



B.27 – The Treasury Annual Report

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



The Treasury Annual Report 2018/19

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

The weave image depicts the four capitals of the Living Standards Framework as flax strands, with the condition of each capital represented by the width and strength of colour of each strand. When woven together (raranga), the strands come together to produce a sturdy whariki (mat) or kete (basket). Wellbeing is increased when the four capitals are all strong and supporting each other.



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Annual Report presented to the House of Representatives pursuant to section 44 of the Public Finance Act 1989

Report on Non-Departmental Appropriations by the Minister of Finance presented to the House of Representatives pursuant to section 19B of the Public Finance Act 1989

The URL for this publication on the Treasury website at October 2019 is:
<https://treasury.govt.nz/publications/annual-report/2019>

1173-1931 (ISSN)



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Chief Executive's Introduction

This year has been another busy one for the Treasury. We provided robust economic and financial advice to the Government and supported it in preparing the first Wellbeing Budget. We have taken lead roles in the reform of state sector legislation, a significant review of the country's taxation platform, and the development of investment into the country's key infrastructure networks.

Our mission to be a world-leading Treasury relies on the ability to give the best advice. We continue to develop the Living Standards Framework (LSF) to ensure our advice takes wellbeing impacts and evidence into account. This year we adopted the LSF as the foundation of the Budget development process. In addition to the potential benefits domestically, international interest has been significant: the latest Organisation for Economic Co-operation and Development (OECD) Survey of New Zealand, for example, included a substantial focus on wellbeing and the LSF.

Much of the transformational work the Treasury led or supported is still in progress. An enduring impact on both the public sector and the New Zealand economy is anticipated with this.

The review of the 30-year old Public Finance Act will update our public finance and budget system to make it more streamlined and strategic while retaining its many existing strengths. The Reserve Bank of New Zealand Act, of the same vintage, has also been undergoing review to create a modern monetary and financial policy framework.

Together the Treasury and Inland Revenue provided support to the Tax Working Group. We have also been deeply involved with the creation or proposed establishment of new entities: Green Investment Finance Ltd, the Infrastructure Commission – Te Waihangā, and an Independent Fiscal Institution.

We have faced challenges this year. The most significant was the Budget security flaw. We set ourselves high standards and regret that on this occasion we failed to meet them. The incident has led to a thorough review and I am confident we will ultimately be stronger because of it.

We have also successfully operated within our budget by taking a considered but flexible approach to planning. We acknowledge the importance of being diverse, inclusive and adaptable – all attributes which help us embrace new evidence and thinking to enhance the depth of our economic and financial capability. This will be our focus in the year ahead as we support the Government in meeting New Zealand's economic and fiscal challenges.

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 2019 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 2020 and its operations for the year ending on that date.



Struan Little
Acting Secretary to the Treasury

13 September 2019



SECTION 1

**Who We Are
and What We Do**

2018/19 Annual Report at a Glance

A world-leading Treasury working towards higher living standards for New Zealanders

The Economy

We want New Zealand to be prosperous, and for that prosperity to be sustainable and inclusive.

We supported the Government and relevant Ministers to make informed policy decisions for New Zealanders; both in terms of the microeconomy (including, but not limited to economic development, competition, capital markets, tax, natural resource management, productivity, innovation, investment and trade, and regulation); and the macroeconomy (including, but not limited to forecasts and advice on fiscal policy, the monetary framework, labour markets, skills, education and infrastructure).

The State Sector

A high performing State Sector can be characterised by the efficient and effective delivery of government initiatives and objectives.

We improved State Sector performance through our policy advice on State Sector management and institutional settings, and through programmes designed to build the ability of key finance officials in agencies to direct and improve the financial management of their agencies.

Crown Finance

Our advice on fiscal policy and strategy ensures the Government can manage and use the Crown's finances at a reduced cost to taxpayers.

This saw us managing cost-benefit and other value-for-money assessment processes, and facilitating financial asset management.

We apply a broad, robust economic approach across our work

- New Zealand's first Wellbeing Budget delivered.
- Good progress made with establishing New Zealand's Infrastructure Commission to ensure New Zealand is investing in the right infrastructure, at the right time and in the right place.
- New Zealand Green Investment Finance Ltd established to accelerate low emissions investment in New Zealand.
- Government's decisions on improvements to New Zealand's tax system progressed through our advice and support of the Tax Working Group.
- Good progress with modernising New Zealand's monetary policy framework through our review of the Reserve Bank Act 1989.
- Significant reform to provide that the New Zealand housing market is shaped by New Zealand-based buyers through our successful work on the Overseas Investment Amendment Act.
- Business case for the community regeneration of Eastern Porirua informed by the Living Standards Framework.

- Good progress made on providing greater transparency around New Zealand's fiscal policy through our advice to Government on the creation of an Independent Fiscal Institution.
- Greater strategic financial management across the public service delivered through the Treasury's Financial Development Programme.
- Continued leadership of investment management across the state sector.
- Stronger investment capability across the state sector through the Investment Capability Assessment Programme.
- Principles for measuring wellbeing developed.

- Improved ability of the Crown to manage its debt and make investment decisions through:
 - enhancements to the Treasury's debt management function
 - our advice on lifting the performance of Crown Fiscal Institutions (including, but not limited to the Accident Compensation Corporation, the Earthquake Commission, and New Zealand Green Investment Finance Ltd)
- the Treasury's delivery of a funding programme to ensure there is enough Crown funding.
- Publication of the New Zealand Government Securities Funding Strategy to clarify to investors and intermediaries (eg, banks) how much the Crown will borrow in the fiscal year.
- Continued support for the Christchurch recovery effort.

Our work contributes to raising these indicators of New Zealand's performance, including those from our Living Standards Framework

MEASURE:

Unemployment is low or stable

PERFORMANCE:

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

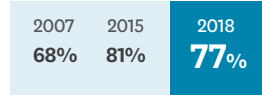


MEASURE:

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

PERFORMANCE:

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



New Zealanders' trust of public services based on personal experience



MEASURE:

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

PERFORMANCE:

At Budget Economic and Fiscal Update (BEFU) 2019, OBEGAL surpluses are forecast to rise steadily at an average of 1.6%



MEASURE:

New Zealand's ranking in the Global Competitiveness Index

PERFORMANCE:

New Zealand's ranking in the World Economic Forum's Global Competitiveness Index remained steady at 18th in 2018, representing a significant and continued rise from 24th in 2007



MEASURE:

Inflation averages between 1% and 3%

PERFORMANCE:

Annual inflation, as measured by the Consumers Price Index



Five-year average rate of inflation



MEASURE:

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

PERFORMANCE:

Transparency International's Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption using a scale of 0-100 (where 100 equates to no corruption, and 0 equates to a high level of corruption), according to experts and business people.



Consistent with previous years, New Zealand was recognised as one of the least corrupt countries with a score of 87/100, making it the second least corrupt country on the list.

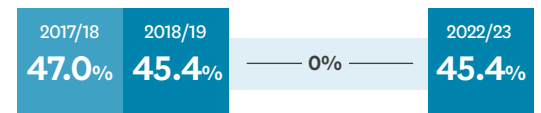
MEASURE:

Total Crown net worth is between 40% and 44% of GDP, while maintaining the current credit rating

PERFORMANCE:

Following assessments made over 2018/19, Moody's, S&P, and Fitch maintained New Zealand's sovereign credit ratings at Aaa, AA+, and AA+ respectively. For both Moody's and Fitch the outlook remains stable, while for S&P the outlook was upgraded to positive.

Forecast (BEFU 2019)



Our Strategy at a Glance

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.



Our business objectives

As the Government's lead economic and financial advisor, we advise the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments. Within this context, our business objectives represent three areas where our advice can achieve the greatest contribution to wellbeing:

The economy

We support the Government and relevant Ministers to make informed decisions on macroeconomic and microeconomic policy to support outcomes for New Zealanders. This includes fiscal policy and advice on the monetary policy framework, economic development and innovation, capital markets, tax, resource management, productivity, labour markets and skills, investment and trade, and regulation. This report presents our achievements across these areas in 2018/19, and how we have used our Living Standards Framework (LSF) to inform our efforts.

At the same time, we have also continued to maintain an ongoing advisory role that includes, but is not limited to:

- **the Government's economic strategy** – we supported strategic discussions amongst Ministers at the Economic Development Cabinet Committee and with public speeches by the Minister of Finance. We also worked with the Ministry of Business, Innovation and Employment (MBIE) to drive the Government's economic strategy with other economic agencies
- **facilitating the economic transition to a low emissions economy** – we worked with other agencies to advise the Government on its decisions on the Climate Change Response (Zero Carbon) Amendment Bill, the review of the New Zealand Emissions Trading Scheme and the establishment of the Independent Climate Change Commission
- **education, skills and labour market policy that supports the Future of Work focus** – we worked closely with Ministers, agencies and key stakeholders to establish the Future of Work Tripartite Forum and advised and promoted alignment across the Government's education, welfare, immigration and labour market work programmes and broader economic strategy.

The State sector

Our greatest contribution to the efficient and effective delivery of government initiatives and objectives is through our policy advice on state sector management and institutional settings, and through programmes designed to build the ability of key finance officials in agencies to direct and improve the financial management of their agencies.

Our advice contributes to the following areas:

- **public finance modernisation** – we advised and supported the Government by producing reports, speeches and cabinet papers on which elements of the public finance system would benefit most from modernisation (eg, state sector reform, embedding wellbeing into the Public Finance Act 1989)
- **investment and asset management** – we led a key part of New Zealand's public finance system, known as the investment management system, to ensure the system (processes, rules, capabilities, information and behaviours) works smoothly and optimises the value over time from existing assets and new investments managed by government departments and Crown entities. We worked with agencies to improve their asset management capability through a combination of advice, assessments and sharing of best practice
- **delivery of monthly Financial Statements of Government** – we supported the Government by providing information on the government's assets and liabilities, revenue and expenses and cash flows to inform the fiscal forecasts, which also report on the forecast financial and physical capital for Government.

Crown finances

As a central agency, we ensure the Government can manage and use the Crown's finances at a reduced cost to the taxpayer. This sees us providing advice through our management of cost-benefit and other value-for-money assessment processes, and through facilitating financial asset management.

The Treasury produces the audited annual financial statements of government in accordance with generally accepted accounting practice (GAAP). These provide information on the government's assets and liabilities, revenue and expenses and cash flows to inform the fiscal forecasts, which also report on the forecast financial and physical capital for Government.

We also provide and contribute to:

- **fiscal strategy** – we provided fiscal strategy advice for the *Budget Policy Statement 2019* and *Fiscal Strategy Report 2019*. We also provided advice on a post-2021/22 fiscal strategy

- **statutory requirements for the Budget¹** – in addition to providing advice on the world’s first Wellbeing Budget, we delivered:
 - economic and fiscal updates outlining the Treasury’s view of the New Zealand economy and the Government’s books, and the risks associated with them
 - Appropriation Acts² and imprest supply bills³, which provide authority from Parliament to spend public money
- **the Government’s borrowing requirements and associated investment and risk management activities** – we ensure the Government has ready access to funding markets to finance public expenditure when required
- **appropriate financial and social returns, and long-term value from State-owned enterprises (SOEs), other commercial companies that the Crown has a shareholding in and Crown entities** – we provided advice to the shareholding or responsible Ministers, with the objective of improving their performance and managing risks to the Crown, as well as advising on appointments of directors to the boards

