THE TREASURY
Kaitohutohu Kaupapa Rawa

B.27 – The Treasury Annual Report

B.14 (Finance) – Minister of Finance's Reports on Non-Departmental Appropriations

The Treasury Annual Report 2017/18

and Minister of Finance's Reports on Non-Departmental Appropriations

New Zealand Government

Contents

Chief Executive's Introduction

Supporting a new Government – and starting to deliver on its priorities – has been a key part of the Treasury's 2017/18 year. The change of government has required the Treasury to advise on a new set of policies and priorities. We also supported the rollout of the new Government's 100-Day Plan and its first Budget Policy Statement.

This *Annual Report* highlights many areas of work where the Treasury can take pride in its performance. There are three in particular I want to highlight: the Treasury's work on New Zealand's three macroeconomic pillars, the publication of our latest Investment Statement and the work on our Living Standards Framework (LSF).

We provided advice to the new Government on the modernisation of the Reserve Bank of New Zealand Act 1989 and have worked with the Bank and the Government's Independent Expert Advisory Panel on the creation of a modern monetary and financial policy framework. Phase 1 of the Review (on monetary policy) was completed during 2017/18 and phase 2 (on financial stability) has started. The Treasury is also supporting the Government in its review of the third pillar – New Zealand's fiscal framework – with the release of a discussion document on the creation of a new independent fiscal institution.

Our latest Investment Statement, He Puna Hao Pātiki – which analyses the government balance sheet and its management – was published in March. The balance sheet represents the investment made by government on behalf of New Zealanders in schools, hospitals, financial assets and commercial enterprises among other things. Managing the balance sheet well is essential for delivering public services that provide value for money and improve the living standards of New Zealanders. He Puna Hao Pātiki builds on the Statement published in 2014 but differs from earlier Statements in one important respect. It uses the organising principles in the LSF and has a chapter on broadening the Investment Statement to include natural capital considerations.

Work on the Treasury's LSF accelerated in 2017/18 following the new Government's decision to use it to support its first Wellbeing Budget in 2019. We published a number of discussion documents including on a dashboard of wellbeing indicators. From a historical perspective, the LSF is a leap of thinking that echoes the many transformations in the Treasury's past, by looking to integrate a broader conception of economics and value into the everyday work of public policy.

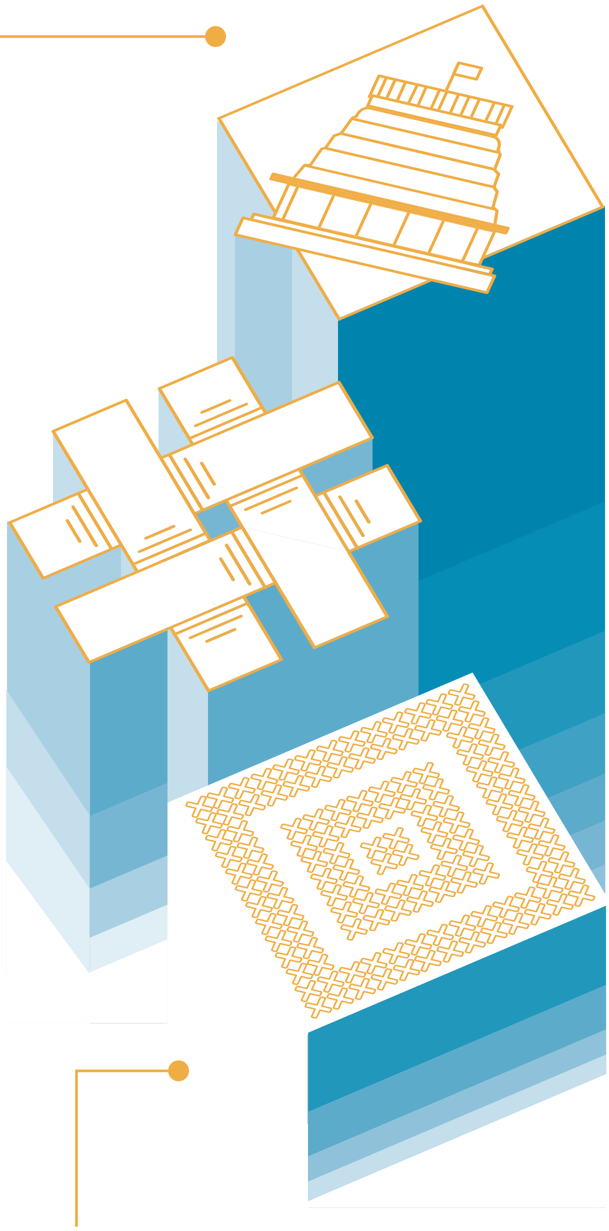
The Treasury's own wellbeing relies on the dedication and talent of the people who are a part of it. We welcomed many new people over the year, including most recently Livia Esterhazy, Traci Houpapa and Richard Wagstaff who joined the Treasury Board. We were also pleased to have Jon Grayson join our Executive Leadership Team (ELT).

At all levels of the organisation we are committed to attracting and retaining great performers to build a diverse and inclusive workplace. Whether newcomers, old-timers or somewhere in between, I want to thank all members of the Treasury whānau for the energy and expertise they dedicate to raising living standards for New Zealanders.

2017/18 Key Achievements

Supporting the new Government

- Led and supported work to implement a number of elements of the new Government's 100-Day Plan and Budget Policy Statement
- Established the Tax Working Group and provided Secretariat support to the Group (with Inland Revenue)
- Led work to include provisions relating to purchase of residential property and forestry rights into the Overseas Investment Act 2005
- Led the first phase of the review of the Reserve Bank of New Zealand Act 1989
- Completed many activities in costing policies in transition to the new Government



Living Standards Framework

3 Discussion papers

on human capital, social capital and natural capital were published in February 2018

Proposal for a Living Standards Dashboard

Released for public consultation in June 2018

2 Symposia

4 Speeches by the Secretary

Contributes to the work led by Stats NZ on **Indicators Aotearoa New Zealand**

Launched the **Community for Policy Research** in November 2017

He Puna Hao Pātiki

- Released in March 2018
- Investment Statement 2018 analyses the government balance sheet and its management
- Uses the organising principles of the LSF

Bond issuance

NZ$7b total bond issuance

NZ$4b nominal bonds issued via tender

NZ$2b nominal bonds issued via syndication

NZ$1b inflation index bonds issued via tender

NZ$6.9b Treasury bills issued via tender

Infrastructure and Housing

Advised Ministers on:

- Establishing an Infrastructure Commission
- Establishment and finances for the Ministry of Housing and Urban Development
- Improving the funding and financing of infrastructure to support the Urban Growth Agenda

Financial Statements of Government

Released in October 2017

Supporting our people and strengthening our internal foundation for a high-performing Treasury

- Refresh of Flexible Working Policy
- Roll-out of He Manaaki
- Launch of our Tāne Whakapiri Accommodation Project

Implement changes to the Regulatory Impact Analysis (RIA)

84% Successful implementation of the new RIA requirements, with 84% satisfaction rating across agencies

Investment Management and Asset Performance (IMAP)

100% 100% Senior Responsible Owner survey respondents stated their level of satisfaction with investment advice as satisfied or better

25 Investor Confidence Rating assessments

31 Gateway reviews

Supporting exporters

42 individual export businesses supported

NZ$207m worth of exports

27 global markets reached

Continuation of the State Sector Finance Development Programme

89 agencies involved

Macroeconomic Forecasting

3 Ran three forecast rounds and successfully transitioned to our new forecasting model, Matai

Budget 2018

Successful delivery of Budget 2018

We collectively achieved all the above and more while taking on new work and responding to high demand.

Statement of Responsibility

I am responsible, as the Secretary to the Treasury, for:

- the preparation of the Treasury's Financial Statements, and Statements of Expenses and Capital Expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the Treasury is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this *Annual Report*
- the accuracy of any end-of-year performance information prepared by the Treasury, whether or not that information is included in the *Annual Report*.

In my opinion:

- the Financial Statements fairly reflect the financial position of the Treasury as at 30 June 2018 and its operations for the year ended on that date
- the Forecast Financial Statements fairly reflect the forecast financial position of the Treasury as at 30 June 2019 and its operations for the year ending on that date.

Gabriel Makhlouf
Secretary to the Treasury

28 September 2018

The Wellbeing and Capitals Approach to this *Annual Report*

This *Annual Report* reports on how we are doing on our journey towards improved wellbeing and higher living standards. The report emphasises our development work on the LSF, and tells how different parts of the Treasury are shifting our thinking towards intergenerational wellbeing and using the LSF in our analysis, as well as how we are influencing the State sector to think in that direction.

The way we have structured this *Annual Report* embodies our wellbeing aspirations and our work on the capitals. This is a transitional approach towards an integrated reporting model in the future once our various streams of work on intergenerational wellbeing, performance reporting and system stewardship have further developed.

Throughout the report, readers will see how our various work programmes under the three key objectives of stronger economic performance, stronger State sector performance and stronger Crown fiscal performance illustrate our contributions to growing New Zealand's capitals and intergenerational wellbeing.

KPMG

Independent Auditor's Report

To the Readers of the Treasury's Annual Report for the Year Ended 30 June 2018

The Auditor-General is the auditor of the Treasury (the Department). The Auditor- General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out, on his behalf, the audit of:

- the financial statements of the Department on pages 74 to 86, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity, 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;
- the performance information prepared by the Department for the year ended 30 June 2018 on pages 18 to 30 and 40 to 63;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2018 on pages 66 to 72; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 88 to 95 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2018;
  - the schedules of expenses; and revenue for the year ended 30 June 2018;
  - the statement of trust monies for the year ended 30 June 2018; 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 74 to 86:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Department on pages 18 to 30 and 40 to 63:
  - presents fairly, in all material respects, for the year ended 30 June 2018:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Department on pages 66 to 72 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 88 to 95 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2018; and
  - expenses; and revenue for the year ended 30 June 2018; and
  - the statement of trust monies for the year ended 30 June 2018.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to an other matter. In addition, we outline the responsibilities of the Secretary to the Treasury and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Uncertainties associated with the provision for the Crown to assist Southern Response Earthquake Services Limited (SRESL) in settling its outstanding claims

Without modifying our opinion, we draw attention to note 5 of the Explanatory Notes to Supplementary Statements and Schedules – Non-Departmental, about the considerable uncertainty surrounding the projection and valuation of SRESL's outstanding claims liability and therefore, the provision recognised by the Crown to assist SRESL in settling these outstanding claims. Note 5 explains that formal Crown financial support is available to SRESL in the form of uncalled share capital.

In addition, a separate agreement has been entered into to meet the costs, if any, of settling policyholder claims arising from the representative proceeding filed against SRESL on 29 May 2018. At this stage the financial statements make no allowance for the outcome of these proceedings due to the range of possible outcomes that cannot be reliably quantified at this time. We consider the disclosures about the provision to assist SRESL in settling its outstanding claims to be adequate.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Secretary to the Treasury for the information to be audited

The Secretary to the Treasury is responsible on behalf of the Department for preparing:

- financial statements that present fairly the Department's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the Department, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Department on behalf of the Crown.

The Secretary to the Treasury is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Secretary to the Treasury is responsible on behalf of the Department for assessing the Department's ability to continue as a going concern. The Secretary to the Treasury is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Department, or there is no realistic alternative but to do so.

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

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Department's information on strategic intentions/statement of intent.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary to the Treasury.
- We evaluate the appropriateness of the reported performance information within the Department's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Secretary to the Treasury and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Department to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Secretary to the Treasury regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Secretary to the Treasury is responsible for the other information. The other information comprises the information included on pages 1 to 4, 10-17 and 31-38 but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Department in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

Brent Manning
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

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Our Strategy and Operations

Our story

We are the Government's lead economic and financial adviser. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments.

We implement government decisions and are also responsible for the Financial Statements of the Government, for ensuring effective management of the assets and liabilities on the Crown's balance sheet and for publishing economic and fiscal forecasts.

Our vision is to be a world-leading Treasury working towards higher living standards for New Zealanders. We want to grow wellbeing through improving the country's human, social, natural and financial/physical capital.

We work with others – across both the government and non-government sectors, in New Zealand and overseas – to turn our vision into reality. We believe in applying rigorous analysis to the best available evidence, using our LSF to guide us.

We embrace diversity and inclusion because they strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders ie, to be:

- **bold and innovative,** so that we understand how and when to take risks, learn from failures and build on successes
- **collaborative and challenging**, so that we work with others, collaborating but also challenging them and ourselves
- **adaptable and focused**, so that when the facts change, or ministerial priorities change, we don't delay and we maintain our standards
- **passionate and ambitious**, for our performance, for our people and for New Zealand.

We believe in the importance of a trusted, professional, public service. Our stewardship responsibilities embody kaitiakitanga – we work to support the Treaty partnership between the Crown and Māori; we are transparent, objective, impartial and free and frank in our advice.

Our strategy: Towards higher living standards for New Zealanders

Higher living standards for New Zealanders

Our business objectives

The Economy

Fiscal, monetary and regulatory frameworks result in a stable and sustainable economic environment.

State Sector

Institutional and regulatory settings support the State sector system to increase equitable, intergenerational wellbeing.

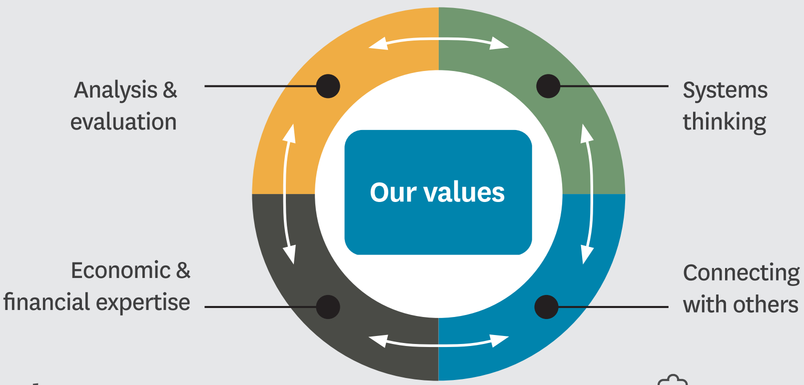
Crown Finances

The Crown's finances and the financial and non-financial balance sheet are managed efficiently, effectively and sustainably.

Our strategic priorities

- Intergenerational Wellbeing
- System Stewardship
- Performance Reporting

Our critical capabilities



Our new organisational strategy

Our new organisational strategy was published in February 2017, with implementation beginning from 1 July 2017.

Our strategy ultimately strives to achieve higher living standards for New Zealanders, through three key areas to which the Treasury can make a difference: New Zealand's economic performance, State sector performance and Crown fiscal performance. We developed three strategic priorities to help improve our performance in these three areas. The strategic priorities are intergenerational wellbeing, system stewardship and performance reporting. Throughout 2017/18, programmes of work have been progressed under the three priorities.

These priorities were formulated to help us become a world-leading Treasury, working at the frontier to apply wellbeing economics with a focus on the capitals to support government decision-making and action. While our strategy is long term and it will take several years for us to achieve a step change, we have now completed the first year of implementation. During this time different parts of our organisation have contributed to achieving wellbeing and higher living standards in various ways.

The context of this *Annual Report*

This *Annual Report* shows both how the Treasury delivered the objectives set out in our Statement of Intent (SOI), and explains the substantial changes to the context of our work.

With the change in government, the Treasury adapted to meet the needs of new Ministers and help implement the Government's policies. This transition led to some programmes of work being stopped, such as sales of social housing. It also led to the Treasury taking on major new work programmes that were not in our SOI.

For example, the Treasury is the lead agency for the Tax Working Group and changes to screening regimes for residential land and forestry under the Overseas Investment Act 2005, both of which were priorities in the Government's 100-Day Plan. We also played a lead role in resuming contributions to the New Zealand Super Fund. Our support extended to other programmes of work led by other agencies, including the Housing Commission and KiwiBuild, Healthy Homes Guarantee Bill, Child Poverty Reduction Bill, Pike River Re-entry and Zero Carbon Bill.

Our work on our LSF expanded greatly in scope and significance. Though we have been working on the LSF for several years, the new Government's decision to put our Framework at the core of their focus on wellbeing has meant ramping up the pace of its development. The Treasury is dedicating substantial effort on the application of the LSF in the work of government, making sure the LSF is a practical, effective and transformational tool for public policy.

We have had significant success in re-orienting our work to support the priorities of the new Government. We also acknowledge that achieving this has had repercussions. The need to provide Ministers with advice on complex issues within tight timeframes sometimes had an impact on the quality of what we were able to deliver. It also meant many of our staff worked long hours over sustained periods, with a consequent effect on their wellbeing. We recognise these issues and are taking steps to address them.

The Treasury's ongoing involvement in a range of issues means that this report presents a mixture of what we have achieved in the first year of our strategy implementation with higher living standards at its heart, what is core to our work and emerging priorities. It also describes the work we delivered in support of the Government.

Promoting higher living standards for New Zealanders

The Four Capitals

Intergenerational wellbeing relies on the growth, distribution, and sustainability of the Four Capitals. The Capitals are interdependent and work together to support wellbeing. The Crown-Māori relationship is integral to all four capitals. The LSF is being continually developed and the next iteration of the framework will consider the role of culture, including Māori culture, as part of the capitals approach in more detail.

Natural Capital

This refers to all aspects of the natural environment needed to support life and human activity. It includes land, soil, water, plants and animals, as well as minerals and energy resources.

Social Capital

This describes the norms and values that underpin society. It includes things like trust, the rule of law, cultural identity, and the connections between people and communities.

Human Capital

This encompasses people's skills, knowledge and physical and mental health. These are the things which enable people to participate fully in work, study, recreation and in society more broadly.

Financial and Physical Capital

This includes things like houses, roads, buildings, hospitals, factories, equipment and vehicles. These are the things which make up the country's physical and financial assets which have a direct role in supporting incomes and material living conditions.

Living Standards Framework (LSF)

What is it?

The LSF is the Treasury's framework for improving wellbeing. It draws from the Organisation for Economic Cooperation and Development's (OECD) *How's Life?* approach and consists of three parts. First, the Framework's foundations are found in four types of capital stock: financial/physical capital (eg, machinery, buildings, housing and financial assets); human capital (eg, health, skills and knowledge); social capital (eg, cultural norms and practices, trust, regulatory and legal institutions); and natural capital (eg, water, biodiversity and clean air). These four capitals support future (or, intergenerational) wellbeing. Factors that require further consideration include the productivity of the four capitals and ensuring a good capital mix.

The second part of the LSF is current wellbeing and this is depicted using 12 domains of wellbeing spanning economic, social and environmental conditions, including cultural identity, that are relevant for New Zealand.

The third element of the LSF is risk and resilience, which means thinking about all shocks that could affect wellbeing in the future, whether they are from New Zealand or from overseas.

The Treasury uses the LSF to ensure our advice takes into account the broad range of financial and non-financial factors that impact on New Zealanders' wellbeing. We are refreshing our LSF to strengthen its evidence base and make it more useful and meaningful to officials and Ministers – to ultimately achieve our vision of higher living standards for all New Zealanders.

To measure and track wellbeing using the LSF, we are developing a Living Standards Dashboard.

The Living Standards Dashboard will enable us to measure current wellbeing, so we can see where New Zealand is doing well and where we could improve. Measuring the four capitals helps us to understand whether current levels of wellbeing are sustainable over the long term, providing key insights for policy advice to support intergenerational wellbeing.

Through the LSF, government agencies are supported to be more cohesive, so that advice on spending and other governmental interventions can have the greatest chance of improving intergenerational wellbeing.

2017

November

Economic symposium

Community for Policy Research

2018

February

First tranche of discussion papers for consultation

June

Proposal for Living Standards Dashboard released for public consultation

Symposium with business focus

What has been achieved in 2017/18?

Development

In 2017/18, the Treasury continued to develop and improve the LSF – delivering a range of discussion papers, presentations on three of the four capitals and two symposia on the LSF. All of these aimed to inform and stimulate debate about New Zealand's longer-term future and the challenges for greater levels of wellbeing, and to provide strategic direction with our ongoing policy advice work and organisational priorities.

In November 2017, we held an economic symposium where we discussed the redeveloped Framework and our plans to work with academia and agencies on continuing its development. We launched the Community for Policy Research at this event, with plans to draw on the skills of this multidisciplinary collection of researchers. A second symposium with a business focus was held in June 2018.

The Living Standards Dashboard

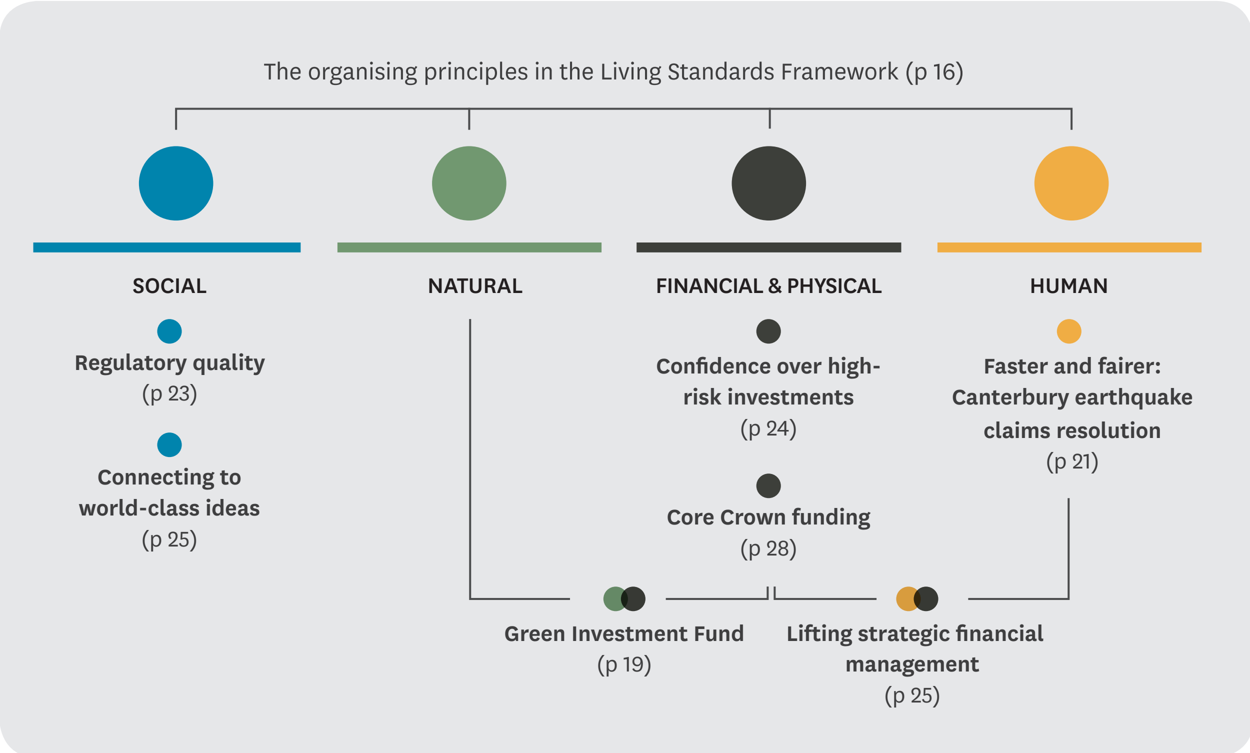
The Treasury commissioned an independent expert on wellbeing to develop a Proposal for a Living Standards Dashboard, which was released for public consultation in June 2018. The proposal supports the application of the LSF to policy issues, and sets out a suggested list of indicators that capture the key concepts of wellbeing and the capital stocks that form productive resources used to generate wellbeing, as well as New Zealand's net claims on the rest of the world, and productivity. The consultation period has now ended and we are collating and considering the feedback received.

