	312
Full-time staff	335	319	306	310	298	278
Part-time staff	52	59	47	46	35	46
Total headcount	387	378	353	356	333	324
	Gender distribution – all staff					
Women	49%	50%	49%	52%	51%	50%
Men	51%	50%	51%	48%	49%	50%
	Ethnicity distribution (self-identified, multiple responses possible)					
NZ European	68%	70%	69%	72%	73%	72%
NZ Māori	4%	1%	4%	5%	6%	5%
Pacific Islander	1%	1%	2%	2%	2%	2%
Asian	5%	5%	6%	6%	5%	4%
Other European	12%	9%	14%	11%	10%	13%
Other ethnic groups	2%	8%	3%	1%	1%	1%
Undeclared	8%	6%	2%	3%	3%	3%
	Turnover and length of service					
Turnover	14%	17%	13%	11%	22%	19%
Average length of service (yrs)	6.5	6.8	6.4	6.5	6.4	6.2

Our Leadership Role Models and Drives Our Values in Order to Lift Our Performance

We have continued to progress our Change Programme to lift the performance of the Treasury by changing the Treasury's culture. We have established a clear set of values that set out the type of organisation we want and need to be, and delivered a range of activities that help give effect to these values. Our leadership is taking an active role in leading the culture change and is committed to focusing more on setting the strategic direction of the organisation and to working collaboratively.

The Treasury takes improving the effectiveness of our leaders seriously and we have put in place a number of actions on this. In our 2011 Gallup survey the results to the statement "I have confidence in the leadership of the Treasury to successfully manage emerging challenges" increased from the 32nd percentile to the 43rd percentile.

In addition to our internal leadership, we have taken a more active external leadership role. We have been more visible in shaping the debate in a number of areas. In August 2011 we engaged an independent market research firm to survey external stakeholders' opinions about the Treasury. A series of 14 qualitative and 160 quantitative interviews were used to gauge external perceptions of the Treasury, enabling us to create a benchmark of our service delivery. Interviewees were asked about their perceptions of, experience with and satisfaction regarding the Treasury's service. Findings included that:

- Stakeholders respect the Treasury for its expertise and professionalism. There is a high level of confidence in staff, the standard of our thinking and analysis.
- Stakeholders are interested in the Treasury. They want more frequent and richer engagement, better information about who does what, more collaboration and partnership and for the organisation to engage with a wider range of interests.

We are a Well-managed Public Sector Organisation Focused on Continuous Improvement

In March 2012 CASS was established. This illustrates Central Agencies' commitment to working together to deliver better public services, and our willingness to set the benchmark in terms of best practice shared services.

In addition, the Treasury has been focusing on ensuring we have effective management information, planning and reporting systems in place to enable the Treasury to measure its impact and to support decisions about efficiency and effectiveness. In 2011/12, a new financial information system was introduced that provides managers with information in a more timely manner to better support effective decision-making.

The Treasury continues to be committed to improving measurement of its performance in order to demonstrate the value provided through the delivery of our goods and services (our cost effectiveness). Specific actions we have taken over the past year to improve our measurement include participation in the policy advice measurement pilot and development of an internal review process to assess the quality of the Treasury's policy briefings. In addition, we have continued to participate in the BASS programme.

Measuring our Continuous Improvement

- The Treasury is undertaking a midterm PIF to identify areas where the Treasury can invest to lift ratings to "strong".
- Costs of supplying administrative and support services as a proportion of the Treasury's running costs decreased from 17.13% to 16.95% (excluding rental costs) by end of 2010/11. With the introduction of CASS we anticipate seeing a further drop for 2012/13 but the fall is not evident at the end of 2011/12.
- Overall the Treasury's administrative and support services reduced in nominal terms by $338,000 or 2% between 2009/10 and 2010/11 but showed in a number of areas where the Treasury was well below the median in its peer group. The Treasury has participated in the 2011/12 benchmarking exercise and the results of this will be published towards the end of 2012.
- Some management practice indicator measures recorded in 2009/10 reduced slightly in 2010/11 from an average 62.86% to 61.43% owing to removing the requirement for formal time recording in 2010/11. It is expected that this position will improve by end of 2012 with the introduction of CASS and more formal servicing arrangements with each of the three agencies.
- The Treasury was rated 4.52 for 2011/12 out of a possible 5.00 for Departmental Internal Control Environment – a score which is excellent.

Risk Management

The Treasury's ability to manage in an uncertain and changeable operating environment and to achieve our outcomes is enhanced by the quality of our risk management[2].

Our enterprise risk management approach ensures there is systematic and regular assessment and monitoring of key strategic and operational risks facing the Treasury. Our senior leaders regularly identify and assess the Treasury's biggest strategic and emerging risks, and ensure that we take appropriate actions to manage them.

The Treasury also carries out regular operational risk assessments. We manage risks relating to our various change initiatives and projects to ensure that we anticipate and deal with uncertainty as effectively as we can.

The Treasury's risk management practices use an approach modelled on the Joint Australian/New Zealand International Risk Management Standard.

Our overall set of risks is overseen by a Risk and Audit Committee (a committee of the Treasury Board), which comprises two experienced external members to provide independent perspectives.

Our internal audit function provides assurance to the Board and senior management that key risks are being managed appropriately and that internal controls are operating effectively.

An example of an internal audit in 2011 was of our policy and practices relating to offers of gifts and hospitality received by Treasury employees. The audit reviewed our policy and practices against government requirements and best practice. As a result of the audit, we revised our policy so that it provides clear guidance to ensure everyone responds appropriately and consistently to offers of gifts and hospitality. Gifts and hospitality received are now recorded, approved and reviewed in a consistent way across the Treasury.

2 NZ Risk Management Standard – AS/NZ ISO 31000:2009 defines risk as "the effect of uncertainty on objectives".

Statement of Responsibility

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

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

In the opinion of the Secretary to the Treasury:

- the Department's financial statements and statements of service performance fairly reflect its financial position and operations for the financial year ended 30 June 2012, and
- the supplementary schedules fairly reflect the assets, liabilities, contingencies and commitments managed by the Treasury on behalf of the Crown as at 30 June 2012 and revenues and expenses managed by the Treasury on behalf of the Crown for the year ended on that date.

Gabriel Makhlouf
Secretary to the Treasury

28 September 2012

Fergus Welsh
Chief Financial Officer
(countersigned)

28 September 2012

Statement of Service Performance

Our Service Performance

This section describes the 12 groups of outputs that the Treasury was funded to deliver in 2011/12 and assesses our delivery against the performance measures set out in the *Information Supporting the Estimates 2011*.

Collectively these output expenses support the achievement of the outcomes set out on pages 18 to 33 of this *Annual Report*.

For each output expense, summary information has been provided on the nature of the work it covered, examples of significant work completed during the year and an assessment of how we have performed against the performance measures that were published in the *Information Supporting the Estimates 2011*. Where relevant, and where the information was available, performance information has also been provided against additional measures that have since been published in the *Information Supporting the Estimates 2012*.

The diagram on pages 16 and 17 of this report illustrates the relationship between our output expenses, our intended impacts (also known as intermediate outcomes) and our outcomes.

Policy – Finance

Scope of Appropriation

This appropriation is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to finance.

Significant Work Completed During 2011/12

Outcome: Improved Economic Performance

The Treasury provided advice on:

- New Zealand's medium-term economic outlook and the key policy changes that in the Treasury's view would substantially increase both resilience and trend economic growth. This is best encapsulated in the Treasury's BIM
- a comprehensive range of policy options towards improving New Zealand's economic performance. This fed into the development of the Government's Business Growth Agenda which refreshed the Government's economic growth agenda. The Treasury has an ongoing role in coordinating agencies in delivering and refreshing the agenda
- the potential for changes to the taxation of savings and investment to improve our long-run economic growth performance, drawing on general equilibrium modelling of the effects of particular tax reform options
- the Regulatory Standards Bill which seeks to increase the disclosure of information to assist the scrutiny, and improve the quality, of government-initiated legislation
- the overall impact of medium-term design changes to the Emissions Trading Scheme, including transitional settings, and changes to increase the flexibility of the scheme including the provision for auctioning
- the potential economic benefits of re-orienting of the Hazardous Substances and New Organisms Act 1996 (HSNO) regime, which manages chemical and biological risks, towards encouraging innovation and economic development, including presentation of a paper to the Biological Risk Management Committee which helped catalyse the Royal Society's call for a review of HSNO
- the effective recovery of the Canterbury region. Specific issues addressed during the year included the Earthquake Commission (EQC) re-estimates of its liability and the implications of a High Court Judgement on EQC's liability across multiple events; land zoning and the cost of land remediation; and insurance market dynamics. We currently expect remaining non-EQC fiscal costs of the earthquake to remain within the amount ($5.500 billion) provided for in the Canterbury Earthquake Recovery Fund (CERF) in Budget 2011
- advancement of regional economic integration through the Trans Pacific Partnership (TPP) negotiations throughout the period (and this is ongoing), in particular, analysing proposals regarding SOEs and investment policy; and developing a framework for assessing the overall costs and benefits of the resulting TPP package
- welfare reform, including the subsequent legislative reform required to enable reform package changes to take effect in July 2012. The programme is expected to continue next year
- the proposal to integrate the Ministry of Economic Development (MED), Department of Labour (DOL), Department of Building and Housing (DBH) and the Ministry of Science and Innovation (MSI) into a single MBIE
- education funding, including the relative public/private contributions to tertiary education, drawing on Treasury-commissioned research from the New Zealand Institute of Economic Research (NZIER) and University of Auckland on the private returns to tertiary education, and
- the medium-term strategy for schooling, the Labour Market and Skills Strategy and the direction and scope of proposals to enhance the quality of teaching.

The Treasury also:

- updated the revenue strategy to reflect the Government's economic and fiscal priorities, and built this into the forward tax policy work programme
- engaged in the development of a Government White Paper on Vulnerable Children, with the Ministerial Committee on Poverty, and in development of new funding and data systems for early childhood education
- continued to run and build the regulatory quality management system, assessing Regulatory Impact Statements, developing an online database to record agencies' regulatory scanning results and running the annual regulatory plans process. We worked closely with key departments and some exemplary regulatory management practices are beginning to emerge
- finalised our first whole-of-government assessment of regulatory regimes and Cabinet agreed to the release of the Best Practice Regulation assessment
- supported the Minister's programme of visits in Washington DC at the IMF/World Bank annual meetings, represented New Zealand at the Asia-Pacific Economic Cooperation (APEC) Finance and Leaders' meetings, respectively and hosted senior delegations from IMF, World Bank and Asian Development Bank and delegations from China, the US and India
- participated in inter-agency climate change work to support Ministers on decisions regarding international and domestic policy settings, given changed international commitments, and
- advanced a number of tax policy items, including implementing Budget 2011 decisions on bank thin capitalisation; advice on the tax treatment of a range of events (such as earthquakes and the kiwifruit PSA virus); and advice leading to Budget 2012 announcements on tobacco excise, mixed use assets, outdated tax credits and the election of livestock valuations.

Outcome: A More Effective and Efficient State Sector

The Treasury provided advice on:

- the Better Public Services programme, which aims to deliver a package of practical State sector reform initiatives that are intended to deliver better public services at a lower cost. The Treasury advised on a suite of legislative reform, including changes to the Public Finance Act 1989, the State Sector Act 1988 and the Crown Entities Act 2004, supported by a stakeholder engagement programme
- the tradeoffs between ambitions and fiscal constraints involved in social housing reform (this was part of the Government's response to the Housing Shareholders' Advisory Group report)
- two bills concerning accident compensation; one to introduce competition in the Work Account with Accident Compensation Corporation (ACC) participation and another to expand the Accredited Employer Programme. Advice has been provided on a significant number of complex policy issues that will require resolution
- the direction of travel for the Inland Revenue Department's (IRD's) business transformation including technological change, and worked closely on the development of strategy through membership of IRD's transformation programme board
- New Zealand Defence Force funding and plans for achieving the planned savings targets by 2014/15
- the health system and its performance, including strategy discussions on the possible direction and design of reform, a case study with Nelson Marlborough District Health Board (DHB), increasing the contestability of supply in the system, co-payments for pharmaceuticals, budget strategy and savings advice and working with the Ministry of Health (MOH) on the Vote Health Four-Year Budget Plan, and a review of the DHB model. Also advice on capital issues in the sector, including possible PPPs, and
- increasing financial flexibility for agencies, allowing the transfer of funding between agencies and across years to enable sectors to better manage within their baselines to 2020. This advice was prepared jointly with the Ministry of Justice (MOJ).

The Treasury also:

- worked with SSC to complete six PIF assessments this year, and a further six are being finalised. The funding model and the work programme for the next three years were also agreed
- worked with the justice sector to ensure it can function within the flat nominal baselines set out in their plan. Achieving this will require some difficult decisions about some of the cost pressure issues affecting the sector such as out-dated remuneration agreements and infrastructure, reducing the in-flow to the justice pipeline and shifting the public debate to focus on results and the policy needed to deliver these
- began work on the economics of social housing, international evidence around reform in other countries and an evidence base for reform in New Zealand (in light of government objectives and the statements in the Housing Shareholders' Advisory Group report and the Productivity Commission report), and
- worked with the Office of Treaty Settlements to agree standardised comparative analysis on the "special factors" that have been increasing the cost of the Treaty settlements. Specific advice included a long-range scan of upcoming settlements and their likely costs, the medium-term trajectory of settlement costs, a framework for assessing the "special factors" that drive increased costs and options for tackling the legislative bottleneck and advice around the relativity mechanism.

Outcome: A Stable and Sustainable Macroeconomic Environment

The Treasury provided advice on:

- the fiscal outlook and risks for inclusion in the *Budget Policy Statement* (BPS) and the preliminary Budget forecasts, and regular reporting on earthquake recovery costs. The 2010/11 Financial Statements published in October 2011 were treated as the authoritative presentation of fiscal position. An unqualified audit opinion was issued on the 30 June 2011 Financial Statements of Government
- changing the trajectory of government operating and capital spending over the medium term to enable Ministers to reduce longer-term spending pressures, reallocate government spending and reprioritise the balance sheet, and
- strengthening the fiscal responsibility provisions of the Public Finance Act 1989, which led to the introduction of a bill in August 2012.

The Treasury also:

- participated in road shows to support the establishment of the new accounting standards by the External Reporting Board (XRB) with its sub-board New Zealand Accounting Standards Board (NZASB)
- produced tax and economic forecasts; these inform the Treasury's fiscal policy advice and inform the public about the basis of that advice, helping both government and business to make informed decisions about spending and investment
- launched the Government Economics Network (GEN) in September 2011 to strengthen economic capability across government and to improve the use of economics in public policy analysis
- began work on the next *Long-term Fiscal Statement* and public engagement process. This included preparing papers for the New Zealand Association of Economists (NZAE) conference, establishing an external panel of experts to test the Treasury's assumptions and analysis, commissioning independent research on key policy choices and organising a conference to discuss all of the key issues and options, and
- supported a Trans-Tasman banking crisis exercise to ensure that regulatory and crisis management settings were adequate to manage the risks presented by systemically important institutions. This work drew on a range of approaches being adopted offshore. We also worked with RBNZ on Open Bank Resolution (OBR) policy, in particular, on financial stability.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Policy advice complies with the Treasury's Quality Standards for Policy (refer to the Quality Standards for Policy Advice).	Achieved	Achieved
Expenditure decisions are in line with fiscal strategy and BPS.	Achieved	Achieved
Definitions and performance measures for policy appropriations are in place that include reporting on whether cost benefit analysis (CBA) or similar processes have been followed for all significant policy and expenditure proposals.	Achieved	Partly achieved Drawing on existing work programmes, progress was made on: • piloting of policy advice benchmarking measures focusing on the cost, efficiency and effectiveness of policy expenditure, and • tracking Regulatory Impact Analysis (RIA) performance to gather data on whether CBA or similar processes have been followed for all significant policy proposals.
Regulatory Impact Statements meet most or all of RIA requirements.	75%	75%
Research on the impact of New Zealand's approach to capital taxation on growth and the options for reforming New Zealand's capital taxation system to better support economic growth is completed and meets the Treasury's Quality Standards for Policy Advice.	Achieved	Achieved
Ministers' decisions on the earthquake recovery are well coordinated, guided by an overall framework, informed by good risk assessment and take into account fiscal implications and risks.	Achieved	Achieved
Completion of research on barriers to growth in trade and recommended policy changes.	Achieved	Achieved
Memorandum of Understanding (MOU) in place for Treasury-to-Treasury dialogues with one or more countries of economic significance to New Zealand.	Achieved	Not achieved However, the Treasury did achieve an informal understanding with its counterparts in India, China and the US.
The long-term liability to the Crown associated with the working-age benefit population is accurately measured.	Achieved	Achieved
Youth Guarantee proposals to Cabinet are cost-effective and likely to deliver high-quality qualifications.	Achieved	Achieved
Youth Pipeline proposals to Cabinet are evidence-based and cost-effective, well integrated to Youth Guarantee and welfare changes.	Achieved	Achieved
A welfare reform package is agreed by the end of 2011/12.	Achieved	Achieved
Follow-up processes are in place and being implemented to monitor progress on PIF action plans.	Achieved	Achieved
Fewer, but clearer, decision points for key outcome areas are agreed and some of these have been established.	Achieved	Achieved
Vote analysis: Supporting the Government by pursuing policy priorities and fiscal policy objectives through the analysis and advice provided as part of the annual Budget cycle.	Achieved	Achieved

Performance Dimensions for 2011/12	Target	Performance for 2011/12
A sample of indicators of efficiency and effectiveness of State sector operations is developed.	Achieved	Achieved
Management and resolution of liabilities and claims within parameters set by Ministers.	Achieved	Achieved
Tax revenue forecast error on one-year-ahead forecasts.	Less than +/-3%	0.3% below the 2011 Budget forecast
Advice and processes required as part of the annual Budget process to assist the Government to pursue its policy priorities are in accordance with the principles of responsible fiscal management, and support effective and efficient management of public financial resources.	Achieved	Achieved
Audit opinion issued by the Controller and Auditor-General on the Financial Statements of Government.	Unqualified	Unqualified
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, major models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved

2011 Actual $000	Policy Advice – Finance	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	43,274	44,897	48,385
	Funded by:			
-	Revenue Crown	42,547	44,135	47,611
-	Other revenue	727	762	774

Expenditure is $5.111 million under the Supplementary Estimates budget. Approval has been granted to transfer up to $4.823 million of this under-spend to 2012/13 to complete a range of work programmes. The largest transfer of $3 million is for the development of ideas with the potential to deliver savings or significant improvements in efficiency or effectiveness across the State sector delivered through a range of agencies. While initially in Vote Finance, transfers will be made to the respective agencies that will deliver these projects.

The output expense structure under Vote Finance was rationalised in 2011/12 and therefore comparative figures are not available. Refer to Information Supporting the Estimates 2012/13 Part 1.4 of Vote Finance for the reconciliation of Changes in the Appropriation Structure.

Management and Administration of Financial Operations on Behalf of the Crown

Scope of Appropriation

This appropriation is limited to the implementation of the Government's Export Guarantees policy, the operation of NZECO and the provision of advice on, and management of, Crown Guarantee Schemes, Crown Lending, Crown Bank Accounts and Crown Investment.