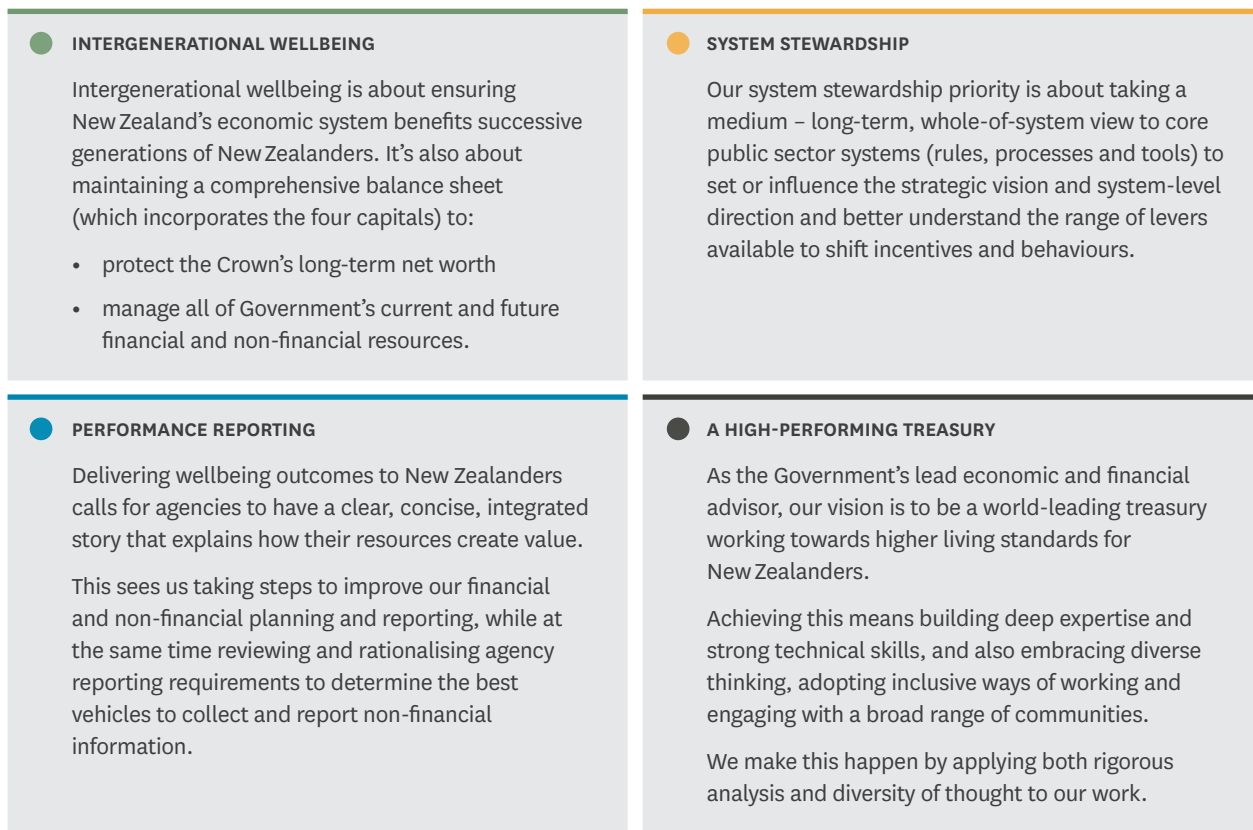
- **the performance of the Crown’s commercial and financial assets** – we supported Ministers through the development and provision of advice and options to support the Crown’s key policy objective of deepening New Zealand’s capital markets. In addition, we monitored, reported on and supported compliance with accounting standards and Public Finance Act 1989 requirements. We also maintained the Crown accounts.

Our strategic priorities

Our strategic priorities (see figure 1) help us align and prioritise key programmes of work, and reflect our emphasis on supporting government investment in the right things, and on monitoring the creation of value to improve the wellbeing of all New Zealanders now and in the future.

This report presents how we have delivered on our objectives through what we delivered for each of our appropriations. Collectively, these successes represent our contribution to New Zealand’s wellbeing.

Figure 1: Our strategic priorities



 **For more information on our strategic priorities and the critical capabilities we use to deliver them, go to: <https://bit.ly/2ZCmYkb>**

1 Our role in supporting the Government to deliver New Zealand’s first Wellbeing Budget is detailed on page 19 of this report.
 2 These relate to work that the Government has agreed to set money aside for as part of the Budget.
 3 These allow the Government to incur expenses and capital expenditure before Appropriation Acts come into force. They also allow the Government to spend money on additional things that were not included in the main Appropriation Acts.

The Way We Go About Our Business

We are the Government's lead economic and financial advisor. 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 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 recognise the value of incorporating a diversity of thought into the work we do, and we embrace inclusion to strengthen us, as individuals and as an organisation. Our values reflect our aspirations, for ourselves and for New Zealanders:

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, and

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; and we are transparent, objective, impartial and free and frank in our advice.

Governance and accountability

Our tiered governance arrangement first and foremost supports line management accountability. The primary leadership groups are the Executive Leadership Team (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 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, the Chief Information 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 as at June 2019 can be found below.

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 an advisory sub-committee of the Board with an independent chair and three additional independent external members. It provides advice to the Secretary relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the Treasury.

Capital Markets Advisory Committee

The purpose of the Capital Markets Advisory Committee is to provide an independent perspective to help the Deputy Secretary Financial and Commercial make well-informed decisions regarding debt management, export credit and treasury services. It will do this by challenging all aspects of the business, including supporting functions, and forming advice for the Deputy Secretary in an area that is of strategic importance to the Government's priorities.

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 Financial Statements of the Government of New Zealand. The committee comprises an independent chair and two additional external members.

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.

 **For more information on the Treasury's governance structure, visit <https://bit.ly/31xa7AL>**

Building our capability

Our critical capabilities are strategically important and essential to achieving higher living standards for New Zealanders, and in 2018/19 we launched and implemented a number of new or refreshed capability frameworks to strengthen these:

Economic and financial expertise

We are the government's lead economic and financial advisor and the quality and relevance of our expertise matters for our impact, reputation and credibility.

Connecting with others

We cannot have all of the information, experience or answers. Connecting enables us to pool resources, share wisdom and practice, and learn from the practical experience of others.

Diversity and inclusion leads to better ideas and results.

Effective implementation requires buy-in from others.

Analysis and evaluation

Rich analysis and evaluation can help us determine what works and where we must focus effort for intended results.

Systems thinking

We are dealing with universal, complex and cross-cutting issues; a better understanding of systems enables us to identify the leverage points for desired outcomes.

Building and maintaining our economic and financial capability

The introduction of an economic capability framework helps us better understand the economic capability we need, and in turn provide good advice to the government of the day. We have also strengthened our in-house economic and analytical training over 2018/19 by providing several introductory economics courses for non-economists.

Our focus on making the most of external ideas and expertise over the last year has included the Treasury Guest Lecture series, which has featured presentations from visiting academic fellows, international academia and included participation in the Government Economics Network (GEN).

We have also shifted the emphasis of our graduate recruitment towards those with economics training over the last year, as well as making changes to support the identification and recruitment of specialist technical and economic talent. For example, the graduate recruitment programme now has a macroeconomist stream.

Complementing our economic expertise is a deep financial capability in specialist finance areas such as in our debt management and fiscal reporting teams. However, it is our Vote teams that are often the first point of contact for other departments on matters relating to agency performance and the provision of advice to the government on the value for money and trade-offs linked to spending choices. Vote teams are where our efforts to lift strategic financial management capability have been focused.

In 2018/19 we strengthened our leadership of Vote work by clarifying the purpose, role and priorities of this important function. We also streamlined some Vote team tasks and refined the work they undertake to make space for other priorities, such as developing a better understanding of the financial and non-financial performance of other agencies. We are also raising our expectations of Vote teams in this space (in line with our Organisational Strategy) and we are delivering more training that is tailored to specific needs.

Development of the Living Standards Framework

A key component of our economic capability is the development of the LSF. The LSF helps us to systematically consider the broader impacts of our advice. We published a number of discussion papers during the year, which aimed to strengthen the framework. Key aims were to better reflect a New Zealand perspective and move towards a framework that resonates more with all New Zealanders. These papers included:

- *Incorporation of Māori Perspectives into the LSF.*
We worked with the Tax Working Group and Te Puni Kōkiri to publish two papers⁴ on Māori perspectives and the LSF, and engaged in discussion with many others on these issues.
- *Incorporating Pacific Perspectives into the LSF.*
A discussion paper describing Pacific perspectives on the LSF was published on the Treasury website. Wide consultation was undertaken in the development of this paper, including with government agencies and academic institutions.

The publication and discussion of these papers represent a good start to understanding how to incorporate different cultural perspectives into the framework.

Looking ahead

We know we must continue developing our critical capabilities if we are to grow as a world class Treasury that delivers robust advice from a wide range of thinking, and which can adapt at pace to new evidence and thinking.

Doing this well means considering both the breadth and depth of the skills we use, so we are complementing our progress to date with building economic and financial capability with a focus on greater diversity and inclusion in our workforce that is characterised by:

- people with a wide range of experiences, backgrounds and expertise
- a diverse range of viewpoints, which are shared openly in an inclusive work environment
- economists and other specialists from a variety of backgrounds, so as to better understand the reality and needs of all New Zealanders.

4 “He Ara Waiora / A Pathway Towards Wellbeing” and “An Indigenous Approach to the Living Standards Framework”.

Embedding a culture of diversity and inclusion

We are committed to embedding a culture of diversity of thinking and inclusive practices to improve the quality of our advice and services. Diversity of thinking means drawing on cross-disciplinary knowledge and different ways of understanding and applying evidence, to enrich our core expertise in economics and finance. Inclusion means ways of working and engaging with a broad range of stakeholders and communities to realise the benefits of diversity of thinking.

We are committed to achieving gender balance in our leadership cohort and to remove our gender pay gap. During 2018/19 we made good progress in reducing our organisational gender pay gap from 20.9% to 18.9%.

To these ends we have refreshed our talent and recruitment strategies, our policies and annual performance review processes and procedures to ensure they are free from unconscious bias of any sort, and that they contribute to an inclusive culture. We continue to build our leaders' capability through a variety of targeted development interventions, so that we can enable a diverse range of perspectives to be brought to the table.

Building our cultural competence

The diversity of perspectives that members of different cultural groups bring to the Treasury also positively shapes our strategy, management and operating systems, and our core values and norms for success.

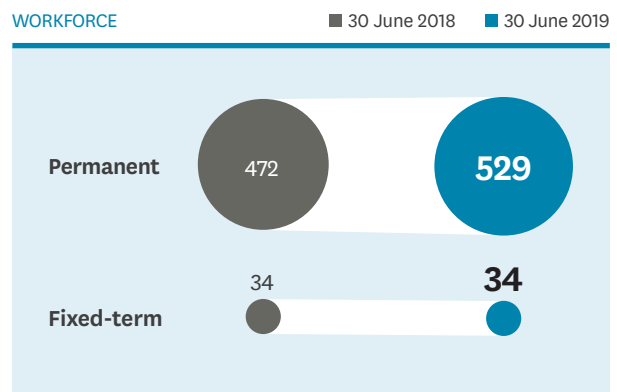
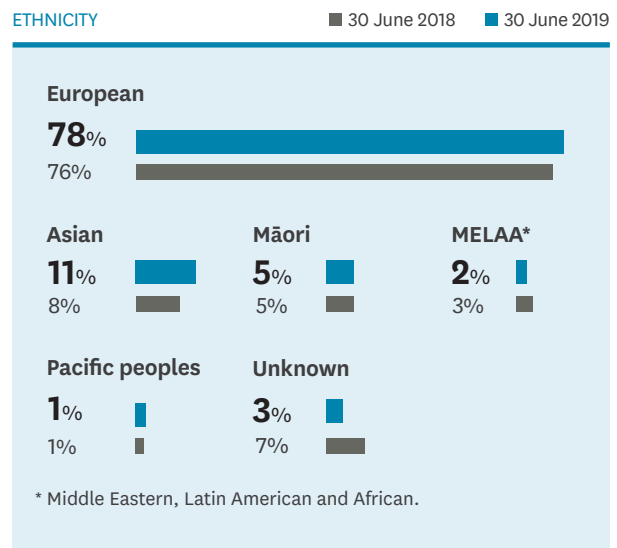
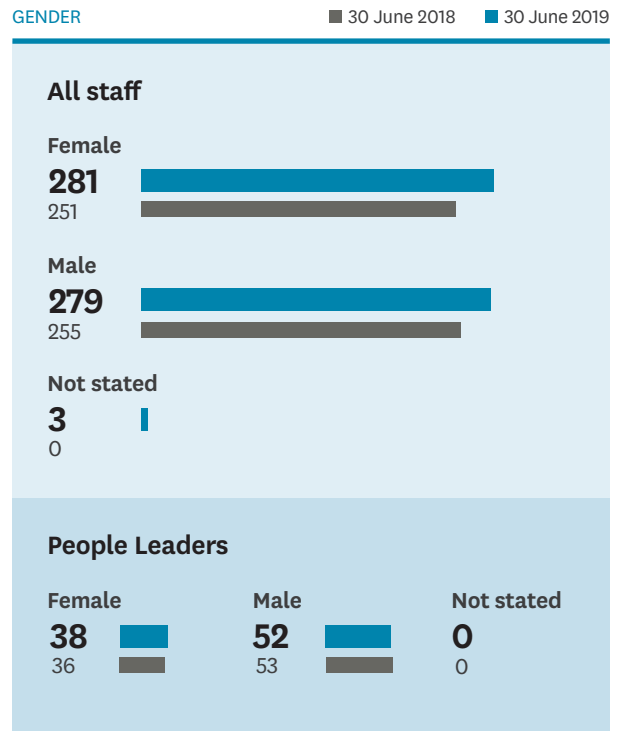
Our efforts to strengthen the cultural competence of our people included a focus on delivering *Le Tofa Mamao ma le Fa'autautaga*⁵, our Pacific Strategy. This strategy supports our commitment to recognising the importance our Pacific peoples place on achieving their economic and social aspirations for their families and communities.