To deliver the Dashboard, we are working with Stats NZ on establishing a comprehensive set of indicators that is enduring and provides transparency around the wellbeing of current and future New Zealanders. Stats NZ is also producing a new product, Indicators Aotearoa New Zealand (IANZ), which will provide a set of environmental, social and economic sustainability indicators to meet a range of domestic and international reporting requirements. The Treasury's Dashboard will broadly use indicators that also appear in IANZ.

The capital stocks

We continue to develop the Framework's capability to measure the capital stocks of wellbeing benefits, and the impact on current and future wellbeing of government policies and changing societal, environmental and technological influences.

Many examples of our application of the LSF and our work on the capital stocks are included throughout this *Annual Report*. The following diagram signposts some of these examples.



Discussion papers

In February 2018, we released the first tranche of discussion papers for consultation – covering the topics of wellbeing frameworks, and three of the four capitals: human, social and natural. The release of the papers was supported by speeches across the country by the Secretary to the Treasury, to publicise the work, engage with the public and draw feedback on the papers and the LSF.

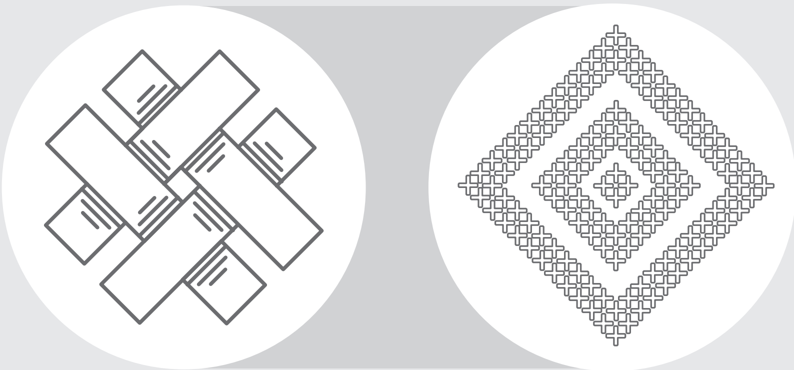
The Treasury presented to international audiences at the OECD Forum in Paris, and – at the annual New Zealand Association of Economists (NZAE) conference in Auckland– on measurement frameworks, human capital and the relationship between the United Nations' (UN) Sustainable Development Goals and the LSF.

We are currently working on a second tranche of discussion papers which will be released later this year. These include Pacific peoples' wellbeing, Māori wellbeing, Asian wellbeing, risk and resilience; financial/physical capital and the relationship between the LSF and the UNs' Sustainable Development Goals. The feedback from these papers will be used to inform the ongoing development of the LSF.

Implementation

The Treasury has been working closely with other government agencies on how to integrate the LSF into their own work and develop it as a resource to support the broader State sector.

SOCIAL | NATURAL | HUMAN | FINANCIAL CAPITALS IN ACTION



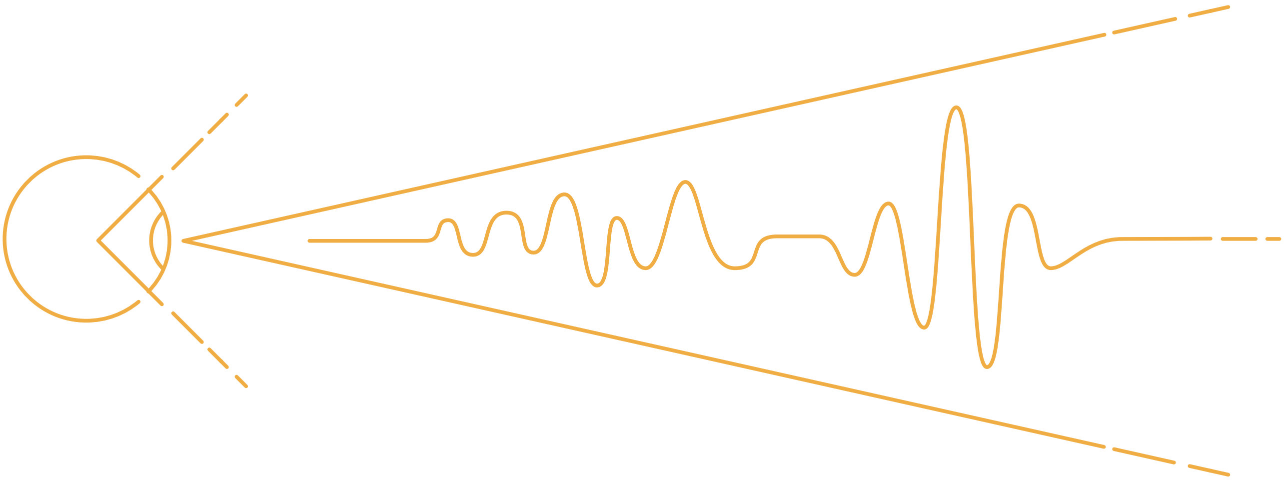
The organising principles in the Living Standards Framework: Investing for wellbeing – He Puna Hao Pātiki – 2018 Investment Statement

In March 2018 we produced an Investment Statement – the second one released by the Treasury under the Public Finance Act 1989. The Statement is required at least every four years and outlines the value of the Crown's portfolio of significant assets and liabilities, how the portfolio has changed and how it is expected to change. The Te Reo Māori title of the Statement, *He Puna Hao Pātiki*, translates as "a pool for gathering flounder with a net", which was used as a metaphor for the Crown's balance sheet as a source of wellbeing for the nation. The pātiki (flounder) symbolises the good fortune and prosperity that comes from an abundance of resources, the ingenuity of people and their ability to provide for family and community.

The Statement is important because the Government manages the balance sheet on behalf of the people of New Zealand. The assets and liabilities presented in the Statement are important to every New Zealander: schools and hospitals, national highways, funding for superannuation and accident compensation, State-owned enterprises (SOEs), conservation land, military equipment and so on, the bulk of which are funded by the issuance of government debt.

Effective balance sheet and asset management is therefore a critical area of government activity. The balance sheet supports the delivery of public services so our Statement discusses and assesses the Crown balance sheet by applying a number of principles of effective management, including prudent risk management at the whole-of-balance sheet level.

The document used the organising principles in the LSF, noting that the Crown's balance sheet and assets are just one part of the nation's four capitals – physical, human, social and natural – that underpin New Zealand's living standards now and in the future. The Crown balance sheet interacts in important ways with capitals not held by the Crown. To have maximum positive impact on living standards, the Crown's balance sheet and asset management activities, and indeed all of the Crown's activities, need to recognise those interactions, dependencies and trade-offs with the capitals outside of the Crown.



Foresight

Much of our thinking in wellbeing is oriented towards the future – for example, as expressed in the risk and resilience aspect of the LSF.

In 2018, as part of the broader programme of work on intergenerational wellbeing, the Treasury conducted a number of 'foresight' exercises as part of carrying out our responsibility of stewardship for the active consideration of, and planning for, medium-term and long-term interests. From February to June 2018, the Treasury worked with strategists across the State sector to generate a shared sense of 'megatrends', future challenges and risks facing New Zealand, and established a shared workspace to collect and share foresight work in this area with others.

Crown-Māori relationship

The Treasury has an important role in supporting the Crown-Māori Relationship (CMR). Given the progress with Treaty settlements, the CMR is rapidly evolving to one that is increasingly forward looking.

The Treasury has a number of key priorities in this space, as follows:

- CMR and the LSF: The Treasury is working with Te Puni Kōkiri (TPK) to include Te Ao Māori perspectives in the LSF. This will also inform the development of the LSF Dashboard.
- The framing of the CMR portfolio: The Treasury is contributing to work led by Minister Davis on the scope and priorities for the CMR portfolio drawing on the feedback he has received from consultation.
- CMR Indicators (Indicators Aotearoa, Living Standards Dashboard, CMR Committee Indicators): Stats NZ, The Treasury and the CMR Committee are developing a suite of indicators that will measure, either directly or indirectly, the health of the CMR.
- The Tax Working Group (TWG): The TWG secretariat is developing a framework to enable concepts from Te Ao Māori to support the development of a future-focused tax system.

What we contribute to

Our ultimate goal of higher living standards, through our advice and strategic work, is supported by our work in three key areas: economic performance, State sector performance and Crown fiscal performance.

The following section describes our work in these three areas in 2017/18 with specific examples to connect our work's contribution to the four capitals. While the section is divided into three areas, the cross-cutting nature of the Treasury's work means that, more often than not, a particular piece of work is likely to contribute to more than one area and more than one capital.

Stronger economic performance

Stronger economic performance is ultimately about an economy that is growing consistently and sustainably to support increasing incomes for all New Zealanders. Our work to contribute to stronger economic performance during 2017/18 is described below.

Economic strategy and productivity

One of the key foci of our work on economic strategy and productivity has been on developing the new Government's economic strategy. This strategy has a vision for a more productive, more sustainable and more inclusive economy. In this process we paid particular attention to engaging with economic sector agencies.

As part of the work on the LSF, we progressed our paper on how to measure the value of New Zealand's financial/physical capital during the second half of 2017/18 towards its release in July 2018. We have also been expanding our thinking on living standards, particularly from different cultural perspectives.

The Treasury has been developing its advice around key fiscal and economic policy priorities, to ensure that policy decisions enhance the coherency of the climate change system, and are aligned to deliver on the low carbon economic transition (system stewardship). In particular, we are engaging with the Ministry for the Environment, the Ministry of Business, Innovation and Employment (MBIE) and other agencies to support and coordinate the alignment – with the Government's broader economic strategy – of its strategy on achieving a low emissions economy, and to facilitate a managed, efficient and just transition. This will also ensure linkages across the four capitals, in particular human and natural capital.

Modernising New Zealand's monetary policy framework: Review of the Reserve Bank of New Zealand Act 1989

The Treasury has, on behalf of the Minister of Finance, led phase 1 of the Government's Review of the Reserve Bank of New Zealand Act 1989 – aimed at modernising New Zealand's monetary policy framework. It has supported the Independent Expert Advisory Panel, and has provided advice to the Minister of Finance, as well as leading the work required to implement the phase 1 changes through a Reserve Bank of New Zealand (Monetary Policy) Amendment Bill.

Monetary policy plays an important role in supporting wellbeing, by ensuring low and stable inflation and minimising volatility in the economy. The first phase of the review has focused on two main objectives: requiring employment to be considered alongside price stability as an objective of monetary policy, and establishing a committee for monetary policy decision-making.

Reinforcing the housing market as a New Zealand market: Review of the Overseas Investment Act 2005

During 2017/18, the Treasury has worked on delivering the Overseas Investment Act Amendment Bill. This Bill brings residential land into the overseas investment screening regime. It reflects the Government's view that the housing market should be a New Zealand market with prices shaped by New Zealand-based buyers.

The Bill also removes the existing exemptions for forestry rights and 'profits a prendre' from the regime, so that they will be screened in the same way as other forestry interests. The Government wanted to recognise the importance they place on forestry to New Zealand's economic and social wellbeing, and to improve consistency across the regime to ensure overseas investment into these sectors brings benefit to New Zealand.

Building on work last year to embed good engagement practice across the organisation, the Treasury has put significant effort into engaging stakeholders throughout the project. Three rounds of hui were held across New Zealand, with interested iwi/Māori in the forestry sector. Consultation documents were produced and made available. After each round of hui, policy was reviewed and updated in light of feedback from stakeholders.

NATURAL | FINANCIAL CAPITALS IN ACTION

Green Investment Fund

The formation of an entity that will invest in the reduction of greenhouse gas emissions and provide a financial return has been one of the Treasury's priorities. The Green Investment Fund will be established to make investments that both reduce greenhouse gas emissions and provide a financial return. The Fund will receive a $100 million capital injection from Government and will operate independently.

To date, our work has focused on conducting viability analysis and scoping requirements for the establishment of a Green Investment Fund. This exploration has been undertaken in a collaborative and consultative manner including involving a cross-agency working group and an external reference panel. To support and inform the overall approach, a significant piece of research has been commissioned to look at comparable models and investable opportunities in New Zealand.

The Green Investment Fund will help to support New Zealand's transition towards a net-zero-emissions economy by 2050. It will exist as part of a wider suite of initiatives including the Zero Carbon Act, reviewing the New Zealand Emissions Trading Scheme and establishment of the Independent Climate Change Commission.

Progressing our advice on education, skills and labour market

In addition to our work on natural capital and economic strategy, we have also been developing our advice around policy priorities across the skills and labour market dimensions of the human capital system – this was reflected in our Briefing to the Incoming Minister of Finance after the September 2017 election. During both the first 100 days of the new Government and the 2018 Budget process, the Treasury provided fiscal and policy advice to the Minister of Finance on a range of significant tertiary education and labour market initiatives.

In the post-election period, we worked with other agencies on responding to political parties' requests for information on the costs of labour market policies, to support discussions and negotiations on forming the Government. We have and will continue to engage with education agencies, MBIE and the social sector on the strategy for the Government's 2019 Wellbeing Budget and overall reform agenda, including developing advice around priorities for enhancing New Zealanders' wellbeing through strengthening human capital. We are also working with these agencies to support coordination and alignment across the Government's education work, welfare system work programme, labour market work programmes and broader economic strategy.

Contributing towards the Urban Growth Agenda

The functioning of the housing market has significant implications for economic growth and intergenerational wellbeing. The housing market is heavily influenced by the regulatory and financial system.

The Treasury's four critical capabilities (economic and financial, analysis and evaluation, connecting with others and systems thinking) have been applied to understanding the causes of unaffordable housing and to promoting the implementation of changes required to address the causes. In particular, the focus has been on supporting the Government's Urban Growth Agenda (UGA) and reducing the high cost of serviced land available for housing. The UGA is developing and progressing a set of regulatory, financial and institutional reforms. Our analysis has been grounded in consideration of the impact the housing market is having across the LSF's four capitals.

Wellbeing has been our key consideration in advising decision-makers on policy development, including: rental market regulations, KiwiBuild and housing assistance, funding for public and transitional housing supply, new public sector governance arrangements, housing-related tax settings and demand management.

Developing more inclusive and system-focused infrastructure settings

The 2017 change of government presented a renewed focus on how government plans, procures and delivers infrastructure in the face of urbanisation and population growth, and the equity challenges this presents, as well as how we can best enable economic development in the regions.

Throughout 2017/18, our National Infrastructure Unit has been connecting with Ministers and agencies to effectively analyse, evaluate and advise on a number of key infrastructure projects including the City Rail Link, the Government Policy Statement on land transport, Review of Rail, Auckland Transport Alignment Project and the Kaikōura rebuild efforts.

New Zealand's growth presents an opportunity for our infrastructure settings to be more inclusive and system-focused. The Treasury is working with Ministers, agencies and the infrastructure sector on reviewing our institutional settings that support infrastructure investment decision-making. The aim of the review is to ensure that New Zealand's infrastructure system is fit-for-purpose with enabling central and local government to deliver on their long-term infrastructure needs, provide the market with the confidence it needs to invest in people and capital and ensure the system is well placed to address the global and domestic issues affecting our capital stocks.

Supporting export growth

The Treasury's New Zealand Export Credit Office (NZECO) provides a range of trade credit insurance and financial guarantees that promote and support New Zealand exports and the internationalisation of New Zealand exporters by helping them to mitigate payment risk, secure sales and access finance to enable trade. NZECO's role is to complement the private sector so it frequently partners with New Zealand trade credit insurers and banks.

During 2017/18, NZECO supported exporting firms trading into 24 countries, totalling $207 million of export sales. Many of these export destinations were outside of New Zealand's traditional export markets, often helping an exporter to undertake its first project or shipment into a new market or with a new buyer.

Examples range from supporting a North Otago firm increasing sales of livestock handling equipment into England, to a consultancy project with the Papua New Guinea Government; from a Dunedin firm's first delivery of a vehicle-tracking system to a California government department, to a Hawke's Bay firm's horticultural equipment sales to a new Turkish buyer.

- $207 million worth of exports
- 42 individual export businesses supported
- 27 global markets reached

HUMAN CAPITAL IN ACTION

Faster and fairer: Canterbury earthquake claims resolution

Resolving the outstanding issues of Canterbury residential insurance claimants is a critical component of the region's post-earthquake recovery and regeneration. It is now more than seven years since the two largest earthquakes occurred and the Government has instilled a greater sense of urgency in dealing with outstanding issues in order to improve the wellbeing of those impacted.

In response to this, the Treasury has actively supported the Minister Responsible for the Earthquake Commission (EQC) in a programme of work focused on achieving faster and fairer resolution of Canterbury residential earthquake claims and reviewing the overall performance of EQC. The Treasury has played an integral role in the Cross Agency Insurance Task Force that was established in May 2018 to progress a number of complex, cross-cutting issues impacting on Canterbury insurance claims resolution.

The Treasury has also enhanced its monitoring of EQC as it undertakes a programme of strategic and operational change aimed at adopting a more customer-centric operating model and enhancing its future event preparation.

Going forward, the successful execution of the EQC strategic transformation programme, as well as lessons learned from the upcoming statutory inquiry into EQC and ongoing EQC legislative review work being undertaken by the Treasury, will mean that New Zealand will be better prepared for any future natural disaster so that the potential negative impacts on individuals, whānau and communities will be lessened.

Overall economic performance

In addition to the above highlights, our work in economic policy ranges across economic development, competition, capital markets, tax, natural resource management, productivity, innovation, investment and trade, and regulation. In providing advice in these areas, we support the Government and relevant Ministers to make informed policy decisions that take account of a range of factors contributing to the wellbeing of New Zealanders.

In addition, our advice helps the Government to review and adapt New Zealand's macro and micro institutional frameworks. It is our aspiration to improve the Government's and agencies' trust in our economic and fiscal projections and wider economic analysis. Our diverse range of work contributes to the following results.

MEASURE

Increasing real GDP per capita

RESULT

Real Gross Domestic Product (GDP) per capita

This was the second slowest rate of per capita growth since mid-2011.

+0.7 % in the year to Jun 2018

MEASURE

Inflation averages between 1% and 3%

RESULT

RBNZ target

Low

High

Jun 2018 **1.5** %

1.1 %

Annual inflation, as measured by the Consumers Price Index

Five-year average rate of inflation

MEASURE

NIIP/GDP is stable or falling from current levels

RESULT

The net international investment position (NIIP)(%)

2009 **-84.2** %

Steady improvement +29.6%

Jun 2018 **-54.6** %

MEASURE

Financial stability risks are moderate or declining, as measured by household debt servicing ratios

RESULT

Total interest payments

8.3 % of household disposable income in the year to March 2018

Debt servicing ratios since 2011

8.3%–**9.4**%

MEASURE

Unemployment is low or stable

RESULT

2012 **6.7** %

-2.2%

4.5 %

Jun 2018 quarter

The unemployment rate has trended steadily lower from its peak of 6.7% in 2012.

MEASURE

Fiscal impulse is not positively correlated with the output gap

RESULT

At the Budget Economic and Fiscal Update (BEFU) 2018, the output gap is forecast to be positive, on average, over the forecast period (2017/18 to 2021/22). The fiscal impulse indicates that fiscal policy is forecast to be expansionary over 2017/18 and 2018/19 and contractionary, on average, over the remainder of the forecast period (2019/20 to 2021/22).

Stronger State sector performance

State sector performance is about efficiently and effectively delivering government initiatives and objectives. Success is often demonstrated through New Zealanders' satisfaction with the public sector, New Zealand's competitiveness (indicative of the regulatory environment) and transparency as an indicator of trust. To contribute to maintaining trust and satisfaction in the public sector and improving New Zealand's competitiveness, our work and our advice include activities aimed at increasing collaboration within the public sector.

System stewardship: Strengthening institutional quality

The quality of our public institutions (systems of regulations, rules, roles and procedures that facilitate collective action) is critical to the foundations supporting each of the four capitals, which in turn underpin the living standards of New Zealanders. In particular, institutional quality has a direct relationship with societal trust in institutions, which is seen as a fundamental building block of social capital. The Treasury's system stewardship strategic priority is promoting a proactive and collaborative approach to the ongoing care of those institutions so that they remain effective, efficient, resilient, fair and accountable.

We have important stewardship responsibilities within a number of these systems or institutions, particularly for the public finance and regulatory management systems. These systems mostly regulate the activities of the State sector rather than those of citizens. They matter because their performance affects the Government's ability to maintain and improve the long-term performance of any set of institutional arrangements that relies on legislation and/or government funding. During 2017/18, the Treasury has been undertaking work on better understanding the performance and future needs of the two systems, and has begun considering how both could help support a wellbeing approach and the demand for more joined-up and open government.

SOCIAL CAPITAL IN ACTION

Regulatory quality

In the case of the regulatory management system, our stewardship responsibilities have included continuing to promote regulatory stewardship to a range of key regulatory agencies. This has generated agency descriptions, assessments and indications of future plans covering more than 100 current regulatory systems.

For 2017/18, a cross-agency survey of Regulatory Impact Assessment (RIA) authors and assessors found an 84% satisfaction rate with the Treasury's implementation of new RIA requirements. The survey also showed mixed opinions as to the effectiveness of the requirements themselves.

The Treasury will continue to work with agencies on exploring ways in which the new requirements can be made more user-friendly.

Work in 2018/19 will include supporting an increase in the number of regulatory systems actively monitored and reported on, as well as a refresh of the Government's regulatory management strategy system. The refreshed strategy will set out plans for the ongoing development of the regulatory management system over the next few years.