Significant Work Completed During 2011/12

New Zealand Export Credit Office

- As at 30 June 2012 a total of 70 new policies were issued in 2011/12 – with total exposure of $104.130 million, supporting exports of $271.220 million. These results did not meet our forecasted targets, owing to exporters failing to secure new orders, delayed contract award or the successful negotiation of financial terms that have not required NZECO support. Positively, the number of new policies written and value of exports supported were both higher than NZECO achieved during 2010/11.
- Sound underwriting criteria and standards were maintained. Repayments were regularly monitored and any delays were actively managed.
- No claims were submitted or paid during the period. However, a $29.700 million provision was recorded. This will be actively managed during 2012/13 in order to minimise losses.
- NZECO continued to engage regularly with other export credit agencies to ensure it provides support to New Zealand exporters consistent with its overseas counterparts, including: attendance at a conference in Indonesia with other lead export credit agencies and international financiers; attendance at a Prague Club meeting in Oman in November 2011; and Kazakhstan in May 2012.
- As part of the Economic Growth Agenda, NZECO continued to work with cross-government officials to work on options for NZECO to generate greater export growth and strategically support New Zealand's Free Trade Agreements and the internationalisation of New Zealand firms. One specific outcome was Cabinet's approval in December 2011 to amend NZECO's delegation in order to add the Chinese Renminbi to NZECO's list of approved currencies that it can underwrite its trade guarantees in, and to substitute the requirement for a minimum 30% New Zealand content for a broader New Zealand economic benefit test.
- During the year, NZECO had 498 face-to-face engagements with exporters, banks and agencies to improve awareness of how to use NZECO guarantees to mitigate risk and to improve competitive advantage.
- Discussions are also underway with New Zealand Trade and Enterprise (NZTE) and MFAT on joint work to educate and improve information for exporters on trade finance options.

AMI Crown Support Agreement

- The Treasury continued to monitor AMI Insurance Limited (AMI) under the Crown Support Agreement. In April 2012, AMI sold its ongoing insurance business to IAG New Zealand Limited (IAG) for $380 million. At that time, the Crown assumed majority ownership of the residual business of AMI, appointed a new board and changed the name of the company to Southern Response Earthquake Services Limited (SRESL). SRESL manages settlement of the residual claims, primarily related to the 2010 and 2011 Canterbury earthquakes not included in the sale to IAG.

New Zealand Debt Management Office

NZDMO provides Treasury services, and administers loans, to other parts of the Crown according to government policy. These services provide net cost savings to the Crown. NZDMO is the lowest cost borrower in New Zealand. Central borrowing by NZDMO, with on-lending to the wider Crown, results in a lower debt servicing expense for the Crown than individual entities borrowing separately. Central treasury management saves on transaction costs and provides risk management benefits to the Crown. During the year, NZDMO:

- advanced $1,311.857 million distributed as follows: $652.400 million to DHBs; $179.457 million to Housing New Zealand; $170 million to the New Zealand Transport Agency (NZTA); $250 million to KiwiRail; and $60 million to Auckland Council. The advance to the Auckland Council was made up of three loans to enable it to develop the Auckland metro rail network through buying electric multiple units (EMUs) and building an EMU depot
- managed risk on $280.500 million of interest-rate swaps transacted for Housing New Zealand, and
- participated in the scoping of the possible tender of the Crown's transactional banking arrangements.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Policy advice complies with the Treasury's Quality Standards for Policy.	Achieved	Achieved
NZDMO		
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts.	No breaches	No breaches
NZECO		
New policies underwritten.	88	70
Value of new exports supported.	$202 million	$271.220 million
New exposure.	$140 million	$104.130 million
Operating expense/earned premium plus Application fees ratio.	Less than or equal to 60%	Achieved
Compliance with International Guidelines (OECD and World Trade Organisation [WTO]) and Delegated Mandate.	100%	100%
Complaints received regarding delivery of services or complaints are owing to issues outside of NZECO's mandate.	None	None
Claims and provisions are maintained within year-to-date profit.	Achieved	Not achieved. This performance measure was not met owing to a $29.700 million provision being recorded.
Claims and provisions/Total exposure and Undrawn commitments ratio.	Lower than or comparable to other Export Credit Agencies' (ECAs) long-run ratios of between 4% and 9%	Not achieved. The ratio for 2011/12 was 19%. This performance measure was not met, for the same reason as the preceding measure.
Total external engagements.	420	498

2011 Actual $000	Management and Administration of Financial Operations on Behalf of the Crown	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	6,893	7,522	8,222
	Funded by:			
-	Revenue Crown	4,840	7,398	6,598
-	Other revenue	2,053	124	1,624

Expenditure is $1.329 million under the Supplementary Estimates budget. Approval has been granted to transfer up to $940,000 of this under-spend to 2012/13. This will cover the completion of negotiations associated with defaults under the Retail Deposit Guarantee Scheme and contracts for the US Contract Bond facility and short-term credit insurance to exporters.

The output expense structure under Vote Finance was rationalised in 2011/12 and therefore comparative figures are not available. Refer to Information Supporting the Estimates 2012/13 Part 1.4 of Vote Finance for the reconciliation of Changes in the Appropriation Structure.

Infrastructure Advice and Coordination

Scope of Appropriation

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

Significant Work Completed During 2011/12

- Continued to roll out Better Business Cases approach, in particular significant support and guidance to a range of agencies, including local government.
- Reported on inaugural round of asset management maturity assessments in capital-intensive agencies.
- Provided significant policy and second opinion advice in the Transport portfolio (including Auckland EMU train deal and NZTA Overdraft Facility) and on urban/infrastructure issues (in particular, the Auckland Spatial Plan and Christchurch CBD Recovery Plan). The Utilities Access Code was approved by the Minister for Infrastructure and took effect from 1 January 2012.
- Worked with other agencies and private sector stakeholders to develop an implementation plan for the *National Infrastructure Plan*. Implementation will continue through 2012/13, including reporting via the *National State of Infrastructure Report* and *Business Growth Agenda* reports, leading to another *National Infrastructure Plan* in 2014.
- Worked with MOE and the Department of Corrections agencies to bring PPPs to market for Hobsonville schools and Wiri prison and assisted with negotiation and closing of the Hobsonville schools contract. We also worked and continue to work with other agencies on prospective PPP opportunities and developed guidance.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Policy advice complies with the Treasury's Quality Standards for Policy.	Achieved	Achieved
State of the Nation report by June 2012.	Achieved	Not achieved. This will now be published in conjunction with Business Growth Agenda infrastructure reporting in September 2012.
System Level Assurance and Asset Performance reporting is in place and reported on annually by 30 June 2012.	Achieved	Partially achieved for 2012 through asset management maturity assessments. Design of future assessment and reporting cycles still to be determined. Asset performance reporting work continues into 2012/13.
Two PPPs financially concluded by 30 June 2012.	Achieved	Substantively achieved. One PPP completed and another well-underway and expected to reach financial close in early 2012/13.
Two additional PPPs in market by 30 June 2012.	Achieved	Not achieved. A range of other PPP prospects are under consideration at various stages of the procurement process.
Agency business cases that are considered by Cabinet are prepared in accordance with the Better Business Cases standard.	95%	Not achieved. 78% of capital proposals in 2011/12 had business cases prepared to the Better Business Cases standard. The variance related to some new initiative proposals in the Budget process, and some portfolio-level decisions.

2011 Actual $000	Infrastructure Advice and Coordination	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
4,577	Expenses	3,990	4,580	4,325
	Funded by:			
4,477	Revenue Crown	3,925	4,501	4,246
100	Other revenue	65	79	79

Expenditure is $335,000 under the Supplementary Estimates budget. Approval has been granted to transfer up to $120,000 of this under-spend to 2012/13 for planned CAM and infrastructure plan projects.

Administration of Guarantees and Indemnities Given by the Crown Permanent Legislative Authority

Scope of Appropriation

- This appropriation is limited to expenses incurred in connection with administering of guarantees and indemnities given by the Crown, as authorised by section 65ZG of the Public Finance Act 1989.
- The Crown Retail Guarantee Scheme was wound down by 31 December 2011. There are no remaining guaranteed entities, and payouts under the Crown Retail Guarantee Scheme have been completed except in instances where claims have not been lodged. The budget for 2012/13 is for the remaining Wholesale Funding Guarantee Facility (WFGF). It is not expected that WFGF will be called on.

Significant Work Completed During 2011/12

- There have been no defaults in the wholesale scheme so no work required on this output over the year.
- All eligible depositors in Equitable Mortgages have now been repaid. The receivers for Equitable (acting on the instruction of the Trustee) have sought court direction in relation to the treatment of a small number of depositors in Equitable where their maturing guaranteed deposits were re-invested into unguaranteed securities and the determination may impact on the Crown's liability. The total amount affected by the court direction is $1.400 million in relation to 80 depositors.
- The Treasury proposed the consolidation of a majority of existing receiverships into a single management vehicle, which was approved by Ministers. The primary financial benefit was a 55% reduction in ongoing realisation costs. In addition, the proposed approach reduced workload involved in monitoring over the next two to three years (as the residual assets are realised) as well as offering scope to improve the level of recoveries.
- The Board-elect was approved in December 2011 and by 30 June 2012 the new entity (Crown Asset Management Limited [CAML]) was operating and the residual asset portfolio from the largest receivership (South Canterbury Finance [SCF]) had been transferred, with the remaining receiverships to follow.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
No unnecessary delays in processing applications.	Achieved	Achieved
Accuracy of payouts.	100%	100%
Non-complex claims processed within one month of receipt of the claim.	100%	100%

2011 Actual $000	Administration of Guarantees and Indemnities Given by the Crown PLA	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
3,094	Expenses	1,594	1,820	1,820
	Funded by:			
3,048	Revenue Crown	1,557	1,798	1,798
46	Other revenue	37	22	22

Administration of Guarantees and Indemnities is $226,000 under the Supplementary Estimates budget. This relates to funding set aside for potential litigation and payments.

Permanent Legislative Authority Funding for New Zealand Debt Management Office

The Treasury's Debt and Related Financial Asset Management functions are funded through the three PLAs set out below.

Scope of PLA Appropriations

- Administration of Crown Borrowing PLA – This appropriation is limited to expenses incurred in connection with administering borrowing by the Crown, as authorised by section 61(1) of the Public Finance Act 1989.
- Administration of Derivative Transactions PLA – This appropriation is limited to expenses incurred in connection with administering derivative transactions of the Crown, as authorised by section 65H(2) of the Public Finance Act 1989.
- Administration of Investment of Public Money PLA – This appropriation is limited to expenses incurred in connection with administering the investment of public money, as authorised by section 65J(1) of the Public Finance Act 1989.

Significant Work Completed During 2011/12

Borrowing programme

- NZDMO issued $13.500 billion worth of government bonds, achieving its original programme of same value for 2011/12. A number of large bond tenders were completed through the year, including a record-equalling weekly tender in September 2011, which raised $1 billion. In response to variability in demand, the programme was revised to $15 billion at Budget 2012 to provide operational flexibility to issue additional bonds in the event of an increase in demand. As at 30 June 2012, the face value of bonds outstanding in the market was $55.307 billion.
- In November 2011, NZDMO repaid its largest ever bond maturity ($8.766 billion). NZDMO has risk and funding policies to ensure that all bond maturities are met in full.

Marketing efforts, interactions with international stakeholders and relationships with credit rating agencies

Throughout the year, NZDMO has been active in promoting bonds and New Zealand more generally. These efforts included: accompanying the Minister of Finance on overseas investor missions; developing and strengthening investor relations; and engaging with sovereign peers. This work included:

- Head of NZDMO, along with other Treasury staff, accompanied the Minister of Finance on a trip to the US to attend the IMF/World Bank Annual Meetings in Washington.
- Head of NZDMO and NZDMO staff have participated and presented at a number of investor and sovereign peers conferences and forums, including the Euromoney Australian and New Zealand Debt Capital Markets Forum, Fourth Annual Australasian Fixed Income Conference, the ANZ/Kanga News Capital Markets Forum and the Australian Central Financing Authorities Annual Conference.
- NZDMO has hosted a number of visiting delegations from developing debt management offices and investors, including sovereign wealth funds, Asian central banks and Japanese institutions, and briefed them on the economy and debt issuance strategy.

The Treasury and NZDMO maintained regular contact with the three rating agencies (Moody's, S&P and Fitch) during the year to assist them in their assessments of New Zealand's creditworthiness. This work included:

- briefing them on the developments in the New Zealand economy; and organising meetings with officials from relevant agencies including the Treasury, RBNZ, Minister of Finance, Opposition Finance Spokesperson and private sector economists and commentators, and
- on 30 September 2011, both Fitch and S&P announced that they had downgraded New Zealand's long-term foreign-currency rating from AA+ to AA and the domestic rating from AAA to AA+. Both agencies had had New Zealand on negative outlook. NZDMO had concluded several weeks earlier that a downgrade was a possible outcome of this year's rating reviews and had alerted the Minister to this. The Treasury provided the Minister's office material requested in order to prepare for the eventuality of a downgrade.

Derivatives programme

- Risk associated with the changing market value of NZDMO's debt and asset portfolios was successfully managed within NZDMO's average monthly Value at Risk (VaR) target.
- NZDMO has undertaken work to study the implications of the G20 mandate for over-the-counter derivatives to be centrally cleared, set to be implemented by the end of 2012.

Investment programme

- As at 30 June 2012, NZDMO managed marketable securities valued at $4.758 billion, deposits valued at $132 million and a cash balance of $8.477 billion. These assets are used to fund Crown operations, to provide short-term liquidity if required and to help repay debt maturities as they fall due.
- Assets are invested primarily in AAA- and AA-rated securities. The high quality of the asset portfolio, in conjunction with NZDMO's asset-liability matching policy, means that the portfolio value had very low volatility, as reflected in an average monthly VaR during 2011/12 of less than $1 million.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Cost of new core Crown borrowing is less than the long-term average cost of the New Zealand Government.	Cost of new borrowing is less than 6%	Achieved Average cost of new borrowing was 3.34%
Tender efficiency: Average domestic bond tender cover ratio.	Average tender cover ratio is greater than 2	Achieved Average cover ratio was 2.4 times
Tender efficiency: Average range of successful bids in domestic bond tenders.	Average range of successful bids is less than 5 basis points	Achieved Average range was 2.44 basis points
Funding risk: The nearest bond maturity will be at least 50% funded from NZDMO's holdings of cash and short-term liquid assets within six months of maturity, and fully funded within three months.	Funding target met	Achieved
Compliance with risk management policies and parameters for portfolio management and debt issuance.	No more than four breaches	Achieved Two credit policy breaches
Losses incurred from the credit-related sale of securities or from default by a counter-party.	No losses	Achieved No losses
Number of settlement errors, and financial value of losses arising from settlement errors.	No more than 12 errors; losses do not exceed $10,000	Achieved Two errors; no losses

2011 Actual $000	Appropriations	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Administration of Crown Borrowing PLA:			
4,931	Expenses	3,746	5,276	4,374
	Funded by:			
4,814	Revenue Crown	3,685	5,178	4,276
117	Other revenue	61	98	98
	Administration of Derivative Transactions PLA:			
1,077	Expenses	904	1,008	951
	Funded by:			
1,055	Revenue Crown	889	986	929
22	Other revenue	15	22	22
	Administration of Investment of Public Money PLA:			
671	Expenses	564	820	609
	Funded by:			
657	Revenue Crown	555	816	605
14	Other revenue	9	4	4

Administration of Crown Borrowing PLA is $628,000 under the Supplementary Estimates budget. This is owing to delayed implementation of inflation indexed bonds and project scoping work.

Note

Figures in the Investment Programme section are derived from NZDMO's management reporting, which is calculated on a different basis from external Crown financial statement reporting. For management reporting, NZDMO values its portfolios by the commonly-used methodology of calculating net present values from all future cash flows using zero-coupon discount curves which are generated at least daily from market data. NZDMO uses current spot foreign exchange (FX) rates to translate foreign-currency net present values to New Zealand dollars.

Extending and Implementing the Mixed Ownership Model

Scope of Mixed Ownership Model Appropriations

Extending the Mixed Ownership Model

- This appropriation is limited to policy, operational and transactional work in preparing to extend the Mixed Ownership Model.
- This appropriation covers work leading up to the approval by Cabinet of a multi-year appropriation to implement the model in December 2011.

Implementation of Mixed Ownership Model

- This appropriation is limited to policy, operational and transactional work to implement the Mixed Ownership Model.
- This multi-year appropriation commenced on 15 December 2011 and will expire on 30 June 2015.

Significant Work Completed During 2011/12

Extending the Mixed Ownership Model

- Appointed commercial advisors to advise on work required to extend the Mixed Ownership Model to four energy SOEs.
- Undertook scoping studies on the four SOEs identified for a Mixed Ownership Model and investigated each company's readiness for an Initial Public Offer (IPO) and any commercial impediments for a potential sale process. The Crown Advisor analysed the way in which a programme of IPOs might be undertaken and the Independent Advisor provided independent quality assurance on the work completed by the Crown Advisor.
- The Treasury prepared advice for Ministers on the design of a sales programme, drawing on the advice from its advisors and the views of the SOE companies and the relevant government departments.

Implementation of Mixed Ownership Model

- A substantial consultation process with Māori was designed and executed in the period December 2011 to March 2012 which involved 10 hui throughout the country, and the receipt and analysis of 213 submissions to the Treasury. The process resulted in ministerial decisions to bring certain elements of the current SOE legislation into the Mixed Ownership Model Bill.
- The Treasury provided support to Ministers and the Finance and Expenditure Committee through the legislative processes for the Mixed Ownership Model Bill: 1,486 submissions on the Bill were received, analysed and reported on to the Select Committee resulting in enabling legislation being passed on 26 June 2012.
- Appointments were made through public tender processes for various commercial roles associated with the Mixed Ownership Model programme.
- Commercial workstreams for the Mighty River Power IPO commenced in each of Due Diligence, Offer Structure, Corporate Finance, Retail Marketing and Logistics and Communications. In addition, the Treasury has led a Crown-wide due diligence process to discover Crown-held information which is material to the proposed IPO.
- The Treasury has worked closely with the Crown Law Office and external counsel to prepare and make submissions to the Waitangi Tribunal hearing of WAI 2358 – The National Freshwater and Geothermal Resources Inquiry.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Extending the Mixed Ownership Model		
Policy advice complies with the Treasury's Quality Standards for Policy.	Achieved	Achieved
Implementation of Mixed Ownership Model		
Advice to government regarding the implementation of the Mixed Ownership Model complies with the same quality standards agreed for Treasury policy advice.	Achieved	Achieved
Completion of all procurement for sub-contractor and service providers for the Mixed Ownership Model programme.	N/A	Substantially achieved Completed all but one procurement by 30 June 2012, and the final one by 31 July 2012
Provided advice on and supported the passage of legislation to enable implementation of the Mixed Ownership Model programme.	N/A	Achieved The Public Finance (Mixed Ownership Model) Amendment Act 2012 received assent on 21 June 2012

2011 Actual $000	Extending the Mixed Ownership Model	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	3,496	5,900	3,497
	Funded by:			
-	Revenue Crown	3,496	5,900	3,497

2011 Actual $000	Implementation of Mixed Ownership Model Multi-year Appropriation (MYA)	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	6,640	-	26,802
	Funded by:			
-	Revenue Crown	6,465	-	26,802
-	Other revenue	175	-	-

Expenditure is $20.163 million under the Supplementary Estimates budget. This is a multi-year appropriation and the result against budget reflects the uncertain timing of the work programme. The full amount underspent is therefore transferred to 2012/13.