In 2018/19, the strategy delivered one of its key objectives, the Treasury's *Pacific Economic Research Report*, which identified for the first time a quantitative and qualitative analysis of the economic contribution that Pacific New Zealanders make to the economy annually.

We will continue to lift staff curiosity and capability in Māori and Pasifika perspectives. We launched a Māori Capability Framework, which assists us to develop a common understanding throughout the Treasury of the Treaty of Waitangi and the Crown-Māori relationship; and to build on the Treasury's current Māori capability and capacity.

Work has started on an online module introducing the Pacific operating model to staff and will be followed by a more focused application of the model to the analytical work of the Treasury.

Figure 2: Key human resource demographics



⁵ Translated as “the wisdom to visualise the future and the ability to take us there”.

Supporting the wellbeing of our people

We also implemented a Puāwai (wellbeing) framework to support our workforce to manage their physical and mental wellbeing. In consultation with staff, we have also expanded the training, tools and resources available to support puāwai/wellbeing. We will continue to monitor and refresh the areas of focus in this space to ensure that we continue to meet the needs of our people.

By offering flexible work options to everyone, we are better able to attract and retain a more diverse range of people. We have also undertaken a staff survey which confirmed that, by the end of 2018/19, 65% of participants stated they were using flexible work options.

Transparent ministerial servicing

2018/19 saw us experience a higher-than-usual level of ministerial servicing work, with topics of interest including:

- the SOEs that we monitor with our Commercial Performance teams (a total of 199 Ministerials, 263 Written Parliamentary Questions (WPQs) and 65 Ministerial Official Information Act requests (MOIAs))
- Tax and the Tax Working Group findings (a total of 122 Ministerials, 75 WPQs and 29 MOIAs).

There was also a significant increase in the number of WPQ and MOIA replies requiring drafting by the Ministerial Advisory Services team (MAS) and the Office of the Executive (OE) (115 WPQ responses prepared by MAS, and 81 MOIA responses drafted by MAS and OE). With the exception of Treasury Official Information Act requests (TOIAs), this year's ministerial servicing work amounted to approximately double what we would have received in previous years.

In spite of this increased workload, we provided a consistently good level of service. Our timeliness standard is at its highest level in ten years; 2018/19 figures show that 96% of OIA requests to the Treasury were answered by the due date, an 8% improvement on the previous year (16% vs 2014/15).

This success coincided with being randomly selected by the Chief Ombudsman's office for a review of our OIA compliance and practice. The resulting report noted our positive culture around the importance of the OIA and openness and transparency, with the Chief Ombudsman noting the Treasury as 'an exemplar' for other agencies, due to our policy of releasing all substantive OIA responses on our website.

 **To read the Ombudsman's report, go to:**
<https://bit.ly/2KiXUtx>

Strengthening our information security

Shortly prior to the release of the Wellbeing Budget, an incident occurred which revealed a security vulnerability in the Treasury's website.

The Treasury's website has an index that allows the websites to be searched faster. In preparation for the release of the Budget, the Treasury created a clone copy of the website to be released on Budget day. Our clone and live website shared the same search index. Because of the shared index, targeted searches led to content from the embargoed Budget documents being displayed. Information from the embargoed 2019/20 Budget Estimates documents obtained through this security flaw was made public prior to Budget day.

The Treasury deeply regrets that Budget information was not kept fully secure. The Treasury took immediate steps on the day that the information was released to identify and resolve the specific security flaw. The Treasury takes its responsibilities with regard to the security of information very seriously. This incident should not have occurred.

Following the incident, the Treasury asked the State Services Commission (SSC) to undertake an independent inquiry focusing on what happened, why it happened, the lessons learned, and the actions the Treasury needs to take to ensure that a similar incident will not happen again. We look forward to the Inquiry's recommendations and working to implement them.

Prior to the outcome of the Inquiry, the Treasury has already put a comprehensive cross-organisation work programme in place to strengthen our information security. We are building on lessons learned from the incident to improve the way the Treasury handles sensitive information throughout the annual Budget process, and support our staff to collectively strengthen the Treasury's security culture.

Applying the Living Standards Framework

The Treasury's role is to provide robust economic advice to inform decision making on New Zealand's economy, Crown finances and on how to improve the wellbeing of New Zealanders.

The LSF helps us to do that by providing a framework to systematically consider the broader impacts of our advice.

The Treasury has been developing the LSF for a number of years to improve delivery of our core functions, particularly with regard to providing high quality advice to the Government on New Zealand's economy, Crown finances and on how to improve the wellbeing of New Zealanders. The LSF supports the Treasury in using wellbeing data and evidence in our advice to the government of the day.

Development of the framework

This work has been stepped up since 2017 to support the Government's wellbeing approach. In broad terms the development of the LSF has covered:

- Developing the core technical components of the framework so that we had a shared understanding of what helps achieve higher living standards to support intergenerational wellbeing. This resulted in the current iteration of the framework, which is largely aligned with the OECD wellbeing framework. The framework identifies 12 wellbeing domains or factors that matter for New Zealanders' wellbeing, as well as four capital stocks, which are the foundations of current and future wellbeing. The resilience of the capitals in enabling the country to respond to shocks is also a key dimension of the framework. Distribution (eg, across population groups and regions) is important across the domains, the capital stocks and their resilience.
- Developing a LSF Dashboard of wellbeing indicators to support measuring and tracking changes in the wellbeing domains set out in the framework.
- Considering how we practically apply the LSF to inform decision making and investment decisions.

Over the last year there has been significant international interest in the LSF and New Zealand's focus on intergenerational wellbeing. New Zealand's work in these areas were the subject of discussion at the European Union and the World Economic Forum in Davos, Switzerland. The OECD's 2019 Economic Survey of New Zealand was framed around the LSF and wellbeing approach.

Progress during 2018/19

Highlights included:

- **Technical development of the framework:** We published a number of discussion papers during the year, which aimed to strengthen the framework.
- **Release of the LSF Dashboard:** The Dashboard includes indicators across the wellbeing domains and the four capital stocks and enables analysis of the distribution of these indicators, where data is available, across ethnicity, age, gender and regions.
- **Budget 2019:** For the first time, the LSF was used as the analytical foundation for the development of the Government's Wellbeing Budget 2019.
- **Supporting our people to use the framework:** Implementation of guidance and training to continue developing the capability of the Treasury to use the LSF and provide advice that draws on wellbeing evidence and analysis.

Budget 2019

At the request of the Minister of Finance, we have used the LSF as the analytical foundation for Budget 2019. Using the LSF and the Dashboard (as well as input from sector experts and government advisors), the Government set five priorities for the Wellbeing Budget, reflecting what the evidence indicated were the greatest opportunities to make a real difference to the lives of New Zealanders. These represented areas where New Zealand has persistently under-performed.

This analysis was initially led by the Treasury, but refined through a collaborative process involving consultation with agencies, sector experts, and Government Science Advisors.

The evidence-based nature of these priorities and the fact they were agreed by Cabinet and communicated to agencies early in the process was new. Previously priority areas for the Budget tended to be set late in the process, following the submission of Budget bids. However, by agreeing them early and basing them on analysis of wellbeing data, it enabled agencies to develop bids that supported these outcomes and ensure the final Budget package was anchored and framed around targeted wellbeing outcomes.

Supporting our people to use the framework

We know that the value of the LSF as a policy tool depends on the ability and enthusiasm of our people to use it.

We have designed training programmes and examples of how to apply the LSF in the different types of advice that we produce. We will continue to focus on developing the capability of the Treasury to use the LSF and provide advice that draws on wellbeing evidence and analysis.

Looking ahead

Whilst we will continue to update and refine the framework and the LSF Dashboard, our focus will be on how we use the LSF to support the provision of robust advice and the current Government's wellbeing agenda.

Beyond the Budget process, we are looking at the use of the LSF to support embedding a wellbeing approach across other processes to improve decision making and investment decisions. This work includes:

- different approaches to public finance including greater use of multi-year funding and baseline reviews
- changes to strategic planning and reporting for agencies
- incorporating wellbeing into the Better Business Case framework and other cross-government frameworks
- building wellbeing and reporting capability across the public sector more generally in policy analysis.



SECTION 2

Our Key Achievements

Policy Advice – Finance

Our budget was

\$46.394m

We spent

\$43.305m

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.

Alongside the provision of advice to Ministers, we achieved the following in 2018/19 with this appropriation:

New Zealand's first Wellbeing Budget delivered.

Good progress made with establishing the New Zealand Infrastructure Commission (NZIC) – Te Waihanga to improve New Zealand's infrastructure planning and delivery.

The LSF used to better understand the benefits of community regeneration in Eastern Porirua.

Good progress made with improving the quality of our policy advice.

Reforming the rules for overseas ownership

In 2018/19, the Treasury supported the passage of the Overseas Investment Amendment Act, which introduces restrictions on the ability of overseas persons to purchase residential property, as well as consistent and streamlined treatment of investment in forestry.

We supported this work through our use of the LSF to develop the reform options that have shaped the Amendment Act. In doing so, we have supported the Government's objectives of ensuring the New Zealand housing market is shaped by New Zealanders, while at the same time ensuring changes to the forestry industry encourage productive investment in that sector. The Amendment Act also aligns with other work the Government is undertaking to protect and further develop the benefits of investment in forestry.⁶

Good progress has also been made on a wider second phase of reform. We released a consultation document seeking feedback on reform options, and subsequently led a process of consulting with the public, iwi and business communities. We applied the LSF to help the Government introduce consideration of both economic productivity and wider wellbeing measures. The reform looks to strike a balance between supporting high-quality overseas investment in productive assets and ensuring investments are in our national interest. A key focus is supporting investment that helps create jobs, brings in new technology and helps New Zealand companies lift their productivity and support their growth. This second phase of reform will continue in 2019/20, with the Government signalling a commitment to passing the legislation during this term of Parliament.

⁶ The Overseas Investment Amendment Act aligns with the Government's One Billion Trees programme, which aims to deliver improved social, environmental and economic outcomes for New Zealand.

Delivery of New Zealand’s first Wellbeing Budget

The Government’s successful delivery of New Zealand’s first Wellbeing Budget took us beyond our traditional role of coordinating the statutory Budget requirements and focusing solely on traditional measures of success such as GDP. The Minister of Finance asked us to make this happen through our use of the Living Standards Framework, as this would provide an opportunity to incorporate a more comprehensive range of factors, distributional perspectives and intergenerational considerations to determine the priorities and associated initiatives for Budget 2019.

We responded by using the LSF (as well as input from sector experts and government science advisors) and Dashboard to identify five priorities that reflected what the evidence told us were the greatest opportunities to make a real difference to the lives of New Zealanders:

- Mental health
- Child wellbeing
- Māori and Pasifika
- New Zealand’s productivity
- Transforming the economy⁷

Advising the Government on how to respond to these insights was a collaborative exercise. We worked closely with sector experts, the Government’s science advisors and others on how to measure and focus on what New Zealanders value – their health, the environment, the strengths of their communities and New Zealand’s prosperity. The Government used these insights to understand where intervention is most needed, and where the biggest difference can be made.

Budget 2019 reflected this advice, but was also informed by our development and implementation of new wellbeing analysis requirements for budget initiatives, and by the support we provided to Ministers to develop, finalise and communicate the Wellbeing Budget package to the public.

We also advised the government to move away from single-year Budget capital allowances to a new rolling multi-year capital envelope in Budget 2019. This was announced in the Budget Policy Statement (December 2018). The multi-year envelope provides more flexibility for the government to meet its medium-term investment objectives while ensuring that the near-term fiscal strategy can be achieved. Specifically, it improves alignment between the Government’s fiscal strategy and the Budget process for new capital expenditure. It also improves our ability to take a longer-term view of capital commitments and increases transparency.