Lifting public finance system performance

The Treasury has made significant inroads into understanding the key shifts required for lifting public finance system performance, and aligning the work programme with these shifts. We are working towards enabling four system shifts with the public finance system: value creation and innovation; public sector-wide collaboration; long-term sustainability and resilience; and strategic accountability and performance.

Our system stewardship role is articulated in the Korowai – a Te Ao Māori metaphor for system stewardship based on kaitiakitanga to achieve the four system shifts mentioned previously. We are working towards achieving these shifts by: navigating changes to system settings (eg, delivering a wellbeing budget and updating the Treasury's tools and processes to embed wellbeing, improving strategic planning and asset management practices and investment pipeline monitoring, reviewing strategic planning and agency performance reporting); and developing a public finance system strategy that aims at improving intergenerational wellbeing. We are also taking a collaborative approach, with the central agencies and other key stakeholders, to developing advice on State sector reform, from legislative change to the Public Finance Act 1989 and State Sector Act 1988 to advising the Government on changes for embedding a wellbeing approach in the public finance system.

Providing stewardship to the investment system

The Government's assets reported on in He Puna Hao Pātiki, the 2018 Investment Statement, are important to every New Zealander. They include schools and hospitals, and national highways, and they underpin public services. The Treasury stewards the investment system to make best use of the Government's current assets and help reveal the long-term options for future investment. This approach is a fundamental part of the public finance system.

Lifting and rewarding agency capability

Establishing how agencies are managing investments and assets is a critical way to ensure the Government's resources are being used as effectively as possible. In 2017/18, the Treasury completed the first round of Investor Confidence Rating (ICR) assessments for all 25 investment-intensive agencies and began work on the second round.

The Treasury is already seeing the incentive effects of the ICR working. Out of 13 mid-cycle discussions with agencies, all have activities planned or underway to improve their investment capability and performance before their next assessment. The Treasury is also seeing evidence of greater cross-agency collaboration.

FINANCIAL CAPITAL IN ACTION

Confidence over high-risk investments

The Treasury provides Gateway reviews as an independent, international standard form of assurance for high-risk investments. Gateway reviews occur at key points of an investment's lifecycle. Reviews increase confidence that investments align to the Government's strategic objectives and will deliver benefits to time and budget. In 2017/18, the Treasury completed 31 reviews, exceeding a target of 25. There was an 84% response rate from Senior Responsible Owners to feedback forms, and 100% of respondents rated their level of satisfaction with investment advice as 'satisfied' or better. The Treasury introduced a new form of review this year, for use where a more focused review is required and Gateway reviews are not appropriate. Three of this year's reviews were in this focused form and agency response has been very positive.

Future focus: Importance of asset management and the investment pipeline

He Puna Hao Pātiki and our own work show there is variability in asset management practices. In 2017/18, the Treasury began developing a strategy for improving asset management, including a focus on the most critical government services and their underlying assets in the first instance.

Better pipeline information will improve forecasting for the Government, and contribute to broader infrastructure planning. In 2017/18, we have allocated resource to improve the quality of the investment pipeline, simplify requirements of agencies and make information more accessible and useful for the Government.

If the Government knows what it has, and what it will need in future, then it will be well placed to know what to invest in, and when.

Bringing wellbeing into performance reporting

In 2017/18, we reviewed the reporting requirements we place on other public sector agencies to ensure they are fit-for-purpose, connected and adding sufficient value relative to their cost. As a result of this review, Cabinet has agreed to cease the annual Benchmarking Administrative and Support Services (BASS) exercise and the Policy Measurement Exercise. These exercises have run since 2010 and 2012 respectively, initially giving new insights that led to improvements in performance. The costs in administering and supplying the underlying information, however, have increased, while the benefits and usefulness of the information have reduced to the point that the value is lower than the total collection costs.

Based on findings of the stocktake of our multiple requirements in strategic planning, we have initiated an in-depth review of strategic planning across the State services. The objective of this review is to increase the impact, value and capability of strategic planning.

To support the Government's focus on intergenerational wellbeing, we have started a project to embed wellbeing into agencies' performance reporting – working with pilot agencies to identify best practice approaches that can be adopted more widely across the sector.

SOCIAL CAPITAL IN ACTION

Connecting to world-class ideas

The Treasury continues to run communities of interest to enable leaders and practitioners to share capability and experience across government. The communities cover asset management; project, programme and portfolio management; benefits management; and change management. In November 2017, the Treasury arranged for a visit to New Zealand by the author of *Managing Benefits*, Steve Jenner. Mr Jenner presented to a range of agencies, including a benefits community of over 200 people, enabling the transfer of leading practice into New Zealand.

HUMAN | FINANCIAL CAPITALS IN ACTION

Lifting strategic financial management

The Office of the Government Accountant has a work programme to uplift strategic financial management capability across the State sector, with projects underway on providing opportunities for individuals to explore their potential and participate more widely across the sector.

The State Sector Finance Development Programme is a key initiative within this wider work programme. It actively builds human capital by supporting people with developing and using their skills to participate fully, while also sharing knowledge across the wider sector.

Designed and led by the finance sector, this is a collaborative programme aimed at building capability for what is required in the present, while also helping prepare for what's ahead. This has the benefit of building skills across the finance sector for the future of the public sector.

Participants develop their skills through professional development forums, targeted training courses, mentoring, shadowing experiences and secondments. Development also takes place through getting involved with the development of the programme itself, with people from within the sector leading various projects and developing skill sets outside their traditional finance 'comfort zones'. With 89 State sector agencies currently involved, a wider community has been created for both information-sharing and connecting.

Overall State sector performance

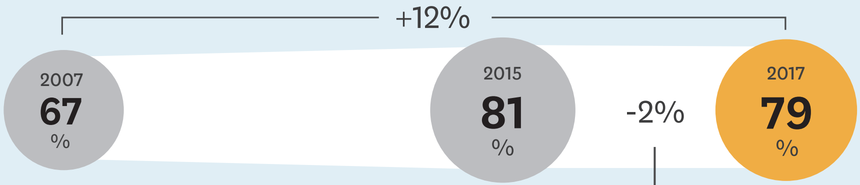
We contribute to improving the performance of the State sector. Our strategic financial capability programmes are designed to lift financial management knowledge and capability of key finance officials in agencies, so that they can capably direct and improve the financial management of their agencies. Our policy advice on State sector management and institutional settings is aimed at improving the efficiency and effectiveness of the sector, as well as encouraging the sector to factor wellbeing into their policy-making. In addition, we play our part in maintaining and improving rankings in the following areas.

MEASURE

Rate of perception of satisfaction and trust in public services (Kiwis Count)

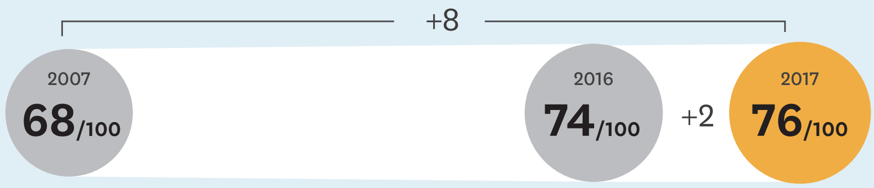
RESULT

New Zealanders' trust of public services based on personal experience



Driven by a fall in trust levels in the health and tertiary education sectors

New Zealanders' satisfaction with the quality of public services (Service Quality Score)

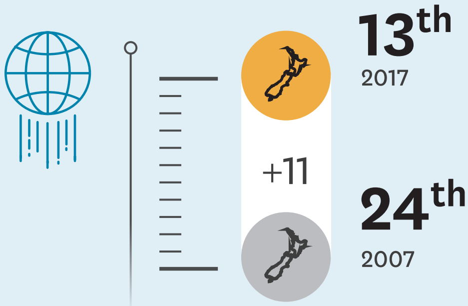


MEASURE

New Zealand's ranking in the Global Competitive Index

RESULT

New Zealand's ranking in the World Economic Forum's Global Competitiveness Index remained steady at 13th in 2017, representing a significant rise from 24th in 2007.



MEASURE

New Zealand's score on Transparency International's Corruption Perceptions Index

RESULT

New Zealand remains the top performing country in Transparency International's Corruption Perceptions Index for 2017.

Whilst perceived levels of public sector corruption declined one index point from 2016, New Zealand's index is consistent with historical levels.

Stronger Crown fiscal performance

The Treasury's specialist advice to the Government plays a key role in enabling it to make informed decisions on fiscal policy and executing the Government's fiscal policy. In particular, our advice on fiscal policy and strategy is aimed at informing the Government's short- and long-term intentions so that its decisions are within its specified fiscal management approach.

Cost-benefit and other value-for-money assessment processes managed by the Treasury play a significant role in the Government's investment decisions. In addition, we facilitate financial asset management decisions to align with the Crown's risk appetite. We also support good capital management and public spending decisions by Ministers. On the reporting front, our public financial reporting establishes good practice and supports transparency and open government objectives. Regarding the borrowing programme, we set ourselves the challenge of meeting the Crown funding requirements on a timely basis at an appropriate cost, allowing for risk.

Forecasting and providing strong fiscal strategy advice

The Treasury produced three sets of economic and fiscal forecasts in 2017/18, underpinned by our fiscal policy advice and then supported government decision-making. For Budget 2018, we successfully switched to a more comprehensive macroeconomic forecasting model, Matai, replacing the New Zealand Treasury Model which had been in use for more than a decade.

In light of these forecasts, the Treasury has provided the Government with fiscal strategy advice twice in 2017/18 – once ahead of the Government's Budget Policy Statement, and once ahead of the Budget. This advice was based on the principles of responsible fiscal management set out in the Public Finance Act 1989. It outlined the trade-offs between the level of net debt (and the buffer available to deal with shocks in the future) and the amount of expenditure and investment needed (now and in the future) to have the greatest impact on New Zealanders' wellbeing.

Delivering the Financial Statements of the Government (FSG)

The monthly and annual FSG are prepared by the Treasury in line with Public Finance Act requirements. This work in providing high-quality and timely financial data assists with being able to accurately assess and measure the Government's physical and financial capital. This monthly information then helps inform the fiscal forecasts, which also report on the forecast physical and financial capital for the Government.

Supporting the performance of the Crown's commercial and financial assets

The Crown-owned commercial and financial assets have a dollar value in excess of $100 billion and so represent a significant portion of the overall Crown balance sheet. The Treasury's oversight of these assets is focused on ensuring they are managed to maximise value to contribute to the future intergenerational wellbeing of New Zealanders.

In addition to providing advice to Ministers on ownership considerations and board appointments, we report on the overall performance of entities. Our oversight provides a critical and impartial interface between Ministers (as shareholders) and entities.

The Crown's commercial and financial asset portfolio is highly diverse, and as a collective the value it generates helps meet the Government's fiscal, social and policy goals. Crown financial institutions (CFIs) for example, help ensure New Zealanders are covered financially in the event of an earthquake or injured in an accident, and are financially secure in their retirement. Collectively, these institutions have a direct impact on current and future wellbeing. Over the year, particular focus has been given to actively supporting the Minister Responsible for EQC in achieving faster and fairer resolution of Canterbury residential earthquake claims and reviewing the overall performance of EQC, to improve the wellbeing of those impacted by the Canterbury earthquakes and to better prepare for future events.

The entities in the Crown's commercial portfolio represent a broad array of services and products. These range from key transport assets such as Air New Zealand and KiwiRail to major electricity generation and transmission companies like Meridian and Transpower, through entities such as New Zealand Post which contributes both an economic and social good.

Our advice to Ministers on the Crown's commercial portfolio has focused on ensuring their use of capital is efficient and contributes to enhancing commercial performance. To support this, we have managed commercial transactions such as the Crown Participation Agreements with Air New Zealand, Genesis Energy and Meridian Energy regarding dividend reinvestment plans (DRPs) and share buybacks. The successful delivery of this has led to the Crown's participation in Genesis Energy's DRP in April 2018 – which was the first new equity provided to a mixed ownership model company since the companies were listed. Our work on the completion of a solvent liquidation of Solid Energy has protected the Crown's interests while also protecting the interests of the company's creditors and employees, and ensuring that the majority of Solid Energy's former operations continue today under new owners.

In 2017/18, we made 105 appointments including new appointments, reappointments and elevations. Of these appointments, 44 were women (42%) and 61 were men (58%).

Intergenerational wellbeing: Debt management and financial/physical capital

Intergenerational wellbeing relies on the growth, distribution and sustainability of each of the four capitals. While debt management relates primarily to financial/physical capital, each of the four capitals are interdependent and work together to support overall wellbeing. A sustainable debt management programme which provides ongoing access to funding is a critical enabler of intergenerational wellbeing.

Building a sustainable and resilient funding strategy

The funding strategy is aimed at balancing three key goals: considering the overall structure of the Crown's balance sheet; capturing and stimulating investor demand; and promoting well-functioning and liquid New Zealand Government Securities markets.

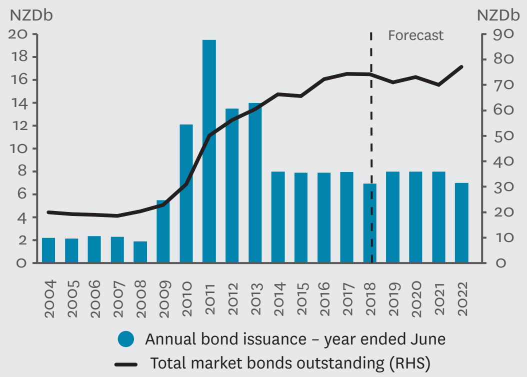
This is achieved by:

- New Zealand's strong credit rating and the New Zealand Debt Management Office's (NZDMO's) reputation for transparency, even-handedness and consistency
- issuing securities of different types (nominal bonds, Inflation Indexed Bonds and Treasury Bills) and of varying maturities to capture a diverse demand pool
- implementing a structured investor relations strategy to build long-term relationships with investors
- the Government's commitment to maintain a minimum level of New Zealand Government Bonds (NZGBs) on issue.

FINANCIAL CAPITAL IN ACTION

Core Crown funding

Figure 1: 2017/18 NZGB programmes of $7 billion



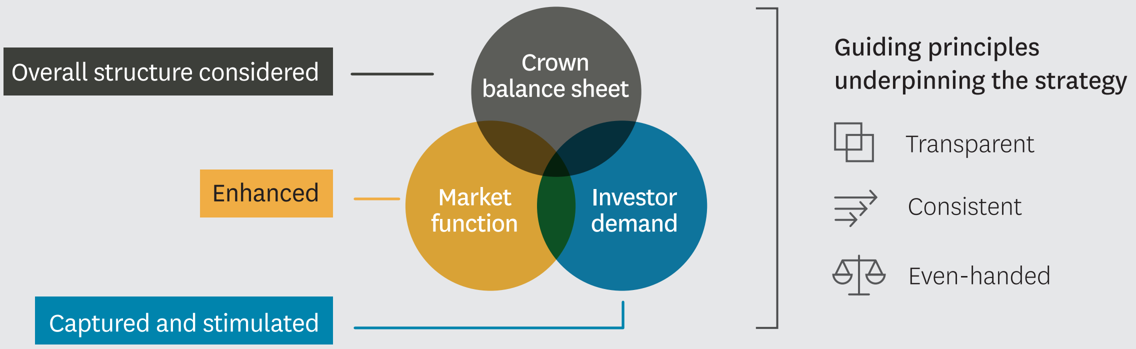
A New Zealand Government Bond programme of $7 billion (see Figure 1) was executed during 2017/18, taking the total value of NZGBs on issue to $74.2 billion. This annual programme covered maturing bonds, meaning funds could be recycled to help support the delivery of public services and the wellbeing of New Zealanders.

The funding programme was implemented through regular bond tenders and syndication of a new bond. Solid demand for NZGBs was represented by tenders, on average, receiving bids for 2.7x the volume of bonds offered. The syndication of a new NZGB that matures in 2029, placed the maximum volume of $2 billion, with $5 billion worth of interest in the bond being expressed.

The funding strategy at a glance

NZDMO has the objective of minimising the Crown's borrowing costs over the long term while keeping risk at an appropriate level. To achieve this objective, NZDMO takes a strategic rather than tactical approach to funding.

Achieving a balance between the following three goals:



Key elements

Focus on core instruments issued in NZD	Buyback programme for NZGBs with less than 18 months to maturity	Weighted average maturity of NZGB portfolio to increase further	Flexible approach to T-Bill issuance	Continued focus on diversifying investor base

Managing investment portfolios

To complement the funding programme, the Treasury oversees an investment programme to help manage its cash and liquidity requirements. Investments are broken into two portfolios: the liquidity portfolio and its asset and liability management portfolio. Funds are invested predominantly in high credit rated securities in order to minimise risk. During 2017/18, both portfolios were successfully managed within required, strict risk parameters.

Managing financial market and operational risks

Financial market risk intermediation services and advice to Crown entities has also been provided. This is done alongside management of the Crown's core banking relationships, administration of loans to Crown entities in accordance with government policy, and management of the Government's obligations to the International Monetary Fund.

This work includes management of all financial market and operational risks associated with all these activities. Management of lending to Crown agencies supports a wide range of economic and social activities. In 2017/18, this included loans to: the Reserve Bank of New Zealand (RBNZ) ($2.0 billion), Housing New Zealand Corporation (HNZC) ($1.96 billion), KiwiRail ($0.18 billion) and New Zealand Transport Agency ($0.431 billion).

Overall Crown fiscal performance

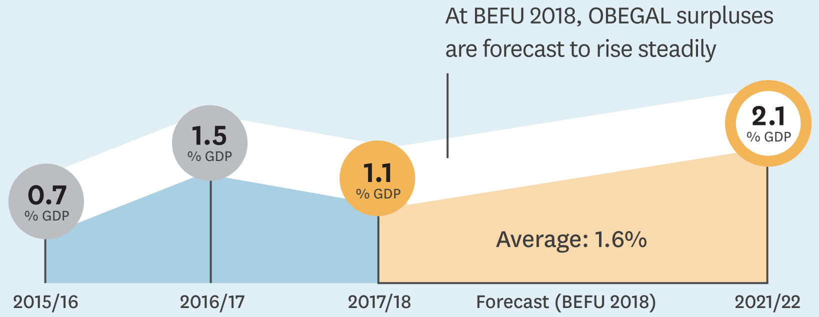
Our contribution to the Crown's fiscal performance is represented in the following indicators.

MEASURE

Operating Balance before Gains and Losses (OBEGAL) surpluses are maintained at over 1% of GDP on average over the medium term

RESULT

OBEGAL surpluses (% of GDP)

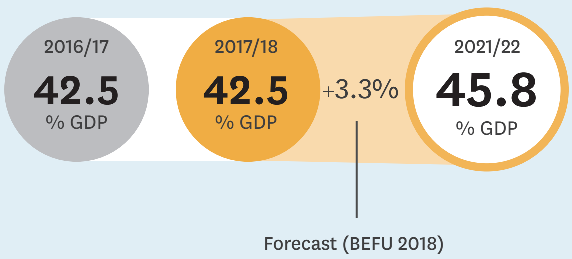


MEASURE

Total Crown net worth is between 40% and 55% of GDP, while maintaining the current credit rating

RESULT

Total Crown net worth (% of GDP)



Following assessments over 2017/18, Moody's, Standard and Poor's and Fitch have maintained the New Zealand Government's Aaa, AA+ and AA+ credit ratings with a stable outlook, respectively.

MEASURE

Net return on the financial and commercial portfolios is greater than its weighted cost of capital

RESULT

Baseline being established

MEASURE

Fiscal impulse is not positively correlated with the output gap

RESULT

See comment on page 22 for similar indicator

The way we go about our business

Governance and accountability

As part of our new organisational strategy effective from 1 July 2017, a review of governance arrangements was implemented in 2017/18.

Implementation included designing the governance framework, clarifying governance groups and documenting their decision rights in Charters of Responsibility, publishing a guide to using the Responsibility Assignment Framework (RACI) to identify who is involved in work and for what purpose and communicating changes to all staff. We see governance and its counterpart accountability form a two-way relationship. We have clarified what 'rights and responsibilities' ELT and Kaiurungi have in place to support them to make good decisions, and enable them to enforce accountability. This exchange is captured visually in the following governance and accountability framework, illustrating where and by whom decisions are made, and how we are held to account.

Our tiered governance arrangement first and foremost supports line management accountability. The primary leadership groups are ELT and Kaiurungi.

Executive Leadership Team

ELT is made up of the Secretary (Chief Executive) and five Deputy Secretaries, and is our pre-eminent decision-making body. They are accountable for the strategic leadership of the Treasury with a focus on outward-facing and cross-cutting issues, where decisions are more likely to have a material impact on the outcomes, functions or reputation of the Treasury as a whole. ELT members are accountable for corporate policies and the delivery of the Treasury's strategy.