Main Estimates initial budget was appropriated under the Extending the Mixed Ownership Model and this was then transferred into the new appropriation for the Implementation of Mixed Ownership Model.

Provision of Financial Services to the New Zealand Local Government Funding Agency

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with the provision of financial services on a commercial basis to the New Zealand LGFA. This is a Revenue-Dependent Appropriation (RDA).

Significant Work Completed During 2011/12

- Significant work on system development and legal work on contract documentation was completed in advance of LGFA going live.

LGFA commenced operations in February and since this time the Treasury has provided outsourced services to the level set out in the service level agreement. This included bond tendering, processing of on-lending to local councils, executing investment and derivative transactions as required and providing daily valuation and risk reports.

As this appropriation was established during the 2011/12 year, no performance measures were formally agreed for the year in review.

2011 Actual $000	Provision of Financial Services to LGFA	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	271	-	250
	Funded by:			
-	Revenue Crown	-	-	-
-	Other revenue	271	-	250

In December 2011, Cabinet agreed that NZDMO would provide a standby liquidity facility and outsourced service to the New Zealand Local Government Authority. An RDA was established and an annual fee negotiated between the two parties to recover the cost of providing the service.

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

Scope of Appropriation

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

Significant Work Completed During 2011/12

- Engaged with monitored agencies and provided advice on strategy and planning documentation including *Statements of Corporate Intent* of SOEs.
- Prepared Quarterly Reports for Cabinet on Crown Company performance, covering SOEs and other entities being monitored. This year, the Treasury took on the secondary monitoring responsibility for Dispute Resolution Services Ltd, Health Benefits Ltd and LGFA.
- Analysed Post Investment Reviews of SOEs' major capital projects and business acquisitions and reported the results of these back to shareholding Ministers. The reviews showed that the majority of SOE investments have been successful.
- Published the 2011 APR, including an Economic Profit Analysis over 10 years for all SOEs, Air New Zealand, Public Trust and Television New Zealand (TVNZ). It also included Independent Commercial Valuations for all SOEs (also see below).
- Undertook work on the long-term strategy for Kiwibank, and in respect of two acquisitions by NZ Post/Kiwibank.
- Provided advice on institutional arrangements for SOEs. This included:
  - reviewing and revising the *Owners' Expectations Manual* for SOEs and other Treasury-monitored entitites, which has now been published, and
  - providing advice regarding KiwiRail's turnaround progress and a proposed Balance Sheet Restructuring, planned for implementation in 2013, which should assist in the reporting and monitoring of its commercial progress.
- Engaged with agencies on their dividend policies as part of the annual round of business planning and *Statements of Corporate Intent*, because these impact on capital structures, and as a consequence some companies resumed dividend payments or established a timeframe for when they intend to do so.
- Undertook work on understanding the senior management performance incentive structures at SOEs.
- Assisted Ministers with 101 appointments and reappointments of board members, and the appointments to establish boards for SRESL and CAML.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Policy advice complies with the Treasury's Quality Standards for Policy.	Achieved	Achieved
2011 APR builds on the analysis developed in 2010 and provides more detailed and comprehensive performance information on the entities that COMU monitors.	Achieved	Achieved

2011 Actual $000	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	3,712	2,048	4,131
	Funded by:			
-	Revenue Crown	3,660	2,014	4,097
-	Other revenue	52	34	34

Expenditure is $419,000 under the Supplementary Estimates budget. Approval has been granted to transfer up to $400,000 of this under-spend to 2012/13 to continue to develop training for board directors and complete work programmes associated with Kiwibank and NZ Post.

From 2011/12 the appropriation previously attributable to Vote State-Owned Enterprises was transferred to Vote Finance.

Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development

Scope of Appropriation

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

Significant Work Completed During 2011/12

- Maintained an oversight of the eight Crown research institutes (CRIs) and reported on them in the Treasury's 2011 APR.
- Provided second opinion advice and guidance to MSI on its monitoring of CRIs and Research and Education Advanced Network New Zealand (REANNZ).
- Provided advice on New Zealand Venture Investment Fund Ltd (NZVIF) business planning and risks and opportunities.
- Completed 25 board appointments for CRIs and other entities.

Performance Dimensions for 2011/12	Target	Performance for 2011/12
Policy advice complies with the Treasury's Quality Standards for Policy.	Achieved	Achieved

2011 Actual $000	Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	711	1,074	778
	Funded by:			
-	Revenue Crown	700	1,063	767
-	Other revenue	11	11	11

From 2011/12 the appropriation previously attributable to Vote Crown Research Institutes was transferred to Vote Finance.

Shared Support Services

Scope of Appropriation

This appropriation is limited to provision of support services to other agencies.

Significant Work Completed During 2011/12

Establishing CASS

- CASS was established on 7 March 2012 to deliver finance, human resources, information management and technology services to the Treasury, SSC and DPMC.
- By year-end CASS had completed its establishment phase, during which it continued to provide operational support to the three agencies.
- During this period, significant achievements were:
  - appointments made for all manager and team leader roles and most other permanent roles
  - establishment of the foundational governance mechanisms, in particular, the MOU between the three agencies, the CASS Partnership Board which provides cross-agency governance detailed in its charter and the CASS Service Catalogue which defines and describes the services delivered by CASS
  - implementation of several quick-win initiatives, including the rollout of new telephony and printer services, and
  - completion of detailed planning for 2012/13, including establishing a Service Catalogue agreement between the three agencies, which provides the framework for CASS performance metrics and targets for 2012/13.

As this appropriation was established during the 2011/12 year, no performance measures were formally agreed for the year in review.

2011 Actual $000	Shared Support Services	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Expenses	2,310	-	3,000
	Funded by:			
-	Revenue Crown	-	-	-
-	Other revenue	2,310	-	3,000

Expenditure is $690,000 under the Supplementary Estimates budget and this is also reflected in the lower departmental revenue charged for these services. The first budget for this new activity represented an upper limit of expected costs and was subject to the completion of the detailed Service Catalogue.

Ministerial Servicing Performance 2011/12

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

The Treasury provides these services to the Minister of Finance, Associate Ministers of Finance and/or other Ministers on referral from the Minister of Finance or an Associate Minister of Finance; the Minister of Science and Innovation; and the Minister for State-Owned Enterprises.

There are two categories of OIA requests: OIA requests made to Ministers (MOIAs) and OIA requests made to the Treasury (TOIAs). The number of PQs listed below relates to written PQs only. Estimated and actual volumes for PQ, MC and OIA requests referred to the Treasury for 2011/12 are presented below.

During the year, the Treasury introduced new processes for handling MC, incorporating the recommendations of the Lean Six Sigma analysis undertaken earlier in 2011. The changes resulted in a sustained improvement in MC results since December which has lifted overall performance figures for the year compared with the previous year.

	PQ	MC	MOIA	TOIA
Total for all Votes (estimated for full year)	200	1,280	160	210
Actual draft replies completed	278	986	150	222
Target % answered by due date	100%	95%	100%	100%
% answered by due date	100%	77%	86%	80%
Target % first draft accepted	100%	95%	95%	N/A
% first draft accepted	97%	93%	100%	N/A

The measurement of drafts accepted the first time focuses explicitly on errors made by the Treasury. Agreed measures for ministerial servicing are set out on page 124.

The Quality of the Treasury's Policy Advice

The Treasury has a quality standard for policy advice that is applied to all appropriations. The Quality Standards for Policy Advice are published in full on page 123 of this *Annual Report*.

Review of the Quality of the Treasury's Policy Advice 2012

This year we established an internal panel to review a sample of the Treasury's policy advice for the 2011/12 year. This follows two previous external reviews conducted by Howard Fancy in 2009 and 2011.

The intent of the review was to:

- assess the quality of a sample of advice against the Treasury's Quality Standards for Policy Advice
- identify examples of best practice, and
- identify areas for potential improvement.

The panel was led by experienced leaders within the Treasury and looked at a representative sample of advice selected using a randomised methodology. The process was designed in line with the findings of the policy advice measurement pilot currently underway, which is being led by the Treasury.

The review found that:

- the average grade for assessed reports was 7.2 out of 10, and
- 80% of assessed reports were graded 7 out of 10 or higher.

These results should provide confidence that, overall, the Treasury achieves and maintains satisfactory levels of quality. The results are also broadly consistent with Howard Fancy's findings last year, with the reviewers identifying many of the same strengths as he identified.

Some of the weaknesses identified in the Fancy review, such as an emphasis on fiscal implications rather than a broader value-for-money perspective, did not come through as strongly. We would expect that, as the internal review process continues, a broad range of types of advice would be picked up through the random selection process and enable us to see whether the issues persist.

The Treasury is still working through the findings of the review and identifying what lessons can be learned to lift the quality of our policy advice.

Our intention is to continue the internal review process with regular assessments during the year so that staff receive more timely feedback to support continuous improvement. The Treasury will be giving consideration to how to complement the internal review process with periodic external reviews.

Financial Statements – Departmental

for the year ended 30 June 2012

Statement of Comprehensive Income

for the year ended 30 June 2012

The Statement of Comprehensive Income details the revenue and expenses relating to all outputs (goods and services) produced by the Treasury during the financial year ended 30 June 2012. Total expenses equals total departmental output classes expenditure and appropriations in the Statement of Departmental Expenses and Capital Expenditure Against Appropriations on page 64 and 65.

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Revenue				
63,921	Revenue Crown	2,19	72,319	73,789	101,226
1,867	Revenue other	3	5,786	1,156	5,918
65,788	Total Revenue		78,105	74,945	107,144
	Expenses				
43,975	Personnel	4	44,629	46,476	44,985
1,558	Depreciation and amortisation	8,9	1,707	1,938	2,187
453	Capital charge	5	459	455	471
19,802	Other operating expenses	6,19	31,310	26,076	59,501
65,788	Total Expenses		78,105	74,945	107,144
-	Net Surplus and Comprehensive Income		-	-	-

Explanations of significant variances against budget are detailed in note 19.

Statement of Changes in Equity

for the year ended 30 June 2012

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

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
6,342	Balance at 1 July		5,742	5,742	5,742
-	Total comprehensive income/(expense)	19	-	-	-
-	Return of operating surplus to the Crown		-	-	-
-	Transfer from other agencies		3,315	-	3,315
(600)	Capital withdrawal repaid to the Crown		(100)	(100)	(100)
5,742	Balance at 30 June		8,957	5,642	8,957

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

Statement of Financial Position

as at 30 June 2012

The Statement of Financial Position reports the total assets and liabilities of the Treasury as at 30 June 2012. Taxpayers' funds are represented by the difference between the assets and liabilities.

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Assets				
	Current Assets				
4,755	Cash and cash equivalents	17	7,744	1,049	4,018
875	Debtors and other receivables	7,17	3,248	404	404
344	Prepayments	17	397	468	468
6,751	Debtor – Crown		3,839	9,096	6,696
12,725	Total Current Assets		15,228	11,017	11,586
	Non-current Assets				
3,328	Property, plant and equipment	8	4,589	3,103	3,961
203	Intangible assets	9,19	923	1,034	2,924
3,531	Total Non-current Assets		5,512	4,137	6,885
16,256	Total Assets		20,740	15,154	18,471
	Liabilities				
	Current Liabilities				
4,802	Creditors and other payables	13,17,19	5,798	4,300	4,302
4,903	Provision for employee entitlements	12	5,041	4,342	4,342
9,705	Total Current Liabilities		10,839	8,642	8,644
	Non-current Liabilities				
809	Provision for employee entitlements	12	944	870	870
809	Total Non-current Liabilities		944	870	870
10,514	Total Liabilities		11,783	9,512	9,514
5,742	Net Assets		8,957	5,642	8,957
	Equity				
5,742	Taxpayers' Funds		8,957	5,642	8,957
5,742	Total Equity		8,957	5,642	8,957

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

Statement of Cash Flows

for the year ended 30 June 2012

The Statement of Cash Flows summarises the cash movements in and out of the Treasury during the financial year. It takes no account of money owed to the Treasury or owing by the Treasury and therefore differs from the Statement of Comprehensive Income on page 61.

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Cash Flows from Operating Activities				
	Cash was provided from:				
65,969	Supply of outputs to the Crown		75,365	73,633	101,281
1,886	Supply of outputs to third parties		4,164	1,290	5,944
67,855			79,529	74,923	107,225
	Cash was disbursed to:				
(43,923)	Personnel		(44,571)	(44,939)	(45,261)
(20,743)	Operating and consultants		(30,623)	(27,948)	(59,325)
(453)	Capital charge		(459)	(455)	(471)
(65,119)			(75,653)	(73,342)	(105,057)
2,736	Net Cash Flows from Operating Activities	15	3,876	1,581	2,168
	Cash Flows from Investing Activities				
	Cash was provided from:				
-	Sale of property, plant and equipment		-	-	-
-			-	-	-
	Cash was disbursed to:				
(1,130)	Purchase of property, plant and equipment		(1,724)	(818)	(1,745)
(66)	Purchase of intangible assets		(112)	(1,400)	(1,953)
(1,196)			(1,836)	(2,218)	(3,698)
(1,196)	Net Cash Flows from Investing Activities		(1,836)	(2,218)	(3,698)
	Cash Flows from Financing Activities				
	Cash was provided from:				
-	Transfer from other agencies		1,155	-	1,165
322	Goods and services tax (net)		(106)	(180)	(272)
322			1,049	(180)	893
	Cash was disbursed to:				
(600)	Capital withdrawal		(100)	(100)	(100)
(278)	Net Cash Flows from Financing Activities		949	(280)	793
1,262	Net movement in cash and bank balances		2,989	(917)	(737)
3,493	Cash and Bank Balances at the Beginning of the Year		4,755	1,966	4,755
4,755	Cash and Bank Balances at the End of the Year		7,744	1,049	4,018

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

Statement of Departmental Expenses and Capital Expenditure Against Appropriations

for the year ended 30 June 2012

The Statement of Departmental Expenses and Capital Expenditure Against Appropriations details expenditure against appropriations. Total Departmental Output Classes Expenditure and Appropriations equals total expenses in the Statement of Comprehensive Income on page 61.

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Vote Finance: Departmental Output Classes			
4,931	Administration of Crown Borrowing[3]	3,746	5,276	4,374
1,077	Administration of Derivative Transactions[3]	904	1,008	951
3,094	Administration of Guarantees and Indemnities Given by the Crown[3]	1,594	1,820	1,820
671	Administration of Investment of Public Money[3]	564	820	609
1,323	Crown Guarantee Schemes	-	-	-
-	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	3,712	2,048	4,131
-	Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development	711	1,074	778
322	Establishment and Monitoring Crown Investment in AMI	-	-	-
468	Establishment of the New Zealand Productivity Commission	-	-	-
-	Establishment of the Mixed Ownership Model	3,496	5,900	3,497
4,577	Infrastructure Advice and Coordination	3,990	4,580	4,325
-	Implementing the Mixed Ownership Model MYA	6,640	-	26,802
-	Management and Administration of Financial Operations on behalf of the Crown	6,893	7,522	8,222
-	Shared Support Services	2,310	-	3,000
-	Policy Advice – Finance	43,274	44,897	48,385
-	Provision of Financial Services to the New Zealand Local Government Funding Agency RDA	271	-	250
	Macroeconomic Policy Advice and Management (MCOA)			
2,517	Economic and Tax Forecasting	-	-	-
2,294	Fiscal Management	-	-	-
3,116	Fiscal Reporting	-	-	-
546	Management of Crown Lending and Crown Bank Accounts	-	-	-
5,203	Policy Advice – Fiscal and Macroeconomic	-	-	-
13,676	Total Macroeconomic Policy Advice and Management (MCOA)	-	-	-

3 These expenses or capital expenditures have permanent legislative authority.

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	State Sector and Economic Performance Policy Advice and Management (MCOA)			
447	Management of Liabilities, Claims against the Crown, Contractual Liabilities and Crown Properties	-	-	-
2,064	New Zealand Export Credit Office	-	-	-
15,442	Policy Advice – Economic Performance	-	-	-
13,431	Policy Advice – State Sector Performance	-	-	-
31,384	Total State Sector and Economic Performance Policy Advice and Management (MCOA)	-	-	-
61,523	Total Vote Finance: Departmental Output Classes	78,105	74,945	107,144
	Vote Crown Research Institutes: Departmental Output Classes			
595	Crown Company Monitoring Advice to the Minister of Science and Innovation and Other Responsible Ministers	-	-	-
	Vote State-Owned Enterprises: Departmental Output Classes			
3,670	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	-	-	-
65,788	Total Departmental Output Classes Expenditure and Appropriation	78,105	74,945	107,144
	Capital Expenditure			
1,416	Total Departmental Capital Expenditure[3]	3,691	2,218	3,391

From 2011/12 the appropriations previously attributable to Vote Crown Research Institutes and Vote State-Owned Enterprises were transferred to Vote Finance. In addition, under Vote Finance the output class structure was rationalised.

There was no unappropriated expenditure incurred during 2011/12 (2010/11: nil).

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

Statement of Commitments

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Capital Commitments			
-	Property, plant and equipment	-	-	-
	Non-cancellable operating lease commitments			
3,066	Not later than one year	4,230	4,637	4,230
12,105	Later than one year and not later than five years	12,105	12,196	12,105
9,079	Later than five years	-	-	-
24,250	Total Non-cancellable Operating Lease Commitments	16,335	16,833	16,335
	Other non-cancellable commitments			
-	Not later than one year	407	-	407
-	Later than one year and not later than five years	91	-	91
-	Later than five years	-	-	-
-	Total Other Non-cancellable Commitments	498	-	498
24,250	Total Commitments	16,833	16,833	16,833

Capital commitments

There are no capital commitments for this year.

Non-cancellable operating lease commitments

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

Other non-cancellable commitments

The Treasury has entered into non-cancellable contracts for computer maintenance, cleaning services, consulting and other contracts for services.

Statement of Contingent Liabilities and Contingent Assets

Unquantifiable contingent liabilities

The Treasury has the following unquantifiable contingent liabilities:

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

Quantifiable contingent liabilities and assets

As at 30 June 2012, the Treasury had no quantifiable departmental contingent assets and liabilities (30 June 2011: nil).

Notes to the Financial Statements

for the year ended 30 June 2012

1 Statement of Accounting Policies

The Treasury is a government department as defined by section 2 of the Public Finance Act 1989.

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

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

The Financial Statements of the Treasury are for the year ended 30 June 2012. The Financial Statements were authorised for issue by the Secretary to the Treasury on 28 September 2012.

Statement of compliance

The Financial Statements of the Treasury have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practices (NZ GAAP), and Treasury Instructions.

These Financial Statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with NZ IFRS.