Unfortunately, a security vulnerability in the Treasury website led to some Budget information becoming public before Budget day. How this happened and the actions we are taking are set out on page 13.

MEASURE	STANDARD	RESULT
Statutorily required documents as part of the annual financial cycle are produced in accordance with Public Finance Act 1989 requirements and free from material errors.	Achieved	Achieved
Major fiscal models are quality assured (periodically) and, where appropriate, assumptions are tested with suitably qualified experts.	Achieved	Achieved



For more information on these priorities and Budget 2019, go to: <https://bit.ly/2WQp3XC>

⁷ This priority focuses on productive economic opportunities that support environmental sustainability, aiming to support long-term economic growth while addressing New Zealand’s comparatively high rates of greenhouse gas emissions per capita, waterway pollution, and soil erosion.

Building healthy infrastructure: establishing New Zealand's Infrastructure Commission

To improve how infrastructure is utilised, planned and coordinated, we are leading the establishment of the New Zealand Infrastructure Commission (NZIC) Te Waihanga⁸ to ensure New Zealand is investing in the right infrastructure, at the right time and in the right place. It will also provide project support for large central and local government infrastructure projects, as well as a clear pipeline of committed infrastructure projects to give the market greater confidence to invest in New Zealand.


The main function of NZIC Te Waihanga will be to coordinate, develop and promote an approach to infrastructure that improves the wellbeing of New Zealanders. It will identify current and future infrastructure needs, and priorities for infrastructure, taking into account long-term trends such as demographic change, new technologies, and climate change.

NZIC Te Waihanga will work with local and central government, industry and other stakeholders to develop a 30-year infrastructure strategy for New Zealand's long-term infrastructure needs, including identifying any current or expected infrastructure gaps. It will publish a strategy at least every five years. NZIC Te Waihanga will also be able to conduct in-depth studies of particular topics or sectors, develop solutions and seek new or novel approaches to deal with infrastructure challenges.

Our aim through this work is to provide a more strategic and longer-term approach to how New Zealand considers infrastructure investment. The resulting step-change will help strengthen the New Zealand economy, and make it more resilient to future shocks – whether they are the result of changing international conditions, technological changes or natural disasters. NZIC Te Waihanga should also result in the intergenerational benefits of quality infrastructure, and the investment burden, being shared more evenly across generations.

The Treasury is developing legislation to establish NZIC Te Waihanga and this is to be passed in late 2019.

At that time the Treasury's Infrastructure Transactions Unit (ITU) will move into NZIC Te Waihanga. During its first year of operation NZIC Te Waihanga is expected to continue to build on the prototype Infrastructure Pipeline developed by the ITU, while also undertaking several in-depth studies of particular topics or sectors. These "deep-dives" will help inform NZIC Te Waihanga's first 30-year infrastructure strategy, which will be delivered within two years of NZIC Te Waihanga being set up.

 **For more information on the Infrastructure Commission, go to: <https://bit.ly/31UZLwv>**

8 The name NZIC Te Waihanga, meaning a cornerstone, or to make, create, develop, build, construct or generate, reflects the significant role NZIC Te Waihanga will have in helping shape New Zealand's future.

9 The higher the robustness score, the stronger the methodological quality of the completed assessment. This is calculated using a standardised formula common to agencies and departments that participate in the policy measurement exercise.

10 Based on the average of the quarterly results for 2018/19.

Modernising New Zealand's monetary and financial stability settings

We know that a well-functioning and efficient financial system is important for improving the wellbeing and living standards of New Zealanders, and so we take an active interest in one of the key drivers of New Zealand's financial system; its regulatory framework.

This has seen us partnering with the Reserve Bank of New Zealand on a comprehensive review of the Reserve Bank Act 1989 to ensure the framework within which the Reserve Bank regulates and supervises the banking sector is fit-for-purpose and enables the Reserve Bank to perform its role effectively.

This work is a second phase of a comprehensive review of the Reserve Bank Act (following the first phase, which focused on the monetary policy framework) and is focused on modernising New Zealand's financial stability policy framework. In 2018/19 we completed the first round of consultation on topics relating to the role of the Reserve Bank in financial policy and how it is governed, and launched the second round of consultation. Consultation is ongoing, with final policy decisions due later in 2019/20.

 **For more information on the Reserve Bank Act Review, go to: <https://bit.ly/2KyPXS6>**

Continuous improvement of our policy advice

Over the last two years we have put in place a work programme to improve the quality of our policy advice, with a focus on four areas: spreading the culture of quality, upskilling for quality, improving internal processes and sustaining high-quality policy advice. A stepped-up programme of quarterly reviews and dissemination of learnings from them remain key elements of this work programme.

Initial results are encouraging, with scores from the quarterly reviews improving since early 2018.

MEASURE	STANDARD	RESULT
Assessment of quality of policy advice papers through a review process that has a methodological robustness of at least 80%. ⁹	75%	66% ¹⁰

Quarterly results for the assessment of policy advice

QUARTER	SCORE
2017/18	
Q1	59%
Q2	57%
Q3	57%
Q4	63%
2018/19	
Q1	62%
Q2	66%
Q3	67%
Q4	69%

MEASURE	STANDARD	RESULT
The satisfaction of the Minister of Finance with the policy advice service, as per the common satisfaction survey.	75%	80%
The total cost per hour of producing outputs.	\$203	\$209

CASE STUDY

Realising the benefits: The LSF as a tool for community regeneration

The wellbeing approach that anchors the 2019 Wellbeing Budget was the basis of the successful business case for the Eastern Porirua Community Regeneration programme.¹¹ Our role in this programme saw us taking a whole-of-government approach, bringing together five other government organisations to partner with Ngāti Toa Rangātira and Porirua City Council to ensure this vibrant, community-oriented city continues to grow for the benefit of its residents. To make this happen, we used the LSF as a decision-making tool, with the 12 domains informing our understanding of the benefits of the regeneration work in relation to housing, health and education and, where possible, to quantify and monetise these impacts. We then demonstrated to Ministers how the project would impact on the people of Eastern Porirua. We also tested the distribution of these benefits in relation to the taxpayer, the economy and Eastern Porirua residents.


Using the Framework in this way challenged us to carefully consider all the intended and unintended consequences of a large-scale regeneration project; it also clarified the assumptions we were making, and allowed Ministers to test the benefits that were important to them.



Photo: HLC – Porirua Development, Jo Burleigh

Porirua College rangatahi talking about the Porirua Development, what’s important to them and their whānau in Eastern Porirua – what they love about their neighbourhood, their special places, what’s important to them and things that could be improved.

Community engagement on detailed master planning is just beginning. Everyone who calls Eastern Porirua home – residents, local businesses and community organisations – will have a role in making the regeneration a reality.

 For more information on the Porirua Regeneration programme, go to: <https://bit.ly/2XaRzbl>

¹¹ This government commitment to a \$1.5 billion, 25-year transformational programme is on a scale seen only once in a generation.

Provision of Financial Operations Services and Operational Advice

Our budget was

\$32.039m

We spent

\$30.631m

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

Our achievements for 2018/19 with this appropriation:

We strengthened other agencies' ability to manage, deliver and report on investment-intensive work.

This has been demonstrated through:

- a growing level of investment capability across agencies participating in our Investor Confidence Rating programme
 - the peer review and other advisory services we delivered to other agencies to ensure major Government investments are managed and delivered to a high standard
 - evidence of agencies providing better quality investment information to Ministers.
-

We contributed to building greater strategic financial management capability across the public sector through our Financial Development Programme.

We provided guidance to agencies on how to apply a wellbeing approach to performance reporting.

We completed a review of strategic planning across the public sector to integrate strategic planning with decisions around wellbeing and the associated delivery of the resulting work.

Delivering monthly Financial Statements of Government within required timeframes, with the 30 June 2018 Financial Statements of the Government receiving an unmodified audit opinion.

We advised the Government on establishing an Independent Fiscal Institution to improve the transparency of New Zealand's fiscal policy.

Strengthening State sector performance

The quality of New Zealand’s public service institutions has a strong influence on the perception and level of trust New Zealanders place on them. We respond through our stewardship responsibilities to uphold and strengthen New Zealand’s public service institutions so that they remain fair and accountable, resilient, effective and efficient.

We collaborated with other agencies to build and improve strategic financial management and understanding of performance across the state sector. We do this through initiatives, through helping people to understand how the public finance system operates and by investigating ways to improve how the system operates in terms of:

- the rules, processes and tools
- agency strategic planning and reporting.

Lifting investment performance: The Investor Confidence Rating (ICR)

This multi-year performance assessment and improvement programme¹² applies to 24 investment-intensive government departments and Crown entities. In 2018/19 we commenced our second round of ICR assessments, and will complete these in 2020. Initial results indicate most agencies have strengthened their investment capability and performance since the initial assessments in 2015/16 to the point where more are achieving the standard set by Cabinet.

We regard this information and other feedback as an indication that our systemic focus on lifting capability is having a positive impact on investment performance. As part of our ongoing stewardship role in the public finance system, we will commission an independent review of the impact of the ICR by the end of 2019/20.

MEASURE	STANDARD	RESULT
The capability and performance of investment-intensive agencies is enhanced by the Treasury’s stewardship of the investment management system.	Achieved	Achieved
Statutorily required documents as part of the annual financial cycle are produced in accordance with the Public Finance Act (PFA) requirements and free from material errors.	Achieved	Achieved

¹² The programme commenced in 2015.

¹³ This assurance methodology for major investments was developed by the United Kingdom’s Office of Government Commerce (OGC) in 2001. It is an independent and confidential peer review process that examines projects and programmes at key points in their lifecycles to assess their progress and to rate the likelihood of successful delivery of their outcomes.

Maintaining assurance across government projects: Gateway Reviews

We apply the Gateway Review¹³ process to the Government’s riskiest projects to ensure they receive high-quality independent peer review at each critical stage.

Consistent with previous years, the advice we provided through this review process was well received, further indicating the value of this form of assurance activity. In addition to the 30 reviews we conducted in 2018/19, we also continued to provide other direct forms of project or programme assurance through targeted monitoring and advisory activity, refocusing advice toward improving capability at a programme and portfolio level, rather than on individual investments.

Assessing the quality of agency information on investments and assets: What we know

Part of our stewardship of the state sector involves assessing agencies’ information on significant investments, both planned or underway. This information is increasingly used to shape capital allowances and investment priorities.

Our analysis shows there has been a steady improvement in the quality of such information in 2018/19 compared with previous years, but the quality needs to improve further to meet demand from Ministers and the soon-to-be-established New Zealand Infrastructure Commission. In terms of asset performance, investment-intensive agencies have responded to Cabinet requirements by publishing information on asset performance in their 2017/18 annual reports. This is a positive step toward bringing greater visibility to asset performance; however, the quality of information is far less mature than appropriate, particularly on critical assets.

We intend to focus more of our stewardship activity in 2019/20 on developing and implementing a new asset management strategy focused on critical assets. The strategy will be promoted through communities of practice and other forums.

Promoting a wellbeing approach to measuring performance

In 2018/19 we collaborated with interested agencies to identify the principles of a wellbeing approach for agency performance reporting. We then used these to develop guidance for agencies on applying a wellbeing approach to their statutory performance reporting processes and products, including examples of work agencies have done already. We have promoted this guidance across the sector via a series of events to planners and the wider finance community, including through the nationwide Audit New Zealand audit updates.

We will continue to promote agencies taking a wellbeing approach in their performance reporting, including updating our guidance to cover Estimates processes, collective reporting and including more examples of agencies' work. We will continue exploring integrated reporting and supporting agencies' use of the methodology in the public service. We expect changes to performance reporting to be included and embedded into the broader changes to the public finance system.

Strengthening strategic planning across the public sector

Our stewardship of the public sector includes identifying opportunities to improve the way agencies plan strategically and then integrate this thinking with decision-making and delivery. We have delivered on this responsibility in 2018/19 with a review of strategic planning across the public sector.

This saw us listening to nearly 200 officials from a range of agencies about their experiences with strategic planning in the state sector, and then working with officials outside of the Treasury to co-design the changes needed to better integrate strategic planning with decision-making, and delivery. Based on this work, we will work with Ministers in 2019/20 to pilot a new approach to strategic planning and reporting. If the pilots prove successful, a three-year roll-out is planned to change the way strategic planning is supported within the state sector. The new approach aligns with the principles of the wellbeing approach and will support process improvements across multiple agencies with the potential to impact delivery to improve wellbeing.