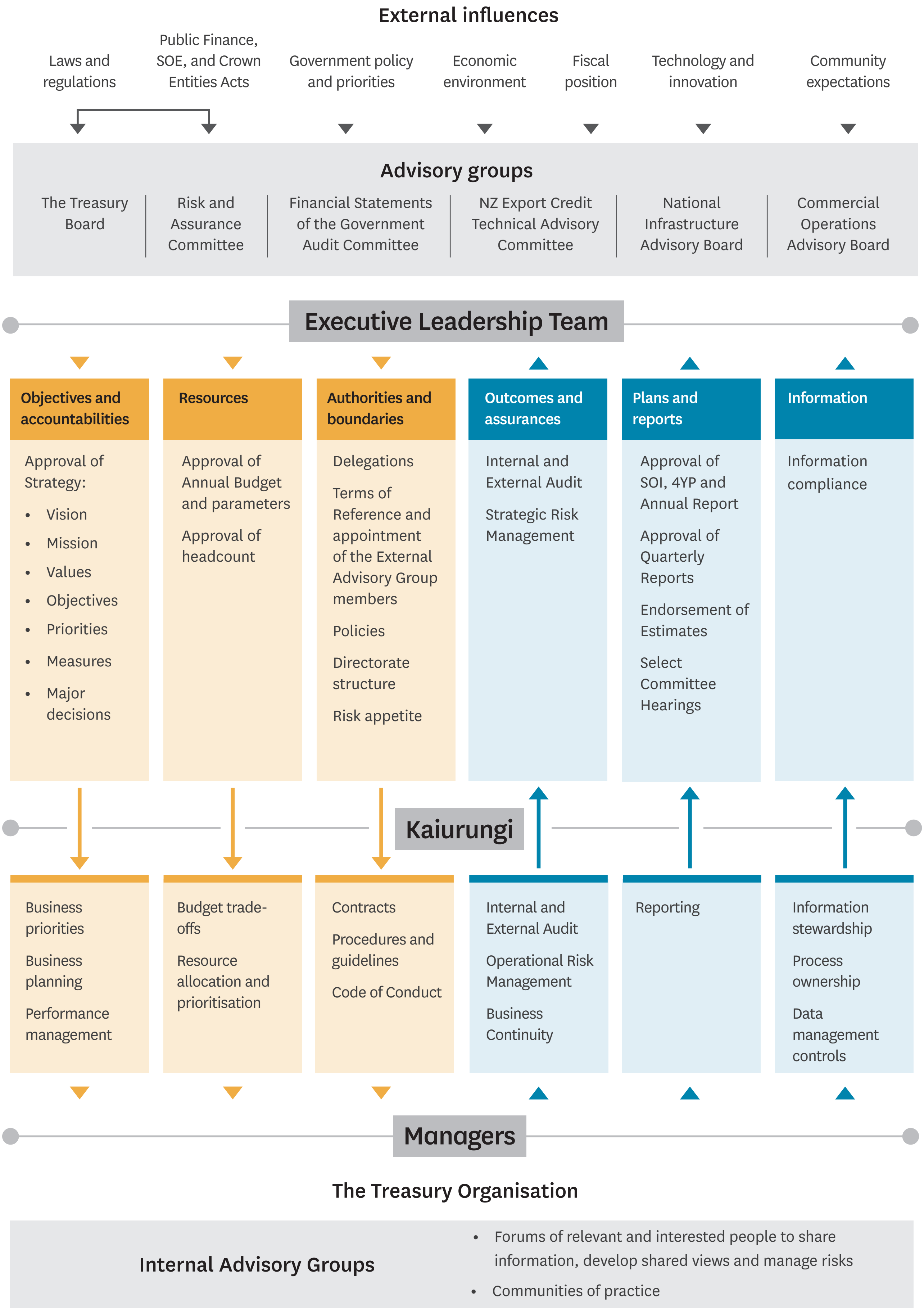
Kaiurungi – 'the people who steer'

The Treasury's Chief Operating Officer and Deputy Secretary, Strategy, Performance and Engagement chairs Kaiurungi, which consists of our Directors, the Chief Financial Officer and the Chief People Officer. They are responsible to ELT for delivering on the agreed strategic priorities work programme and for ensuring the programme of work across all directorates will deliver on the Treasury's overall objectives and is well-aligned with strategy. Kaiurungi is responsible for delivering corporate policies and considering operational issues arising from their application.

Additional assurance mechanisms

Our key assurance mechanisms consist of:

- The Treasury Board. This is an external advisory group that supports the Treasury's Secretary and ELT in ensuring that its organisational strategy, capability and performance make the best possible contribution to the achievement of its goals.
- The Risk and Audit Committee. This committee is a sub-committee of the Board with an independent chair and three additional external members. It provides assurance and advice to the Secretary relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury.


External influences
Laws and regulations
Public Finance, SOE, and Crown Entities Acts
Government policy and priorities
Economic environment
Fiscal position
Technology and innovation
Community expectations
Advisory groups
The Treasury Board
Risk and Assurance Committee
Financial Statements of the Government Audit Committee
NZ Export Credit Technical Advisory Committee
National Infrastructure Advisory Board
Commercial Operations Advisory Board
Executive Leadership Team
Objectives and accountabilities
Approval of Strategy:
Vision
Mission
Values
Objectives
Priorities
Measures
Major decisions
Resources
Approval of Annual Budget and parameters
Approval of headcount
Authorities and boundaries
Delegations
Terms of Reference and appointment of the External Advisory Group members
Policies
Directorate structure
Risk appetite
Outcomes and assurances
Internal and External Audit
Strategic Risk Management
Plans and reports
Approval of SOI, 4YP and Annual Report
Approval of Quarterly Reports
Endorsement of Estimates
Select Committee Hearings
Information
Information compliance
Kaiurungi
Business priorities
Business planning
Performance management
Budget trade-offs
Resource allocation and prioritisation
Contracts
Procedures and guidelines
Code of Conduct
Internal and External Audit
Operational Risk Management
Business Continuity
Reporting
Information stewardship
Process ownership
Data management controls
Managers
The Treasury Organisation
Internal Advisory Groups
Forums of relevant and interested people to share information, develop shared views and manage risks
Communities of practice

- Financial Statements of the Government Audit Committee. This is an external advisory committee that provides advice and observations to the Secretary relating to key issues and risks that affect the production and audit of the FSG. The committee comprises an independent chair and two additional external members.
- Commercial Operations Advisory Board. This Board supports the Deputy Secretary, Financial and Commercial Operations, through providing guidance on the strategic approach and work programme priorities of the Treasury's commercial operations portfolio and Debt Management Office.
- New Zealand Export Credit Office Technical Advisory Committee: This external advisory committee supports the Treasury's Secretary and Director Financial Operations with specialist advice relating to the strategy, risk management and individual credit assessments of NZECO.
- The National Infrastructure Advisory Board: This Board was established to advise the National Infrastructure Unit and the Minister for Infrastructure. The Board provides both the Minister and the Unit with advice and perspectives on infrastructure project appraisal, capital asset management issues and the development of the New Zealand Infrastructure Plan. A key role for the Board is to engage with the private sector, local government and other stakeholders.

Our human capital

We have a high-performing and talented workforce who want to achieve real change for the lives of New Zealanders.

Higher-performing Treasury

One of the strategic priorities outlined in our organisational strategy is the need to be a high-performing Treasury. The Treasury operates in an increasingly complex and ever-changing world. To support our objective to attract and retain talented people has seen us review our flexible working arrangements and implement the ability for all roles to access flexible working options. We have developed guides and resources for enabling our leaders and teams to engage in conversations specific to their needs.

Our policy capability

The Treasury reviews the quality of its policy advice quarterly. The papers (Treasury Reports and Aide Memoires) reviewed are selected randomly from across all Treasury's teams that provide policy advice. The review panel comprises six experienced Treasury staff, an external reviewer from the New Zealand Institute of Economic Research (NZIER) and a staffer from a Finance Minister's office. The papers are scored according to criteria set by Department of the Prime Minister and Cabinet's (DPMC) policy project (see https://www.dpmc.govt.nz/sites/default/files/2017-05/ex_post_assessment_template.pdf). Scores for individual papers are aggregated to calculate an average score that is reported on page 48 of this *Annual Report*. Feedback on reviewed papers is provided to authors and their managers.

The quality of our policy advice is important for us. Our scores have not been to the quality we expect so we have increased our focus in 2017/18. Improvements in our work on quality over 2017/18 included more regular reviews and more papers reviewed (15 in 2016/17; 48 in 2017/18), bringing an external reviewer and a staffer from a Finance Minister's office on to the review panel and formalised reporting to the Treasury's senior management and to all Treasury people leaders on the thematic findings of the reviews. We have also set up an intranet page on quality of advice. In 2018/19 we intend to run a course on policy advice for our newly-recruited graduate staff, continue to develop the intranet page on the quality of advice, encourage team- and directorate-level reviews of the quality of advice and run workshops on a range of quality issues highlighted by the reviews.

Employee wellness

We support our people to carry out their work in a healthy and safe manner, and provide a range of options for supporting employee wellness. Ensuring our options are fit-for-purpose in a changing world has led to the commencement of a review of employee wellness provisions.

Diversity and inclusion

A key work programme within the high-performing Treasury strategic priority is improving our diversity and inclusion capability. Achieving this means embracing diverse thinking, adopting inclusive ways of working and engaging with a broad range of communities. Diversity and inclusion (D&I) strengthens us as individuals and as an organisation. It helps us to grow the evidence and analysis base that is necessary for achieving our wellbeing vision.

In 2017/18, the Treasury has continued D&I as a priority programme. Particularly within the context of the human capital component of the LSF, the Treasury acknowledges the importance of integrating D&I principles into our long-term strategy and day-to-day work plan.

Our priorities

Our refreshed D&I focus areas include four main priorities and the following achievements:

Inclusive workplaces – our leadership development programmes build expectations and understanding around the benefits of diversity of thinking and the capabilities needed for inclusive leadership (eg, workshops, forums and the Toi Whakaari Ruku Ao inclusive leadership programme). With 20 team-based unconscious bias workshops delivered with satisfaction ratings of over 80%, we've raised awareness of the impact of our assumptions on our decision-making and practices. We've also developed practical team follow-up sessions to help leaders and teams transfer this learning to the way they work.

Policies and processes – we have enhanced our recruitment, development and remuneration practices to mitigate against unconscious bias when attracting, retaining and growing our talented workforce. In 2017, we won the 2017 Excellence in Improving Diversity and Inclusiveness in the Public Sector IPANZ award for reducing unconscious bias in our graduate recruitment process and we continue to apply and refine this approach in 2017/18.

Cultural capability – we have grown our Māori and Pasifika cultural capability through our Treasury-wide Puna Kaupapa and Pasifika strategies and engagement with diverse communities. We have also provided resources and training for supporting our people with leveraging diverse perspectives.

- Māori capability: Te reo courses are offered at three levels. The mobile capability app, Puna Ako, has been successfully tailored to the Treasury and is in the final stages of Beta testing ready for rollout in August 2018.
- Pacific capability: The 2017/18 year was the second year of implementing our Pacific Capability Strategy. The Strategy has led to the delivery of workshops across various teams within the Treasury, and in the implementation of the Pacific Economic Research project currently being finalised for publication in 2018. The Strategy is also instrumental to the ongoing engagement between the Treasury and Pacific economic stakeholders and leaders across the country. As part of the evolution of the LSF, a current key deliverable of the Strategy is the development of a Pacific-centric view of the LSF and wellbeing.

External leadership – we have publicly championed the D&I case for change, shared our own progress and challenges and driven system-wide change (eg, the Secretary and Chief Executive co-leads the public sector's D&I work stream – Papa Pounamu – and is Co-Vice Chair for New Zealand's Champions for Change group). In 2017/18, the Treasury's D&I 'agency profile' was completed. An update of staff's ethnicity profiles in the HR kiosk was completed.

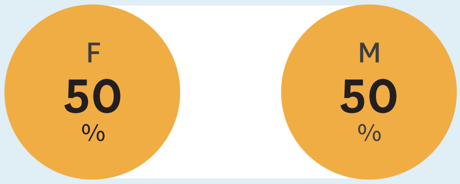
We regularly track and report on the diversity of our workforce and our leadership team, which understand where we are and where we want to get to, using the following measures. However, we acknowledge the following data has limitations and it may categorise people or result in underreporting and we are looking to improve these measures of progress for future tracking.

MEASURE

Gender

TREASURY STAFF AS AT 30 JUNE 2018

Workforce as a whole



Keep within a 45% to 55% gender range

Leadership cohort

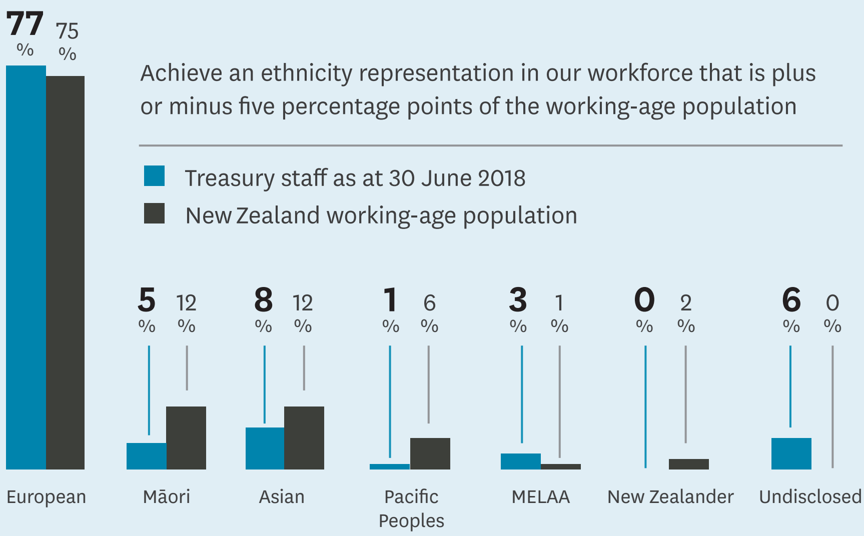
Maintain at least a 40% to 60% gender balance

MEASURE

Ethnicity

TREASURY STAFF AS AT 30 JUNE 2018

Achieve an ethnicity representation in our workforce that is plus or minus five percentage points of the working-age population



Our tools – information and technology

Early in 2017/18, we implemented an Information and Technology (I&T) strategic plan. This plan was informed by the Treasury's organisational strategy, and mapped out the I&T and people enablers that make up the plan for the year. In the I&T space, these included business process automation, flexibility and resilience, improved data management and improved analytics.

Flexibility and resilience

One of the prime goals has been to move the Treasury information systems out of 'low resilience' office buildings into 'data-centres' with the necessary power and environmental controls, dispersed geographically. This goal has been achieved.

The other goal was to offer access to more thorough cloud-based services to improve the overall 'user experience'. The objective was for people to not be desk-bound, but have the ability to move freely, work virtually anywhere and still have access to the resources they need. This included:

- implementing a cloud-based payroll system
- preparing for Office productivity in the cloud using Office 365
- preparing for the finance system to be run in the cloud
- introducing a softphone telephony capability using Skype for Business
- developing an alternative remote access solution that will let staff start accessing systems securely from most devices.

Improved data management

In 2017/18, a data management standard was developed by the I&T team so that the Treasury can understand the origin, accuracy, reliability and other aspects of our data sets. This standard will set us up for future use, and re-use of information in the Treasury Information Capability (TIC) platform and other areas. A data catalogue has also been developed and populated, giving the Treasury visibility of our information assets.

Operational highlights

In 2017/18, I&T provided services to the three central agencies: the Treasury itself, DPMC and the State Services Commission (SSC). From 2018/19, services will no longer be provided to SSC as SSC has exited the shared service arrangement with the Treasury and DPMC.

The work involves processing 26 million emails a year, storing eight million files in the document management system, answering 14,000 phone calls, on-boarding 498 new starters and off-boarding 376 people. We also spent the year creating and resolving more than 12,000 service ticket requests. During 2017/18, there was one National Crisis Management Centre activation which was supported by the I&T team. Almost 30 websites for the central agencies are managed, and almost 20 projects were delivered that focus on helping to improve the reliability, flexibility or business functionality of the central agencies.

Treasury Information Capability

TIC is delivering new capability for improving data and analytics maturity in the Treasury. The purpose of this capability is to improve advice and decision-making to achieve higher living standards for New Zealanders.

In 2017/18, we completed development of an initial technology base for the collection, processing and storage of data, which is required for the next phase of analytical development.

Achievements included: completion of a data transfer interface suitable for external data suppliers to securely and reliably send data to us; completion of a data processing system, with data history; completion of a contemporary 'cloud-based' infrastructure and technology environments for processing and storing data and analytical models; integration of a new data visualisation tool with the cloud-based platform for enterprise-wide use; and appropriate security accreditation of the cloud-based storage and data processing system.

During 2017/18, we successfully integrated into the new data system two external and two internal data sets. The new data collection system replaced the previous mechanism that supplied Stats NZ data for economic forecasting models. Prototype analytical products were produced with other data sets using the new data visualisation tool.

New Zealand Business Number

The Treasury is subject to Cabinet Circular (16) 3 New Zealand Business Number – Implementation Requirements that was issued on 25 May 2016. It sets out requirements for us to implement the New Zealand Business Number (NZBN). NZBN is a universal identifier that will help businesses to easily update, share key information and interact with each other. This has been introduced to streamline all essential business information, and over time will become the only number businesses will need to use to interact with a range of other businesses and government agencies.

The Treasury is a Tier two agency and must implement NZBN requirements by 31 December 2018. We have updated our Financial Management Information System (FMIS) to enable the use of NZBN against our accounts payable, accounts receivable and vendor information. We have updated our stationery from the FMIS to include our NZBN. We are currently investigating the use of the NZBN application programming interface to match data in our FMIS to the official NZBN data.

Risk management

The Treasury's risk management framework focuses on identifying and maximising opportunities as much as safeguarding the organisation with sound risk controls.

It includes a full range of documentation and resources, including the Risk Appetite Statement, Risk Policy, and Risk Register template – within which is a risk matrix to ensure risks are identified, assessed and weighted consistently.

In 2017/18, we revised the risk incident approach to maximise learning from risk events and near misses. The risk framework encompasses internal audit and assurance, as well as crisis management and business continuity. Risk governance starts with the Directorates and teams as the 'first line of defence'. It escalates to Kaiurungi oversight at the 'second line of defence' – much of it delegated to the Kaiurungi Risk and Assurance Sub-committee. The 'third line of defence' – independent oversight – is performed by the Risk and Audit Committee, informed by the internal audit and external audit functions.

RISK MANAGEMENT IN ACTION

Families Package

In January 2018 an error was identified in our microsimulation modelling which affected our assessment of the projected impact of both the Families Package announced in December 2017 and comparisons with the previous Government's Family Incomes Package. The error led to an overstatement of the projected impact both packages would have on the reduction of child poverty. The error did not, however, affect the number of people who will be helped by the Families Package, the amount of extra income they will receive or the fiscal impact of the Package.

A risk incident report was raised in January 2018 and an independent review commissioned of the cause of error and possible improvements to our microsimulation modelling framework. The Treasury provided corrected projections in March 2018.

As a result of the investigation, the Treasury reviewed its quality-assurance procedures to minimise the risk of this kind of error in the future and responded to the various review recommendations. The report was socialised with the Minister's Office, and subsequently published in May 2018.

Ministerial servicing performance

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

We also respond to Official Information Act (OIA) requests received by the Treasury (TOIAs).

The following table outlines our performance throughout 2017/18.

Ministerial servicing performance		MC	PQ	MOIA	TOIA
Volumes of replies	Estimated	600	300	120	220
	Actual	486	476	159	264
Percentage answered by due date	Target	95%	100%	100%	100%
	Actual	90%	93%	96%	89%
Percentage of first draft accepted	Target	95%	100%	95%	N/A
	Actual	81%	97%	94%	N/A

Tāne Whakapiri

The Treasury's Accommodation Project is part of the Wellington Accommodation Project tranche 2 (WAP2), a wider Government initiative approved in 2015.

The project is known internally as Tāne Whakapiri, which symbolises Treasury people coming closer together. Tāne Whakapiri will deliver cost savings and the opportunity to create a flexible workplace. The project is due to be completed in early 2019.

While we will be keeping the same address of 1 The Terrace, we will be moving from levels 5 to 14 to levels 1 to 4. The project, which combines property, people and technology work streams, is a key enabler of the Treasury's move towards flexible ways of working, ultimately driving the culture and capability shift that helps us to deliver our strategic priorities and realise our intergenerational wellbeing aspirations.

During 2017/18, we worked closely with our landlord and team of external experts to complete the design of our new workplace and construction is now underway.

2

What has been Achieved with Appropriations

The Treasury is responsible for achieving 41 measures relating to nine departmental output expenses appropriations and one departmental capital expenditure appropriation (pages 40–54).

2017/18

41 measures = **27** + **10** + **4**

66% Achieved

24% Not achieved

10% Not applicable owing to change in direction of work

The Treasury is also required to ensure end-of-year performance reporting is provided on what has been achieved with all Multi-Category Appropriations (MCAs) administered by the Treasury. There are six MCAs with 29 associated measures (pages 55–63).

2017/18

29 measures = **25** + **4**

86% Achieved

14% Not applicable owing to change in what was intended to be achieved

What the Treasury has achieved with Departmental Appropriations

Note: The Main Estimates columns are the Budget figures for the year ended 30 June 2018. They were included in the Estimates of Appropriations for the year ended 30 June 2018. The Supp. Estimates columns contain the updated budget information for the year ended 30 June 2018. They were included in the Supplementary Estimates of Appropriation for the year ended 30 June 2018. The forecast columns are consistent with the Treasury's best estimate financial forecast information for the Budget Economic and Fiscal Update (BEFU) for the year ended 30 June 2019. These budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment Permanent Legislative Authority (PLA)

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the administration of the Crown's financing requirements so as to raise sufficient funds to finance the Crown's cash deficit while minimising the cost to the Crown of such borrowing.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
8,398	Expenses	9,289	9,249	10,005	10,105
	Funded by:				
9,244	Revenue Crown	10,000	9,244	10,000	10,100
13	Other revenue	14	5	5	5

Note: Operating costs associated with the delivery of the Crown Debt Management function were below budget owing to there being a number of unfilled vacancies over the course of the year.

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Crown liquidity, funding risk and market and credit risk are well managed within the Crown's risk appetite: As evidenced by compliance with the following Debt Management policies: Market Risk Policy, Credit Risk Policy, Liquidity Risk Policy and Funding Risk Policy.	No more than four breaches	One breach	No breaches
Debt management operational risk is well managed within the Crown's risk appetite: As evidenced by the number of settlement errors and financial loss arising from settlement errors.	No more than six errors or $10,000 cost	One error	No errors

Significant achievements

During 2017/18, the following were achieved:

Debt management

- issuance of term bonds for the 2017/18 year totalled $7 billion achieving the required programme size. This compared to $7.9 billion in 2016/17
- $4 billion of Nominal Bonds were issued via regular fortnightly tenders. On average, these tenders received bids for 2.7x the bonds on offer. The bonds issued included three different maturity dates (2025, 2033, 2037)
- $1 billion of Inflation-indexed Bonds were issued via tenders throughout the year. On average, tenders received bids for 2.2x the bonds on offer. The bond issued was the 2040 New Zealand Government Inflation-indexed Bond
- a new 2029 New Zealand Government Nominal Bond was introduced raising $2 billion via syndication. There was strong interest in this bond with the syndication's initial book size exceeding $5 billion
- $6.9 billion of Treasury Bills were issued via regular fortnightly tenders
- $1.8 billion of Nominal Bonds were repurchased ahead of maturity through competitive buyback tenders
- the maturity of the December 2017 bond was successfully managed. In excess of $15 billion settlement flows occurred on the day from maturing investments, maturing hedge transactions and the successful repayment of $5.4 billion to the bond investors.

Promotion of New Zealand Government Securities

A number of significant external engagements have occurred throughout the year. These have included a delivery of a series of investor presentations, facilitated by major banks and investors in Europe, Asia and the United States.

The development of an Investor Relations strategy has guided this strategic (rather than tactical) engagement and enabled building long-term confidence with an investor base that is diverse by geography, type and mandate.