Basis of preparation

Measurement base

The Financial Statements have been prepared on an historical cost basis, modified by the revaluation of derivative financial instruments to fair value.

Functional and presentation currency

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

Comparatives

When presentation or classification of items in the Financial Statements are amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Changes in accounting policies

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

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

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the Statement of Changes in Equity or the notes, for each component of equity, an analysis of other comprehensive income by item. The Treasury has no other comprehensive income.
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures. The amendment reduces the disclosure requirements relating to credit risk. Note 16 has been updated for the amendments.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Treasury, are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement; Phase 2 Impairment Methodology; and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by XRB. Under this Accounting Standards Framework, the Treasury is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Treasury expects to transition to the new standards in preparing its 30 June 2015 Financial Statements. As the PAS are still under development, the Treasury is unable to assess the implications of the new Accounting Standards Framework at this time.

Owing to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Significant accounting policies

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue Crown

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

Revenue other

State Sector Retirement Superannuation and KiwiSaver Schemes revenue

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

Sale of publications

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

Recovery of costs

Recovery of costs is recognised as the costs are incurred. The recorded revenue is the value of expenses being recovered.

Capital charge

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

Operating leases

The Treasury leased office premises during the year ended 30 June 2012. Substantially all the risks and benefits of ownership were retained by the lessor, and therefore these leases were classified as operating leases. Operating lease costs are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Financial instruments

Financial assets and liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank accounts.

Debtors and other receivables

Short-term debtors and other receivables are recorded at their fair value, less any provision for impairment.

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

Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have previously been recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Property, plant and equipment

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

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Individual assets, or groups of assets, are capitalised if their cost is greater than $5,000. Computer equipment with a cost greater than $1,000 is capitalised. The value of individual assets that is less than $5,000 and is part of a group of similar assets is capitalised.

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the department and the cost of the item can be measured reliably.

Depreciation

Depreciation of property, plant and equipment is provided on a straight-line basis at rates calculated to allocate the cost of an asset, less any estimated residual value, over its estimated useful life. The useful life and associated depreciation rates are as follows:

Asset	Depreciation Rate	
Furniture and fittings	5–10 years	10%–20%
Leasehold improvements	12 years	8%
Office machinery and equipment	3–5 years	20%
Computer equipment	3–5 years	33.3%–20%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Intangible assets

Software acquisition and development

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

Costs that are directly associated with the development of software for internal use by the Treasury are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of the relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when an asset is available for use and ceases at the date that an asset is de-recognised. The amortisation charge for each period is recognised in the surplus or deficit.

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

Acquired computer software	3 years	(33%)
Developed computer software	3 years	(33%)

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested for impairment annually.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Treasury would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

For assets not carried at a re-valued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

Creditors and other payables are measured at cost.

Employee entitlements

Short-term employee entitlements

Short-term employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, vested retiring and long service leave and entitlements expected to be settled in the next 12 months, and sick leave.

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

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

Long-term employee entitlements

Entitlements that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis.

The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual-entitlements information, and
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined-contribution schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver, Government Superannuation and individual retirement funds are accounted for as defined-contribution schemes and are recognised as expenses in the surplus or deficit as incurred.

Provisions

The Department recognises a provision for future expenditure of uncertain amounts or timing when there is a present obligation (either legal or constructive) as a result of a past event, when it is probable that an outflow of future economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision owing to the passage of time is recognised as a finance cost.

Equity

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

Commitments

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

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

Goods and services tax (GST)

All items in the Financial Statements, including the Appropriation Statements, are GST exclusive – except for receivables and payables, which are on a GST-inclusive basis.

The net amount of GST recoverable from or payable to IRD is included as part of receivables or payables in the Statement of Financial Position.

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

Commitment and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are those included in the Department's Budget Estimates for the year ended 30 June 2012, which are consistent with the financial information in the Main Estimates. In addition, the Financial Statements also present the updated budget information from the 2011/12 Supplementary Estimates.

Statement of cost allocation policies

The Department has determined the cost of outputs using the following cost allocation system:

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes.
- Indirect costs are expenses incurred by CASS (from March 2012), Corporate Services and Office of the Chief Executive that can't be identified with a specific output. Indirect costs are allocated to each output class based on cost drivers, related activity and usage information.

There have been no changes in the Treasury's general cost accounting policies since the date of the last audited Financial Statements.

Since March 2012, the Treasury has hosted a shared services model incorporating the Treasury, SSC and DPMC for the delivery of finance, human resources, information management and information technology functions.

Critical accounting estimates and assumptions

In preparing these Financial Statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below.

Retirement and long service leave

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 13.

2 Revenue – Crown

This is revenue earned for the supply of outputs to the Crown and is recognised as revenue when earned.

3 Other Revenue

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
1,162	State Sector Retirement Superannuation and KiwiSaver Schemes funding from Crown	1,164	1,156	1,168
-	Cost recoveries from SSC and DPMC for CASS	2,310	-	3,000
298	Cost recoveries from AMI Insurance	1,942	-	1,500
407	Other	370	-	250
1,867	Total Other Revenue	5,786	1,156	5,918

4 Personnel Costs

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
41,147	Salaries and wages	41,505	43,467	41,744
1,543	Employer contributions to defined contribution plans	1,415	1,524	1,320
(245)	Increase/(decrease) in employee entitlements	232	(179)	26
738	Training and development	776	890	942
792	Other	701	774	953
43,975	Total Personnel Costs	44,629	46,476	44,985

5 Capital Charge

The Treasury pays a capital charge to the Crown based on taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the 2011/12 year was 8% (2010/11: 7.5%).

6 Operating Expenses

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
2,978	Lease of premises	3,037	3,108	3,068
1,178	Occupancy costs	1,167	1,288	1,164
1,072	Bank fees, commissions and service charges	954	1,046	1,127
	Fees to Auditor:			
377	‣ Fees to KPMG for audit of the Department and NZDMO	330	250	240
893	‣ Fees to KPMG for other services	210	150	51
506	‣ Fees to other Auditors for Departmental Internal Control Evaluation (DICE) and audit of Crown Financial Statements	491	488	534
	Consultants:			
-	‣ Mixed Ownership Model	6,928	4,394	13,552
-	‣ CASS transition costs	930	-	-
4,674	‣ Other consultants	6,587	1,846	12,531
	Legal fees:			
-	‣ Mixed Ownership Model	373	-	2,377
209	‣ AMI Insurance Limited	1,427	350	1,377
1,344	‣ Other legal fees	2,304	1,113	1,631
1,853	Process management services	1,040	622	2,026
1,403	Transport and travel	1,646	1,807	1,996
	Information and communication costs:			
-	‣ Mixed Ownership Model	13	-	4,006
1,432	‣ Other information and communication costs	1,401	1,763	1,461
728	Data processing costs	1,038	972	782
823	Office administration costs	715	970	2,184
-	Restructuring costs	248	-	-
332	Other operating costs	471	5,909	9,394
19,802	Total Operating Expenses	31,310	26,076	59,501

7 Debtors and Other Receivables

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
24	Trade debtors	138	10	10
851	Accrued revenue and other receivables	3,113	394	397
-	Less: provision for doubtful debts	(3)	-	(3)
851	Net Accrued Revenue and Other Receivables	3,110	394	394
875	Total Debtors and Other Receivables	3,248	404	404

The ageing profile of receivables at year end is detailed below:

	2011 Gross $000	2011 Impairment $000	2011 Net $000	2012 Gross $000	2012 Impairment $000	2012 Net $000
Cost						
Current	775	-	775	3,207	-	3,207
Past due 31–60 days	100	-	100	26	-	26
Past due 61–90 days	-	-	-	9	-	9
Past due > 91 days	-	-	-	9	(3)	6
Total	875	-	875	3,251	(3)	3,248

The carrying value of debtors and other receivables approximates their fair value.

8 Property, Plant and Equipment

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

	Leasehold Improvements $000	Office Machinery and Electrical Equipment $000	Furniture and Fittings $000	Computer Hardware $000	Total $000
Cost					
Balance at 1 July 2010	4,747	635	1,159	5,481	12,022
Additions	549	-	129	672	1,350
Disposals	(311)	(9)	(153)	(822)	(1,295)
Balance at 30 June 2011	4,985	626	1,135	5,331	12,077
Balance at 1 July 2011	4,985	626	1,135	5,331	12,077
Additions/transfers	125	54	296	2,195	2,670
Disposals	(375)	(18)	(22)	(706)	(1,121)
Balance at 30 June 2012	4,735	662	1,409	6,820	13,626
Accumulated Depreciation and Impairment Losses					
Balance at 1 July 2010	2,342	593	1,082	4,352	8,369
Depreciation expense	437	15	39	806	1,297
Disposals	(92)	(8)	(54)	(763)	(917)
Impairment losses	-	-	-	-	-
Balance at 30 June 2011	2,687	600	1,067	4,395	8,749
Balance at 1 July 2011	2,687	600	1,067	4,395	8,749
Depreciation expense	563	8	49	785	1,405
Disposals	(376)	(9)	(21)	(711)	(1,117)
Impairment losses	-	-	-	-	-
Balance at 30 June 2012	2,874	599	1,095	4,469	9,037
Carrying Amounts					
At 1 July 2010	2,405	42	77	1,129	3,653
At 30 June 2011/ 1 July 2011	2,298	26	68	936	3,328
At 30 June 2012	1,861	63	314	2,351	4,589

Additions for 2011/12 include $1.251 million transferred from SSC and DPMC with the set up of CASS.

9 Intangible Assets

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

	Acquired Software $000	Internally Generated Software $000	Total $000
Cost			
Balance at 1 July 2010	1,699	713	2,412
Additions	66	-	66
Disposals	-	-	-
Balance at 30 June 2011	1,765	713	2,478
Balance at 1 July 2011	1,765	713	2,478
Additions/transfers	459	563	1,022
Disposals	-	-	-
Balance at 30 June 2012	2,224	1,276	3,500
Accumulated Amortisation and Impairment Losses			
Balance at 1 July 2010	1,429	585	2,014
Amortisation expense	145	116	261
Disposals	-	-	-
Impairment losses	-	-	-
Balance at 30 June 2011	1,574	701	2,275
Balance at 1 July 2011	1,574	701	2,275
Amortisation expense	239	63	302
Disposals	-	-	-
Impairment losses	-	-	-
Balance at 30 June 2012	1,813	764	2,577
Carrying amounts			
At 1 July 2010	270	128	398
At 30 June 2011/ 1 July 2011	191	12	203
At 30 June 2012	411	512	923

There are no restrictions over the title of the Treasury's intangible assets. No intangible assets are pledged as security for liabilities. Additions for 2011/12 include $910,000 transferred from SSC and DPMC with the set up of CASS.

10 Capital Management

The Treasury's capital is its equity (or taxpayers' funds). Equity is represented by net assets. The Treasury manages its expenses, revenues, assets, liabilities and general financial dealings prudently. The Treasury's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and compliance with the government budget processes, Treasury Instructions and the Public Finance Act 1989.

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

11 Capital Expenditure

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
549	Leasehold improvements	125	25	300
-	Office machinery and electrical equipment	54	104	585
129	Furniture and fittings	296	21	101
672	Computer hardware	2,195	668	454
1,350	Total Property, Plant and Equipment	2,670	818	1,440
66	Acquired software	459	770	1,470
-	Internally generated software	563	630	481
66	Total Intangibles	1,022	1,400	1,951
1,416	Total Capital Expenditure	3,692	2,218	3,391

Additions for 2011/12 include $1.251 million of computer hardware and $910,000 software transferred from SSC and DPMC with the set up of CASS.

12 Provision for Employee Entitlements

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Current Liabilities			
881	Accrued salaries	1,115	770	770
312	Accrued performance payments	390	200	200
2,670	Annual leave	2,753	2,750	2,750
142	Sick leave	139	87	87
297	Retirement, resigning and long service leave	314	190	190
601	Other employee entitlements	330	345	345
4,903	Total Current Portion	5,041	4,342	4,342
	Non-current Liabilities			
809	Retirement, resigning and long service leave	944	870	870
809	Total Non-current Portion	944	870	870
5,712	Total Employee Entitlements	5,985	5,212	5,212

The present value of the retirement and long service leave obligations depends on a number of factors. Two key assumptions used in calculating this liability include the discount rate and the salary-inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate, the Department adopts the central table of risk-free discount rates and Consumer Price Index (CPI) assumptions provided by the Treasury to all Departments.

If the discount rate were to differ by 1% from the department's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $80,000 higher/lower.

If the salary inflation factor were to differ by 1% from the department's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $68,000 higher/lower.

13 Creditors and Other Payables

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
1,158	Sundry creditors	1,589	1,158	1,158
80	Receipts in advance	58	80	80
2,891	Accrued expenses	3,582	2,662	2,664
673	GST and other taxes payable	569	400	400
4,802	Total Creditors and Other Payables	5,798	4,300	4,302

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

14 Return of Operating Surplus to the Crown

The return of operating surplus to the Crown is required to be paid by 31 October each year. The Treasury has no surplus to return to the Crown for the period ending 30 June 2012 (2010/11: nil).

15 Reconciliation of the Net Surplus to the Net Cash Flows from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the net surplus reported in the Statement of Comprehensive Income on page 61 to arrive at the net cash flows from operating activities disclosed in the Statement of Cash Flows on page 63.

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
-	Net Surplus from Statement of Comprehensive Income	-	-	-
	Non-cash Items:			
1,558	Depreciation, amortisation and impairment expenses	1,707	1,938	2,187
1,558	Total Non-cash Items	1,707	1,938	2,187
	Add/(less) items classified as investing or financing activities:			
-	Net (gain)/loss on sale of property, plant and equipment	-	-	-
	Add/(less) movements in deferrals and accruals:			
2,048	(Increase)/decrease in debtor – Crown	2,912	(2,345)	55
(363)	(Increase)/decrease in debtors and other receivables	(2,265)	2,408	471
94	(Increase)/decrease in prepayments	(52)	(124)	(124)
(523)	Increase/(decrease) in creditors and other payables	1,301	17	79
-	Increase/(decrease) in provisions	-	-	-
(78)	Increase/(decrease) in employee entitlements	273	(313)	(500)
1,178	Net Movement in Working Capital Items	2,169	(357)	(19)
2,736	Net Cash Flows from Operating Activities	3,876	1,581	2,168

16 Related Party Information

All related party transactions have been entered into on an arm's length basis.

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

The Treasury has received funding from the Crown of $72.319 million to provide services to the public for the year ended 30 June 2012 (2010/11: $63.921 million).

In conducting its activities, the Treasury is required to pay various taxes and levies (such as GST, FBT, PAYE and ACC) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Treasury is exempt from income tax.

The Treasury also purchased and sold goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2012 totalled $925,000 (2010/11: $898,000). These purchases included air travel from Air New Zealand and postal services from NZ Post but excluded capital charge.

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

2011 Actual $000		2012 Actual $000
1,695	Salaries and other short-term employee benefits	2,678
14	Post-employment benefits	76
-	Other long-term employee benefits	4
-	Termination benefits	-
34	Board member fees	137
1,743	Total Key Management Personnel Compensation	2,895

Key management personnel of the Treasury at 30 June 2012 included the ELT (Chief Executive, one Deputy Chief Executive, nine Deputy Secretaries and the Director CASS) and the Treasury Board. 2011 included the Chief Executive, two DCEs and the Treasury Board.

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

Related party transactions involving key management personnel or their close family members

There was one transaction involving a Deputy Secretary whose relative is a partner in a law firm that the Treasury uses for consultancy (2010/11: nil). The Deputy Secretary was not involved in the decision-making process to use that firm.

17 Financial Instruments

The Treasury's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Treasury has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Fair value

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

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

2011 Actual $000		2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Loans and Receivables			
4,755	Cash and cash equivalents	7,744	1,049	4,018
1,219	Debtors and other receivables and prepayments	3,645	872	872
5,974	Total Loans and Receivables	11,389	1,921	4,890
	Financial Liabilities			
4,802	Creditors and other payables	5,798	4,300	4,302

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Treasury, causing the Treasury to incur loss.

In the normal course of its business, credit risk arises from debtors and deposits with banks.

The Treasury is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with NZDMO. These entities have high credit ratings. For its other financial instruments, the Treasury does not have significant concentrations of credit risk.

The Treasury's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors (note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Treasury has no material exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, owing to changes in market interest rates.

The Treasury has no exposure to interest rate risk because it has no interest bearing financial instruments.

Liquidity risk

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

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

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

18 Events Subsequent to Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2010/11: nil).

19 Explanation of Major Variances

Statement of Comprehensive Income

The following major variations occurred in the Statement of Comprehensive Income between the 2011/12 Actuals and 2010/11 Actuals:

- The establishment of the Mixed Ownership Model in December 2011 has increased operational costs significantly in 2011/12 ($10.137 million).
- The provision of shared support services to Central Agencies began in March 2012. This resulted in increased revenue and expenses in 2011/12 ($2.310 million).

The following major budget variations occurred between the 2011/12 Actuals and the 2011/12 Supplementary Estimates budgets:

- The majority of the current year variance in expenditure and revenue relates to the multi-year funding provided for the Mixed Ownership Model ($20.163 million). The uncertain timing of this work programme means that this funding will be transferred to future periods.
- In addition, approval has been given to transfer up to $7.236 million of operational funding into 2012/13. These approvals are detailed under each output in the Statement of Objectives and Service Performance section of this report.

Statement of Financial Position

The following major variations occurred in the Statement of Financial Position between the 2011/12 Actuals and 2010/11 Actuals:

- The increase in debtors and receivables reflects the charges between agencies for new shared services provided through the Treasury from March 2012.
- Shared services assets were transferred to the Treasury in 2012 increasing the non-current assets balance.

The following major budget variations occurred between the 2011/12 Actuals and the 2011/12 Supplementary Estimates budgets:

- Supplementary Estimates capital expenditure on IT assets was expected to be higher following the integration of CASS. More of this work will now be completed in 2012/13.
- Increased operational activity has increased payables year on year and against the Supplementary Estimates budget.

Supplementary Financial Schedules – Non-departmental

for the year ended 30 June 2012

Schedule of Expenses

for the year ended 30 June 2012

The Schedule of Expenses summarises expenses that the Department administers on behalf of the Crown. Details of non-departmental expenditure and appropriations are provided in the Explanatory Notes to Supplementary Statements and Schedules – Non-departmental on pages 95 to 102.