CASE STUDY

Improving agencies' strategic financial management capability

In his role as the Head of the Government Finance Profession, Paul Helm (Chief Government Accountant) has implemented the Finance Development Programme to lift strategic financial management capability across the public sector.

The programme provides tailored development opportunities to state sector finance professionals, and is aimed at building people's skills and knowledge and helping them prepare for what's ahead. People develop their skills through professional development forums, targeted training courses, mentoring, shadowing experiences and secondments.

Development also occurs through participating in developing the programme, with people from the finance sector leading projects and developing skill sets outside the comfort zone of their profession.

“Our people are less nervous about their future as finance professionals – they see that opportunities exist right across the system, not just in our organisation.”

CLIENT SATISFACTION SURVEY FEEDBACK

Engagement and interest in the programme have been consistently high since it was established in 2017. Over 90 agencies ranging from departments to Crown entities and SOEs participate, and in 2018/19 more than 2,000 finance professionals attended 13 courses and 32 events; 91% of survey respondents in a 2018 survey indicated that they intended to continue to participate in 2019.

“The FDP has provided valuable links to resources across government. I was struggling to find a suitable mentor outside of my agency until the FDP started the mentoring initiative.”

CLIENT SATISFACTION SURVEY FEEDBACK

Improving the transparency of New Zealand's fiscal policy

Our focus on continuous improvement includes identifying opportunities for greater transparency around fiscal policy. In 2018/19 we advised the Government on achieving this by establishing an independent fiscal institution (IFI) to:

- provide for independent evaluation of fiscal policy performance
- improve and support more effective parliamentary scrutiny of public finances and fiscal policy
- provide for independent costings of political parties' policies to better inform public debate.

Based on our advice, the Government published and released a discussion document setting out the proposed functions that an IFI could undertake and options for the institutional form. The public consultation received 25 submissions, which have since been summarised and published on the Treasury website. We will continue advising the Government as progress with establishing the IFI continues in 2019/20.

 **For more information on the IFI, go to:** <https://bit.ly/2LWlx1H>

Greater financial support for New Zealand exporters

New Zealand Export Credit (NZEC) supports exports and the internationalisation of New Zealand firms through the provision of Crown-backed trade credit insurance and financial guarantees, where private sector banks and insurers are unwilling, or unable, to provide cover.

This financial year, a total of \$70 million of risk exposure was underwritten in support of export contracts worth a total of \$217 million. NZEC's support enabled 41 exporters to deliver their goods and services into 29 countries. No claims were received or paid.

Assurance for this function has also been strengthened with the formation of the Capital Markets Advisory Committee (refer to page 33).

MEASURE	STANDARD	RESULT
New Zealand exports and the internationalisation of New Zealand exporters are promoted and supported.	Achieved	Achieved

Monitoring Crown Financial Institutions (CFIs)

This function supports Ministers' ownership interests in a portfolio of agencies and advises on policy and operational settings for the CFIs. These include agencies managing capital for Crown commitments, and agencies that represent the Crown's impact investing portfolio (see table below).

In 2018/19, a one-in-five-year independent statutory review of the New Zealand Superannuation Fund was conducted. This review provides Ministers with an assessment of the overall performance of the Fund and the Guardians and provides recommendations on risk and investment processes, governance and responsible investment.

Advice has also been provided to Ministers regarding options to deepen New Zealand's capital markets. Working closely with the Ministry of Business, Innovation and Employment (MBIE), the work has resulted in the announcement at Budget 2019, of plans to establish a new \$300 million venture capital fund-of-funds, to be administered by the Guardians of New Zealand Superannuation and managed and invested by the New Zealand Venture Investment Fund.

A monitoring framework for the newly established Green Investment Finance Limited has been set up. This includes advice to Ministers on setting expectations and completing statutory requirements to establish the company's constitution.

MEASURE	STANDARD	RESULT
Compliance with Capital Market's Portfolio Management Policy and Treasury delegations for/in relation to Crown lending and Crown bank accounts.	No breaches	Achieved

AGENCIES MANAGING CAPITAL FOR CROWN COMMITMENTS

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

IMPACT INVESTMENT AGENCIES

- New Zealand Green Investment Finance Ltd (NZGIF)
- New Zealand Venture Investment Fund Ltd (NZVIF)
- Local Government Funding Agency (LGFA)

Crown Company Monitoring Advice

Our budget was

\$4.763m

We spent

\$3.808m

To the Minister for State Owned Enterprises and Other Responsible Ministers

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.

Our budget was

\$0.236m

We spent

\$0.165m

To the Minister of Research, Science and Innovation and the Minister for Economic Development

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

Our key achievements for 2018/19 with these appropriations:

We advised Ministers on the performance of commercial entities, their business plans and their public accountability documents.

We advised Ministers on Air New Zealand's purchase of new aircraft, which is a major transaction that requires the approval of shareholders.

We worked with the Ministry of Transport to advise Ministers on the Future of Rail review, which is examining how KiwiRail fits into wider transportation funding arrangements.

We supported the timely, fair and enduring resolution of Canterbury earthquake claims through our advice to the Minister Responsible for the Earthquake Commission, global settlement negotiations with the Christchurch City Council and additional regeneration in post-earthquake Christchurch through our advice on the Christchurch Regeneration Acceleration Facility.

We supported gender balance on boards through our role in advising on board appointments.

Supporting the performance of the Crown's commercial assets

Crown-owned commercial assets have a dollar value in excess of \$19 billion and represent a significant portion of the overall Crown balance sheet. In addition to providing advice to Ministers on ownership considerations and board appointments across the commercial portfolio, we report on the performance of these entities. Our oversight provides a critical and impartial interface between Ministers as shareholders and the entities.

The Crown's commercial asset portfolio is highly diverse and, as a collective, the value it generates helps meet the Government's fiscal, social and policy goals. The entities in the portfolio deliver a broad array of services and products. These range from transport providers such as Air New Zealand (Air NZ) and KiwiRail to electricity companies like Meridian and Transpower, a farming company that produces milk, beef, lamb, wool, venison and other agricultural products, through to a range of service providers like New Zealand Post, Airways, AsureQuality and MetService.

MEASURE	STANDARD	RESULT
Seventy percent of our assessed papers will score 7 or more, and that 30% will score 8 or more out of 10, with a score of 10 being the highest quality; as assessed by a panel looking at a representative, random sample of our commercial advice. ¹⁴	Achieved	Not achieved

Supporting efficient and effective use of capital

Our advice to Ministers on the Crown's commercial portfolio has focused on ensuring their use of capital is efficient and contributes to enhancing performance. For example, during the year, we advised the Minister of Finance on Air NZ's purchase of new aircraft to replace its existing eight Boeing 777-200ERs (Project ABBA: Airbus or Boeing, Boeing or Airbus). This is a major transaction under the NZX listing rules, as the value of the transaction is greater than 50% of Air NZ's average market capitalisation, and requires the approval of Air NZ's shareholders, including the Crown. The Minister of Finance has advised Air NZ that the Crown will vote in favour of the transaction when it is put to shareholders for approval at the company's Annual Shareholders Meeting in September.

We also supported regional growth through advice on initiatives within the Provincial Growth Fund and advised Ministers and supported KiwiRail in the effective use of government funding, including: \$375 million for new rolling stock; \$381 million in track investment and \$35 million toward procurement of new ferries.

¹⁴ We are using the Treasury's work programme to improve the quality of our policy advice to focus on five areas: spreading the culture of quality, upskilling for quality, improving internal processes, sustaining high-quality commercial advice, and making the minor improvements necessary to lift papers from scoring a 6 out of 10 to a 7 or above.

¹⁵ Ōtākaro is a Crown-owned company delivering the central city Anchor Projects that the Government committed to following the Canterbury earthquakes.

Supporting the Christchurch earthquake recovery effort

Throughout 2018/19, we continued to focus on actively supporting the Minister Responsible for the Earthquake Commission (EQC) and Southern Response Earthquake Services to achieve timely, fair and enduring resolution of the remaining Canterbury earthquake claims. We have provided commercial and strategic insights with regard to policy work relating to the Public Inquiry into EQC, Earthquake Commission Act 1993 amendments and insurance industry developments.

We have provided substantial advice and support to the Minister of Finance and the Minister Responsible for Greater Christchurch around the design and implementation of the Christchurch Regeneration Acceleration Facility. We have also provided assistance and support to Ministers, and to the Greater Christchurch Group in the Department of the Prime Minister and Cabinet, around a proposed global settlement between the Crown and the Christchurch City Council. To ensure the continued regeneration of Christchurch, we have carried out a number of other tasks such as assisting and advising shareholding Ministers in relation to their approval of a major transaction by Ōtākaro¹⁵ to enter into a main works contract with CPB Limited for the completion of the Metro Sports Facility in Christchurch.

Advising on board appointments

In 2018/19, across the commercial and financial entities and the CRIs, we made 150 appointments including new appointments, reappointments and elevations to the boards of SOEs, CRIs, CFIs, some Public Finance Act Schedule 4A companies, Crown Entities (ACC, EQC, Housing New Zealand), the New Zealand Productivity Commission and the Reserve Bank.

Our involvement with appointments allows us to promote greater diversity in board participation, particularly with regard to increasing the number of women in these roles. Of the 150 appointments made in 2018/19, 65 were women (43.3%) and 85 were men (56.7%). This compares with 105 appointments in 2017/18 where 44 were women (41.9%) and 61 were men (58.1%). We will continue to close this gap.

MEASURE	STANDARD	RESULT
Appointments completed for Directors of Crown research institutes and other entities.	20-30	37

Design and Establishment of the Green Investment Fund

Our budget was

\$2.544m

We spent

\$1.670m

This appropriation is intended to achieve the design and establishment of the Green Investment Fund.

Our key achievement for 2018/19 with this appropriation is the Green Investment Fund being established as a standalone entity (New Zealand Green Investment Finance Ltd) that will invest in the reduction of greenhouse gas emissions and provide a financial return.

Our contribution to tackling climate change: Establishing New Zealand Green Investment Finance Ltd

Successfully tackling climate change requires support from New Zealand’s business community. In 2018/19, this collaborative approach received a boost with the establishment of the \$100 million Green Investment Fund to reduce New Zealand’s greenhouse gas emissions.

Since then, the Treasury has established the fund as New Zealand Green Investment Finance Ltd – a standalone entity operating independently from government to accelerate low emissions investment in New Zealand by:

- making investments that lower domestic emissions
- crowd-in private finance
- making investments on a commercial basis
- undertaking a market leadership role.

The company will have a high degree of flexibility in where and how it invests; however it is expected that there will be opportunities in industrial process heat, transport, energy efficiency, distributed energy networks and agriculture.

MEASURE	STANDARD	RESULT
The Green Investment Fund is established in a timely manner.	Achieved	Achieved
The Green Investment Fund’s initial investment mandate is specified.	Achieved	Achieved

Tax Working Group

Our budget was

\$1.629m

We spent

\$0.425m

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.

Our key achievements for 2018/19 with this appropriation:

We provided advice and support to the Tax Working Group.

We advised on the use of the Living Standards Framework to inform reform proposals.

Supporting improvements to the tax system

The Tax Working Group was established by the Government to examine further improvements to the structure, fairness and balance of the tax system. The Treasury, alongside Inland Revenue, served as the Secretariat for the Group.

The scope of the Group's work was very broad. It touched on all aspects of the tax system, including matters that affect economic performance (such as the extent to which the system promotes the right balance between the productive economy and the speculative economy).

The Group's recommendations were expected to lead to broad improvements in wellbeing, and in particular, enhance the equity, integrity and economic efficiency of the tax system (with direct impacts on social and financial/physical capital, and indirect impacts on human and natural capital).

As part of the Secretariat, our role was to advise the Group, and support the production of its Interim and Final Reports, which set out the Group's recommendations to the Government. We also supported the Group's use of the LSF to assess individual proposals for reform. These responsibilities saw us deliver a large workload that included:

- publishing over 140 advice and background papers on the Tax Working Group's website, including over 100 papers authored by the Tax Working Group Secretariat to inform and support discussions among Group members
- facilitating the Group's public consultation to the Interim Report, which resulted in over 600 submissions being received.

The Government announced its overall response to the report in April 2019. Many of the Group's specific recommendations are to be considered further as part of the 2019/20 Tax Policy Work Programme. We advised Ministers on the Government's response to these recommendations and will lead the next stages of the policy process, alongside Inland Revenue.