Coordination of rating agency assessments

The credit rating New Zealand is given is an important component of investor confidence and has a direct impact on attractiveness of New Zealand Government Bonds. Ratings can also be used to assess New Zealand's performance relative to international peers.

Delegations from each of the three main rating agencies – Standard and Poor's, Fitch and Moody's – make country visits once a year as well as liaising directly with Treasury officials throughout the year. The Treasury takes a proactive approach in managing these important relationships by actively coordinating the annual rating agency visits.

Rating agency officials are provided with an overview of the economic outlook, the fiscal strategy and detail on the debt management strategy. As well as meeting with the Secretary to the Treasury and Treasury officials, meetings are arranged with the Minister of Finance and external commentators such as NZIER, Business NZ and bank economists.

Administration of Guarantees and Indemnities given by the Crown PLA

What is intended to be achieved with this appropriation

This appropriation is intended to achieve efficient and effective administration of the Crown's Guarantees and Indemnities, including the Wholesale and Retail Deposit Guarantee Schemes.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
21	Expenses	10	110	110	110
	Funded by:				
109	Revenue Crown	109	109	109	109
-	Other revenue	-	1	1	1

Note: This budget provides for any residual activity after the closure of the Retail Deposit Guarantee Scheme. Apart from some administration costs, no other expenditure was required during 2017/18.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Meet all legal obligations in relation to the specific rehabilitation indemnities granted by the Crown to Solid Energy New Zealand Limited in 1988 and 2014.	Achieved	Achieved	Achieved
Meet all legal obligations under the Retail Deposit Guarantee Scheme.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, the Treasury:

- managed the reimbursement for work undertaken by Solid Energy in relation to the Crown's rehabilitation indemnities until all the company's mines had been sold
- made eight escrow payments totalling $67 million to transfer environmental rehabilitation indemnities for the benefit of new mine owners, which will now be managed by an independent escrow agent with rehabilitation oversight from Crown and councils
- managed the reimbursement for work undertaken by the new Stockton mine owner in relation to the Crown's acid mine drainage liability at Stockton mine.

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

What is intended to be achieved with this appropriation

This appropriation is intended to ensure appropriate financial and social returns, and that long-term value is achieved from the State-owned enterprises (SOEs), Crown entity companies (CECs) and Crown entities monitored under this appropriation.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
4,069	Expenses	3,973	4,458	4,558	4,533
	Funded by:				
4,533	Revenue Crown	4,556	4,456	4,556	4,531
4	Other revenue	4	2	2	2

Note: Operating costs associated with the provision of monitoring advice to the Minister for State Owned Enterprises and Other Responsible Ministers are below budget owing to a number of projects being deferred owing to the change of government, which are now expected to take place in 2018/19.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Appointments completed for Directors of SOEs.	30–40	50	29(a)
Appointments completed for Board members for CECs and Crown entities that are monitored under this appropriation.	35–45	84	54
Technical quality of advice regarding ownership, performance monitoring and governance as assessed through the general Treasury policy advice quality assessment process.	75%	New measure in 2017/18	N/A(b)

(a) This has been the result of the period of the election where some appointments are halted, to decisions to hold some vacancies meaning that appointments were not made and to several appointments being rejected by Cabinet.

(b) This measure was not assessed as no paper fell within the assessment criteria.

Significant achievements

During 2017/18, the Treasury:

- provided ownership, performance monitoring and governance advice to the Minister for State Owned Enterprises and other responsible Ministers in respect of the Ministers' shareholding responsibilities. This included advice on:
  - the appointment of Directors to Boards
  - Directors' fees
  - the financial performance of the SOEs, Crown entities and other monitored entities
  - briefings to the Incoming Minister
  - rail issues to Ministers, including the review of rail; capital funding to KiwiRail Holdings Limited; and funding for the reinstatement of the Main North Line
  - a wide range of EQC issues to Ministers, including participation in a cross-agency task force
  - a wide range of issues pertaining to the regeneration of Greater Christchurch, including with respect to Anchor Projects and Ōtākaro Limited
  - transactions including: the signing of Crown Participation Agreements with Air New Zealand, Genesis Energy and Meridian Energy, regarding dividend reinvestment plans (DRPs) and share buybacks, leading to the Crown's participation in Genesis Energy's DRP in April 2018; and the completion of a solvent liquidation of Solid Energy.

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

What is intended to be achieved with this appropriation

This appropriation is intended to ensure appropriate financial and social returns, and long-term value is achieved from Crown research institutes and Crown entities monitored under this appropriation.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
279	Expenses	111	229	129	236
	Funded by:				
418	Revenue Crown	128	228	128	235
-	Other revenue	-	1	1	1

Note: Expenditure under this appropriation was broadly in line with budget for the year.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Appointments completed for Directors of Crown research institutes.	20–30	16	22(a)
Technical quality of advice regarding ownership, performance monitoring and governance as assessed through the general Treasury policy advice quality assessment process.	75%	New measure in 2017/18	N/A(b)

(a) This has been the result of changes to board sizes being agreed by Ministers, and to decisions to hold some vacancies meaning that appointments were not made and to appointments being rejected by Cabinet.

(b) This measure was not assessed as no paper fell within the assessment criteria.

Significant achievements

In 2017/18, the Treasury:

- provided to the Minister of Research, Science and Innovation and other responsible Ministers, in respect of the Ministers' shareholding responsibilities of the Crown research institutes, services in relation to ownership, performance monitoring and governance matters. This included advice:
  - and services in relation to the appointment of Directors to Boards
  - on Directors' fees
  - to Ministers, and support and guidance provided to MBIE in its role as lead monitor of the Crown research institutes and other Crown entities.

Design and Establishment of Christchurch Regeneration Acceleration Facility

What is intended to be achieved with this appropriation

This appropriation is intended to enable the establishment and operation of the Christchurch Regeneration Acceleration Facility, including design and management of decision-making processes and associated arrangements for investments.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
-	Expenses	-	-	500	1,000
	Funded by:				
-	Revenue Crown	500	-	500	1,000
-	Other revenue	-	-	-	-

Note: No operating costs were incurred under this appropriation in 2017/18 after the funding was approved in Budget 2018. This activity will commence at the start of 2018/19.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Initial proposal on establishing the Christchurch Regeneration Acceleration Facility is finalised and submitted to the Minister for greater Christchurch Regeneration in a timely manner.	Achieved	New measure in 2017/18	Achieved

Significant achievements

During 2017/18, the Treasury:

- undertook preliminary work to evaluate what was required to ensure the process and options for accessing funds from the facility will be efficient and compliant. In July 2018, central agencies officials engaged with the Christchurch City Council to agree a decision-making model. The joint-recommended model is expected to be submitted to Cabinet for approval in August 2018
- also began work on the evaluation of what is required to ensure the process and options for accessing funds from the facility will be both rigorous and efficient.

Design and Establishment of the Green Investment Fund

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the design and establishment of the Green Investment Fund, with the Fund having the aim of stimulating new investment in low carbon industries.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
-	Expenses	456	-	1,000	4,000
	Funded by:				
-	Revenue Crown	1,000	-	1,000	4,000
-	Other revenue	-	-	-	-

Note: Operating costs associated with designing and establishing the Green Investment Fund were under budget for the year as this time-limited funding was only put in place in Budget 2018, with activity increasing in 2018/19.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
A multidisciplinary team is established to provide advice on the key design criteria for the Green Investment Fund.	Achieved	New measure in 2017/18	Achieved
The development of the evidence base to support the establishment of the Green Investment Fund is well advanced.	Achieved	New measure in 2017/18	Achieved

Significant achievements

During 2017/18, the Treasury:

- established a cross-agency working group
- established an internal steering group
- appointed an external reference panel
- commissioned a significant piece of research looking at comparable models and investable opportunities.

Policy Advice – Finance

What is intended to be achieved with this appropriation

This appropriation is intended to enable and facilitate ministerial decision-making that achieves – for New Zealand – improved economic performance, a high-performing State sector and a stable and sustainable macroeconomic environment.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
31,875	Expenses	35,164	34,982	37,867	34,308
	Funded by:				
32,881	Revenue Crown	37,819	34,934	37,819	34,260
43	Other revenue	39	48	48	48

Note: The underspend in this appropriation is mainly owing to delays in the Treasury's project to procure a solution to the Crown's obligations with respect to historical mining at Stockton mine, with this project expected to gain momentum in 2018/19.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Assessment of the technical quality of policy advice papers through a review process that has a methodological robustness of at least 80%.	75%	59%	59%(a)
The satisfaction of the Minister of Finance with the policy advice service, as per the common satisfaction survey.	75%	Result not provided	70%
The total cost per hour of producing outputs.	$203	$191	$196
Budget decisions are in line with short-term fiscal intentions in the Budget Policy Statement.	Achieved	Achieved	Achieved
Agencies' quality assurance panels and policy teams surveyed rate their level of satisfaction with the Treasury's implementation of the Government's new Regulatory Impact Analysis requirements as 'satisfied' or better.	80%	New measure in 2017/18	84%
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, results from major models are externally quality assured (periodically) and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved	Achieved
A new offshore Treasury position is established in Singapore and a work plan is developed to contribute to the Treasury's international engagement strategy.	Achieved	New measure in 2017/18	Achieved
Technical quality of advice regarding procurement of the Stockton acid mine drainage solution as assessed through the general Treasury policy advice quality assessment process.	75%	New measure in 2017/18	70%

(a) The 2017/18 score does not achieve the Treasury's ambition of providing consistently excellent advice. Our reviews of our advice suggest a continuing need to focus on the needs of the receiving Minister(s), to place our advice in context and to ensure economic perspectives are fully covered. We have initiated a work programme to improve the quality of our advice, including a stepped-up programme of reviews and dissemination of learnings from them.

Significant achievements

During 2017/18, the following was progressed by the Treasury:

Regulatory management

A cross-agency survey of RIA authors and assessors found an 84% satisfaction rate with the Treasury's implementation of new RIA requirements. The survey also showed mixed opinions as to the effectiveness of the new requirements themselves.

Fiscal strategy

The Treasury provided advice on the macroeconomic and fiscal outlook and risks and the Government's fiscal strategy, to inform the Government's decisions for the 2018 Budget.

Budget 2018

Budget 2018 announced new operating investments of $2.8 billion and new capital investments of $3.8 billion. On top of this the Government also announced a number of new investments as part of their 100-Day Plan, which included the Families Package, KiwiBuild and contributions to the NZS Fund. The decisions taken in Budget 2018 were in line with the Government's short-term fiscal intentions set out in the 2018 Budget Policy Statement.

Stockton acid mine drainage solution

The Treasury carried out a market sounding exercise to assist in forming a view on the best long-term arrangement to manage the Crown's acid mine drainage liability at Stockton mine.

Provision of Financial Operations Services and Operational Advice

What is intended to be achieved with this appropriation

This appropriation is intended to improve economic performance and financial stewardship across the State sector, export and financial markets, through provision of relevant and timely operational support, services and advice.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
29,863	Expenses	30,666	30,848	30,767	30,839
	Funded by:				
27,068	Revenue Crown	27,142	27,223	27,142	27,214
4,414	Other revenue	3,911	3,625	3,625	3,625

Note: Expenditure under this appropriation was broadly in line with budget for the year.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
All submitted Budget initiatives were accompanied by a cost benefit analysis, where required.	Achieved	Not achieved (77%)	Not achieved(a)
Audit opinion issued by the Controller and Auditor-General on the Financial Statements of Government.	Unqualified	Unqualified	Unqualified
Required Economic and Fiscal Updates efficiently produced with key judgements and uncertainties clearly articulated and key assumptions have been appropriately tested.	Achieved	Achieved	Achieved
Monthly Financial Statements of Government produced in accordance with the PFA requirements and free from material errors.	Achieved	Achieved	Achieved
Management of residual liabilities and investigation of mechanisms to discharge the Crown's obligations in a timely manner ensuring any costs from the materialisation of liabilities are contained.	Achieved	Achieved	Achieved
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts.	No breaches	No breaches	No breaches
Percentage of Four-year Plans submitted by agencies that meet the criteria expected of a comprehensive medium-term strategic plan.	75%	38%	N/A(b)
Investment Management and Asset Performance			
All investment intensive agencies lift their investment performance over the Investor Confidence Rating (ICR) cycled standards.	5%–10% increase in ICR score	New measure in 2017/18	-17% to 8%(c)
Investment Ministers rate their level of satisfaction with investment advice as 'satisfied' or better.	75%	New measure in 2017/18	N/A(d)
Senior Responsible Owners rate their level of satisfaction with investment advice as 'satisfied' or better.	85%	97% of Senior Responsible Owners agreed that the review was beneficial and a similar percentage (93%) agreed the specific recommendations will help them improve project outcomes.	100%(e)

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
New Zealand Export Credit Office			
Number of new export credit policies underwritten.	50–70	47 policies	45 policies(f)
Value of export transactions supported.	$250–$320 million	$182 million	$207 million(g)
Value of new exposure of export credit policies.	$100–$120 million	$112 million	$127 million
Number of exporters supported.	30–40	36	42
Total external engagements.	420	471	464
Number of education seminars delivered.	30	74	39
Compliance with International Guidelines (OECD and WTO) and Delegated Mandate.	100%	100%	100%
Five-year Expense Ratio (Operating Expenses / Premium Earned).	Lower than 60%	101%	113%(h)
Five-year Loss Ratio (Claims Paid and Reserved / Premium Earned).	Lower than 40%	78%	95%(i)

(a) The requirements for CBA(x) analysis for Budget 2018 was limited to only social sector cross-pressure initiatives owing to the truncated initiative development phase following the 2017 General Election. While all initiatives that were required to submit CBA(xs), did this (ie, 100%), the Treasury did exempt around 50% of the initiatives from completing the analysis. This significantly reduced the number of submitted CBA(xs) from previous years.

(b) Following on from a low result in 2016/17, in 2017/18 we took a targeted, tailored approach to Four-year Plans. As a result, only 10 agencies were required to update their Four-year Plans. In addition, given it was an election year, we changed the expectations around what is provided when. Each of these agencies were required to share their thinking or draft plans with the Treasury by December 2017 and indicate when they would finalise their plans. The majority will complete their plans by December 2018. We are embarking on a strategic planning review with agencies to understand how we can meet our collective strategic planning needs.

(c) The target applies to ICR results over a three-year period starting in 2017/18. The initial results relate to three of 25 agencies that had their second ICR during the period.

(d) This measure has not been assessed as the previous ministerial grouping has been changed and new governance arrangements are underway to consider investment advice.

(e) The result was calculated based on 30 surveys returned out of a total of 35 surveys sent.

(f) NZECO's role is to provide capacity to the private sector, and this lower result reflects stronger private sector capacity, as well as applications not meeting NZECO's credit standards.

(g) NZECO's policies met the market's demand for supporting mainly small and medium-sized enterprises (SME) exporters and/or smaller value export contracts. This support was to a diverse range of markets across 27 countries, with many being outside of New Zealand's traditional export markets, and often helping an exporter to undertake its first project or shipment into a new market or with a new buyer.

(h) This reflects NZECO's aggregate premium being lower than previous years as a consequence of NZECO's policies being for smaller-value, shorter-tenors (often in support of SMEs).

(i) This ratio reflects that NZECO's earned premium plus recoveries exceeded the total value of claims paid and provisioned, over the past five years. However, NZECO did not meet the 40% maximum ratio that it sets internally.

Significant achievements

During 2017/18, the Treasury carried out work in the following key areas:

Provision of corporate treasury services

- Crown cash management – sufficient cash was available at all times to meet the Government's outlays such that there was no requirement during the year to use the RBNZ overdraft facility.
- Financial risk intermediation services for the Crown included the provision of NZD $770 million of foreign exchange cover and NZD $1.4 billion of nominal interest rate risk cover.
- Crown lending transactions included the provision of $1.4 billion of new loans to Crown entities.

Government financial reporting

- Produced unqualified audited *Financial Statements of Government for 2016/17*, including a 'FSG Basics' which is intended to be an accessible summary of the financial results. Interim financial statements provided a regular and timely update of the Government's finances.
- Progressed the Government's commitment to the *Open Government Partnership*, including publishing a small extract of the Budget 2018 fiscal forecasts in machine readable form on the Treasury website. However, we are looking to expand this going forward.
- Ensured the Budget 2018 fiscal outlook chapter and five-year fiscal forecasts included commentary around key judgements and assumptions.

Strategic performance improvement

- As head of the Government Finance Profession we entered the second year of the Finance Development Programme and continued to see an expansion in the number of agencies, with 89 agencies now participating.
- We are committed to looking at the requirements we place on agencies to ensure they are streamlined and fit for purpose. In this light, we took a different approach to supporting medium-term planning and focused on 10 agencies that were required to update their Four-year Plans. In addition, we received ministerial agreement to discontinue the BASS and policy advice measurement exercises. We are working with functional leads and heads of profession on the future of functional lead data collection.

Shared Support Services

What is intended to be achieved with this appropriation

This appropriation is intended to achieve quality, efficient support services for other agencies.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
13,964	Expenses	12,852	14,069	14,069	13,871
	Funded by:				
13,625	Other revenue	12,507	14,069	14,069	13,871

Note: The underspend is owing to the service level agreements with the agencies setting a work programme less expensive than appropriation limits.

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Services meet the standards and timeframes agreed with the three central agencies.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, the Treasury carried out work in the following key areas:

Systems and processes of internal controls

- Quality and timeliness of financial and payroll services have been achieved.
- Access and availability of Information Technology (IT) systems has been at or above expected service levels and there has been no significant loss or impairment of data integrity.
- A project to increase the resilience of IT systems through the use of high availability data centres completed.
- Cloud services have been adopted for some applications and this will continue in 2018/19 as the shared services move further towards an 'as a service' model.
- Implementation of a new cloud-based payroll system that enhances business process automation and improves resilience of the service. The solution was configured and tested, and successfully went live from 7 July 2018.
- Dedicated Human Resources (HR) programmes were delivered for both SSC and DPMC, and a number of improvements to technology services were also delivered.
- In response to an annual survey, over 90% of customers rated the service as 'mostly satisfied' or above.
- From 2018/19 onwards, some of the services will not be provided to SSC as SSC has exited the shared service arrangement with the Treasury and DPMC.

The Treasury – Capital Expenditure PLA

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the renewal, upgrade or redesign of assets in support of the delivery of Treasury services.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
2,937	Property, plant and equipment	2,185	3,256	3,930	8,930
3,035	Intangibles	3,104	2,292	4,118	3,555
5,972	Total appropriation	5,289	5,548	8,048	12,485

Note: The underspend is owing to the refurbishment of the Treasury's new premises commencing later than what was anticipated when the budget was developed. The Treasury will move to the new location in early 2019.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Expenditure is in accordance with the Treasury capital asset management plan.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, the Treasury:

- primarily targeted capital expenditure towards the renewal and upgrade of IT assets used to support the three central agencies, in line with its capital asset management plan. It was also the second year of the TIC project, which further developed a secure cloud-based data processing and storage system able to consume temporal data from different sources
- continued work on design and preparatory work on the refurbishment of the Treasury's new premises ahead of our move to the four lower floors of 1 The Terrace in early 2019. Actual refurbishment of the space commenced in mid-2018.

What has been achieved with MCAs

Greater Christchurch Anchor Projects

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the management of Anchor Projects and divestment of Crown-owned land in Christchurch.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
152,302	Total appropriation	130,562	254,060	233,884	250,000
	Non-Departmental Operating Expense				
-	Christchurch Bus Interchange and Associated Transport Infrastructure – Contributions from third parties	-	-	100	-
15,590	Christchurch Bus Interchange and Associated Transport Infrastructure – Operating	22,732	38,441	45,569	2,700
28,575	Christchurch Convention Centre – Operating	2,961	1,000	3,000	4,200
-	Christchurch Stadium – Contributions from third parties	-	-	100	-
-	Christchurch Stadium – Operating	450	-	989	2,000
-	Financial Impact of Valuations	-	-	331	1,500
-	Leasing Anchor Project Land	-	2,000	1,000	2,000
-	Metro Sports Facility – Contributions from third parties	-	-	100	-
5,264	Metro Sports Facility – Operating	17,474	-	21,409	10,000
1,687	Pre-development Holding Costs	1,535	8,000	7,678	2,000
18,209	Procurement of Land and Assets	10,020	23,000	23,371	21,700
-	Public Space – Contribution from third parties	-	-	100	-
49,068	Public Space – Operating	38,849	52,286	44,490	11,100
-	Sale of Land	-	500	1,684	1,000
-	The Square – Contributions from third parties	-	-	100	-

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
	Non-Departmental Capital Expense				
-	Christchurch Bus Interchange and Associated Transport Infrastructure – Capital	-	2,000	2,085	-
-	Christchurch Convention Centre – Capital	29,031	114,900	63,300	181,800
7,815	Earthquake Memorial – Capital	-	683	68	-
-	Land and Asset Acquisition – Capital	-	5,000	9,336	10,000
-	Metro Sports Facility – Capital	1,776	500	1,000	-
26,094	Public Space – Capital	5,734	5,750	8,074	-

What was achieved with this appropriation and each of its categories

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Greater Christchurch Anchor Projects MCA			
Payments made in respect of Greater Christchurch Anchor Projects are made in accordance with the terms and conditions of the relevant funding agreements and agreed timelines.	Achieved	Achieved	Achieved
Christchurch Bus Interchange and Associated Transport Infrastructure – Operating			
Payments are made in line with the terms and conditions of the funding agreement.	Achieved	Achieved	Achieved
Christchurch Convention Centre – Operating			
The project will be progressed in line with government decisions and agreed project timelines.	Achieved	Achieved	Achieved
Christchurch Stadium – Operating			
The project will be progressed in line with government decisions and agreed project timelines.	Achieved	Achieved	Achieved
Metro Sports Facility – Operating			
The project will be progressed in line with the agreed project timelines.	Achieved	Achieved	Achieved
Pre-development Holding Costs – Operating			
Land is managed in accordance with the Crown's commercial and regeneration interests.	Achieved	Achieved	Achieved
Procurement of Land and Assets – Operating			
Land and assets are acquired and made ready in accordance with project outcomes and timelines.	Achieved	Achieved	Achieved
Public Space – Operating			
Projects are progressed in line with the agreed project timelines.	Achieved	Achieved	Achieved
Christchurch Bus Interchange and Associated Transport Infrastructure – Capital			
Expenditure is in line with the agreed project timelines.	Achieved	Achieved	Achieved
Christchurch Convention Centre – Capital			
Payments to Ōtākaro for capital expenditure are made in line with the terms and conditions of the funding agreement.	Achieved	Achieved	Achieved

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Earthquake Memorial – Capital			
Expenditure is in line with the agreed project timelines.	Achieved	Achieved	Achieved
Land and Asset Acquisition – Capital			
Payments to Ōtākaro for capital expenditure are made in line with the terms and conditions of the funding agreement.	Achieved	Achieved	Achieved
Metro Sports Facility – Capital			
Payments to Ōtākaro for capital expenditure are made in line with the terms and conditions of the funding agreement.	Achieved	Achieved	Achieved
Public Space – Capital			
Expenditure is in line with the agreed project timelines.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18:

- Ōtākaro Limited has continued to progress key Anchor Projects including the Christchurch Convention and Exhibition Centre which is now well into construction with progress also made toward the award of contracts for ancillary hotel and retail facilities. Following engagement with the incoming Government, the scope and procurement method of the Metro Sports Facility project have been revised. Funding for each Anchor Project is drawn down by the company on a quarterly basis, under a Project Funding Agreement with the Crown.