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Vote Finance				
2,022	Non-departmental output classes		5,504	6,255	6,255
3,040,302	Borrowing expenses	18(c)	3,441,282	3,457,514	3,457,514
2,436,635	Other expenses incurred by the Crown		703,691	704,065	707,199
	Remeasurements:				
2,000	AMI discounted payable	2	-	6,713	6,713
574,000	Change in GSF unfunded liability – actuarial (gains)/losses	8	3,895,593	2,212,000	2,212,000
16,000	Change in NPF DBP(A) Scheme provision under Crown Guarantee – actuarial (gains)/losses	13	139,000	(7,200)	(7,200)
816	Change in Rugby World Cup provision		-	-	-
236,436	Change in DGS receivable revaluation	3(a)	474	-	-
-	Derivatives in loss		385	-	-
-	Change in AMI provision	2	76,297	(112,137)	(112,137)
(150,000)	Deposit Guarantee Scheme – full payout option	3(a)	-	-	-
86	Earthquake Commission s25 emergency payments		-	-	-
13,254	FX losses/(gains) incurred by the Treasury	11	6,767	-	-
(1,140,500)	Grossing up of deposit guarantee payments	3(a)	-	-	-
(9,918)	GST compensation for NPF and GSF recipients	25	-	-	-
-	Taitokerau Forests loan impairment	24	(379)	(1,500)	(1,500)
-	Other expenses incurred by the Crown – Crown Research Institutes	1	-	-	-
5,021,133			8,268,614	6,265,710	6,268,844
	Vote Crown Research Institutes				
3	Other expenses incurred by the Crown	1	-	-	-
3			-	-	-
5,021,136	Total Non-departmental Expenses		8,268,614	6,265,710	6,268,844

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Expenditure and Appropriations

for the year ended 30 June 2012

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

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Vote Finance				
	Non-departmental output classes				
291	Management of New Zealand House, London	15	447	1,000	1,000
106	Management of Crown's Obligations for Geothermal Wells		100	216	216
294	Guardians of New Zealand Superannuation		266	348	348
121	2025 Productivity Taskforce		-	-	-
1,210	Inquiries and Research into Productivity Related Matters MCOA	16	4,691	4,691	4,691
1,160	‣ *Inquiries into Productivity Related Matters*		*4,222*	*4,222*	*4,222*
50	‣ *Research into and Promotion of Productivity Related Matters*		*469*	*469*	*469*
2,022			5,504	6,255	6,255
	Borrowing expenses				
3,040,302	Debt servicing[4]	18(c)	3,441,282	3,457,514	3,457,514
3,040,302			3,441,282	3,457,514	3,457,514
	Other expenses incurred by the Crown				
150,000	Additional Payments to Facilitate Full Payout under the Crown Retail Deposit Guarantee Scheme	3(a)	-	-	-
11,814	Crown Overseas Properties	15	11,280	16,200	16,200
1	Crown Residual Liabilities		40	230	230
2,368	Earthquake Commission Land Insurance Payments	5(b)	-	-	-
41,354	Earthquake Commission Land Remediation	5(a)	-	-	-
-	Geothermal Liabilities		90	-	500
-	Government Superannuation Appeals Board		11	50	50
25,823	Government Superannuation Fund Authority – Crown's Share of Expenses[4]	9	22,581	24,760	24,760
635,659	Government Superannuation Fund Unfunded Liability	8	501,840	515,291	515,291
9,918	GST Compensation for Government Superannuation Fund and National Provident Fund Recipients	25	-	-	-
-	Impairment of Loans to Taitokerau Forests Limited	24	379	250	1,500
335,000	Impairment of Crown's Interest in AMI	2	-	-	-
37,000	National Provident Fund Schemes – Liability under Crown Guarantee[4]	14	29,004	29,000	29,000
1,516	National Provident Fund – Crown Liability for Scheme Deficiency[4]	14	94	2,500	2,500

[4] These expenses or capital expenditures have permanent legislative authority.

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
186	Payments in Respect of NZECO Guarantees and Indemnities[4]	6	29,705	-	-
1,185,761	Payments in Respect of Guarantees and Indemnities[4]	3(a)	318	121	121
-	Rugby New Zealand 2011 Limited[4]	23	108,120	108,112	108,112
86	Taitokerau Forests Limited Grant		172	51	683
149	Unclaimed Money[4]		57	250	250
-	Unclaimed Trust Money[4]		-	250	250
-	Discount Rate Interest Unwind – AMI	2	-	7,000	7,000
-	CRI Residual Liabilities	1	-	-	752
2,436,635			703,691	704,065	707,199
	Capital expenditure				
500,000	AMI Equity Injection	2	-	-	-
65,125	Asian Development Bank	11	-	-	-
183,255	International Financial Institutions	11	156,595	175,000	175,000
17,347	Landcorp Protected Land Agreement	12	1,718	2,000	11,700
175,000	Loan in Respect to Guarantees and Indemnities for the Crown Retail Deposit Guarantee Scheme	3(a)	-	-	-
500	New Zealand Productivity Commission Capital	16	-	-	-
-	Crown Asset Management Equity Injection	3(b)	102,095	500,000	500,000
800	Taitokerau Forests Limited	24	750	250	1,500
942,027			261,158	677,250	688,200
6,420,986	Total Vote Finance		4,411,635	4,845,084	4,859,168
	Vote Crown Research Institutes				
	Other expenses incurred by the Crown				
3	CRI Residual Liabilities	1	-	-	-
3	Total Vote Crown Research Institutes		-	-	-
6,420,989	Total Non-departmental Expenditure and Appropriations		4,411,635	4,845,084	4,859,168

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Revenue

for the year ended 30 June 2012

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Vote Finance				
1,650,255	Capital charge	19	1,784,933	1,775,772	1,775,772
38,075	Crown Deposit Guarantee Scheme	3(a)	2,905	2,905	2,905
80,356	Crown Wholesale Guarantee Facility	3(c)	68,044	68,041	68,041
4,870	Dividends from Crown entities	4	13,828	14,645	14,645
895,784	Dividends from SOEs	4	483,432	488,838	488,838
2,269	Dividends – other	4	4,492	2,083	2,083
271	Derivative gains/(losses)		-	-	-
10,000	Earthquake Commission guarantee fee		10,000	10,000	10,000
53,725	Employers' superannuation contributions	10	46,600	55,000	55,000
4,386	NZECO	6	12,734	5,334	5,334
317,701	Interest from investments		312,944	347,609	347,609
7,389	Interest income – other		4,868	3,077	3,077
175,910	Other income – NZDMO	18(a)	182,188	257,314	180,314
363,302	Other expenses – NZDMO (incl. gains on derivatives)	18(b)	283,282	28,514	263,514
9,598	Rentals from Crown overseas properties	15	9,659	9,500	9,500
290,000	Reserve Bank of New Zealand notional surplus	22	210,000	210,000	210,000
3,000	Fair value gains/(losses) incurred by NZDMO		(29,000)	(109,000)	(91,000)
11,000	FX gains/(losses) incurred by NZDMO		(1,000)	-	(2,000)
146,030	Other current revenue	20	585,155	668,196	668,196
17,312	Other fees	21	3,885	3,600	3,600
2,381	Unclaimed money		1,781	1,268	1,268
-	Dividends from CRIs	1	1,878	1,328	1,328
4,083,614			3,992,608	3,844,024	4,018,024
	Vote Crown Research Institutes				
817	Dividends from CRIs	1	-	-	-
817			-	-	-
4,084,431	Total Non-departmental Revenue		3,992,608	3,844,024	4,018,024

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

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Capital Receipts

for the year ended 30 June 2012

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

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Vote Finance				
175,000	Loan repayments – SCF receivership	3(a)	-	-	-
1,205	Loan repayments from other parties	24	947	477	477
176,205	Total Capital Receipts		947	477	477

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Assets

as at 30 June 2012

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

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
	Current Assets				
14,586,064	Cash and cash equivalents		10,120,787	7,819,680	7,920,546
1,277,442	Accounts receivable		507,241	224,981	224,981
1,359,756	Advances		1,651,544	647,525	567,525
351	Derivatives		-	351	351
6,105,000	Marketable securities, deposits and derivatives in gain		6,975,000	4,018,000	5,542,000
51,907	Prepayments – Government Superannuation Fund (GSF)		-	43,108	43,108
598	Prepayments – Employer Contributions (GSF)		481	-	-
23,381,118	Total Current Assets		19,255,053	12,753,645	14,298,511
	Non-current Assets				
5,583,069	Advances		5,467,000	6,302,000	6,351,000
257,950	Intangibles and goodwill	7	257,950	257,950	257,950
1,909,000	Marketable securities, deposits and derivatives in gain		1,794,000	1,780,000	5,224,000
225,310	Other share investments		228,193	234,960	234,960
169,647	Other equity-accounted investments		171,797	169,647	169,647
79,264	Property, plant and equipment		76,964	73,742	73,742
8,224,240	Total Non-current Assets		7,995,904	8,818,299	12,311,299
31,605,358	Total Non-departmental Assets		27,250,957	21,571,944	26,609,810

In addition, the Treasury monitors 14 SOEs and 16 Crown entities. The investment in these entities is consolidated in the Crown Financial Statements on a line-by-line basis. The investment in these entities is not included in this schedule.

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Liabilities

as at 30 June 2012

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

2011 Actual $000		Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates Voted $000
	Current Liabilities				
3,823,000	Crown balances with Westpac		4,418,000	3,057,000	3,690,000
683,516	Payables and accrued expenses		326,664	316,080	316,080
19,784,000	Borrowings	18(c)	24,025,000	21,928,000	22,671,000
45,584	Deferred revenue – current	3(c)	28,556	28,757	28,757
679,000	Government Superannuation Fund unfunded liability	8	705,000	700,000	700,000
37,314	Guarantee scheme payable/provision	3(a)	1,801	-	-
3,320	Insurance premiums received in advance	6	1,379	3,320	3,320
1,500	NPF Crown liability for scheme deficiency s72	13	-	-	-
-	Derivatives in loss		34	-	-
-	Other provisions	2,6	393,865	-	-
6,437	Rugby World Cup provision	23	-	-	-
25,063,671	Total Current Liabilities		29,900,299	26,033,157	27,409,157
	Non-current Liabilities				
54,896,000	Borrowings	18(c)	60,425,000	55,896,000	56,630,000
80,357	Deferred revenue	3(c)	29,341	30,000	30,000
9,197	Insurance premiums received in advance	6	1,193	8,557	8,557
9,473,892	Government Superannuation Fund unfunded liability	8	12,835,826	11,183,000	11,183,000
981,303	NPF DBP(A) Scheme unfunded provision	13	1,075,707	911,001	911,001
65,440,749	Total Non-current Liabilities		74,367,067	68,028,558	68,762,558
90,504,420	Total Non-departmental Liabilities		104,267,366	94,061,715	96,171,715

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Commitments

as at 30 June 2012

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

2011 $000		2012 $000
	Operating Commitments	
	By type:	
1,141	Non-cancellable property lease	1,132
465	Other non-cancellable operating commitments	357
1,606		1,489
	By term:	
147	Less than one year	151
147	One to two years	151
326	Two to five years	214
986	More than five years	973
1,606	Total Commitments	1,489

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Schedule of Contingent Liabilities

as at 30 June 2012

2011 $000		2012 $000
	Quantifiable Contingent Liabilities	
16,146	Guarantees and indemnities	18,680
4,172,545	Uncalled capital	5,114,088
132	Legal proceedings and disputes	132
1,385,342	Other contingent liabilities	1,226,738
5,574,165	Total Contingent Liabilities	6,359,638

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

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

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

The significant increase in contingent liabilities is owing to exchange rate fluctuations.

The Crown's exposure to DGS and WFGF is detailed in the Explanatory Notes to Supplementary Statements and Schedules – Non-departmental.

Unquantifiable Contingent Liabilities

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

Contingent Assets

The Department, on behalf of the Crown, has no contingent assets (2011: nil).

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Statement of Trust Monies

as at 30 June 2012

2011 $000		2012 $000
1,768	Balance at the beginning of the year	2,037
354	Contribution	660
(156)	Distribution	(95)
71	Interest earned on trust money	69
2,037	Balance at the End of the Year	2,671

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

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

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

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2012.

Statement of Accounting Policies

for the year ended 30 June 2012

Reporting Entity

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

These non-departmental balances are consolidated into the Financial Statements of the Government for the year ended 30 June 2012. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, refer to the Financial Statements of the Government.

Basis of Preparation

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

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

The financial information reported in these schedules is consolidated into the Financial Statements of the Government, and therefore readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2012.

Significant Accounting Policies

Foreign exchange (FX)

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

Goods and services tax

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

Commitments

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

Explanatory Notes to Supplementary Statements and Schedules – Non-departmental

Explanatory notes provide details of significant expenditure and revenue variances between actual results in 2010/11 and 2011/12 and between 2011/12 actual results and 2011/12 Supplementary Estimates.

1 Vote Crown Research Institutes

Vote Crown Research Institutes was disestablished from 2011/12 and all revenue and expenditure are now accounted for under Vote Finance.

2 AMI Insurance Limited (AMI)/Southern Response Earthquake Services Limited

On 7 April 2011 the Government provided a financial support package for AMI to give policyholders certainty and to ensure an orderly rebuild of Christchurch. The financial support to AMI was provided via a Crown Support Deed (CSD) under which the Crown subscribed for $500 million of convertible preference shares which were called but unpaid. On 5 April 2012 IAG purchased the ongoing insurance business of AMI. Immediately after completion of the sale, the Crown paid $100 million of the unpaid balance on the preference shares and took control of AMI's residual earthquake business. The earthquake business was renamed Southern Response Earthquake Services Limited (Southern Response).

AMI was consolidated into the Financial Statements of the Government from the time of entering into the original agreement. The fair value of AMI on acquisition was $159 million. The investment in AMI (now Southern Response) remains at the acquisition cost in accordance with IAS 27.

The terms of the CSD were revised at the time of the sale when Southern Response came into being. The deed now allows for Southern Response to request payment of the remaining $400 million unpaid balance on the preference shares when needed to settle claims. Southern Response must exhaust its reinsurance and reserves prior to requesting payment under the CSD. The remaining unpaid balance is payable on the 10-year anniversary of the original deed in April 2021. The end date of the CSD was extended from five years to ten years in recognition of increased awareness of potential complexities of the rebuild. The amount payable to Southern Response is recorded at its estimated present value which was $364 million as at 30 June 2012. A new appropriation was required to reflect the associated interest costs that will be recognised as the discounting of the CSD is unwound over its life.

2011 Actual $000	Summary of AMI Disclosures in the Supplementary Schedules – Non-departmental	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
335,000	Statement of Expenditure and Appropriations – Impairment of Crown's interest in AMI	-	-	-
2,000	Schedule of Expenses – AMI discounted payable	-	6,713	6,713
500,000	Statement of Expenditure and Appropriations – AMI equity injection	-	-	-
15,000	Statement of Revenue – Other fees	-	-	-
496,000	Schedule of Liabilities – Other provision (Southern Response)	364,160	290,576	290,576

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

The Government provided two guarantee schemes in relation to financial institution deposits: DGS and WFGF. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

3 (a) Crown Deposit Guarantee Scheme

The Government operated an opt-in Retail Deposit Guarantee Scheme for financial institution deposits from October 2008 to December 2011. The original scheme expired on 12 October 2010; the extended scheme expired on 31 December 2011.

Nine entities guaranteed under the scheme were placed into receivership. The Crown has met its obligations to depositors under the schemes with the exception of a small number of depositors whose deposits remain unclaimed. The rights of recovery from the receivers are recognised as assets.

2011 Actual $000	Summary of Crown Deposit Guarantee Scheme Disclosures in the Supplementary Schedules – Non-departmental	Note	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
(1,140,500)	Schedule of Expenses – Grossing up[5] of Deposit Guarantee payments		-	-	-
236,436	Schedule of Expenses – Receivable revaluation		474	-	-
	Statement of Expenditure and Appropriations – Payments in respect of guarantees and indemnities				
1,187,761	Expense for entities in default		-	-	-
(2,000)	Movement in provision for undefaulted entities		-	-	-
281,697			474	-	-
150,000	Statement of Expenditure and Appropriations – Additional payments to facilitate full payout under the Crown Retail Deposit Guarantee Scheme		-	-	-
175,000	Statement of Expenditure and Appropriations – Loan in respect to guarantees and indemnities for the Crown Retail Deposit Guarantee Scheme		-	-	-
38,075	Schedule of Revenue – Crown Deposit Guarantee Scheme (fees)		2,905	2,905	2,905
141,238	Schedule of Revenue – Other current revenue (recoveries)	20	467,083	515,800	515,800
739,394	Schedule of Assets – Accounts receivable (expected recoveries)		270,940	223,594	223,594
827	Schedule of Assets – Accounts receivable (DGS fees)		-	-	-
37,314	Schedule of Liabilities – Guarantee Scheme payables (gross) – Defaulted entities		1,801	-	-

As a consequence of payments made to depositors of failed finance companies under DGS, the Crown has inherited the beneficial interest in the proceeds that can be recovered from the sale of the secured assets of the receiverships. The reported receivables represent the receivers' best estimates of likely recoveries from the receiverships. However, the eventual return to the Crown is dependent upon the value that can be realised from these entities' assets and the timing of receipts. A range of outcomes for eventual recoveries is possible. The Crown monitors the receiverships to obtain assurance that optimal proceeds are realised as soon as possible.

In prior year, to reduce the fiscal cost under DGS, an appropriation was approved during 2010/11 in relation to the default of SCF. A secured loan was made to the receivers to remove prior charge holders. This has been subsequently repaid in full and appears in the Schedule of Capital Receipts (see page 88).

[5] The provision for payment of DGS guarantees was initially reported, prior to default of an entity, as a "net" amount (payables less expected recoveries). On default of an entity, the provision is "grossed up" into the payable and the receivable outstanding.

Analysis of recoveries from receiverships

30 June 2011 $m		Note	30 June 2012 $m
13	Opening balance of recoveries expected from receiverships		739
1,104	Recoveries expected from entities defaulting during the year		-
(236)	Revision of expected recoveries		90
-	Transfer of non-cash assets from SCF receivership into CAML	3(b)	(92)
(142)	Payments received from receivers	20	(467)
739	Closing Balance of Recoveries Expected from Receiverships		270
1,897	Total payments to depositors under the Guarantee Scheme		34
5	Less change in opening and closing payables		-
1,902	Cash payments made		34

3 (b) Crown Asset Management Limited

A new capital appropriation was set up during the year to facilitate the transfer of the remaining assets of six of the finance companies placed in receivership while they had Crown guarantees to CAML. CAML was established to manage the recoveries from these assets. As at 30 June 2012, only the assets of SCF had been transferred to CAML.

3 (c) Crown Wholesale Funding Guarantee Facility

In addition to DGS, the Government operated an opt-in WFGF from November 2008 to April 2010. As at 30 June 2012, 15 guarantee certificates remained in place, and the remaining value of wholesale securities guaranteed was $3.700 billion. No provision is made for losses under this scheme as the probability of loss is considered remote.

2011 Actual $000	Summary of Crown Wholesale Funding Guarantee Facility Disclosures in the Supplementary Schedules – Non-departmental	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
80,356	Schedule of Revenue – Crown Wholesale Guarantee Facility (fees)	68,044	68,041	68,041
45,584	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Current	28,556	28,757	28,757
80,357	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Non-current	29,341	30,000	30,000

4 Dividends

Total SOE dividends received this year have decreased by $413 million from 2010/11. Particular items to note are that Meridian paid a large special dividend as a result of the sale of Tekapo A and B to Genesis as required by the Electricity Industry Act 2010 reforms. As a result, prior year dividend was $543 million higher compared to current year.

Air New Zealand dividends decreased by $20 million; this is mainly owing to the company being severely affected by Christchurch and Japanese earthquakes, the ash cloud and the cost of jet fuel.