MEASURE	STANDARD	RESULT
Goals of the Tax Working Group are progressed in alignment with their Terms of Reference.	Achieved	Achieved
Satisfaction of the Tax Working Group with the policy advice service rated as "Satisfied" or better.	75%	100%, based on 9 out of 11 responses (2 members did not respond)

 For more information on the Tax Working Group, visit taxworkinggroup.govt.nz

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment PLA¹⁶

Our budget was

\$10.105m

We spent

\$9.565m

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.

Our key achievements for 2018/19 with this appropriation:

Minimising the Crown's long-term borrowing costs with the successful delivery of the New Zealand Government Bond Programme.

Designing a funding strategy to support the Crown's ability to manage its debt.

Delivering a Liquidity Management Strategy to ensure the Crown is sufficiently resourced to deliver on commitments while managing short term fluctuations in cash balances.

Introduction of an advisory group to provide greater assurance over the Crown's debt management function.

New Zealand Debt Management (NZDM)

The objective of the Treasury's debt management function is to minimise the Crown's borrowing costs over the long-term with due consideration to risk, manage the Crown's liquidity position and to ensure ongoing access to debt funding markets.

The Treasury takes a strategic approach to debt funding and risk management. As a centralised function, debt funding has continued to be delivered in a manner which is consistent with the Government's fiscal strategy and the needs of the Crown's balance sheet. In parallel, the approach to debt management ensures that interaction with financial market participants is coordinated as well as strategic. Our key activities and our achievements in 2018/19 with these are outlined below:

Funding strategy: Design and execution of debt portfolio composition

The funding strategy included designing a debt portfolio that was composed as at 30 June 2019 (see figure 3). The funding strategy balances the needs of the Crown, investor demand and market function in determining the funding programme and debt portfolio.

¹⁶ Permanent Legislative Authority (PLA) appropriations do not need to be sought from and approved by Parliament each year.

Debt issuance (nominal bonds, inflation-indexed bonds and Treasury Bills)

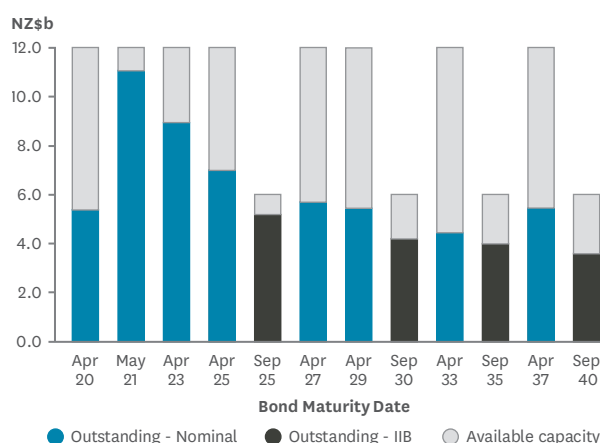
Issuance of debt securities on behalf of the New Zealand Government occurs on a regular basis throughout the year. In 2018/19:

- \$6.9 billion of Nominal Bonds were issued via regular fortnightly tenders. On average, these tenders received three times more bids than the bonds on offer. The bonds issued included three different maturity dates (2025, 2029, 2037)
- \$1.1 billion of Inflation-indexed Bonds were issued via tenders throughout the year. On average, tenders received twice the number of bids than the bonds on offer. The bond issued was the 2040 New Zealand Government Inflation-indexed Bond
- \$6.0 billion of Treasury Bills were issued via regular fortnightly tenders
- \$2.4 billion of Nominal Bonds were repurchased ahead of maturity through competitive buyback tenders
- the maturity of the March 2019 bond was successfully managed. In excess of \$12 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.

Engagement with investors, credit rating agencies and intermediaries

Engagement with investors is crucial to maintain their confidence in investing in New Zealand Government Bonds (NZGBs) and to continue to diversify the investor base. In addition to presentations at investor conferences, approximately 60 investor meetings have occurred over the past year.

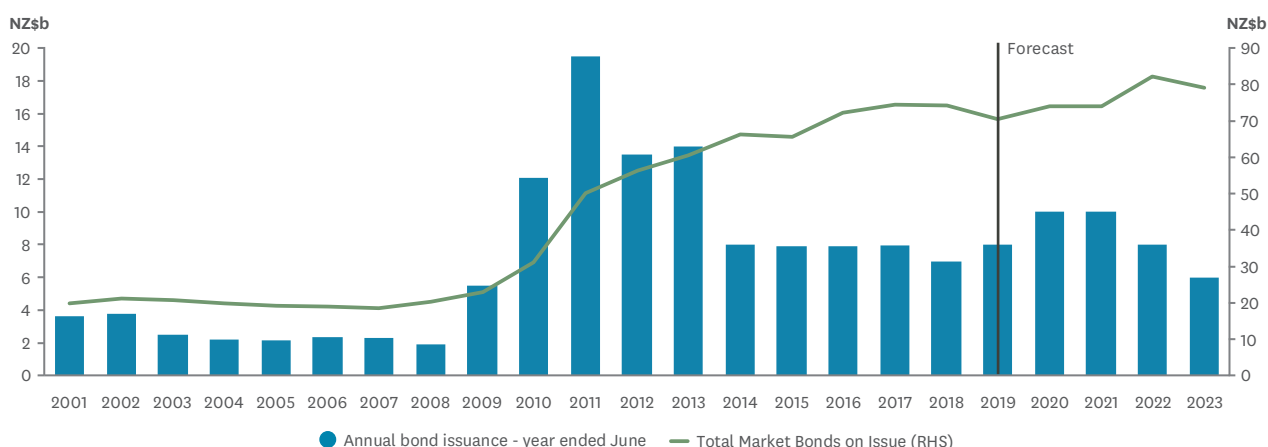
Figure 3: Current New Zealand Government Bond portfolio



Credit ratings are an important component of investor confidence and have a direct impact on the cost of government borrowing. Over the year, ratings visits from all three major rating agencies were coordinated. These visits occur on an annual basis and are augmented with ongoing information sharing and meetings offshore.

The *New Zealand Government Securities Overview* was published at the *Half Year Economic and Fiscal Update* (HYEFU) and the *Budget Economic and Fiscal Update* (BEFU), to provide investors with valuable insights into New Zealand's economic backdrop, institutional framework and Government Securities Market. In addition, the *New Zealand Government Securities Funding Strategy* gives investors an overview of the objectives, principles, instruments and mechanisms underpinning the funding strategy for the fiscal year.

Figure 4: New Zealand Government Bonds



Liquidity and investment management

Sound liquidity management supports an effective debt management programme. The Crown must always have enough cash available to fund every commitment when it falls due. The liquidity management strategy enables the management of short-term fluctuations in cash balances. Specific actions include:

- producing bond programme forecasts showing funding requirements over a five-year horizon
- producing detailed cash forecasts to plan cash management activities over a shorter horizon, in order to help smooth the bond programme
- funding short-term cash deficits within the bounds of the bond programme
- managing cash surpluses through investment into high-quality, liquid securities
- holding a portfolio of liquid assets to meet unforeseen liquidity requirements.

MEASURE	STANDARD	RESULT
Crown liquidity and funding risk and NZDM market and credit risk are well managed within the Crown's risk appetite: As evidenced by compliance with the following NZDM policies: Market Risk Policy, Credit Risk Policy, Liquidity Risk Policy and Funding Risk Policy.	No more than four breaches	Achieved

Corporate treasury services

This involves the provision of financial markets services to departments and the Crown entities with the aim of improving the management of financial risks across government (see figure 5).

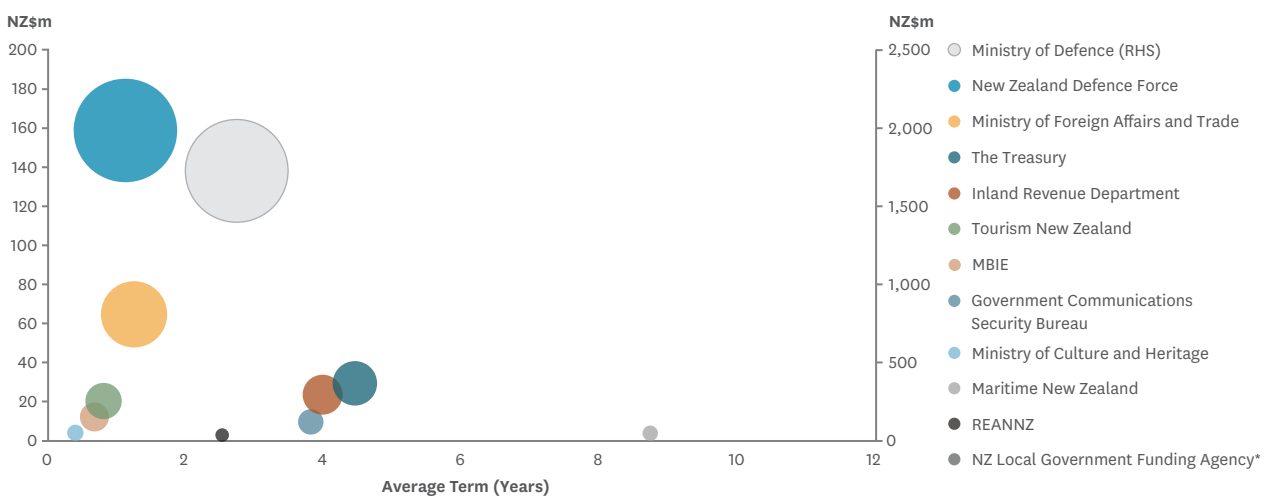
We successfully delivered all of our 2018/19 deliverables and responsibilities. These were:

- the provision of capital markets advice
- the administration of Crown lending transactions
- the provision of risk management services to government agencies
- Crown banking arrangements.

The number and types of transactions we administered were as follows:

PRODUCT	TRANSACTIONS	NZD EQUIVALENT
Outright FX	1,087	2,431,559,026
Interest rate swaps	34	2,954,436,070
Crown lending	37	411,869,753

Figure 5: Current FX transactions across departments



* The Local Government Funding Agency has no outstanding FX volume over 2018/19.

Assurance, oversight and resilience

In 2018/19 we established an advisory committee to strengthen assurance of the Treasury’s capital markets activities (debt management, treasury services and Export Credit – funded by the Financial Operations appropriation).

The new Capital Markets Advisory Committee (CMAC) will benefit the Crown by bringing new perspectives and challenge to the strategy, risk management and overall performance of the functions. CMAC’s external members come with senior level, public and private sector expertise spanning public debt management, financial markets and international trade finance:

- Burke Steel – former CEO of Euler Hermes Oceania and founder of Lumley Trade Credit Limited
- Linda Robertson – Professional Director, former Treasurer Meridian Energy
- Traci Houppapa – Company Director
- Michael Allen – Former CEO – Australian Office of Financial Management.

CMAC is chaired by the Deputy Secretary, Financial and Commercial who is joined by the Deputy Secretary, Macroeconomics and Growth, as a second Treasury member.

MEASURE	STANDARD	RESULT
NZDM 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	Achieved

Business continuity

The ability to continue delivery of core business functions during a crisis is essential. This year, an Auckland team has been established to mitigate the risks from a major event occurring in Wellington. Key appointments to the Auckland Policy Office include portfolio management and accounting staff who, as well as supporting delivery of business-as-usual activities, are able to effect continued delivery of critical tasks such as bond tenders and payment settlements in the event of a crisis.

Shared Support Services

Our budget was

\$11.371m

We spent

\$9.252m

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

Our key achievements for 2018/19 with this appropriation:

Quality and timeliness of financial and payroll services was achieved.

Access to and availability of shared services was at or above expected service levels.

In response to an annual survey, over 90% of customers rated the service as “Mostly Satisfied” or above.

Further adoption of cloud services as the shared service progresses towards an “As a Service” model.

Supported the successful transition of SSC from receiving full services to receiving only transactional finance and payroll services and the associated systems.

A template configuration for a cloud-based financial management information system was developed.

The Human Rights Commission and Creative New Zealand were welcomed as new customers for our shared cloud-based financial management information system.