Inquiries and Research into Productivity-related Matters

What is intended to be achieved with this appropriation

This appropriation is intended to achieve:

- inquiries in accordance with the New Zealand Productivity Commission Act 2010
- research in accordance with the Productivity Commission Act 2010.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
5,030	*Total appropriation*	5,030	5,030	5,030	-
	Non-Departmental Output Expense				
4,401	Inquiries into Productivity-related Matters	4,401	4,401	4,401	-
629	Research into and Promotion of Productivity-related Matters	629	629	629	-

What was achieved with this appropriation in each of the categories

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Inquiries and Research into Productivity-related Matters MCA			
The Board of the New Zealand Productivity Commission will meet to manage and administer in accordance with their Statement of Intent.	Achieved	Achieved	Achieved
Inquiries into Productivity-related Matters			
The Commission's recommendations are agreed and implemented – as a result of their recommendations (typically through inquiry work), better decisions are made that lead to improved productivity.	Achieved	Achieved	Achieved
Improved productivity analysis and advice in New Zealand – scarce resources for productivity work are better coordinated, leading to more influential and effective research outcomes.	Achieved	Achieved	Achieved
Improved public understanding of productivity issues – people and organisations gain a better understanding of what productivity is and why it is important, increasing the likelihood that productivity improvements are made.	Achieved	Achieved	Achieved
Research into Productivity-related Matters			
Define and undertake research on, and promote understanding of, productivity-related matters. The Commission will publish research papers and further the development of collaborative research partnerships. As part of their collaboration, they will work with other government agencies and the wider research community through chairing the 'Productivity Hub'.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, work was carried out in the following key areas:

- The Productivity Commission progressed two inquiries into productivity-related topics. The first inquiry, transitioning to a Low-emissions Economy, was completed and released in early September. As part of this work, the Commission engaged with a large and diverse group interested in climate change and mitigation policy. The Commission completed over 120 engagement meetings (including overseas), 15 conferences/seminars and received 132 submissions on our issues paper. Modelling work was also undertaken by a consortium of Vivid Economics, Concept Consulting and Motu Economic and Public Policy Research, of different transition pathways to a low-emissions economy, examining respective impacts and outcomes. The second inquiry, State sector productivity, was completed and released in August in the format of two final reports titled Measuring State Sector Productivity and Improving State Sector Productivity. The reports examine productivity considerations in a number of key State sector delivery areas including health, education, justice and social development. They also consider the roles of efficiency/productivity measures in public sector performance frameworks, and the capability and systems that are needed to better measure, understand and improve productivity.
- The Commission also undertook research into, and promoted the public understanding of, productivity-related matters, publishing a number of research reports. One example was a series of papers on innovation and firm performance, which described how research can be used to support innovation policy, particularly firm-level interventions aimed at lifting innovation. Also, the Commission coordinated the Productivity Hub – a grouping of four agencies that coordinates productivity analysis across the public sector. The other key agencies in the Hub are the Treasury, MBIE and Stats NZ. During 2017/18, the Hub continued its focus on firm-level analysis of New Zealand's productivity performance. The Productivity Hub contributed to a number of panel discussions and hosted productivity symposiums throughout the year. One example in December 2017 discussed worker flows, entry and productivity in New Zealand's construction industry. These symposia allow researchers, officials and academics from New Zealand and overseas to meet, deliver presentations and discuss productivity-related matters.

Management of Landcorp Protected Land Agreement

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the Crown's responsibilities under the Landcorp Protected Land Agreement.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000
	Non-Departmental Other Expenses			
767	Operating Costs	378	2,250	5,293
	Non-Departmental Capital Expenditure			
-	Capital Investment	1,800	2,000	3,751

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Land and infrastructure are managed to the standards as set out in the terms and conditions of the Protected Land Agreement.	Achieved	New measure in 2017/18	Achieved

Significant achievements

During 2017/18, Landcorp has continued to manage and farm all properties under the Protected Land Agreement. Landcorp continues to drive performance from all its farms through the use of best practice systems to improve efficiency and consistency of performance. Nurturing the environment is a priority for Landcorp to ensure resilient, sustainable farm systems for future generations.

Management of New Zealand House, London

What is intended to be achieved with this appropriation

This appropriation is intended to ensure that New Zealand House, London is well managed.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000
	Non-Departmental Output Expenses			
6	Property management	73	1,000	2,500
	Non-Departmental Other Expenses			
12,429	Operational costs	5,970	13,000	16,751
	Non-Departmental Other Expenses			
156	Renegotiation of Lease Arrangements	1,334	-	1,993
	Non-Departmental Capital Expenditure			
-	Capital Expenditure	-	750	3,750

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
New Zealand House, London is well managed.	Achieved	New measure in 2017/18	Achieved

Significant achievements

During 2017/18, the following was achieved:

- management of property maintenance, including major works
- renegotiation of a number of tenant leases
- obtained Cabinet agreement to, and progressed, the renegotiation of the property head-lease.

Social Housing Reform

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the development of a variety of social housing in New Zealand, and grow the community housing sector by making Housing New Zealand Corporation (HNZC) stock available to social providers.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
11,333	*Total appropriation*	7,692	8,495	12,767	4,201
	Departmental Output Expense				
8,282	Implementation of the Social Housing Reform Programme	3,893	4,495	5,494	2,101
	Funded by:				
10,520	Revenue Crown	5,493	4,494	5,493	2,100
5	Other revenue	3	1	1	1
	Non-Departmental Output Expense				
3,051	Direct Sale Costs for Implementing the Social Housing Reform Programme	3,799	4,000	7,273	2,100

Note: The underspend was owing to the change in government policy in December 2017, which resulted in most of the activity under this programme being discontinued.

What was achieved with this appropriation and each of its categories

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Social Housing Reform			
The Social Housing Reform Programme is developed to allow the progress of transactions.	Achieved	Achieved	N/A*
Implementation of the Social Housing Reform Programme			
Develop policies and prepare legal documentation in light of progress with the Social Housing Reform Programme, including initial transactions.	Achieved	Achieved	N/A*
Develop policies, commercial structures and standard form contractual documentation to support the Social Housing Reform Programme and the development of the community housing sector through transactions.	Achieved	Achieved	N/A*
Direct Sale Costs for Implementing the Social Housing Reform Programme			
Reach contractual close of the transaction in Christchurch.	Achieved	New measure in 2017/18	N/A*

*Note: All measures are reported as not applicable owing to the change in government policy from December 2017.

Significant achievements

During 2017/18, the Treasury:

- commenced a formal procurement process in April 2017 for the proposed transfer of up to 2,500 HNZC properties and tenancies in Christchurch. Two parties were shortlisted and submitted fully funded and committed proposals for the transfers, which were undergoing evaluation. Owing to a change in government policy, the proposed Christchurch transfer was halted in December 2017
- undertook further development of a contractual framework which included a performance incentives regime. This contractual framework is being used by the Ministry of Social Development (MSD) to inform development of their contracts.

Tax Working Group

What is intended to be achieved with this appropriation

This appropriation is intended to achieve policy development and support, in order for the Tax Working Group to develop recommendations on improvements to the structure and balance of the tax system.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	2019 Forecast Unaudited $000
-	*Total appropriation*	836	-	2,400	1,600
	Departmental Output Expense				
-	Tax Working Group – Provision of Support and Advice	571	-	1,920	1,280
	Funded by:				
-	Revenue Crown	1,920	-	1,920	1,280
-	Other revenue	-	-	-	-
	Non-Departmental Output Expense				
-	Tax Working Group – Direct Costs	265	-	480	320

Note: The underspend in this appropriation is owing to the Tax Working Group being established during 2017/18 and there being uncertainty on the timing of expenditure for the programme when it was first established.

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Tax Working Group			
Goals of the Tax Working Group are progressed in alignment with their Terms of Reference.	Achieved	New measure in 2017/18	Achieved
Departmental Output Expenses			
Tax Working Group – Provision of Support and Advice			
Satisfaction of the Tax Working Group with the policy advice service rated as 'satisfies' or better.	75%	New measure in 2017/18	100%(a)
Non-Departmental Output Expenses			
The Tax Working Group is established in a timely manner.	Achieved	New measure in 2017/18	Achieved
The Tax Working Group's agenda is progressed in accordance with its Terms of Reference.	Achieved	New measure in 2017/18	Achieved

(a) The result was calculated based on surveys returned by eight out of 11 members.

Significant achievements

During 2017/18, the Treasury:

- supported the establishment of the Tax Working Group (the Group)
- provided ongoing administrative support for the Group and its members
- facilitated the Group's public consultation, which resulted in approximately 6,700 submissions being received
- provided quality policy advice and papers to inform and support discussions among Group members.

3

Reporting on Financial Information

Statements of Expenses and Capital Expenditure

Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations

for the year ended 30 June 2018

The Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations details expenditure against appropriations. Total departmental output classes expenditure equals total expenses in the Statement of Comprehensive Revenue and Expenses on page 74. Total non-departmental output classes expenditure equals total expenses in the Schedule of Expenses on page 89.

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
	Vote Finance					
	Departmental Output Expenditure					
8,398	Administration of Crown Borrowing and Investment PLA		9,289	9,249	10,005	
21	Administration of Guarantees and Indemnities Given by the Crown PLA		10	110	110	
4,069	Crown Company Monitoring Advice to the Minister for SOEs and Other Responsible Ministers		3,973	4,458	4,558	
279	Crown Company Monitoring Advice to the Minister for Science and Innovation and the Minister for Economic Development		111	229	129	
-	Design and Establishment of the Christchurch Regeneration Acceleration Facility		-	-	500	The Treasury *Annual Report* pp 40–53
-	Design and Establishment of the Green Investment Fund		456	-	1,000	
31,875	Policy Advice – Finance		35,164	34,982	37,867	
13,964	Shared Support Services		12,852	14,069	14,069	
29,863	Provision of Financial Operations Services and Operational Advice		30,666	30,848	30,767	
88,469	**Total Departmental Output Expenditure**		**92,521**	**93,945**	**99,005**	
	Departmental Capital Contribution					
4,548	**Total Departmental Capital Contribution**		**3,000**	**-**	**3,000**	
	The Treasury Departmental Capital Expenditure PLA					The Treasury *Annual Report* p 54
5,972	**Total Departmental Capital Expenditure**		**5,289**	**5,548**	**8,048**	

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
	Non-Departmental Output Expenses					
19,972	Management of Anchor Projects by Ōtākaro Limited	2	21,680	23,200	26,409	Reported in an appendix to the Treasury *Annual Report*
70	Management of the Crown's Obligations for Geothermal Wells		8	180	449	Exempt
597	Management of the New Zealand Superannuation Fund		634	728	859	Exempt
3,190	Tāmaki Regeneration	-	-	-	-	Exempt
23,829	**Total Non-Departmental Output Expenses**		**22,322**	**24,108**	**27,717**	
	Non-Departmental Borrowing Expenses					
3,410,543	Debt Servicing PLA	3(a)	3,412,689	3,395,785	3,427,613	N/A
3,410,543	**Total Non-Departmental Borrowing Expenses**		**3,412,689**	**3,395,785**	**3,427,613**	
	Non-Departmental Other Expenses					
-	Ahu Whenua Trust Ex-gratia		-	-	9,000	Reported in an appendix to the Treasury *Annual Report*
96	Crown Residual Liabilities		200	60	314	Exempt
-	Earthquake Commission – Clean-up of Edgecumbe Properties		77	-	455	Reported in an appendix to the Treasury *Annual Report*
-	Fair value write down on initial recognition of Sale of Fairway Resolution Ltd		150	-	150	Exempt
-	Geothermal Wells Fund		-	500	500	Exempt
3	Government Inquiry into Foreign Trust Disclosure Rules		-	-	-	Exempt
-	Government Superannuation Appeals Board		1	50	50	Exempt
36,731	Government Superannuation Fund Authority – Crown's Share of Expenses PLA		41,837	38,000	38,000	Exempt
521,195	Government Superannuation Fund Unfunded Liability PLA		462,196	538,597	538,597	Exempt
2,495	Loss on Sale of Commercial Properties		-	-	-	Exempt
308,000	Impairment of Investment in Southern Response Earthquake Services Ltd	5	-	-	137,000	Exempt
20,000	National Provident Fund Schemes – Liability Crown Under Crown Guarantee		18,000	18,000	18,000	Exempt
1,969	Payments in Respect of NZECO Guarantees and Indemnities PLA		-	-	1,710	Exempt
-	Payments in Respect of Guarantees and Indemnities PLA		25	-	-	Exempt
936	Review and Reform of Local Government Infrastructure Arrangements		344	-	1,017	Exempt
67,000	Stockton Acid Mine Drainage Historical Mining	6	-	-	-	N/A

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
23	Unclaimed Money PLA		214	250	250	Exempt
-	Unclaimed Trust Money PLA		-	250	250	Exempt
-	Unwind of Discount Rate Used in the Present Value Calculation – Rehabilitation of Stockton Mine Acid Mine Drainage		2,871	-	3,000	Exempt
2,073	Unwind of Discount Rate Used in the Present Value Calculation of Payment of Shares in International Institutions		1,533	1,403	1,403	Exempt
7,520	Unwind of Discount Rate Used in the Present Value Calculation of Payment Under Crown Deed of Support with Southern Response Earthquake Services Limited	5	6,857	3,313	7,523	Exempt
968,041	**Total Non-Departmental Other Expenses**		**534,305**	**600,423**	**757,219**	
	Non-Departmental Capital Expenditure					
-	Canterbury Earthquake National Memorial		7,700	-	8,500	Exempt
-	Crown Asset Management Limited – Acquisition of Residual Assets		734	-	1,000	Exempt
-	Crown Infrastructure Partners Limited – Equity Injection (MYA Expense)		-	-	20,000	Exempt
-	Deferred Receipt of Proceeds from Sale of Fairway Resolution Limited		1,000	-	1,000	The Treasury *Annual Report* p 101
6,422	International Financial Institutions PLA	1	-	20,000	7,550	Exempt
3,000	Loan Facility for Tāmaki Redevelopment Company Multi-year Appropriation (MYA)		18,000	47,000	47,000	Reported in an appendix to the Treasury *Annual Report*
-	NZ Superannuation Fund – Contributions		500,000	-	500,000	NZSF Annual Report
-	Participation in Dividend Reinvestment Plans by the Mixed Ownership Model Companies (MYA Expense)		-	-	20,000	Exempt
275,777	Refinancing of Housing New Zealand Corporation and Housing New Zealand Limited Debt		335,854	337,002	337,045	Reported in an appendix to the Treasury *Annual Report*
308,000	Southern Response Earthquake Services Limited – Equity Investment	5	-	-	137,000	Exempt
-	Tāmaki Regeneration Company Limited – Equity Injection		-	-	87,000	Exempt
35,108	Transfer of Anchor Project to Ōtākaro Limited MYA	2	33,519	260,440	32,770	Exempt
628,307	**Total Non-Departmental Capital Expenditure**		**896,807**	**664,442**	**1,198,865**	

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
	Multi-Category Expenses and Capital Expenditure					
	Greater Christchurch Anchor Projects MCA					The Treasury *Annual Report* pp 55–57
	Non-Departmental Other Expenses					
-	Christchurch Bus Interchange and Associated Transport Infrastructure – Contributions from Third Parties		-	-	100	Exempt
15,590	Christchurch Bus Interchange and Associated Transport Infrastructure – Operating	2	22,732	38,441	45,569	The Treasury *Annual Report* pp 55–57
28,575	Christchurch Convention Centre – Operating	2	2,961	1,000	3,000	The Treasury *Annual Report* pp 55–57
-	Christchurch Stadium – Contributions from Third Parties		-	-	100	Exempt
-	Christchurch Stadium – Operating	2	450	-	989	The Treasury *Annual Report* pp 55–57
-	Financial Impact of Valuations		-	-	331	Exempt
-	Leasing Anchor Project Land		-	2,000	1,000	Exempt
-	Metro Sports Facility – Contribution from Third Parties		-	-	100	Exempt
5,264	Metro Sports Facility – Operating	2	17,474	-	21,409	The Treasury *Annual Report* pp 55–57
1,687	Pre-development Holding Costs – Operating	2	1,535	8,000	7,678	The Treasury *Annual Report* pp 55–57
18,209	Procurement of Land and Assets – Operating	2	10,020	23,000	23,271	The Treasury *Annual Report* pp 55–57
-	Public Space – Contribution from Third Parties		-	-	100	Exempt
49,068	Public Space – Operating	2	38,849	52,286	44,490	The Treasury *Annual Report* pp 55–57
-	Sale of Land		-	500	1,684	Exempt
-	The Square – Contributions from Third Parties		-	-	100	Exempt
	Non-Departmental Capital Expenditure					
-	Christchurch Bus Interchange and Associated Transport Infrastructure		-	2,000	2,085	The Treasury *Annual Report* pp 55–57
-	Christchurch Convention Centre	2	29,031	114,900	63,300	The Treasury *Annual Report* pp 55–57
7,815	Earthquake Memorial		-	683	68	The Treasury *Annual Report* pp 55–57
-	Land and Asset Acquisition		-	5,000	9,336	The Treasury *Annual Report* pp 55–57
-	Metro Sports Facility	2	1,776	500	1,000	The Treasury *Annual Report* pp 55–57
26,094	Public Space	2	5,734	5,570	8,074	The Treasury *Annual Report* pp 55–57
152,302	**Total Greater Christchurch Anchor Projects MCA**		**130,562**	**254,060**	**233,884**	

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
	Inquiries and Research into Productivity-related Matters MCA					The Treasury *Annual Report* pp 57–58
	Non-Departmental Output Expenses					
4,401	Inquiries into Productivity-related Matters		4,401	4,401	4,401	The Treasury *Annual Report* pp 57–58
629	Research into and Promotion of Productivity-related Matters		629	629	629	The Treasury *Annual Report* pp 57–58
5,030	**Total Inquiries and Research into Productivity-related Matters MCA**		**5,030**	**5,030**	**5,030**	
	Management of Landcorp Protected Land Agreement MCA					
	Non-Departmental Other Expense					
767	Operating Costs		378	2,250	5,293	The Treasury *Annual Report* p 59
	Non-Departmental Capital Expenditure					
-	Capital Investments		1,800	2,000	3,751	The Treasury *Annual Report* p 59
767	**Total Management of Landcorp Protected Land Agreement MCA**		**2,178**	**4,250**	**9,044**	
	Management of New Zealand House, London MCA					
	Non-Departmental Output Expense					
6	Property Management		73	1,000	2,500	The Treasury *Annual Report* p 60
	Non-Departmental Other Expenses					
12,429	Operational Costs		5,970	13,000	16,751	The Treasury *Annual Report* p 60
156	Renegotiation of Lease Arrangements		1,334	-	1,993	The Treasury *Annual Report* p 60
	Non-Departmental Capital Expenditure					
-	Capital Expenditure		-	750	3,750	The Treasury *Annual Report* p 60
12,591	**Total Management of New Zealand House, London MCA**		**7,377**	**14,750**	**24,994**	
	Social Housing Reform MCA					
	Departmental Output Expense					
8,282	Implementation of the Social Housing Reform Programme	7	3,893	4,495	5,494	The Treasury *Annual Report* pp 61–62
	Non-Departmental Output Expense					
3,051	Direct Costs of Social Housing Reform Programme	7	3,799	4,000	7,273	The Treasury *Annual Report* pp 61–62
11,333	**Total Social Housing Reform MCA**		**7,692**	**8,495**	**12,767**	

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000	Location of End-of-year Performance Information
	Management of the Crown's Agreement with Taitokerau Forests Limited MCA					
	Non-Departmental Other Expenses					
315	Grants		245	-	415	Exempt
-	Impairment of Loans		-	-	4,030	Exempt
	Non-Departmental Capital Expenditure					
200	Loans		200	-	300	Exempt
515	**Total Management of the Crown's Agreement with Taitokerau Forests Limited MCA**		**445**	**-**	**4,745**	
	Tax Working Group MCA					
	Departmental Output Expense					
-	Provision of Support and Advice		571	-	1,920	The Treasury *Annual Report* pp 62–63
	Non-Departmental Output Expense					
-	Direct Costs		265	-	480	The Treasury *Annual Report* pp 62–63
-	**Total Tax Working Group MCA**		**836**	**-**	**2,400**	
182,538	**Total Multi-category Expenses and Capital Expenditure**		**154,120**	**286,585**	**292,864**	
5,312,247	**Total Departmental and Non-Departmental Expenditure and Appropriations**		**5,121,053**	**5,070,836**	**5,814,331**	

Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority

for the year ended 30 June 2018

Expenses and capital expenditure incurred without appropriation or outside scope or period of appropriation

Nil. (2017: Nil)

Expenses and capital expenditure incurred in excess of appropriation

Nil. (2017: Nil)

Statement of Capital Injections

for the year ended 30 June 2018

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2018 Supp. Estimates Unaudited $000
4,548	Capital Contributions	3,000	-	3,000

The capital contribution was for the refurbishment of the Treasury's new premises from 2019, levels 1–4 of No 1 The Terrace.

Departmental Financial Statements

for the year ended 30 June 2018

Statement of Comprehensive Revenue and Expenses

for the year ended 30 June 2018

The Statement of Comprehensive Revenue and Expenses details the revenue and expenses relating to all outputs (goods and services) produced by the Treasury during the financial year ended 30 June 2018. Total expenses are equal to total amounts incurred against departmental output expense appropriations and departmental output expense categories in the Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations on page 66.