Lower dividends were offset by Transpower dividend of $110 million (2011: nil) and Mighty River Power dividend higher by $26 million compared to prior year.

Dividends from Crown entities (TVNZ) increased by $9 million in 2011/12, owing to increased profits for the 2010/11 financial year.

Other dividends received from the Crown's share in Airports is $2 million higher than those received in 2010/11 mainly owing to the Christchurch earthquake affecting prior year dividends.

5 Earthquake Commission

5 (a) Land remediation

Approval was given for $141.100 million for remediation to residential land affected by the September 2010 earthquake over and above the standard required by EQC. EQC negotiated MOUs with both Waimakariri District Council (WDC) and Christchurch City Council. As Christchurch sustained substantial land damage in the 22 February 2011 event, it was determined that Christchurch land remediation should be de-coupled from this process to allow further time to understand the impacts on Christchurch. The MOU signed by WDC was estimated to cost $37.200 million and this was accrued in the previous financial year. There has been a subsequent revoking of the MOU in the current year and the accrual was reversed, resulting in reduction of overall costs. This amount was recorded in other current revenue.

5 (b) Land insurance payments

Land insurance payments to owners of damaged land in the Canterbury region where the cost of the land remediation is greater than the insured value of the land were estimated to be $5 million. Full settlement has been made to the six worst affected properties for $2.368 million and this amount has been accrued.

In the current year there has been no new land insurance and land remediation payments required.

6 New Zealand Export Credit Office

The purpose of NZECO is to assist New Zealand companies to increase exports by providing government-guaranteed export credit insurance and financial guarantee products, which complement private sector provision. This support may help exporters mitigate buyer repayment risks, secure increased export sales and access additional credit facilities from their bank.

2011 Actual $000	Summary of NZECO Disclosures in the Supplementary Schedules – Non-departmental	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
4,386	Schedule of Revenue – NZECO	12,734	5,334	5,334
3,320	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Current	1,379	3,320	3,320
9,197	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Non-current	1,193	8,557	8,557
-	Schedule of Liabilities – Other provision	29,705	-	-

In June 2012, NZECO recorded a provision of $29.705 million on a transaction that it has underwritten. The provision was offset with unamortised premiums of $7 million recorded in current year revenue, which NZECO is not required to pay back.

Revenue has increased by $8 million in 2011/12 as a result of new export deals guaranteed during the year and unamortised premium on an export credit policy.

7 Goodwill

Goodwill in relation to Air New Zealand of $258 million (2011: $258 million) has been tested for impairment at June 2012 based on a value in use discounted cash flow valuation. Cash flow forecasts were prepared for five years using the Air New Zealand Board-reviewed business plans. Key assumptions include exchange rates, jet fuel costs, passenger load factors and route yields. These assumptions have been based on historical data and current market information. The cash flow forecasts are particularly sensitive to fluctuations in fuel prices and exchange rates and are extrapolated using an average nominal growth rate of approximately 1.5%. The cash flow projections are discounted using post-tax discount rate scenarios of 10% to 10.5%. The 2012 valuation confirmed that there was no impairment required to the goodwill asset.

8 Government Superannuation Fund Unfunded Liabilities

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

The GSF obligation has been calculated by the Government Actuary as at 30 June 2012. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from GSF in respect of past service to be estimated and then discounted back to the valuation date.

GSF unfunded liability as at 30 June 2012 was $13,541 million, an increase of $3,389 million compared with 30 June 2011.

This is primarily attributed to an actuarial loss recognised in the year of $3,896 million owing to movements in the economic assumptions used in calculating the liability, particularly owing to the reduction in discount rates over the year and the increased allowance for mortality improvement. This has been owing to:

- the current service costs and interest expenses (appropriated under Other Expenses Incurred by the Crown – GSF Unfunded Liability) of $192 million, and offset by
- contributions made by the Crown against the liability (including taxation) during 2011/12 of $699 million.

The Government expects to make a contribution of $705 million to GSF in the year ended 30 June 2013.

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

9 Government Superannuation Fund Authority – Crown's Share of Expenses

These are expenses of the Government Superannuation Fund Authority relating to the management and administration of GSF. The Crown's share for 2011/12 was $23 million, $3 million lower than that in 2010/11 and $2 million lower than forecast. The investment manager expenses are dependent upon the portfolio valuations. For some active investment managers, their performance, and accordingly their fees, exceeded the forecast. The fund portfolio grew during the year much more slowly than originally forecasted.

10 Government Superannuation Fund – Employers' Contribution

The employers' contribution to GSF has decreased from $54 million in 2010/11 to $47 million in 2011/12. The fund lost 967 members including 76 Armed Forces (34.39%) and 29 Police (7.1%). The Armed Forces and Police schemes paid the highest rates of employer contributions (Armed Forces 25.1%, Police 19.1% of members' salaries).

11 International Financial Institutions

Contributions of $157 million were made to the IMF lending programme in 2011/12 compared to forecast of $175 million. Payments have been made to several countries during 2011/12 reflecting the response by IMF to the current international financial crisis. During the year, a $6.767 million loss on revaluation of IFIs' investment was recorded as a result of New Zealand dollar FX rate movement.

In prior year, $65.125 million was called and paid to the Asian Development Bank as authorised by the Asian Development Bank Agreement and section 3 of the International Finance Agreements Amendment Act 1966.

On 19 June 2012, New Zealand joined other countries in extending its financial commitments to IMF and in turn entered into a new loan facility to support IMF in making bilateral loans if required.

12 Landcorp Protected Land Agreement

The capital expenditure in relation to the Landcorp Protected Land Agreement for 2011/12 was $1.700 million against a Supplementary Estimate budget of $11.700 million. Current year provision of $7.700 million (2011: $6 million) includes amounts for the accumulated capital costs and losses which will be owing to Landcorp when one property held under the Protected Land Agreement is transferred. Timing of transfers on other properties is difficult to ascertain and this budget will be carried forward to meet commitments when they arise.

13 National Provident Fund Defined Benefit Plan (DBP) (Annuitants) Scheme Provision

The Government has guaranteed superannuation schemes managed by National Provident Fund (NPF). As at 30 June 2012, NPF's DBP Scheme was in a net deficit position of $1,076 million (2011: $981 million), represented by a gross estimated pension obligation of $1,114 million (2011: $1,020 million) with net investment assets valued at $39 million (2011: $39 million). No additional provision was required in the year for other pension schemes managed by NPF under the Government's guarantee under section 60 of the National Provident Fund Restructuring Act 1990.

The increase of $93 million in the Crown's liability for the NPF DBP(A) Scheme under Crown guarantee as at 30 June 2012 was primarily owing to:

- payments made against the liability by the Crown during the year of $74 million, and
- reversal of prior year accrual of $1.500 million section 72 Crown-funded reimbursement, which was not required (2011: $3.700 million).

Offset by:

- the actuarial loss recognised for the year of $139 million resulting from movements in the economic assumptions used in calculating the provision, and
- the unwinding of the interest expense (appropriated under Other Expenses Incurred by the Crown – NPF Schemes – Liability under Crown Guarantee) of $29 million.

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

14 National Provident Fund – Crown Liability for Scheme Deficiency

The Crown is liable for the deficiency in the accounts of NPF schemes established pursuant to section 38A(6) of the National Provident Fund Act 1950, authorised by section 72 of the National Provident Fund Restructuring Act 1990. There was a call against this appropriation for 2010/11 of $94,000 to 31 March 2012 and a nil provision for the three months to 30 June 2012. The scheme deficiency paid for the year to 31 March 2011 was $16,000. Provision of $1.500 million from prior year (2011: $3.700 million) was not required in the current year and recorded in the current year as Other Current Revenue. Prior year's reversal of s72 of National Provident Fund Restructuring Act 1990 was re-classed to Other Current Revenue for consistency of treatment with the current year (see note 20, page 102).

15 New Zealand House – London

2011 Actual $000	Summary of New Zealand House – London Disclosures in the Supplementary Schedules – Non-departmental	2012 Actual $000	2012 Main Estimates $000	2012 Supp. Estimates $000
9,598	Schedule of Revenue – Rentals from Crown Overseas Properties	9,659	9,500	9,500
291	Statement of Expenditure and Appropriations – Non-departmental Output Class – Management of NZ House, London	447	1,000	1,000
11,814	Statement of Expenditure and Appropriations – Other Expenses Incurred by the Crown – Crown Overseas Properties	11,280	16,200	16,200

Operational costs associated with New Zealand House (including depreciation) are included in Other Expenses Incurred by the Crown – Crown Overseas Properties.

16 New Zealand Productivity Commission

The New Zealand Productivity Commission was established on 1 April 2011 with an equity injection of $500,000 provided by the Crown in the previous year. The operational expenses funded for the first year of its operations were $4.700 million.

17 New Zealand Superannuation Fund

No contributions were made to the New Zealand Superannuation Fund in 2011/12 as a result of the Government's decision in May 2009 to suspend contributions until there are budget surpluses sufficient to fund contributions. A one-off contribution of $250 million was last made on 1 July 2009.

18 New Zealand Debt Management Office

18 (a) Interest from investments and other income

NZDMO's interest from investments increased by $5 million primarily owing to changes in investment activity levels of New Zealand dollar and United States dollar market bonds.

NZDMO's other income increased by $6 million primarily owing to increased interest income on lending to Crown Financing Agency and NZTA.

18 (b) Other expenses – NZDMO

Other expenses – NZDMO largely comprises net interest on NZDMO derivatives (excluding fair value and FX gains/losses). Current year decrease of $80 million is attributable to both interest rate changes and transactional activity.

18 (c) Borrowing costs

Borrowing costs have increased by $401 million primarily owing to increased volumes of New Zealand government stock issued to third parties.

19 Capital Charge

Capital charge revenue increased by $134.600 million from 2010/11 year predominantly owing to higher public sector discount rate of 8% (2011: 7.5%). Also, the Treasury has undertaken a comprehensive review of the capital charge regime with the aim of making it more consistent, transparent and effective. As a result of this review, new capital charge rules commenced on 1 July 2011 where departmental memorandum account deficits are now being included in the capital charge payable. New rules have been applied on entities' December 2011 net assets balances.

20 Other Current Revenue

Other current revenue has increased by $439 million in 2011/12. This primarily relates to an increase in the recovery of government guarantee payments during 2011/12, where funds received from receivers of defaulted entities were $467 million. During the current year, the Crown received a Crown Assistance Fee of $108 million from New Zealand Rugby. Prior year's Rugby World Cup provision of $6.437 million was no longer required and as such recorded as revenue in the current year.

21 Other Fees

Other fees have decreased by $13 million predominantly because of a one-off commitment fee of $15 million paid last year by AMI to the Crown in relation to the Crown's purchase of equity in AMI.

22 Reserve Bank Surplus

Dividends received by the Crown from RBNZ decreased from $290 million in 2010/11 to $210 million in 2011/12 owing to reduction in RBNZ's surplus. The principal reason for the reduction is mainly owing to lower net interest income earned, FX losses and changes in the market value of financial instruments.

23 Rugby New Zealand 2011 Limited

The Crown's obligation of 67% of the Rugby World Cup loss has been provided for in prior financial years. Some of this provision was no longer required in the current year owing to the change in the share of loss since the original Shareholders Agreement was signed; this provision was reversed in the current financial year and is being returned to the Crown. The release of prior year provision of $6.437 million was recorded in the operating statement as other current revenue. In the current year, the Crown received a Crown Assistance Fee of $108 million from New Zealand Rugby. Under the Shareholders Agreement between New Zealand Rugby Union (NZRU) and the Crown, the Crown had a payment obligation of GBP37.1 million to NZRU for its share of the Rugby World Cup Limited expenses. This was payable as a derivative transaction and was entered into under section 65 of the Public Finance Act 1989.

24 Taitokerau Forests Limited

Loans to Taitokerau Forests Limited of $750,000 were advanced as per the Loan Agreement during 2011/12. For the current year, impairment in Taitokerau loans was necessary as the valuation of the Taitokerau Forests Limited assets was lower than the valuation of the loan liability to the Crown as at 30 June 2012. An impairment of $379,000 in Taitokerau loans was recorded in the current year. In the current year the Crown received $947,000 (2011: $1.205 million) repayment of the Taitokerau Forests Advance.

25 GST Compensation for GSF and NPF

Prior year, an appropriation was approved and applied to compensation for recipients of GSF and NPF owing to an increase in the GST rate in October 2010.

New Zealand Debt Management Office

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

NZDMO's major responsibilities involve:

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

NZDMO managed $26.062 billion of assets, $83.120 billion of liabilities, $500 million of revenue and $3.158 billion of expenses on behalf of the Crown for the year ended 30 June 2012. Further information on NZDMO's performance in managing the Crown's sovereign-issued debt and related financial assets is provided on pages 43 and 48 to 50.

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

Schedule of Assets and Liabilities

as at 30 June 2012

2011 Carrying Value $m	2011 Fair Value $m		2012 Carrying Value $m	2012 Fair Value $m
		Assets		
		Cash, cash equivalents and receivables		
13,060	13,060	Crown settlement account	9,060	9,060
38	38	Crown trust account	33	33
1,461	1,461	Foreign cash and cash equivalents	977	977
536	536	Debtors and receivables	233	233
		Advances		
2,438	2,438	RBNZ	2,158	2,158
1,750	1,750	Crown Health Financing Agency	2,202	2,202
1,859	1,859	Housing New Zealand	1,861	1,861
505	505	New Zealand Railways Corporation	510	510
110	110	New Zealand Transport Agency	130	130
4	4	Other Crown	4	4
151	153	Non-Crown	125	128
		Financial assets		
3,242	3,242	Marketable securities	4,708	4,708
115	115	External deposits	130	130
2,489	2,489	Derivatives in gain	1,682	1,682
2,168	2,168	IMF financial assets	2,249	2,249
29,926	29,928	Total Assets	26,062	26,065
		Liabilities		
		Overdrafts and payables		
3,823	3,823	Crown disbursement account[6]	4,418	4,418
127	127	Creditors and payables	283	283
		Financial liabilities		
7,209	7,215	Treasury bills – market	9,516	9,520
50	50	Treasury bills – non-market	479	479
50,755	52,544	Government bonds – market[7]	57,925	63,088
6,363	6,699	Government bonds – non-market	4,424	4,917
1,633	1,900	Inflation-indexed bonds – market	1,631	1,941
491	568	Inflation-indexed bonds – non-market	316	375
261	262	Kiwi bonds	229	231
180	180	Euro-commercial paper	-	-
587	587	Foreign currency debt	307	307
1,417	1,417	Collateral	1,067	1,067

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

7 Government bonds – market includes $395 million of infrastructure bonds at June 2012 (June 2011: $395 million).

2011 Carrying Value $m	2011 Fair Value $m		2012 Carrying Value $m	2012 Fair Value $m
1,312	1,312	Derivatives in loss	638	638
210	210	Departmental deposits	155	155
1,648	1,648	IMF allocation	1,638	1,638
87	87	Immigration investor policy bonds	52	52
1	1	Other	42	42
76,154	78,630	Total Liabilities	83,120	89,151
(46,228)	(48,702)	Net Assets/(Liabilities)	(57,058)	(63,086)

Schedule of Revenues and Expenses

for the year ended 30 June 2012

2011 $m		2012 $m
	Revenue	
	Cash, cash equivalents and receivables	
157	Crown settlement account	183
1	Crown trust account	1
2	Foreign cash and cash equivalents	2
	Advances	
-	RBNZ	4
91	Crown Health Financing Agency	96
56	Housing New Zealand	51
21	New Zealand Railways Corporation	21
-	New Zealand Transport Agency	5
-	Other Crown	-
11	Non-Crown	9
	Financial assets	
144	Marketable securities	115
10	External deposits	8
8	IMF financial assets	5
501	Total Revenue	500
	Expenses	
236	Treasury bills – market	230
2	Treasury bills – non-market	3
2,151	Government bonds – market	2,734
402	Government bonds – non-market	297
119	Inflation-indexed bonds – market	74
37	Inflation-indexed bonds – non-market	19
9	Kiwi bonds	8
-	Euro-commercial paper	-
36	Foreign currency debt	26
2	Collateral	1
(363)	Derivatives[8]	(323)
7	IMF allocation	4
5	Immigration investor policy bonds	2
34	Other	83
2,677	Total Expenses	3,158
11	Net FX gains/(losses)	(1)
3	Net fair value (FV) gains/(losses)[9]	(29)
(2,162)	Net Revenue/(Expenses)	(2,688)

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

[9] Net FV gains/(losses) on all instruments measured at fair value are separately reported as part of the overall Net FV gains/(losses) line.

Classes and Categories of Financial Instruments

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

2011 Amortised Cost[10] $m	2011 Fair Value Through Profit or Loss[11] $m	2011 Available for Sale $m	2011 Carrying Value $m		2012 Amortised Cost[10] $m	2012 Fair Value Through Profit or Loss[11] $m	2012 Available for Sale $m	2012 Carrying Value $m
				Financial Assets				
				Cash, cash equivalents and receivables				
13,060	-	-	13,060	Crown settlement account	9,060	-	-	9,060
38	-	-	38	Crown trust account	33	-	-	33
106	1,355	-	1,461	Foreign cash and cash equivalents	79	898	-	977
536	-	-	536	Debtors and receivables	233	-	-	233
				Advances				
-	2,438	-	2,438	RBNZ	-	2,158	-	2,158
-	1,750	-	1,750	Crown Health Financing Agency	22	2,180	-	2,202
703	1,156	-	1,859	Housing New Zealand	527	1,334	-	1,861
-	505	-	505	New Zealand Railways Corporation	-	510	-	510
-	110	-	110	New Zealand Transport Agency	-	130	-	130
-	4	-	4	Other Crown	-	4	-	4
31	75	45	151	Non-Crown	18	58	49	125
				Financial assets				
-	3,242	-	3,242	Marketable securities	-	4,708	-	4,708
-	115	-	115	External deposits	-	130	-	130
-	2,489	-	2,489	Derivatives in gain	-	1,682	-	1,682
2,168	-	-	2,168	IMF financial assets	2,249	-	-	2,249
16,642	13,239	45	29,926	Total Financial Assets by Designation	12,221	13,792	49	26,062
				Financial Liabilities				
3,823	-	-	3,823	Crown disbursement account	4,418	-	-	4,418
127	-	-	127	Creditors and payables	283	-	-	283
6,605	604	-	7,209	Treasury bills – market	9,119	397	-	9,516
50	-	-	50	Treasury bills – non-market	479	-	-	479
46,743	4,012	-	50,755	Government bonds – market	54,715	3,210	-	57,925
6,363	-	-	6,363	Government bonds – non-market	4,424	-	-	4,424
1,633	-	-	1,633	Inflation-indexed bonds – market	1,631	-	-	1,631
491	-	-	491	Inflation-indexed bonds – non-market	316	-	-	316
261	-	-	261	Kiwi bonds	229	-	-	229
-	180	-	180	Euro-commercial paper	-	-	-	-
-	587	-	587	Foreign currency debt	-	307	-	307
-	1,417	-	1,417	Collateral	-	1,067	-	1,067
-	1,312	-	1,312	Derivatives in loss	-	638	-	638
-	210	-	210	Departmental deposits	-	155	-	155

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

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

2011 Amortised Cost[10] $m	2011 Fair Value Through Profit or Loss[11] $m	2011 Available for Sale $m	2011 Carrying Value $m		2012 Amortised Cost[10] $m	2012 Fair Value Through Profit or Loss[11] $m	2012 Available for Sale $m	2012 Carrying Value $m
1,648	-	-	1,648	IMF allocation	1,638	-	-	1,638
87	-	-	87	Immigration investor policy bonds	52	-	-	52
1	-	-	1	Other	1	41	-	42
67,832	8,322	-	76,154	Total Financial Liabilities by Designation	77,305	5,815	-	83,120

Derivatives

As at 30 June 2012, the value of derivatives was as follows:

2011 Carrying Value in Gain $m	2011 Carrying Value in Loss $m	2011 Net Carrying Value $m	2011 Notional Value $m		2012 Carrying Value in Gain $m	2012 Carrying Value in Loss $m	2012 Net Carrying Value $m	2012 Notional Value $m
				Derivatives				
894	(764)	130	19,622	FX contracts[12]	75	(28)	47	4,115
-	-	-	23	FX options	-	(1)	(1)	17
1,015	(444)	571	9,218	Cross-currency swaps	904	(399)	505	8,583
580	(104)	476	7,811	Interest-rate swaps	703	(210)	493	7,382
2,489	(1,312)	1,177	36,674	Total Derivatives	1,682	(638)	1,044	20,097

[12] The significant change in the Notional value of FX contracts outstanding with NZDMO from June 2011 to June 2012 relates to a change in the way services were provided by NZDMO within the Crown.