Figure 6: Shared services provided to other agencies by the Treasury

AGENCY SUPPORTED		DEPARTMENT OF THE PRIME MINISTER AND CABINET	STATE SERVICES COMMISSION	SERIOUS FRAUD OFFICE	MINISTRY FOR WOMEN	MINISTRY OF CULTURE AND HERITAGE	CREATIVE NEW ZEALAND	HUMAN RIGHTS COMMISSION
FINANCE	Strategy & Advice*	✓						
	Transaction Processing	✓	✓					
	Finance System	✓	✓	✓		✓	✓	✓
HUMAN RESOURCES	Strategy & Advice*	✓						
	HR Services	✓						
	Payroll System	✓	✓					
INFORMATION AND TECHNOLOGY	Strategy & Advice*	✓						
	Systems & Infrastructure	✓						
	Helpdesk & Support	✓						
	Programme Management	✓						
	Information Management	✓						
	Information Services	✓			✓			

* Strategy services includes the roles of Chief Financial Officer, Chief Information Officer and Chief People Officer.

Note: With the exception of the Department of the Prime Minister and Cabinet (265 FTEs), all other agencies tend to be small with a range of between 50 and 100 FTEs.

MEASURE	STANDARD	RESULT
Services meet the standards and timeframes agreed with other agencies.	Achieved	Achieved

The Treasury – Capital Expenditure PLA

Our budget was

\$15.621m

We spent

\$12.746m

This appropriation is intended to achieve the renewal and replacement of life-expired assets in support of the delivery of Treasury services.

Our key achievement for 2018/19 with this appropriation was the successful completion of a programme of work on time and under budget to refurbish and transition the Treasury into its new premises.

Adopting new, more flexible ways of working

A successful move to new, fit-for-purpose premises completed on time and under budget in March 2019 has helped signal and accelerate the cultural and capability shifts we are seeking in order to better serve the wellbeing focus of current and future governments.

A key project, Tāne Whakapiri, was established to manage the technology, fit-out and culture workstreams associated with this premises relocation. This project received an Interdisciplinary Collaboration Award at the New Zealand Building Industry Awards as an example of collaborative partnerships in a building project.

Tāne Whakapiri is part of the Wellington Accommodation Project tranche 2 (WAP2), a wider Government initiative approved in 2015, which seeks to further reduce the amount and cost of accommodation occupied by government agencies in Wellington. By optimising leased office space in Wellington, agencies can continue to deliver improved public services and save taxpayer dollars. WAP2 does this by looking at co-locating agencies together, accommodating those with common functions in the same building and putting agencies into buildings near to each other where it makes sense and saves money.

Our total spend for the Tāne Whakapiri project in 2018/19 was \$8.553 million.

MEASURE	STANDARD	RESULT
Expenditure is in accordance with the Treasury capital asset management plan.	Achieved	Achieved

Improving our technology

Our transition to new premises has been complemented by the improvements we have made to our technology, such as meeting room and data visualisation tools, to expand the ability of our people to create and analyse information and data and which support collaboration securely and seamlessly. Our total spend for information technology for 2018/19 was \$3.794 million.

At the same time, we have introduced customer service improvements to proactively monitor our technology and infrastructure systems. This is an ongoing area of work that will include exploring opportunities to automate approaches to delivering business services.





SECTION 3

Reporting on Financial Information

Appropriation Statements

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

for the year ended 30 June 2019

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	Location of End-of- year Performance Information
Vote Finance					
<i>Departmental Output Expenditure</i>					
9,289	Administration of Crown Borrowing, Securities, Derivative Transactions and Investment PLA	9,565	10,105	10,105	The Treasury Annual Report pp 30-33
10	Administration of Guarantees and Indemnities Given by the Crown PLA	5	110	110	The Treasury Annual Report p 47
3,973	Crown Company Monitoring Advice to the Minister for SOEs and Other Responsible Ministers	3,808	4,533	4,763	The Treasury Annual Report pp 26-27
111	Crown Company Monitoring Advice to the Minister for Science and Innovation and the Minister for Economic Development	165	236	236	The Treasury Annual Report pp 26-27
-	Design and Establishment of the Christchurch Regeneration Acceleration Facility	606	1,000	1,100	The Treasury Annual Report p 46
456	Design and Establishment of the Green Investment Fund	1,670	4,000	2,544	The Treasury Annual Report p 28
-	Infrastructure Funding and Financing	1,964	-	2,350	The Treasury Annual Report p 47
35,164	Policy Advice – Finance	43,305	34,308	46,394	The Treasury Annual Report pp 18-21
12,852	Shared Support Services	9,252	13,871	11,371	The Treasury Annual Report pp 34-35
30,666	Provision of Financial Operations Services and Operational Advice	30,631	30,839	32,039	The Treasury Annual Report pp 22-25
92,521	Total Departmental Output Expenditure	100,971	99,002	111,012	
<i>Departmental Capital Contribution</i>					
3,000	Total Departmental Capital Contribution	5,888	6,388	5,888	
<i>The Treasury Departmental Capital Expenditure PLA</i>					
5,289	Total Departmental Capital Expenditure	12,746	12,485	15,621	The Treasury Annual Report p 36
<i>Non-Departmental Output Expenses</i>					
21,680	Management of Anchor Projects by Ōtākaro Limited	21,446	23,300	28,029	To be reported on in Ōtākaro's Annual Report 2018/19
8	Management of the Crown's Obligations for Geothermal Wells	22	180	621	Exempt
634	Management of the New Zealand Superannuation Fund	584	728	953	Exempt
-	Inquiries and Research into Productivity – Related Matters	5,030	5,030	5,030	To be reported on in the Productivity Commission's Annual Report 2018/19
22,322	Total Non-Departmental Output Expenses	27,082	29,238	34,633	
<i>Non-Departmental Borrowing Expenses</i>					
3,412,689	Debt Servicing PLA	3,349,692	3,285,111	3,351,086	Exempt
3,412,689	Total Non-Departmental Borrowing Expenses	3,349,692	3,285,111	3,351,086	
<i>Non-Departmental Other Expenses</i>					
-	Ahu Whenua Trust Ex-gratia	-	-	9,000	Reported in an appendix to the Treasury Annual Report (p 78)
200	Crown Residual Liabilities	157	210	324	Exempt

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	Location of End-of-year Performance Information
77	Earthquake Commission – Clean-up of Edgcumbe Properties	-	-	-	N/A
150	Fair value write down on initial recognition of Sale of Fairway Resolution Ltd	-	-	-	N/A
-	Geothermal Wells Fund	-	500	1,000	Exempt
1	Government Superannuation Appeals Board	20	50	50	Exempt
41,837	Government Superannuation Fund Authority – Crown’s Share of Expenses PLA	40,835	38,000	41,800	Exempt
462,196	Government Superannuation Fund Unfunded Liability PLA	421,325	553,060	469,000	Exempt
-	Impairment of Investment in Southern Response Earthquake Services Ltd	16,000	-	137,000	Exempt
-	Meeting Deficiency in Earthquake Commission’s Natural Disaster Fund PLA	125,000	-	94,000	Exempt
18,000	National Provident Fund Schemes – Liability Crown Under Crown Guarantee	15,000	16,000	19,250	Exempt
25	Payments in Respect of Guarantees and Indemnities PLA	758	-	-	Exempt
344	Review and Reform of Local Government Infrastructure Arrangements	217	300	873	Exempt
214	Unclaimed Money PLA	37	250	250	Exempt
-	Unclaimed Trust Money PLA	-	250	250	Exempt
2,871	Unwind of Discount Rate Used in the Present Value Calculation – Rehabilitation of Stockton Mine Acid Mine Drainage	1,880	3,000	3,000	Exempt
1,533	Unwind of Discount Rate Used in the Present Value Calculation of Payment of Shares in International Institutions	784	866	866	Exempt
6,857	Unwind of Discount Rate Used in the Present Value Calculation of Payment Under Crown Deed of Support with Southern Response Earthquake Services Limited	3,297	3,640	4,306	Exempt
534,305	Total Non-Departmental Other Expenses	625,310	616,126	780,969	
	Non-Departmental Capital Expenditure				
7,700	Canterbury Earthquake National Memorial	-	-	-	N/A
734	Crown Asset Management Limited – Acquisition of Residual Assets	-	-	-	N/A
-	Crown Infrastructure Partners Limited – Equity Injection (MYA Expense)	17,000	25,000	12,200	Exempt
1,000	Deferred Receipt of Proceeds from Sale of Fairway Resolution Limited	-	-	-	N/A
18,000	Loan Facility for Tāmaki Redevelopment Company Multi-year Appropriation (MYA Expense)	14,000	141,500	170,500	Reported in Tāmaki Development Company Annual Report
-	New Zealand Green Investment Fund - Equity Injections for Operating Expenditure (MYA Expense)	6,000	-	6,000	Exempt
500,000	NZ Superannuation Fund – Contributions	1,000,000	1,000,000	1,000,000	NZSF Annual Report
-	Participation in Dividend Reinvestment Plans by the Mixed Ownership Model Companies (MYA Expense)	20,941	40,000	20,941	Exempt
335,854	Refinancing of Housing New Zealand Corporation and Housing New Zealand Limited Debt	127,184	195,909	195,909	Reported in an appendix to the Treasury Annual Report (p 78)
-	Southern Response Earthquake Services Limited – Equity Investment	16,000	-	137,000	Exempt
-	Tāmaki Regeneration Company Limited – Equity Injection	59,500	50,000	137,000	Exempt
33,519	Transfer of Anchor Project to Ōtākaro Limited MYA	1,377	227,670	1,034	Exempt
896,807	Total Non-Departmental Capital Expenditure	1,262,002	1,680,079	1,680,584	

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	Location of End-of- year Performance Information
Multi-Category Expenses and Capital Expenditure					
Greater Christchurch Anchor Projects MCA					
<i>Non-Departmental Other Expenses</i>					
22,732	Christchurch Bus Interchange and Associated Transport Infrastructure – Operating	17,445	2,700	22,537	The Treasury Annual Report p 49
2,961	Christchurch Convention Centre – Operating	3,210	4,200	4,239	The Treasury Annual Report pp 49
450	Christchurch Stadium – Operating	2,395	2,000	2,639	Exempt
-	Financial Impact of Valuations	-	1,500	731	Exempt
-	Leasing Anchor Project Land	-	2,000	900	Exempt
17,474	Metro Sports Facility – Operating	-	10,000	283	The Treasury Annual Report p 49
1,535	Pre-development Holding Costs – Operating	1,440	2,000	2,143	The Treasury Annual Report p 49
10,020	Procurement of Land and Assets – Operating	14,029	21,700	38,051	The Treasury Annual Report p 49
38,849	Public Space – Operating	25,587	11,100	34,230	The Treasury Annual Report p 49
-	Sale of Land	-	1,000	584	Exempt
<i>Non-Departmental Capital Expenditure</i>					
-	Christchurch Bus Interchange and Associated Transport Infrastructure	-	-	1,985	Exempt
29,031	Christchurch Convention Centre	130,260	181,800	171,069	The Treasury Annual Report p 49
-	Land and Asset Acquisition	-	10,000	7,436	The Treasury Annual Report p 49
1,776	Metro Sports Facility	-	-	84,006	The Treasury Annual Report p 49
5,734	Public Space	1,132	-	2,908	The Treasury Annual Report p 49
130,562	Total Greater Christchurch Anchor Projects MCA	195,498	250,000	373,741	
Inquiries and Research into Productivity-related Matters MCA					
<i>Non-Departmental Output Expenses</i>					
4,401	Inquiries into Productivity-related Matters	-	-	-	N/A
629	Research into and Promotion of Productivity-related Matters	-	-	-	N/A
5,030	Total Inquiries and Research into Productivity-related Matters MCA	-	-	-	
Management of Landcorp Protected Land Agreement MCA					
<i>Non-Departmental Other Expense</i>					
378	Operating Costs	1,416	2,500	415	The Treasury Annual Report p 50
<i>Non-Departmental Capital Expenditure</i>					
1,800	Capital Investments	2,228	1,500	3,451	N/A
2,178	Total Management of Landcorp Protected Land Agreement MCA	3,644	4,000	3,866	
Management of New Zealand House, London MCA					
<i>Non-Departmental Output Expense</i>					
73	Property Management	303	1,000	3,427	The Treasury Annual Report p 50
<i>Non-Departmental Other Expenses</i>					
5,970	Operational Costs	9,966	13,000	23,781	Exempt
1,334	Renegotiation of Lease Arrangements	1,479	-	559	Exempt
<i>Non-Departmental Capital Expenditure</i>					
-	Capital Expenditure	-	750	4,500	Exempt
7,377	Total Management of New Zealand House, London MCA	11,748	14,750	32,267	