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2019 Forecast Unaudited $000
	Income				
84,773	Revenue Crown – non-exchange	2	88,667	80,688	84,829
18,104	Other revenue – exchange	3	16,479	17,752	17,554
102,877	**Total income**		**105,146**	**98,440**	**102,383**
	Expenditure				
65,145	Personnel costs	4	65,188	63,281	62,823
4,137	Depreciation and amortisation expense	5/6	4,699	6,221	4,865
966	Capital charge	7	1,165	1,554	1,537
26,503	Other operating expenses	8	25,933	27,384	33,158
96,751	**Total expenditure**		**96,985**	**98,440**	**102,383**
6,126	**Total comprehensive revenue and expenses**		**8,161**	**-**	**-**

Statement of Changes in Equity

for the year ended 30 June 2018

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2019 Forecast Unaudited $000
14,869	Balance as at 1 July	19,417	19,417	22,417
6,126	Total comprehensive revenue and expenses	8,161	-	-
(6,126)	Return of operating surplus to the Crown	(8,161)	-	-
4,548	Capital contributions	3,000	-	6,388
19,417	**Balance as at 30 June**	**22,417**	**19,417**	**28,805**

The accompanying accounting policies and notes form part of these Financial Statements.

Statement of Financial Position

as at 30 June 2018

The Statement of Financial Position reports the total assets and liabilities of the Treasury as at 30 June 2018. Taxpayers' funds are represented by the difference between the assets and liabilities.

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000	2019 Forecast Unaudited $000
	Assets				
	Current assets				
11,236	Cash and cash equivalents		10,493	14,035	5,651
1,207	Debtors and other receivables		2,842	1,862	1,207
624	Prepayments		385	383	624
13,661	Debtor Crown		18,316	10,769	14,000
26,728	***Total current assets***		**32,036**	**27,049**	**21,482**
	Non-current assets				
4,824	Property, plant and equipment	5	4,974	4,083	14,418
6,749	Intangible assets	6	7,181	1,097	8,501
11,573	***Total non-current assets***		**12,155**	**5,180**	**22,919**
38,301	***Total assets***		**44,191**	**32,229**	**44,401**
	Liabilities				
	Current liabilities				
7,775	Creditors and other payables	9	8,379	4,858	10,782
6,126	Repayment of surplus		8,161	-	-
4,213	Employee entitlements	10	4,587	7,054	4,074
18,114	***Total current liabilities***		**21,127**	**11,912**	**14,856**
	Non-current liabilities				
770	Employee entitlements	10	647	900	740
770	***Total non-current liabilities***		**647**	**900**	**740**
18,884	***Total liabilities***		**21,774**	**12,812**	**15,596**
19,417	***Net assets***		**22,417**	**19,417**	**28,805**
	Equity				
19,417	Taxpayers' funds		22,417	19,417	28,805
19,417	***Total equity***		**22,417**	**19,417**	**28,805**

The accompanying accounting policies and notes form part of these Financial Statements.

Statement of Cash Flows

for the year ended 30 June 2018

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 Revenue and Expenses on page 74.

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2019 Forecast Unaudited $000
	Cash flows from operating activities			
83,802	Receipts from Crown	84,012	77,434	90,395
20,328	Receipts from other revenue	15,589	17,752	17,554
(27,439)	Payments to suppliers	(25,531)	(28,179)	(37,108)
(66,196)	Payments to employees	(64,943)	(65,453)	(63,023)
(966)	Payments for capital charge	(1,166)	(1,554)	(1,537)
216	Goods and services tax net	(288)	4,294	(2,036)
9,745	**Net cash flows from operating activities**	**7,673**	**4,294**	**4,245**
	Cash flows from investing activities			
(2,937)	Purchase of property, plant and equipment	(2,185)	(2,904)	(8,930)
(3,035)	Purchase of intangible assets	(3,104)	(2,292)	(3,555)
(5,972)	**Net cash flows from investing activities**	**(5,289)**	**(5,196)**	**(12,485)**
	Cash flows from financing activities			
4,548	Capital contributions	3,000	-	6,388
(7,074)	Repayment of surplus to the Crown	(6,127)	-	-
(2,526)	**Net cash flows from financing activities**	**(3,127)**	**-**	**6,388**
1,247	**Net (decrease)/increase in cash**	**(743)**	**(902)**	**(1,852)**
9,989	Cash at the beginning of the year	11,236	14,937	7,503
11,236	**Cash at the end of the year**	**10,493**	**14,035**	**5,651**

The accompanying accounting policies and notes form part of these Financial Statements.

Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

2017 Actual $000		2018 Actual $000
6,126	**Net surplus/(deficit)**	**8,161**
	Non-cash items	
4,137	Depreciation, amortisation and impairment expenses	4,699
4,137	**Total non-cash items**	**4,699**
	Add/(less) movements in Statement of Financial Position items	
(971)	(Increase)/decrease in debtor Crown	(4,648)
1,850	(Increase)/decrease in debtors and other receivables	(1,627)
(33)	(Increase)/decrease in prepayments	233
(405)	Increase/(decrease) in creditors and other payables	896
214	Increase/(decrease) in GST	(289)
(1,173)	Increase/(decrease) in employee entitlements	248
(518)	**Net movement in working capital items**	**(5,187)**
9,745	**Net cash flow from operating activities**	**7,673**

Statement of Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

2017 Actual $000		2018 Actual $000
	Non-cancellable operating lease commitments	
3,297	Not later than 1 year	3,382
6,594	Later than 1 year and not later than 5 years	14,747
-	Later than 5 years	26,784
9,891	***Total non-cancellable operating lease commitments***	**44,913**

The Treasury has signed a new lease agreement at Levels 1–4 of No 1 The Terrace, Wellington. The commencement date of the new lease will be March 2019 for a term of 12 years, with additional three rights of renewal for six years each.

2017 Actual $000		2018 Actual $000
	Other commitments	
-	Not later than 1 year	101
-	Later than 1 year and not later than 5 years	303
-	***Total capital commitments***	**404**

The Treasury entered into a five-year commitment with a software provider in September 2017.

Statement of Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the Financial Statements.

Unquantifiable contingent liabilities

The Treasury has unquantifiable contingent liabilities for carpark licences and a deed of lease against certain damages or loss caused by our use of those carparks and premises.

The Treasury also granted indemnities to Reuters' services contract in respect of breaches of licence agreements and contracts.

Quantifiable contingent liabilities and assets

As at 30 June 2018, the Treasury had no quantifiable departmental contingent assets or liabilities (30 June 2017: Nil).

The accompanying accounting policies and notes form part of these Financial Statements.

Notes to the Departmental Financial Statements and Non-Departmental Schedules

for the year ended 30 June 2018

1 Statement of Accounting Policies

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

In addition, the Treasury has reported separately on the Non-Departmental Schedules which present financial information on public funds managed by the Treasury on behalf of the Crown, and Trust monies which it administers on behalf of the Crown.

The primary objective of the Treasury is to provide services to the public rather than making a financial return to equity holders. Accordingly, the Treasury has designated itself as a public benefit entity for the purposes of New Zealand Public Benefit Entity International Public Sector Accounting Standards (NZ PBE IPSAS).

The Financial Statements of the Treasury are for the year ended 30 June 2018. The Forecast Financial Statements are for the year ending 30 June 2019. These Financial Statements were authorised for issue by the Secretary to the Treasury on 28 September 2018.

The Departmental Financial Statements and the financial information reported in the Non-Departmental Schedules are consolidated into the Financial Statements of the Government and readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2018.

Statement of compliance

The Financial Statements and unaudited Forecast Financial Statements of the Treasury and the Non-Departmental Schedules 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), Treasury Instructions and Treasury Circulars. Measurement and recognition rules applied in the preparation of the Non-Departmental Supplementary Financial Schedules are consistent with NZ GAAP and Crown accounting policies and are detailed in the Financial Statements of the Government. These Financial Statements have been prepared in accordance with Tier 1 NZ PBE accounting standards.

Basis of preparation

The Financial Statements have been prepared on an historical cost basis, modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified.

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.

Changes in accounting policies

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

Budget figures shown as Mains

The 2018 budget figures are those included in the Department's Budget Estimates for the year ended 30 June 2018, which are consistent with the financial forecast information submitted for the BEFU for the 2017/18 year.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these Financial Statements.

Forecast figures

Basis of preparation

The 2019 forecast figures are for the year ending 30 June 2019, and are consistent with the financial forecast information submitted for the BEFU for the 2018/19 year.

Forecast Financial Statements have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements.

These Forecast Financial Statements have been prepared in accordance with NZ PBE IPSAS, based on BEFU incorporating assumptions as to future events that the Treasury reasonably expects to occur, associated with the actions it reasonably expects to take. They have been compiled on the basis of existing government policies and ministerial expectations at the date the information was prepared.

The forecasted results will remain substantially the same as the previous year. The main assumptions were as follows:

- The Treasury's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities.
- Personnel costs were based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Treasury's best estimate of future costs that will be incurred.

Additional factors that could lead to material differences between the Forecast Financial Statements and the 2018/19 Actual Financial Statements include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustment.

Authorisation statement

These Forecast Financial Statements were authorised for issue by the Secretary and Chief Executive of the Treasury on 17 May 2018. The Secretary and Chief Executive is responsible for the Forecast Financial Statements presented, including the appropriateness of the assumptions underlying the Forecast Financial Statements and all other required disclosure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

Foreign Exchange

Foreign Exchange transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign Exchange 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 Non-Departmental Schedule of Expenses.

Statement of cost allocation policies

The Treasury 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 Corporate Services and by the Office of the Chief Executive that cannot 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.

Critical accounting estimates and assumptions

There are no critical accounting estimates and assumptions made in preparing these Financial Statements.

2 Revenue Crown – Non-exchange

The Treasury's delivery of services and functions on behalf of the Government is funded by two main revenue streams, Revenue from the Crown and Other revenue. Revenue from the Crown consists of amounts appropriated for departmental appropriations for the year, adjusted for any formal additions and reductions.

Revenue from the Crown is measured based on the Treasury's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date. There are no conditions attached to the funding from the Crown. However, the Treasury can incur expenses only within the scope and limits of its appropriations. The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

2017 Actual $000		2018 Actual $000
109	Administration of Guarantees and Indemnities Given by the Crown PLA	109
418	Crown Company Monitoring Advice to the Minister for Science and Innovation and the Minister for Economic Development	128
4,533	Crown Company Monitoring Advice to the Minister for SOEs and Other Responsible Ministers	4,556
27,068	Provision of Financial Operations Services and Operational Advice Policy Advice – Finance	27,142
32,881	Policy Advice	37,819
9,244	Administration of Crown Borrowing and Investment PLA	10,000
10,520	Social Housing Reform	5,493
-	Tax Working Group	1,920
-	Design and Establishment of the Green Investment Fund	1,000
-	Design and Establishment of Christchurch Regeneration Acceleration Facility	500
84,773	**Total Revenue Crown**	**88,667**

3 Other Revenue

2017 Actual $000		2018 Actual $000
13,625	Cost recoveries from SSC and DPMC for CSS	12,567
1,868	Cost recoveries from secondments	1,299
2,492	Cost recoveries from Gateway project	2,477
119	Other	136
18,104	**Total Other Revenue**	**16,479**

4 Personnel Costs

2017 Actual $000		2018 Actual $000
60,075	Salaries and wages	60,315
2,122	Superannuation contributions to defined contribution plans	2,082
(45)	Increase/(decrease) in employee entitlements	289
1,455	Training and development	1,191
1,538	Other	1,311
65,145	**Total Personnel Costs**	**65,188**

5 Property, Plant and Equipment

	Leasehold Improvements $000	Furniture, Fittings and Office Equipment $000	Computer Hardware $000	Total $000
Cost				
Balance at 1 July 2016	5,234	2,469	7,331	15,034
Additions	680	1,017	1,240	2,937
Balance at 1 July 2017	5,914	3,486	8,571	17,971
Additions	849	138	1,198	2,185
Disposal	-	-	(828)	(828)
Balance at 30 June 2018	**6,763**	**3,624**	**8,941**	**19,328**
Accumulated depreciation and impairment losses				
Balance at 1 July 2016	4,917	2,095	4,520	11,532
Depreciation expense	364	168	1,083	1,615
Balance at 1 July 2017	5,281	2,263	5,603	13,147
Depreciation expense	264	298	1,171	1,733
Elimination on disposal	-	-	(828)	(828)
Impairment losses*	-	-	302	302
Balance at 30 June 2018	**5,545**	**2,561**	**6,248**	**14,354**
Carrying amounts				
At 1 July 2016	317	374	2,811	3,502
At 1 July 2017	633	1,223	2,968	4,824
Balance at 30 June 2018	**1,218**	**1,063**	**2,693**	**4,974**

*Impairment losses: The Treasury has recognised an impairment loss of $0.213 million for software intangibles and $0.302 million for computer hardware (2017: Nil). The impairment arose as SSC advised that it intends to fully withdraw from all IT services currently provided by CSS by 30 September 2018. IT management and Finance business units have determined that SSC-related fixed assets and assets in the work-in-progress categories need to be impaired. The impairment expense was estimated based on SSC's percentage share of the relevant assets' projected net book value as at 30 September 2018.

Asset	Useful Life	Depreciation/Amortisation Rate
Furniture and fittings and office equipment	3–10 years	10%–33%
Leasehold improvements	Until 30 April 2019**	Until 30 April 2019*
Computer equipment	3–5 years	20%–33.3%
Computer software – intangibles	3–5 years	20%–33.3%

**The Treasury has signed a new lease agreement at Levels 1–4 of No 1 The Terrace, Wellington. The useful life of leasehold improvements has been updated to reflect the expected moving date to the new premises.

6 Intangibles Assets

	Acquired Software $000	Internally Generated Software $000	Total $000
Cost			
Balance at 1 July 2016	4,678	7,412	12,090
Addition	2,422	613	3,035
Balance at 1 July 2017	7,100	8,025	15,125
Additions	1,383	1,713	3,096
Disposal	(27)	(1,207)	(1,234)
Balance at 30 June 2018	**8,456**	**8,531**	**16,987**
Accumulated depreciation and impairment losses			
Balance at 1 July 2016	2,121	3,733	5,854
Depreciation expense	1,097	1,425	2,522
Balance at 1 July 2017	3,218	5,158	8,376
Depreciation expense	1,331	1,120	2,451
Elimination on disposal	(27)	(1,207)	(1,234)
Impairment losses* (see Note 5)	43	170	213
Balance at 30 June 2018	**4,565**	**5,241**	**9,806**
Carrying amounts			
At 1 July 2016	2,557	3,679	6,236
At 1 July 2017	3,882	2,867	6,749
Balance at 30 June 2018	**3,891**	**3,290**	**7,181**

Intangible assets: The total intangible assets consist of software acquired from third parties and software developed internally. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. Intangible assets with finite lives are reviewed annually to determine if there is any indication of impairment.

7 Capital Charge

The capital charge is recognised as an expense in the financial year to which the charge relates. The Treasury pays a capital charge to the Crown based on its equity as at 30 June and 31 December each year.

The capital charge rate for the year ended 30 June 2018 was 6%. (2017: The capital charge rate was 7% from 1 July 2016 to 31 December 2016 and then 6% from 1 January 2017 to 30 June 2017.)

8 Other Operating Expenses

2017 Actual $000		2018 Actual $000	2018 Main Estimates Unaudited $000	2019 Forecast Unaudited $000
3,962	Rental of premises	3,978	3,804	4,121
1,236	Bank fees, commissions and service charges	1,093	1,028	1,255
	Fees to auditor:			
395	- Fees to KPMG for audit of the Department and NZDMO	345	351	375
247	- Audit of Financial Statements of the Government	242	228	260
7,756	Consultants	7,037	7,573	10,394
1,200	Legal fees	344	953	978
284	Process management services	324	1,381	424
2,184	Transport and travel	1,778	2,589	2,257
6,971	Information and communication costs	8,137	7,242	7,824
716	Office administration costs	1,075	786	1,114
1,552	Other operating costs	1,580	1,449	3,656
26,503	**Total Operating Expenses**	**25,933**	**27,384**	**33,158**

The Social Housing Reform Programme is being coordinated by the Treasury and therefore the consultancy work is funded via the Treasury, although the programme has application outside of the Treasury's internal functions. In addition to the audit fees billed by KPMG, fees of $0.672 million were paid to KPMG for the Social Housing Reform Programme.

9 Creditors and Other Payables

2017 Actual $000		2018 Actual $000
1,751	Payables	3,327
4,400	Accrued expenses	3,709
1,624	GST payable to Inland Revenue	1,343
7,775	**Total Creditors and Other Payables**	**8,379**

10 Employment Entitlement Provisions

2017 Actual $000		2018 Actual $000
	Current employment entitlement provisions	
436	Accrued salaries	545
182	Accrued performance payments	470
3,203	Annual leave	3,011
118	Sick leave	136
193	Retirement, resigning and long service leave	419
81	Other employee entitlements	6
4,213	**Total Current Employment Entitlement Provisions**	**4,587**
	Non-current employment entitlement provisions	
770	Retirement, resigning and long service leave	647
770	**Total Non-current Employment Entitlement Provisions**	**647**
4,983	**Total Employee Entitlements**	**5,234**

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

In determining the appropriate discount rate, the Department has adopted the central table of risk-free discount rates and Consumers Price Index assumptions provided by the Treasury to all departments.

11 Related Party Transactions

All related party transactions have been entered into on an arm's-length basis and are therefore exempt from the need for disclosure.

The Treasury is a wholly-owned entity of the Crown and received funding from the Crown of $88.667 million to provide services to the public for the year ended 30 June 2018 (2017: $84.773 million). The Government significantly influences the roles of the Treasury as well as being its major source of revenue.

In conducting its activities, the Treasury is required to pay various taxes and levies 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 2018 totalled $3.632 million (2017: $3.760 million). These purchases include air travel from Air New Zealand, and Accident Compensation Corporation (ACC) levies. Transactions with other government agencies (ie, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions.

Key management personnel compensation

2017 Actual $000		2018 Actual $000
2,419	Salaries and other short-term employee benefits	2,322
64	Post-employment benefits	61
2,483	**Total Key Management Personnel Compensation**	**2,383**

Key management personnel of the Treasury as at 30 June 2018 comprised the Secretary and five Deputy Secretaries who together form the ELT.

The key management personnel compensation disclosure excludes the remuneration and other benefits for the Ministers of the Crown for which the Treasury undertakes activities. The Ministers' remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013. They are paid under Permanent Legislative Authority, and are not paid by the Treasury.

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

There were no related party transactions involving key management personnel or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2017: Nil).

12 Events After Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2017: Nil).

13 Explanation of Major Variances Between Actual 2017/18 and Budget

The Treasury achieved a higher net surplus than estimated, mainly as a result of new funding being approved during the financial year for one-off projects including the Tax Working Group, and the Design and Establishment of both the Green Investment Fund and the Christchurch Regeneration Acceleration Facility. The unspent funding on these projects in 2017/18 will transfer into 2018/19 as these projects continue.

Some variances in the Statement of Financial Position and Statement of Cash Flows are timing differences only, resulting from the timing and receipt of cash payments to suppliers and receipts from the Crown. Taxpayers' funds are higher than estimated owing to the earlier receipt of a capital injection for the refurbishment of the Treasury's new premises than originally assumed at the time the budget was developed.

Supplementary Non-Departmental Statements and Schedules

for the year ended 30 June 2018

What is Non-Departmental Output Expense?

A category (class) of outputs can either be supplied by a department (in which case it is labelled a departmental output expense) or to, or on behalf of, the Crown (in which case it is labelled a non-departmental output expense) (definitions of 'departmental' and 'non-departmental' in s2 of the Public Finance Act 1989).

Non-Departmental output expense appropriations are where Ministers have decided to use a supplier other than a department to provide an output. Most commonly these appropriations fund Crown entities. Examples of the Treasury's non-departmental activities are:

Entities	Activities
New Zealand Debt Management Office (NZDMO)	NZDMO manages core Crown borrowing requirements with the objective of managing debt in a way that minimises borrowing costs over the long term while keeping risk at an appropriate level. The Treasury also oversees an investment programme, to help manage Crown cash and liquidity requirements.
Ōtākaro Limited	Ōtākaro Limited is delivering Crown-led Anchor Projects in Central Christchurch and divesting the balance of Crown land. The company will accelerate work on the Anchor Projects by working in a commercial and transparent manner, enabled through its structure as a Crown Company.
Government Superannuation Fund Authority	The Government Superannuation Fund Authority is an autonomous Crown entity, established in October 2001. Its functions are to manage and administer the Government Superannuation Fund (GSF or the Fund) and the GSF Schemes in accordance with the Government Superannuation Fund Act 1956 and subsequent amendments (the GSF Act).
Southern Response Earthquake Services Limited (SRESL)	SRESL is the government-owned company responsible for settling claims by AMI policyholders for Canterbury earthquake damage which occurred before 5 April 2012 (the date AMI was sold to IAG).
NZ Export Credit Office (NZECO)	NZECO is a unit within the Treasury that provides a range of trade credit insurance and financial guarantees that promote and support New Zealand exports and the internationalisation of New Zealand businesses.

What are Non-Departmental Statements and Schedules?

We include the non-departmental statements and schedules in our *Annual Report* to provide information on the financial extent of these activities and to provide context, and supporting information.

This section reports the non-departmental financial schedules in the forms of revenue and capital receipts, expenses, assets and liabilities and commitments and contingent liabilities. These statements and schedules do not, and are not intended to, constitute a full set of financial statements and therefore do not include elements that would be expected to be found in financial statements such as details of the surplus/(deficit) or financial position.

Schedule of Revenue and Capital Receipts

for the year ended 30 June 2018

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000
	Vote Finance			
	Non-Departmental Revenue			
1,817,062	Capital charge		1,886,637	1,705,911
8,651	Change in other Crown's assets and liabilities	1	44,561	-
1,023,543	Dividends from SOEs		793,315	788,148
13,870	Dividends from Crown entities		9,016	5,379
239,134	Interest revenue – NZDMO		251,038	255,854
(281,557)	Other income, fair value and foreign exchange gains – NZDMO	3(b)	172,437	(122,854)
217,531	Other current revenue	4	208,742	269,851
9,205	Other income from Associates		19,085	6,755
3,047,439	**Total Non-Departmental Revenue and Receipts**		**3,384,831**	**2,909,044**
	Non-Departmental Capital Receipts			
7,058	Return of capital by IMF	1	39,020	-
1,295	Loan and other repayments		5,096	2,609
277,784	Housing New Zealand Corporation Limited and Housing New Zealand Limited Loan Repayments		335,854	335,854
286,137	**Total Non-Departmental Capital Receipts**		**379,970**	**338,463**
3,333,576	**Total Non-Departmental Revenue and Capital Receipts**		**3,764,801**	**3,247,507**

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 2018.