Risk Management

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

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

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

Funding Risk

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

NZDMO's funding policy is designed to spread refinancing risk over time, and to diversify funding sources by maintaining access to a range of funding markets. To manage interest-rate risk and lower the cost of the New Zealand-dollar portfolio, NZDMO maintains a mix of fixed-rate and floating-rate debt, and uses interest-rate swaps. Inflation-indexed debt makes up a component of the portfolio and is issued when it is cost effective to do so. To manage refinancing risk, NZDMO places a limit on the percentage of outstanding debt that has a maturity of less than one year at issuance. NZDMO also has a set of criteria to ensure liquidity is built up as a bond tranche approaches maturity.

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

Liquidity Risk

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

Liquidity Management

As at 30 June 2012	Contractual Cash Flows $m	0-12 Months $m	1-2 Years $m	2-5 Years $m	5-10 Years $m	> 10 Years $m
Overdrafts and Payables						
Crown disbursement account	4,418	4,418	-	-	-	-
Creditors and payables	283	283	-	-	-	-
Financial Liabilities						
Treasury bills – market	9,601	9,601	-	-	-	-
Treasury bills – non-market	480	480	-	-	-	-
Government bonds – market	73,080	13,231	2,601	16,518	36,379	4,351
Government bonds – non-market	5,580	1,551	180	1,243	2,395	211
Inflation-indexed bonds – market	2,008	77	77	1,854	-	-
Inflation-indexed bonds – non-market	388	15	15	358	-	-
Kiwi bonds	235	176	29	30	-	-
Euro-commercial paper	-	-	-	-	-	-
Foreign currency debt	310	180	9	121	-	-
Collateral	1,067	1,067	-	-	-	-
Departmental deposits	155	155	-	-	-	-
IMF allocation	1,638	1,638	-	-	-	-
Immigration investor policy bonds	53	46	7	-	-	-
Other	1	-	-	1	-	-
Total Non-derivative Liabilities	99,297	32,918	2,918	20,125	38,774	4,562
Derivative Inflows[13]						
FX contracts	4,115	3,996	70	49	-	-
Cross-currency swaps	9,423	1,208	1,880	5,255	1,080	-
Interest-rate swaps	1,667	383	324	772	188	-
Total Derivative Inflows	15,205	5,587	2,274	6,076	1,268	-
Derivative Outflows[13]						
FX contracts	4,032	3,914	69	49	-	-
Cross-currency swaps	8,623	1,002	1,754	4,941	926	-
Interest-rate swaps	1,145	218	206	559	162	-
Total Derivative Outflows	13,800	5,134	2,029	5,549	1,088	-

[13] Derivative flows include both derivatives in gain and derivatives in loss.

Credit Risk

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

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

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

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

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

2011 $m	Credit Risk Management	2012 $m
29,926	Total NZDMO Financial Assets	26,062
	Less:	
20,114	Crown-related balances	16,295
9,812	Total Credit Exposure for Financial Assets	9,767

Concentration of Credit Exposure as at 30 June 2012

By Credit Rating	AAA $m	AA $m	A $m	Other $m	Non-rated $m	Credit Exposure $m
Foreign cash and cash equivalents	-	976	1	-	-	977
Debtors and receivables	-	231	1	-	-	232
Advances to non-Crown	-	58	-	-	67	125
Marketable securities	2,448	2,113	18	-	-	4,579
External deposits	-	130	-	-	-	130
Derivatives in gain	-	709	766	-	-	1,475
IMF financial assets	-	-	-	-	2,249	2,249
Total Credit Exposure by Credit Rating	2,448	4,217	786	-	2,316	9,767

By Industry	Sovereign Issuers $m	Supra-National $m	NZ Banking Sector $m	Foreign Banking Sector $m	Other $m	Credit Exposure $m
Foreign cash and cash equivalents	898	-	77	2	-	977
Debtors and receivables	-	-	231	1	-	232
Advances to non-Crown	-	-	-	-	125	125
Marketable securities	1,141	338	1,108	792	1,200	4,579
External deposits	-	-	130	-	-	130
Derivatives in gain	-	-	704	706	65	1,475
IMF financial assets	-	2,249	-	-	-	2,249
Total Credit Exposure by Industry	2,039	2,587	2,250	1,501	1,390	9,767

By Geographical Area	United States of America $m	Europe $m	Japan $m	Australia $m	NZ $m	Supra-National $m	Other $m	Credit Exposure $m
Foreign cash and cash equivalents	899	-	-	1	77	-	-	977
Debtors and receivables	-	-	-	1	231	-	-	232
Advances to non-Crown	-	-	-	-	125	-	-	125
Marketable securities	18	2,606	270	238	1,109	338	-	4,579
External deposits	-	-	-	-	130	-	-	130
Derivatives in gain	254	512	-	5	704	-	-	1,475
IMF financial assets	-	-	-	-	-	2,249	-	2,249
Total Credit Exposure by Geographical Area	1,171	3,118	270	245	2,376	2,587	-	9,767

The Crown has agreed to make available to the Auckland Council, a loan facility to enable the Council to develop the Auckland metro rail network. The loan facility amount is $500 million of which $440 million is undrawn as at 30 June 2012. The loans drawn are included in Advances to non-Crown above.

The Crown has also agreed to make available to LGFA a New Zealand-dollar revolving credit facility to meet exceptional and temporary liquidity shortfalls affecting LGFA. The 10-year facility (to February 2022) is for $500 million with the potential for this to be increased to a maximum $1,000 million by February 2015. As at 30 June 2012 the facility has not been utilised.

Concentration of Credit Exposure as at 30 June 2011

By Credit Rating	AAA $m	AA $m	A $m	Other $m	Non-rated $m	Credit Exposure $m
Foreign cash and cash equivalents	1,356	104	1	-	-	1,461
Debtors and receivables	-	504	32	-	-	536
Advances to non-Crown	-	-	-	-	151	151
Marketable securities	1,294	1,835	-	-	-	3,129
External deposits	-	115	-	-	-	115
Derivatives in gain	-	1,633	588	-	31	2,252
IMF financial assets	-	-	-	-	2,168	2,168
Total Credit Exposure by Credit Rating	2,650	4,191	621	-	2,350	9,812

By Industry	Sovereign Issuers $m	Supra-National $m	NZ Banking Sector $m	Foreign Banking Sector $m	Other $m	Credit Exposure $m
Foreign cash and cash equivalents	1,356	-	88	17	-	1,461
Debtors and receivables	-	-	493	43	-	536
Advances to non-Crown	-	-	-	-	151	151
Marketable securities	481	489	1,188	686	285	3,129
External deposits	-	-	115	-	-	115
Derivatives in gain	-	-	1,427	692	133	2,252
IMF financial assets	-	2,168	-	-	-	2,168
Total Credit Exposure by Industry	1,837	2,657	3,311	1,438	569	9,812

By Geographical Area	United States of America $m	Europe $m	Japan $m	Australia $m	NZ $m	Supra-National $m	Other $m	Credit Exposure $m
Foreign cash and cash equivalents	1,356	-	-	1	89	-	15	1,461
Debtors and receivables	-	11	-	32	493	-	-	536
Advances to non-Crown	-	-	-	-	151	-	-	151
Marketable securities	56	743	202	451	1,188	489	-	3,129
External deposits	-	-	-	-	115	-	-	115
Derivatives in gain	280	436	-	78	1,458	-	-	2,252
IMF financial assets	-	-	-	-	-	2,168	-	2,168
Total Credit Exposure by Geographical Area	1,692	1,190	202	562	3,494	2,657	15	9,812

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Risk events include resource failures or constraints, control and security breaches or failures, transaction errors, compliance breaches, the breakdown of key relationships and disasters.

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

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

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

Market Risk

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

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

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

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

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

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

Foreign Currency Risk Management

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

As at 30 June 2012	NZD $m	USD $m	Yen $m	Euro $m	AUD $m	Other $m	Carrying Value $m
Cash, Cash Equivalents and Receivables							
Crown settlement account	9,060	-	-	-	-	-	9,060
Crown trust account	33	-	-	-	-	-	33
Foreign cash and cash equivalents	-	899	1	10	15	52	977
Debtors and receivables	233	-	-	-	-	-	233
Advances							
RBNZ	-	1,418	-	740	-	-	2,158
Crown Health Financing Agency	2,202	-	-	-	-	-	2,202
Housing New Zealand	1,861	-	-	-	-	-	1,861
New Zealand Railways Corporation	510	-	-	-	-	-	510
New Zealand Transport Agency	130	-	-	-	-	-	130
Other Crown	4	-	-	-	-	-	4
Non-Crown	125	-	-	-	-	-	125
Financial Assets							
Marketable securities	1,445	2,572	270	-	421	-	4,708
External deposits	130	-	-	-	-	-	130
Derivatives in gain	8,348	(4,624)	356	(1,810)	(179)	(409)	1,682
IMF financial assets	8	939	211	838	-	253	2,249
Total Financial Assets	24,089	1,204	838	(222)	257	(104)	26,062
Overdrafts and Payables							
Crown disbursement account	4,418	-	-	-	-	-	4,418
Creditors and payables	141	-	142	-	-	-	283
Financial Liabilities							
NZ-dollar government securities	74,520	-	-	-	-	-	74,520
Euro-commercial paper	-	-	-	-	-	-	-
Foreign currency debt	-	124	171	-	-	12	307
Collateral	-	1,067	-	-	-	-	1,067
Derivatives in loss	1,995	(715)	374	(975)	277	(318)	638
Departmental deposits	-	24	-	127	-	4	155
IMF allocation	-	686	154	613	-	185	1,638
Immigration investor policy bonds	52	-	-	-	-	-	52
Other	42	-	-	-	-	-	42
Total Financial Liabilities	81,168	1,186	841	(235)	277	(117)	83,120
Net Currency Holdings	(57,079)	18	(3)	13	(20)	13	(57,058)

Financial Instruments: Fair Value Hierarchy

NZDMO measures some financial instruments at fair value based on the designation or classification of the instruments into "Fair value through profit or loss" or "Available-for-sale" categories for financial instruments. The following table provides a fair value hierarchy, as required by NZ IFRS 7, that reflects the significance of the inputs used in making the fair value measurements. The hierarchy levels are Level 1 (quoted market prices), Level 2 (observable inputs) and Level 3 (unobservable inputs).

As at 30 June 2012	Carrying Value $m	Fair Value Measurement $m	Hierarchy Level 1 $m	Level 2 $m	Level 3[14] $m
Cash, Cash Equivalents and Receivables					
Crown settlement account	9,060	-	-	-	-
Crown trust account	33	-	-	-	-
Foreign cash and cash equivalents	977	898	-	898	-
Debtors and receivables	233	-	-	-	-
Advances					
RBNZ	2,158	2,158	-	2,158	-
Crown Health Financing Agency	2,202	2,180	-	2,180	-
Housing New Zealand	1,861	1,334	-	1,334	-
New Zealand Railways Corporation	510	510	-	510	-
New Zealand Transport Agency	130	130	-	130	-
Other Crown	4	4	-	4	-
Non-Crown	125	107	-	-	107
Financial Assets					
Marketable securities	4,708	4,708	4,335	373	-
External deposits	130	130	-	130	-
Derivatives in gain	1,682	1,682	-	1,682	-
IMF financial assets	2,249	-	-	-	-
Total Financial Assets	26,062	13,841	4,335	9,399	107
Overdrafts and Payables					
Crown disbursement account	4,418	-	-	-	-
Creditors and payables	283	-	-	-	-
Financial Liabilities					
Treasury bills – market	9,516	397	-	397	-
Treasury bills – non-market	479	-	-	-	-
Government bonds – market	57,925	3,210	3,210	-	-
Government bonds – non-market	4,424	-	-	-	-
Inflation-indexed bonds – market	1,631	-	-	-	-
Inflation-indexed bonds – non-market	316	-	-	-	-
Kiwi bonds	229	-	-	-	-
Euro-commercial paper	-	-	-	-	-
Foreign currency debt	307	307	-	307	-

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

As at 30 June 2012	Carrying Value $m	Fair Value Measurement $m	Hierarchy Level 1 $m	Hierarchy Level 2 $m	Hierarchy Level 3[14] $m
Collateral	1,067	1,067		1,067	-
Derivatives in loss	638	638	-	638	-
Departmental deposits	155	155	-	155	-
IMF allocation	1,638	-	-	-	-
Immigration investor policy bonds	52	-	-	-	-
Other	42	41	-	41	-
Total Financial Liabilities	83,120	5,815	3,210	2,605	-

Independent Auditor's Report

To the Readers of the Treasury's Financial Statements, Non-financial Performance Information and Schedules of Non-departmental Activities for the Year Ended 30 June 2012

The Auditor-General is the auditor of the Treasury (the Department). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- the financial statements of the Department on pages 61 to 82, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2012, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Department that comprises the statement of service performance on pages 36 to 57 and the report about outcomes on pages 18 to 29; and
- the schedules of non-departmental activities of the Department on pages 84 to 94 and 104 to 117 that comprise the schedule of assets, schedule of liabilities, schedule of commitments, schedule of contingent liabilities, and statement of trust monies as at 30 June 2012, the schedule of expenses, schedule of expenditure and appropriations, schedule of revenue and schedule of capital receipts for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department on pages 61 to 82:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Department's:
    - financial position as at 30 June 2012;
    - financial performance and cash flows for the year ended on that date;
    - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2012; and
    - unappropriated expenses and capital expenditure for the year ended 30 June 2012; and
- the non-financial performance information of the Department on pages 36 to 57 and 18 to 29:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2012, including for each class of outputs:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

- the schedules of non-departmental activities of the Department on pages 84 to 94 and 104 to 117, fairly reflect:
  - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2012 managed by the Department on behalf of the Crown; and
  - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 28 September 2012. This is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Secretary to the Treasury;
- the appropriateness of the reported non-financial performance information within the Department's framework for reporting performance;
- the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Secretary to the Treasury

The Secretary to the Treasury is responsible for preparing:

- financial statements and non-financial performance information that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflect its service performance and outcomes; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions 2011 that fairly reflect those activities managed by the Department on behalf of the Crown.

The Secretary to the Treasury is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, and non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

The Secretary to the Treasury's responsibilities arise from the Public Finance Act 1989.

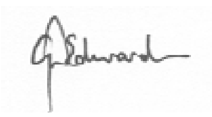
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

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

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



Graeme Edwards
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Executive Leadership Team

Gabriel Makhlouf – Secretary to the Treasury, Chief Executive

Gabriel (Gabs) Makhlouf joined the organisation from the United Kingdom in March 2010, where he held positions at HM Revenue & Customs, HM Treasury and Inland Revenue. His role is primarily focused on providing leadership for the organisation and ensuring that the Treasury remains focused on achieving its vision. Mr Makhlouf has chaired the world's main tax-ruling body at the OECD and was Principal Private Secretary to the UK Chancellor of the Exchequer, Gordon Brown. He has a BA degree in Economics and an MSc in Industrial Relations, and is fluent in French and Greek.

Vicky Robertson – Deputy Chief Executive

Vicky Robertson was appointed Deputy Chief Executive in August 2012. She had previously been Deputy Secretary Growth and Public Services. Her role is to support the Chief Executive in driving the Treasury to achieve its vision, and particularly to lead the Treasury's Better Public Services work and the National Infrastructure Unit. During her 14-year Treasury career, Ms Robertson has worked in roles ranging from policy development on KiwiSaver legislation through to heading an interdepartmental group that reviewed New Zealand's climate change policies. Ms Robertson has a law degree and played hockey at NZ Representative level as a member of the Black Sticks in 1991 and 1993/94.

Girol Karacaoglu – Chief Economist. Deputy Secretary, Macroeconomic, International and Economic Research

Girol Karacaoglu joined the Treasury on 1 March 2012, after being Chief Executive of The Co-operative Bank (formerly PSIS) for nine years. Dr Karacaoglu leads the Treasury's economic research, analysis and forecasting work, and is also responsible for the teams that work on achieving a stable and sustainable macroeconomic environment. Dr Karacaoglu has previously been General Manager at Westpac NZ, Chief Economist at the National Bank of New Zealand and lecturer in economics at Victoria University of Wellington. He has a PhD in Economics and an MBA, and is fluent in French and Turkish.

Richard Forgan – Deputy Secretary, Budget and Public Services

Richard Forgan came to the Treasury in 2009, after spending eight years with PricewaterhouseCoopers' consulting practice. His teams oversee the Government's annual Budget and help Ministers understand how the State sector can improve public services such as healthcare, justice and security. He leads the Treasury's work on developing a more effective and efficient State sector. Mr Forgan began his career in the City of London in corporate and investment banking. He has an MA in Politics and Economics from Edinburgh University.

Peter Martin – Deputy Secretary, Growth and Public Services

Peter Martin joined the Treasury in 1997 as Manager, International Economics. He had previously worked in SSC and in the UK Civil Service. He has held a number of leadership roles in the Treasury, most recently as Director Tax Strategy. Mr Martin was economic advisor in the Prime Minister's department between 2001 and 2004. His teams work with a range of agencies on policies to support the Government's economic growth and productivity objectives, including tax, regulation, natural resource management, education, welfare and infrastructure. He has a BSc from St Andrews University.

John Crawford – Deputy Secretary, Commercial Transactions

John Crawford joined the Treasury in February 2010 from DPMC. He leads the Treasury's work on significant commercial transaction for the Crown, such as implementing the Mixed Ownership Model and supporting AMI Insurance after the Canterbury earthquakes. Mr Crawford's career has included roles at NZ Trade and Enterprise as Regional Director Auspac, at Investment NZ and at Deutsche Bank AG. He has undergraduate degrees in Science and Engineering and an MBA from Auckland University.

Catherine Atkins – Deputy Secretary, Strategy, Change and Performance

Catherine Atkins has held several management roles in the Treasury over the past 10 years and has previously worked at the Department of Labour and the Ministry of Commerce. She leads the work to become a high-performing Treasury, keeping the organisation focused on its priorities and fit for purpose. Ms Atkins has a Master's degree in Economics.

Fergus Welsh – Deputy Secretary, Chief Financial Officer/Chief Accountant

Fergus Welsh joined the Treasury from MED in 2010. As Chief Accountant he leads development and implementation of strategies for improving financial resource management across government, making sure that taxpayers' resources are used appropriately. Mr Welsh has a Bachelor of Commerce degree from Otago University and is a member of the New Zealand Institute of Chartered Accountants.

Andrew Turner – Deputy Secretary, Crown Ownership Monitoring Unit

Andrew Turner took the role as Deputy Secretary of COMU in August 2011. His teams monitor the performance of more than 100 businesses and entities that make profits for the Crown or deliver services the private sector isn't willing to provide. Mr Turner previously worked as Head of Portfolio Management at NZDMO. He has a Bachelor of Commerce and Administration degree from Victoria University and is a member of the New Zealand Institute of Chartered Accountants.

Brendon Doyle – Deputy Secretary, Financial Operations

Brendon Doyle joined the Treasury in March 2012 from Westpac in Australia, where he was Managing Director of its Global Capital Markets. He oversees the teams that borrow and make debt repayments for the Crown, and issue guarantees to support export businesses. His teams bridge the gap between what the Government receives in taxes and fees and what it spends on providing public services. Mr Doyle has a Bachelor degree in Business Studies.

Note: Positions are as at date of publication.

Quality Standards for Policy Advice

Quality Policy Advice is Fit for Purpose

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

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

Dimensions of Quality Policy Advice

Analytically rigorous (Analysis)

Relevant frameworks

Appropriate analytical frameworks are used, and:

- knowledge is up-to-date and informed by recent thinking and literature in the field
- assumptions behind the frameworks used are explicit and consideration has been given to how they will be expected to play out in the real world (a world which includes information and transaction costs, market failure, government failure, etc), and
- consideration has been given to less traditional frameworks and whether they would add innovative or useful perspectives.

Robust reasoning and logic

Advice has a clear purpose, problem definition, evaluation of options against criteria and assessment of risks and opportunities. We come to a conclusion and give action-oriented recommendations.

Evidence based

Analysis is supported by relevant evidence:

- Empirical methods are sound, data gaps are identified and the level of confidence/certainty in our empirical base is explicit.
- We draw on New Zealand experience of current and past policy interventions and, where relevant, the experience of other countries.
- We give our best judgement despite data imperfections; we acknowledge information limitations and advise within them.

Free and frank

Our advice is honest, impartial and politically neutral – we have a duty to alert Ministers to the possible consequences of following particular policies, whether or not such advice accords with Ministers' views. Good free and frank advice is offered with an understanding of its political context and the constraints within which the Minister is operating.

Set in a wider strategic context (Applied analysis)

Strategic

- Advice is set in the context of the Treasury's results and informed by a strategic view about what is important.
- We are explicit about the relative importance and materiality of the issue, in fiscal, economic and strategic terms.
- Connections across policy issues are made, ensuring that Ministers receive a whole-of-government perspective.
- Advice considers the long-term implications of decisions and provides a perspective that goes beyond immediate impacts.
- We frame issues and help set the agenda.

Practical

Issues of implementation, technical feasibility, practicality and timing are considered and advice accurately identifies compliance, transitional, legislative, revenue and administrative implications and costs.

Public sector consultation

Ministers receive advice that enables them to engage with their colleagues on a fully informed basis because:

- thorough and timely consultation with other government departments has occurred and points of difference, and the reasons for these, are set out, and
- where possible, advice is developed in conjunction with relevant government agencies.

Perspectives of wider stakeholders

We understand and advise Ministers on the perspective of groups outside the public sector, consult with key stakeholders and provide advice on communications where appropriate.

Customer focused and persuasive (Advice)

Clear

Advice is compellingly presented. It is:

- brief and concise – key messages should be readily apparent to the reader
- easy to read – has a clear and logical structure, avoids technical jargon and uses visual devices such as charts and tables where possible
- pitched to suit the target audience – uses appropriate language, style and level of detail, and
- framed in terms of how it fits with previous advice and communications with the Minister.

Timely

Reports should meet Ministers' need for advice that helps in the decision-making process (even if it means, at times, that advice is not fully developed) and indicate when a decision is required.

Politically aware

Advice:

- demonstrates awareness of the wider environment and political situation
- is based on a clear understanding of the desired outcomes of the Minister/Government
- relates to the perspectives of Ministers, even if suggesting something that tests those perspectives, and
- recognises choices and constraints Ministers face, and includes a range of options to address these.

Solution focused

We are proactive, anticipating, as well as responding to, Ministers' needs. Advice suggests a clear way forward ("Here is what you can do" as well as "Here is a problem") and includes a range of practical options (first best advice, but also second and third).

Quality Involves Continuous Improvement

At the end:

- Did we achieve the result we were seeking?
- Were our judgements about what would be fit for purpose correct?
- What would we do differently next time?
- How can we capture and share this learning?

Ministerial Servicing – Service Standards

Agreed Measures and Standards		
Description	*Timeframe*	*Quality Indicator*
Ministerial Correspondence	Unless otherwise agreed with the Minister's Office, submit a reply to: ▸ correspondence marked "Urgent" by the Minister's Office within 5 working days of referral ▸ correspondence specified by the Minister's Office as requiring "Priority" within 10 working days of referral, and ▸ all other correspondence within 15 working days of referral.	At least 95% of replies will be delivered within agreed timeframes. At least 95% of replies will be acceptable to the Minister and will not require amendment.
Parliamentary Questions	Replies to written PQs will be submitted to the Minister's Office by 12.00pm on the due date specified by the Office.	Replies will be consistent with Standing Order 377.
Replies to Official Information Act requests made to the Minister	All MOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act. Replies will be delivered to the Minister at least 5 working days before the relevant statutory time limit, unless otherwise agreed with the Minister's Office.	All replies will be complete and accurate in the information they convey and will be prepared with appropriate consultation of relevant parties. Advice on, handling of and replies to MOIA requests will accord with the provisions of the Official Information Act 1982. At least 95% of MOIA replies will be acceptable to the Minister and will not require amendment. All stated timeframes will be met.
Replies to Official Information Act requests made to the Treasury	All TOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act. The Treasury will consult and inform the Minister, and/or other Ministers, on replies to TOIAs, as appropriate and within agreed timeframes.	All replies will be complete and accurate in the information they convey. Advice on, handling of and replies to TOIA requests will accord with the provisions of the Official Information Act 1982. Consultation on proposed replies will be appropriate and acceptable to the Minister. All stated timeframes will be met.

Ministerial Servicing will not exceed budgeted costs.

Monitoring of Crown Agencies

The Treasury's Crown Ownership Monitoring Unit has monitoring responsibility for the following:

Crown financial institutions:

- Accident Compensation Corporation (ACC) (Investments)
- Earthquake Commission (EQC)
- Government Superannuation Fund (GSF)
- National Provident Fund (NPF)
- New Zealand Superannuation Fund (NZSF)

State-Owned Enterprises:

- Airways Corporation of New Zealand Ltd (Airways)
- Animal Control Products Ltd (ACP)
- AsureQuality Ltd (AsureQuality)
- Electricity Corporation of New Zealand Ltd (ECNZ) (the residual company)
- Genesis Power Ltd (Genesis)
- Kordia Group Ltd (Kordia)
- Landcorp Farming Ltd (Landcorp)
- Learning Media Ltd (LML)
- Meridian Energy Ltd (Meridian)
- Meteorological Service of New Zealand Ltd (MetService)
- Mighty River Power Ltd (Mighty River Power)
- New Zealand Post Ltd (NZ Post)
- New Zealand Railways Corporation (KiwiRail Group)
- Quotable Value Ltd (Quotable Value)
- Solid Energy New Zealand Ltd (Solid Energy)
- Timberlands West Coast Ltd (Timberlands)
- Transpower New Zealand Ltd (Transpower)

Other Crown companies:

- Crown Asset Management Ltd (CAML)
- Crown Fibre Holdings Ltd (CFH)
- Health Benefits Ltd (HBL)
- New Zealand Venture Investment Fund Ltd (NZVIF)
- Radio New Zealand Ltd (RNZ)
- Research and Education Advanced Network New Zealand Ltd (REANNZ)
- Southern Response Earthquake Services Ltd (SRESL)
- Television New Zealand Ltd (TVNZ)

Crown research institutes: (from 1 February 2011 joint responsibility with Ministry of Science & Innovation)

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

Other:

- Air New Zealand Ltd
- Christchurch International Airport Ltd (CIAL)
- Dunedin International Airport Ltd (DIAL)
- Hawkes Bay Airport Ltd (HBAL)
- Invercargill Airport Ltd (IAL)
- New Zealand Lotteries Commission (Lotteries)
- Pacific Forum Line Ltd (PFL)
- Public Trust (Public Trust)
- Rugby NZ (2011) Ltd

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

Research and Policy Publications

for the year ended 30 June 2012

The Treasury's research and policy publications present work-in-progress perspectives on a variety of economic, financial, trade and social issues. The Treasury's aim in publishing this work is to make the papers available to a wider audience, and to inform and encourage public debate on important areas of work.

Papers published during 2011/12 include:

Working Papers 2011/12	Publishing Date and Paper Number
Health and Retirement of Older New Zealanders	June 2012 – WP 12/02
Contemporary Microeconomic Foundations for the Structure and Management of the Public Sector	May 2012 – WP 12/01
Foreign Acquisition and the Performance of New Zealand Firms	December 2011 – WP 11/06
Tax Rates and Revenue Changes: Behavioural and Structural Factors	December 2011 – WP 11/05
KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving	December 2011 – WP 11/04

All papers can be viewed on our website: www.treasury.govt.nz/publications/research-policy

Legislation

as at 30 June 2012

Budget legislation administered by the Treasury during the year:

Appropriation Act(s)
Imprest Supply Act(s)

Delegated legislation administered by the Treasury:

Bank of New Zealand Order 1989
Cityline (NZ) Vesting Order 1992
Cook Islands Sterling Area Currency and Securities Exemption Notice 1957
Crown Entities (Capital Charge Rules) Regulations 2011
Crown Entities (Financial Powers) Regulations 2005
Crown Entities (Financial Powers) Amendment Regulations 2006
Crown Entities New Zealand (Fast Forward Fund Limited) Order 2008
Crown Entities New Zealand (Fast Forward Fund Limited) Order 2009
Crown Research Institutes Act Commencement Order 1998
Earthquake Commission Regulations 1993
Export Guarantee Amendment Act Commencement Order 1990
Fees and Travelling Allowances Regulations 1952
Finance Act Order (various)
Government Superannuation Orders and Regulations (various)
Housing New Zealand Limited Vesting Order 1993
International Finance Agreements Amendment Act Commencement Order 1978
International Finance Agreements Amendment Act Commencement Order 1993
Local Authorities and Public Bodies (New Zealand Superannuation Scheme) Order 1974
National Provident Fund (Approval of Restructuring Proposal) Order 1991
National Provident Fund (Approval of Amendments to Restructuring Proposal) Order 1993
National Savings Investment Account Regulations (various)
New Zealand Planning Council Dissolution Act Commencement Order 1991
New Zealand Rail Limited Vesting Order (various)
New Zealand Railways Corporation Notice, Regulations and Orders (various)
New Zealand Railways Corporation Restructuring Act Orders (various)
New Zealand Staff Welfare Society Dissolution Act Commencement Order 1999
New Zealand Superannuation (Political Commitment) Order 2003
New Zealand Superannuation (Political Commitment) Order 2004
North City Bus Limited Vesting Order 1991
Overseas Investment Act Commencement Order 2005
Overseas Investment Regulations 2005
Overseas Investment Amendment Regulations (various)
Post Office Bank Amendment Act Commencement Orders (various)
Public Audit (West Coast Development Trust) Order 2002
Public Finance Act Orders (various)
Public Finance (Departmental Guarantees and Indemnities) Regulations 2007
Public Finance (Departmental Guarantees and Indemnities) Amendment Regulations 2010
Radio New Zealand Act (No 2) Commencement Order 1996
Railway Operator Orders (various)
Rural Intermediate Credit (Limits on Advances) Notice 1982
Shipping Corporation of New Zealand Repeal Act Commencement Order (various)
Social Security (Rates of Benefits and Allowances) Order (various)
Southland Electricity Act Commencement Order 1994
Southland Electricity Act Commencement Order 1998
Speedlink Carriers Limited Vesting Order 1991

Speedlink Parcels Limited Vesting Order 1991
State Insurance Act (Vesting) Order 1990
State-Owned Enterprises Orders (various)
Tourist Hotel Corporation of New Zealand Act Commencement Order 1990
Tourist Hotel Corporation of New Zealand Act (Vesting and Commencement) Order 1990
Tower Corporation Act Commencement Order 1990
Travelling Allowance Regulations (various)
Westpac Banking Corporation Act Commencement Order 1982

Other legislation administered by the Treasury:

Aid to Water-Power Works Act 1910
Bank of New Zealand Act 1988
Crown Entities Act 2004 (Part 4)
Crown Forests Assets Act 1989
Crown Research Institutes Act 1992
Crown Retail Deposit Guarantee Scheme Act 2009
District Railways Purchasing Act 1885
Earthquake Commission Act 1993
Export Guarantee Act 1964
Farm and Fishing Vessel Ownership Savings Schemes (Closure) Act 1998
Farm Ownership Savings Act 1974
Finance Acts (various)
Fishing Vessel Ownership Savings Act 1977
Government Superannuation Fund Act 1956
Hawke's Bay Earthquake Act 1931
International Finance Agreements Act 1961
KiwiSaver Act 2006 (only section 177 jointly with IRD)
National Expenditure Adjustment Act 1932
National Provident Fund Restructuring Act 1990
New Zealand Government Property Corporation Act 1953
New Zealand Planning Council Dissolution Act 1991
New Zealand Productivity Commission Act 2010
New Zealand Railways Corporation Act 1981
New Zealand Railways Corporation Restructuring Act 1990
New Zealand Railways Staff Welfare Society Dissolution Act 1999
New Zealand Superannuation and Retirement Income Act 2001 (various provisions)
Overseas Investment Act 2005
Post Office Bank Act 1987
Post Office Bank Amendment Act 1988
Public Audit Act 2001
Public Finance Act 1989
Radio New Zealand Act (No 2) 1995
Rural Banking and Finance Corporation of New Zealand Act 1989
Southland Electricity Act 1993
State Insurance Act 1990
State-Owned Enterprises Act 1986
State-Owned Enterprises (AgriQuality Limited and Asure New Zealand Limited) Act 2007
State-Owned Enterprises (Contact Energy Limited) Act 1998
State-Owned Enterprises (Meteorological Service of New Zealand Limited and Vehicle Testing New Zealand Limited) Amendment Act 1999
Tourist Hotel Corporation of New Zealand Act 1989
Treasurer (Statutory References) Act 1997
Utilities Access Act 2010

List of Acronyms

ACC	Accident Compensation Corporation
ALM	Asset and Liability Matching
AMI	AMI Insurance Ltd
APEC	Asia-Pacific Economic Cooperation
APR	Annual Portfolio Report
BASS	Better Administrative and Support Services
BEFU	Budget Economic and Fiscal Update
BIM	Briefing to the Incoming Minister
BPS	Budget Policy Statement
CAM	Capital Asset Management
CAML	Crown Asset Management Ltd
CASS	Central Agencies Shared Services
CBA	Cost Benefit Analysis
CERA	Canterbury Earthquake Recovery Authority
CERF	Canterbury Earthquake Recovery Fund
CFI	Crown Financial Institution
COMU	Crown Ownership Monitoring Unit
CPI	Consumer Price Index
CRI	Crown Research Institute
CSD	Crown Support Deed
DBH	Department of Building and Housing
DBP(A)	Defined Benefit Plan (Annuitants)
DGS	Deposit Guarantee Scheme
DHB	District Health Board
DICE	Departmental Internal Control Evaluation
DOL	Department of Labour
DPMC	Department of the Prime Minister and Cabinet
ECA	Export Credit Agency
ELT	Executive Leadership Team
EMUs	Electric Multiple Units
EQC	Earthquake Commission
FSR	Fiscal Strategy Report
FV	Fair Value
FX	Foreign Exchange
GDP	Gross Domestic Product
GEN	Government Economics Network
GSF	Government Superannuation Fund
GST	Goods and Services Tax
HSNO	Hazardous Substances and New Organisms Act 1996
HYEFU	Half-year Economic and Fiscal Update
IAG	IAG New Zealand Ltd
IFIs	International Financial Institutions
IMD	International Institute for Management Development
IMF	International Monetary Fund
IPO	Initial Public Offer
IRD	Inland Revenue Department
LGFA	Local Government Funding Agency
MBIE	Ministry of Business, Innovation and Employment
MC	Ministerial Correspondence
MCOA	Multi-class Output Appropriation

MED	Ministry of Economic Development
MFAT	Ministry of Foreign Affairs and Trade
MOE	Ministry of Education
MOH	Ministry of Health
MOIAs	Ministry Official Information Act requests
MOJ	Ministry of Justice
MOU	Memorandum of Understanding
MSD	Ministry of Social Development
MSI	Ministry of Science and Innovation
MYA	Multi-year Appropriation
NCEA	National Certificate of Educational Achievement
NEET	Not in Education, Employment or Training
NPF	National Provident Fund
NZAE	New Zealand Association of Economists
NZASB	New Zealand Accounting Standards Board
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZDMO	New Zealand Debt Management Office
NZECO	New Zealand Export Credit Office
NZIER	New Zealand Institute of Economic Research
NZRU	New Zealand Rugby Union
NZTA	New Zealand Transport Agency
NZTE	New Zealand Trade and Enterprise
NZVIF	New Zealand Venture Investment Fund Ltd
OBR	Open Bank Resolution
OECD	Organisation for Economic Co-operation and Development
OIAs	Official Information Act requests
PAS	Public Benefit Entity Accounting Standards
PAYE	Pay-As-You-Earn
PIF	Performance Improvement Framework
PLAs	Permanent Legislative Authorities
PPPs	Public Private Partnerships
PQs	Parliamentary Questions
R&D	Research and Development
RBNZ	Reserve Bank of New Zealand
RDA	Revenue-Dependent Appropriation
REANNZ	Research and Education Advanced Network New Zealand
RIA	Regulatory Impact Analysis
S&P	Standard and Poor's
SCF	South Canterbury Finance
SOE	State-Owned Enterprise
SOI	Statement of Intent
SRESL	Southern Response Earthquake Services Ltd
SSC	State Services Commission
TOIAs	Treasury Official Information Act requests
TPP	Trans Pacific Partnership
TVNZ	Television New Zealand Ltd
VaR	Value at Risk
WDC	Waimakariri District Council
WFGF	Wholesale Funding Guarantee Facility
WTO	World Trade Organisation
XRB	External Reporting Board