Schedule of Expenses

for the year ended 30 June 2018

The Schedule of Expenses summarises expenses that the Treasury 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 92–95.

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000
	Vote Finance			
23,829	Non-departmental output expenses		22,322	24,108
8,087	Non-departmental multi-category output expenses		9,167	10,030
3,410,543	Debt servicing – NZDMO	3(a)	3,412,689	3,398,000
968,041	Non-departmental other expenses (to add EQC after 22 Aug)		534,305	600,423
132,060	Non-departmental multi-category other expenses		101,948	140,477
	Re-measurements:			
(963,606)	Government Superannuation Fund revaluation: actuarial loss/(gain)*		553,000	-
(21,000)	Change in NPF DBP(A) Scheme provision under Crown Guarantee*		30,300	-
(4,406)	Change in Southern Response Earthquake Services Limited (SRESL) provision		219	2,748
-	Change in AIIB re-measurement of liability		564	-
17,360	Foreign exchange losses incurred by the Treasury		-	-
5,532	Other re-measurements incurred by the Treasury		-	-
3,576,440	**Total Non-Departmental Expenses**		**4,664,514**	**4,175,786**

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 2018.

* Details on Government Superannuation Fund (GSF) and National Provident Fund (NPF) related balances are presented in the note: Retirement Plan Liabilities and Provisions to Financial Statements of the Government of New Zealand for the year ended 30 June 2018 respectively.

Schedule of Assets and Liabilities

as at 30 June 2018

The Schedule of Assets and Liabilities summarises the assets and liabilities that the Treasury administers on behalf of the Crown.

2017 Actual $000		Note	2018 Actual $000	2018 Main Estimates Unaudited $000
	Current assets			
8,046,684	Cash and cash equivalents		10,532,749	5,084,000
23,416	Accounts receivable and prepayments		10,420	6,700
1,581,735	Advances		821,735	558,156
8,765,422	Marketable securities, deposits and derivatives in gain – NZDMO		8,798,726	4,936,000
18,417,257	**Total Current Assets**		**20,163,630**	**10,584,856**
	Non-current assets			
3,338,076	Advances		4,023,016	4,137,000
257,950	Air New Zealand goodwill		257,950	257,950
1,055,903	Marketable securities, deposits and derivatives in gain – NZDMO		97,323	73,000
382,365	Other share investments	1	418,018	396,391
237,342	Other equity-accounted investments		250,019	227,751
49,570	Property, plant and equipment		47,008	45,603
5,321,206	**Total Non-Current Assets**		**5,093,334**	**5,137,695**
23,738,463	**Total Non-Departmental Assets**		**25,256,964**	**15,722,551**
	Current liabilities			
4,903,614	Crown balances with Westpac		5,552,201	4,063,000
483,011	Payables and accrued expenses		547,234	126,872
11,146,737	Borrowings – NZDMO	3(c)	15,413,591	16,733,000
590,074	GSF unfunded liability		608,000	736,000
433,293	Provisions	5,6	183,478	127,008
17,556,729	**Total Current Liabilities**		**22,304,504**	**21,785,880**
	Non-current liabilities			
75,555,003	Borrowings – NZDMO	3(c)	71,284,492	66,400,000
10,414,108	GSF unfunded liability		10,379,852	9,213,826
856,000	NPF DBP(A) Scheme unfunded provision		835,000	816,000
257,890	Provisions	5,6	206,506	190,709
87,083,001	**Total Non-Current Liabilities**		**82,705,850**	**76,620,535**
104,639,730	**Total Non-Departmental Liabilities**		**105,010,354**	**98,406,415**

In addition, the Treasury monitors 11 SOEs, four mixed ownership model entities and 20 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.

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 2018.

Schedule of Commitments and Contingent Liabilities

as at 30 June 2018

The Department, on behalf of the Crown, has entered into non-cancellable contracts in relation to New Zealand House in London at a value of $0.924 million for the year ended 30 June 2018 (2017: $0.983 million).

Disclosure of contingent liabilities incurred by the Crown is detailed in the Financial Statements of the Government for the year ended 30 June 2018.

Statement of Trust Monies

as at 30 June 2018

2017 Actual $000		2018 Actual $000
8,480	Unclaimed money	12,779
1	Meridian Initial Public Offer Trust Account	-
1	Genesis Initial Public Offer Trust Account	1
1	Mighty River Power Initial Public Offer Trust Account	1
8,483	**Total Trust Account monies closing balance**	**12,781**

(a) Unclaimed money

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.

During the year, there has been $4.840 million of contributions (2017: $2.467 million) and $0.550 million (2017: $3.353 million) of distributions made from the Trust Account. Interest earned on the Trust Account for the year was $0.122 million (2017: $0.120 million).

(b) Government Share Offer Trust Accounts

The Crown opened Initial Public Offer Trust Accounts to facilitate the partial sale of Meridian, Genesis and Mighty River Power during 2013. The source of funds relates to proceeds from the sale of shares and distributions relate to refunds paid to investors.

There has been insignificant movement in the Trust Accounts for both the 2017/18 and 2016/17 financial years. Meridian Trust Account was closed during 2017/18.

Explanatory Notes to Supplementary Non-Departmental Statements and Schedules

Explanatory notes provide details of significant Treasury non-departmental expenditure and revenue variances between actual results in 2016/17 and 2017/18. All non-departmental balances are also included in the Financial Statements of the Government, with the exception of impairment of investments.

1 International Financial Institutions (IFIs)

Treasury Crown has share investments in the following IFIs: Asian Development Bank, International Bank of Reconstruction and Development, International Finance Corporation, Multilateral Investment Guarantee Agency and Asian Infrastructure Investment Bank. Included in the Schedule of Assets and Liabilities – other share investments, Treasury Crown has a total share investment balance of $417.284 million in IFIs (2017: $382.365 million).

During the year, a gain of $34.919 million on revaluation of the IFIs' investment was recorded as a result of New Zealand dollar foreign exchange rate movement (2017: a loss of $17.360 million). This gain is included in the Schedule of Revenue and Capital receipts – change in other Crown's assets and liabilities.

Capital receipts of $39.020 million were received from International Monetary Fund (IMF) members, representing repayment of earlier advances originally made to support members in financial difficulties (2017: $7.058 million).

2 Ōtākaro Limited and Greater Christchurch Anchor Projects

Canterbury Earthquake Recovery Authority (CERA) was disestablished on 18 April 2016 as the Government transitioned from leading the recovery to establishing long-term, locally-led recovery and regeneration arrangements. Responsibilities for the continuation of the key Anchor Projects Programme and precincts in Christchurch, along with managing the Crown's property assets in the central city, are now carried out by Ōtākaro Limited, a Crown entity.

For 2017/18, the Crown incurred $21.680 million in respect of Ōtākaro operating grant and financing expenses (2017: $19.972 million). The Crown also incurred $130.562 million in respect of Greater Christchurch Anchor Projects MCA (2017: $152.302 million).

The transfer of assets to Ōtākaro Limited amounted to $33.519 million (2017: $35.108 million), representing the fair value of Anchor Projects assets, funded via an equity injection by the Crown of $33.519 million. No Vendor Finance Loan was issued during the year (2017: $5.900 million). Interest is charged on a base risk-free rate plus interest margin, whereby the interest margin represents a concessionary component of the loan and is funded via operating funding to Ōtākaro Limited.

Some of the land transferred to Ōtākaro for the Anchor Projects, rather than being built on, will become new public space for the people of greater Christchurch and visitors to enjoy. Under the cost-sharing agreement signed by the Crown and the Christchurch City Council ('the Council'), any land (or associated assets) for Anchor Projects that forms part of the 'public realm' vests in the Council which will be responsible for its ongoing maintenance. The vesting dates vary and some are yet to be determined. The creation of this space will be an asset for the people of Christchurch for generations to come. The Crown has recognised a provision of the 'public realm' land/assets that will be transferred to the Council at a future date. The vesting provision balance at 30 June 2018 was $49.524 million (2017: $42.552 million). The additional vesting provision during the 2017/18 financial year was $6.972 million; this was included in the total Anchor Projects MCA expenses.

3 New Zealand Debt Management Office (NZDMO)

The following sections cover explanations of NZDMO's interest expenses, revaluations and borrowing profile.

(a) Interest expense

2016/17 Actual $000	Interest expense	2017/18 Actual $000
2,748,626	NZ Government Nominal Bonds	2,577,172
502,958	NZ Government Inflation-indexed Bonds	698,709
79,051	NZ Government Treasury Bills	73,229
79,908	Other	63,579
3,410,543	**Total Interest Expense**	**3,412,689**

The debt servicing interest cost has remained consistent with the prior year. An increased average volume of Inflation-indexed Bonds outstanding has increased the interest expense. This has been offset by average volumes of Nominal Bonds declining year on year.

(b) Other income, fair value and Foreign Exchange gains

The net unrealised valuations on financial instruments moved from a loss of $350 million to a gain of $139 million. The net realised losses on financial instruments were reduced by $136 million to $39 million. The other interest income was reduced by $173 million.

(c) Borrowings

The total level of borrowings outstanding has remained consistent with 2016/17. The table below shows the current and non-current borrowings composition. The NZ Government Nominal Bonds are the Crown's primary funding tool. NZ Government Inflation-indexed Bonds are considered an important secondary funding tool providing interest costs which are positively correlated with changes in the Crown's underlying fiscal position. NZ Government Treasury Bills are short-term debt instruments with a maturity of one year or less.

2017 Actual $000	Borrowings at amortised cost	2018 Actual $000
	Current Liabilities	
5,993,000	NZ Government Nominal Bonds	10,291,000
4,071,108	NZ Government Treasury Bills	4,171,647
124,000	KiwiBonds	120,000
958,629	Other	830,944
11,146,737	**Total Borrowing – Current Liabilities**	**15,413,591**
	Non-Current Liabilities	
57,454,626	NZ Government Nominal Bonds	51,599,032
16,376,468	NZ Government Inflation-indexed Bonds	17,838,253
65,741	KiwiBonds	61,781
1,658,168	Other	1,785,426
75,555,003	**Total Borrowing – Non-Current Liabilities**	**71,284,492**

NZ Government Nominal Bond levels decreased following the repayment of the December 2017 bond. The maturing Nominal Bond in March 2019 means a greater portion of the outstanding Nominal Government Bonds are classified as current. Outstanding Inflation-indexed Bonds have increased following the issuance of September 2040 bonds in the period. All Inflation-indexed Bonds are classified as non-current.

The following table shows the movement of the total NZ Government Bonds (including both Nominal and Inflation-indexed Bonds).

2017 Actual $000	Movement in NZ Government Bonds	2018 Actual $000
78,612,000	**NZ Government Bonds opening balance**	**79,824,095**
3,450,000	NZ Government Nominal Government Bonds – issued via tender	4,000,000
1,000,000	NZ Government Inflation-indexed Bonds – issued via tender	1,000,000
2,000,000	NZ Government Nominal Government Bonds – issued via syndication	2,000,000
1,500,000	NZ Government Inflation-indexed Bonds – via syndication	-
(547,000)	Net – Non-market Bonds	500,000
(5,846,000)	NZ Government Nominal Government Bonds repurchased	(1,750,000)
-	NZ Government Nominal Bonds matured	(5,939,000)
(344,905)	Net premium/discount and accrued interest	93,191
1,212,095	**Net movement for the period**	**(95,809)**
79,824,095	**NZ Government Bonds closing balance**	**79,728,286**

4 Other Current Revenue

Significant balances included in Other Current Revenue are: Employers' Superannuation contributions, Reserve Bank Surplus, Earthquake Commission guarantee fee, recovery of Crown's costs from third parties and rental income from New Zealand House.

5 Southern Response Earthquake Services Limited (SRESL)

The Crown's commitment of financial support to SRESL for the ongoing settlement of its Canterbury earthquake claims is embodied in a Crown Support Deed (CSD). The CSD provides two key capital instruments: $500 million of convertible preference shares (the Preference Shares); and the $980 million Uncalled Ordinary Share facility. Under the terms of the second deed of amendment and restatement to the Crown support deed in January 2013, the Crown subscribed for 500 million uncalled ordinary shares which had an issue price of $1 per share. In June 2016, the facility was increased by another 250 million uncalled ordinary shares, and by a further 230 million shares in 2017 to reflect the additional support necessary to enable the company to settle all its outstanding claims. As at 30 June 2018, Southern Response had called 563 million shares ($563 million) with the balance of 417 million shares remaining uncalled.

The financial obligations to SRESL under the Uncalled Ordinary Share facility have been revalued to their net present value at 30 June 2018. This valuation is driven by SRESL's expected cash drawdown profile based on the underlying outstanding insurance claims valuation, and its discounting over the life of the CSD. The insurance claims valuation was completed by Finity Consulting Pty Limited.

Included in the Statement of Departmental and Non-Departmental Expenses and Capital Expenditure Against Appropriations is interest unwind expense recognised on the outstanding liability for the year of $6.857 million (2017: $7.520 million).

During the 2018/19 year, it is estimated the Crown is to pay $178 million to SRESL to assist in settling its outstanding claims. This amount was included in Current Liabilities – Provisions in the Schedule of Assets and Liabilities (2017: $331 million).

A representative action proceeding was filed against SRESL on 29 May 2018. The financial statements make no allowance for the outcome of these proceedings, as the range of possible outcomes cannot be reliably quantified at this time. The Crown has established a deed of indemnity with SRESL in respect of any settlements that may arise from this claim.

The SRESL provision included in the total provisions in the Schedule of Assets and Liabilities was $296.427 million (2017: $497.606 million). The provision is based on the outstanding insurance claims valuation, the estimation of which involved a number of key assumptions, including the estimate of the direct costs to be incurred to settle claims, inflation rate, discount rate, claims handling expenses and future over cap numbers. There is considerable uncertainty surrounding the projection and valuation of SRESL's outstanding claims liability and therefore considerable uncertainty in the provision recognised by the Crown to assist SRESL in settling these outstanding claims.

6 Stockton Acid Mine Drainage

The Crown agreed to assume liability for the acid mine drainage (AMD) remediation obligations arising from past coal mining at Stockton Mine, through a Deed of Commitment with Solid Energy New Zealand Limited and relevant Councils in 2016/17. In 2017/18, a new mine owner become party to the Deed of Commitment through a Deed of Accession and Assumption. The new mine owner is carrying out AMD treatment and being reimbursed by the Crown.

A provision of $26.158 million relating to a previous Stockton AMD indemnity has been extinguished, and a non-current provision of $65.761 million represents the forecast cost of meeting the Crown's obligations for AMD remediation. This represents a long term obligation under current treatment methods, but the Treasury is currently exploring alternative treatment options to manage the Crown's future liability.

7 Events After Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2017: Nil).

4

Appendix:

What has been Achieved with Non-Departmental Appropriations

Although the following information is presented in the same document as the Treasury's *Annual Report*, it does not form part of the Treasury's *Annual Report* for the year ended 30 June 2018 (including reporting by the Treasury on appropriations for that year).

Four appropriations in this appendix meet the requirement, set out in the supporting information to the 2017/18 Estimates or 2017/18 Supplementary Estimates, for information on certain non-departmental appropriations to be reported by the Minister of Finance:

- Ahu Whenua Trust Ex-gratia Payment
- Earthquake Commission – Clean-up of Edgecumbe Properties
- Deferred Receipt of Proceeds from Sale of Fairway Resolution Limited
- Refinancing of Housing New Zealand Corporation and Housing New Zealand Limited Debt

Non-Departmental Output Expenses

Management of Anchor Projects by Ōtākaro Limited

What is intended to be achieved with this appropriation

This appropriation is intended to achieve continuation of Christchurch earthquake recovery of the Anchor Projects Programme and divestment of Crown-owned land in Christchurch.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
19,972	Expenses	21,680	23,200	26,409

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Ōtākaro Ltd will manage and administer the Anchor Projects Programme and divestment of Crown-owned land in Christchurch in accordance with the company's purpose as set out in its Constitution and its Statement of Intent.	Achieved	Achieved	Achieved

Significant achievements

Refer to the Greater Christchurch Anchor Projects MCA on page 55 on performance information on the Anchor Projects Programme.

Note: As a Schedule 4A company, Ōtākaro Ltd is required to produce a *Statement of Intent* and *Statement of Performance Expectations*. These are published on the company's website. Ōtākaro Ltd also reports on its performance in its *Annual Report* – this includes its performance in the construction and management of Anchor Projects financed from this appropriation. The 2018 *Annual Report* will be publicly available on the company website in November 2018.

Non-Departmental Other Expenses

Ahu Whenua Trust Ex-gratia Payment

What is intended to be achieved with this appropriation

This appropriation is to achieve settlement of claims in negotiations that are being led by the Treasury.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
-	Expenditure	-	-	9,000

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Settlement is in accordance with terms and conditions of the agreement.	Achieved	Not achieved*	Not achieved*

* Note: The measure is reported as not achieved as both parties have agreed to progress negotiations over a longer timeframe than originally anticipated.

Significant achievements

In 2016/17, Cabinet agreed to a final settlement offer that would be made to the Ahu Whenua Trust in 2017/18. However, both parties have subsequently agreed to progress negotiations over a longer timeframe than originally anticipated.

Earthquake Commission – Clean-up of Edgecumbe Properties

What is intended to be achieved with this appropriation

This appropriation is intended to enable EQC to be reimbursed for costs associated with implementing ministerial requests in relation to property clean-up work following the Edgecumbe severe flooding of April 2017.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
-	Expenditure	77	-	455

What was achieved with this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Payments are made in a timely manner following the receipt of invoices from EQC.	Achieved	New measure in 2017/18	Achieved

Significant achievements

During 2017/18, silt and debris (that resulted from the flooding) was removed from 175 insured properties and seven uninsured properties in the Edgecumbe township.

Non-Departmental Capital Expenditure

Deferred Receipt of Proceeds from Sale of Fairway Resolution Ltd

What is intended to be achieved with this appropriation

This appropriation is intended to achieve the Crown's responsibilities under section 65P of the Public Finance Act 1989.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
-	Expenditure	1,000	-	1,000

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Payment is received in accordance with the terms stipulated in the Sale and Purchase Agreement.	Achieved	New measure in 2017/18	Not achieved*

* Note: Payment was scheduled to be made in early July 2018, which meant it fell out of the 2017/18 financial year.

Significant achievements

During 2017/18, agreements were made to facilitate payment in July 2018.

Refinancing of Housing New Zealand Corporation and Housing New Zealand Ltd Debt

What is intended to be achieved with this appropriation

This appropriation is required when Housing New Zealand Corporation and Housing New Zealand Ltd refinance their loans and is intended to enable the Treasury to monitor and administer the expenditure on refinancing.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
275,777	Capital expenditure	335,854	337,002	337,045

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Refinancing will be undertaken in accordance with the agreed appropriation limits.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, 16 refinancing requests were actioned for Housing New Zealand, totalling $335.854 million.

Loan Facility for Tāmaki Redevelopment Company

What is intended to be achieved with this appropriation

This appropriation is intended to enable Tāmaki Redevelopment Company Limited to accelerate regeneration action.

Financial information

2017 Actual $000		2018 Actual $000	2018 Main Estimates $000	2018 Supp. Estimates $000
3,000	Expenditure	18,000	47,000	47,000

What was achieved in this appropriation

Performance measure	Target for 2017/18	Performance for 2016/17	Performance for 2017/18
Payments are made consistent with the terms and conditions of the loan facility.	Achieved	Achieved	Achieved

Significant achievements

During 2017/18, this loan facility allowed Tāmaki Redevelopment Company (TRC) to fund its development programme, repairs and maintenance, and general working capital.

Note: As a Schedule 4A company, TRC is required to produce a *Statement of Intent* and a *Statement of Performance Expectations* and report on its performance in its *Annual Report*. These documents can be obtained from http://www.tamakiregeneration.co.nz/about-trc/key-documents.

List of Acronyms

ACC	Accident Compensation Corporation
AMD	Acid mine drainage
BASS	Benchmarking Administrative and Support Services
BEFU	Budget Economic and Fiscal Update
CBA(x)	Cost Benefit Analysis (tool)
CEC	Crown Entity Company
CERA	Canterbury Earthquake Recovery Authority
CFI	Crown financial institutions
CMR	Crown-Māori Relationship
CSD	Crown Support Deed
CSS	Corporate and Shared Services
D&I	Diversity and Inclusion
DPMC	Department of the Prime Minister and Cabinet
DRP	Dividend Reinvestment Plan
ELT	Executive Leadership Team
EQC	Earthquake Commission
FMIS	Financial Management Information System
FSG	Financial Statements of the Government
GDP	Gross Domestic Product
GSF	Government Superannuation Fund
HNZC	Housing New Zealand Corporation
HR	Human Resources
IANZ	Indicators Aotearoa New Zealand
ICR	Investor Confidence Rating
IFIs	International Financial Institutions
IMAP	Investment Management and Asset Performance
IMF	International Monetary Fund
I&T	Information and Technology
IT	Information Technology
LSF	Living Standards Framework
MBIE	Ministry of Business, Innovation and Employment
MC	Ministerial Correspondence
MCA	Multi-Category Appropriation
MOIA	Official Information Act request made to the Minister
MSD	Ministry of Social Development
NIIP	Net International Investment Position
NPF	National Provident Fund
NZAE	New Zealand Association of Economists
NZBN	New Zealand Business Number
NZDMO	New Zealand Debt Management Office
NZECO	New Zealand Export Credit Office
NZ GAAP	New Zealand Generally Accepted Accounting Practices
NZGBs	New Zealand Government Bonds
NZIER	New Zealand Institute of Economic Research

NZ PBE IPSAS	New Zealand Public Benefit Entity International Public Sector Accounting Standards
NZS Fund	New Zealand Superannuation Fund
OBEGAL	Operating balance before gains and losses
OECD	Organisation for Economic Cooperation and Development
OIA	Official Information Act
PLA	Permanent Legislative Authority
PQ	Parliamentary Questions
RACI	Responsibility Assignment Framework
RBNZ	Reserve Bank of New Zealand
RIA	Regulatory Impact Assessment
SME	Small and medium-sized enterprises
SOE	State-owned enterprise
SOI	Statement of Intent
SRESL	Southern Response Earthquake Services Limited
SSC	State Services Commission
TIC	Treasury Information Capability
TOIA	Treasury Official Information Act request
TPK	Te Puni Kōkiri
TRC	Tāmaki Redevelopment Company
TWG	Tax Working Group
UGA	Urban Growth Agenda
UN	United Nations
WAP2	Wellington Accommodation Project tranche 2
WTO	World Trade Organisation