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	Location of End-of- year Performance Information
Social Housing Reform MCA					
<i>Departmental Output Expense</i>					
3,893	Implementation of the Social Housing Reform Programme	724	2,101	3,702	The Treasury Annual Report p 51
<i>Non-Departmental Output Expense</i>					
3,799	Direct Costs of Social Housing Reform Programme	-	2,100	3,574	The Treasury Annual Report p 51
7,692	Total Social Housing Reform MCA	724	4,201	7,276	
Management of the Crown's Agreement with Taitokerau Forests Limited MCA					
<i>Non-Departmental Other Expenses</i>					
245	Grants	451	200	370	Exempt
-	Impairment of Loans	5,132	-	6,630	Exempt
<i>Non-Departmental Capital Expenditure</i>					
200	Loans	611	-	500	Exempt
445	Total Management of the Crown's Agreement with Taitokerau Forests Limited MCA	6,194	200	7,500	
Tax Working Group MCA					
<i>Departmental Output Expense</i>					
571	Provision of Support and Advice	425	1,280	1,629	The Treasury Annual Report p 29
<i>Non-Departmental Output Expense</i>					
265	Direct Costs	438	320	335	The Treasury Annual Report p 52
836	Total Tax Working Group MCA	863	1,600	1,964	
154,120	Total Multi-Category Expenses and Capital Expenditure	218,671	274,751	426,614	
5,121,053	Total Departmental and Non-Departmental Expenditure and Appropriations	5,602,362	6,003,180	6,406,407	

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

for the year ended 30 June 2019

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

Nil. (2018: Nil)

Expenses and capital expenditure incurred in excess of appropriation

Nil. (2018: Nil)

Statement of Capital Injections

for the year ended 30 June 2019

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000
3,000	Capital Contributions	5,888	6,388	5,888

Financial and Performance Reporting Against Appropriations

The Treasury is responsible for achieving 22 measures relating to ten departmental output expenses appropriations and one departmental capital expenditure appropriation (pages 18 to 36 and 46 to 47).

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 five MCAs with 17 associated measures (pages 48 to 52).

Departmental Appropriations 44
Multi-Category Appropriations..... 48

Departmental Appropriations

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
35,164	Expenses	43,305	34,308	46,394	-
<i>Funded by:</i>					
37,819	Revenue Crown	46,346	34,260	46,346	-
31	Revenue Department	713	31	31	
8	Other revenue	20	17	17	-

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
30,666	Expenses	30,631	30,839	32,039	-
<i>Funded by:</i>					
27,142	Revenue Crown	28,014	27,214	28,014	-
3,229	Revenue Department	2,609	3,525	3,525	
682	Other revenue	760	100	500	-

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
3,973	Expenses	3,808	4,533	4,763	-
<i>Funded by:</i>					
4,556	Revenue Crown	4,761	4,531	4,761	-
5	Other revenue	-	2	2	-

Crown Company Monitoring Advice to the Minister of Research, 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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
111	Expenses	165	236	236	-
	<i>Funded by:</i>				
128	Revenue Crown	235	235	235	-
-	Other revenue	-	1	1	-

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.

Financial information

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
456	Expenses	1,670	4,000	2,544	2,000
	<i>Funded by:</i>				
1,000	Revenue Crown	2,544	4,000	2,544	2,000

Administration of Crown Borrowing, Securities, Derivative Transactions and Investment 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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
9,289	Expenses	9,565	10,105	10,105	10,105
	<i>Funded by:</i>				
10,000	Revenue Crown	10,100	10,100	10,100	10,100
14	Other revenue	-	5	5	5

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
12,852	Expenses	9,252	13,871	11,371	10,487
<i>Funded by:</i>					
12,507	Revenue Department	9,243	13,871	11,371	10,487

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
2,185	Property, plant and equipment	11,064	8,930	11,503	2,430
3,104	Intangibles	1,682	3,555	4,118	3,555
5,289	Total appropriation	12,746	12,485	15,621	5,985

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
-	Expenses	606	1,000	1,100	400
<i>Funded by:</i>					
500	Revenue Crown	1,100	1,000	1,100	400

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
Payments made in respect of the Christchurch Regeneration Acceleration are made in agreement with the terms and conditions of the relevant agreements.	Achieved	Achieved

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
10	Expenses	5	110	110	110
<i>Funded by:</i>					
109	Revenue Crown	109	109	109	109
-	Other revenue	-	1	1	1

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
The administration of Crown Guarantees and Indemnities as required to discharge the Crown's obligations in a timely manner ensuring any costs from the materialisation are contained.	Achieved	Achieved

Infrastructure Funding and Financing¹⁷

What is intended to be achieved with this appropriation

This appropriation is intended to achieve a new framework for funding and financing investment in infrastructure.

Financial information

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
-	Expenses	1,964	-	2,350	3,072
<i>Funded by:</i>					
-	Revenue Crown	2,350	-	2,350	3,072

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
The design of an alternative funding model for local authorities to accelerate infrastructure and support housing affordability.	Achieved	Achieved

¹⁷ This appropriation was established in 2018/19.

Multi-Category Appropriations

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
130,562	Total appropriation	195,498	250,000	373,741	166,100
	<i>Non-Departmental Operating Expense</i>				
22,732	Christchurch Bus Interchange and Associated Transport Infrastructure – Operating	17,445	2,700	22,537	5,000
2,961	Christchurch Convention Centre – Operating	3,210	4,200	4,239	7,900
450	Christchurch Stadium – Operating	2,395	2,000	2,639	400
-	Financial Impact of Valuations	-	1,500	731	100
-	Leasing Anchor Project Land	-	2,000	900	100
17,474	Metro Sports Facility – Operating	-	10,000	283	12,000
1,535	Pre-development Holding Costs	1,440	2,000	2,143	6,000
10,020	Procurement of Land and Assets	14,029	21,700	38,051	21,500
38,849	Public Space – Operating	25,587	11,100	34,230	5,100
-	Sale of Land	-	1,000	584	100
	<i>Non-Departmental Capital Expense</i>				
-	Christchurch Bus Interchange and Associated Transport Infrastructure – Capital	-	-	1,985	100
29,031	Christchurch Convention Centre – Capital	130,260	181,800	171,069	98,800
-	Land and Asset Acquisition – Capital	-	10,000	7,436	1,900
1,776	Metro Sports Facility – Capital	-	-	84,006	100
5,734	Public Space – Capital	1,132	-	2,908	7,000

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
Non-Departmental Other Expenses		
<i>Christchurch Bus Interchange and Associated Transport Infrastructure – Operating</i>		
During operating hours, the bus interchange is not closed from operations greater than 2 hours at any one point in time during the year.	Achieved	Achieved
All 'An Accessible City' projects are on time and on budget.	Achieved	Achieved
<i>Christchurch Convention Centre – Operating</i>		
The Convention Centre is progressed on time and on budget.	Achieved	Achieved
<i>Metro Sports Facility – Operating</i>		
MSF is progressed on time and on budget.	Achieved	Achieved
<i>Pre-Development Holding Costs – Operating</i>		
All cleared/remediated land is held in a state ready for development or ultimate sale.	Achieved	Achieved
<i>Procurement of Land and Assets – Operating</i>		
Land is acquired and remediated to a level and in a timeframe needed to meet all Anchor Project performance targets and all land divestment targets as per Ōtākaro's land divestment strategy.	Achieved	Achieved
<i>Public Space – Operating</i>		
All public space projects are developed, operated and divested in keeping with Anchor Project performance targets and Ōtākaro's land divestment strategy.	Achieved	Achieved
Non-Departmental Capital Expenditure		
<i>Christchurch Convention Centre – Capital</i>		
The Convention Centre is progressed on time and on budget.	Achieved	Achieved
<i>Land and Asset Acquisition – Capital</i>		
Land is acquired in a timeframe needed to meet all Anchor Project performance targets and all land divestment targets as per Ōtākaro's land divestment strategy.	Achieved	Achieved
<i>Metro Sports Facility – Capital</i>		
Metro Sports Facility is progressed on time and on budget.	Achieved	Achieved
<i>Public Space – Capital</i>		
All public space projects are developed, operated and divested in keeping with Anchor Project performance targets and Ōtākaro's land divestment strategy.	Achieved	Achieved

Further information is available in Ōtākaro's 2018/19 Annual Report.

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
2,178	Total appropriation	3,644	4,000	3,866	3,000
378	Operating Costs	1,416	2,500	415	1,500
Non-Departmental Operating Expense					
1,800	Capital Investment	2,228	1,500	3,451	1,500

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
Land and infrastructure are managed to the standards as set out in the terms and conditions of the Protected Land Agreement.	Achieved	Achieved

Significant achievements:

- During 2018/19, 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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
7,377	Total appropriation	11,748	14,750	32,267	14,850
Non-Departmental Output Expenses					
73	Property management	303	1,000	3,427	1,000
Non-Departmental Other Expenses					
5,970	Operational costs	9,966	13,000	23,781	13,000
1,334	Renegotiation of Lease Arrangements	1,479	-	559	100
Non-Departmental Capital Expenditure					
-	Capital Expenditure	-	750	4,500	750

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
New Zealand House, London is well managed.	Achieved	Achieved

During 2018/19, the following was achieved:

- ongoing management of property maintenance, including major works
- renegotiation of a number of tenant leases
- conditional agreement achieved with The Crown Estate on the renegotiation of the property head-lease
- finalisation of new property management agreement.

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
7,692	Total appropriation	724	4,201	7,276	2,000
Departmental Output Expense					
3,893	Implementation of the Social Housing Reform Programme	724	2,101	3,702	100
Funded by:					
5,493	Revenue Crown	3,701	2,100	3,701	-
3	Other revenue	-	1	1	100
Non-Departmental Output Expense					
3,799	Direct Sale Costs for Implementing the Social Housing Reform Programme	-	2,100	3,574	1,900

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
Social Housing Reform		
Social housing regeneration projects are progressed as per Government direction.	Achieved	Achieved
Implementation of the Social Housing Reform Programme		
Development of business case for regeneration projects that include potential partnership arrangements with iwi and/or community housing providers.	Achieved	Achieved
Development of policies, commercial structures and standard form contractual documentation to support potential partnership arrangements with iwi and/or community housing providers.	Achieved	Achieved

During 2018/19, the Treasury:

- completed a business case for the regeneration of social housing in eastern Porirua, and
- commenced a formal procurement process for a partnership with Ngāti Toa in western Porirua. The proposed partnership would involve a Ngāti Toa Community Housing Provider taking over management of around 900 properties and tenancies through a long-term lease with Housing New Zealand, and a capacity contract with the Ministry of Housing and Urban Development.

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2019 Supp. Estimates Unaudited \$000	2020 Forecast Unaudited \$000
836	Total appropriation	863	1,600	1,964	-
Departmental Output Expense					
571	Tax Working Group – Provision of Support and Advice	425	1,280	1,629	-
<i>Funded by:</i>					
1,920	Revenue Crown	1,629	1,280	1,629	-
Non-Departmental Output Expense					
265	Tax Working Group – Direct Costs	438	320	335	-

What was achieved in this appropriation

Performance measure	Standard for 2018/19	Performance for 2018/19
Tax Working Group		
Non-Departmental Output Expenses		
Ministerial satisfaction with the Tax Working Group's provision of its recommendations as per the Group's Terms of Reference.	75%	90%

Note: Information on the departmental output expense for this appropriation is reported on page 29 of this report.

Financial Statements

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Departmental Financial Statements

Statement of Comprehensive Revenue and Expenses

for the year ended 30 June 2019

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 2019. 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 pages 38 to 42.

2018 Actual \$000		Note	2019 Actual \$000	2019 Main Estimates Unaudited \$000	2020 Forecast Unaudited \$000
Income					
88,667	Revenue Crown – non-exchange	2	100,889	90,479	97,287
16,479	Other revenue – exchange	3	13,345	17,554	14,169
105,146	Total income		114,234	108,033	111,456
Expenditure					
65,188	Personnel costs	4	69,858	69,126	69,651
4,699	Depreciation and amortisation expense	5,6	4,570	4,865	6,213
1,165	Capital charge	7	1,289	1,537	1,587
25,933	Other operating expenses	8	26,403	32,505	34,005
96,985	Total expenditure		102,120	108,033	111,456
8,161	Total comprehensive revenue and expenses		12,114	-	-

Statement of Changes in Equity

for the year ended 30 June 2019

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2020 Forecast Unaudited \$000
19,417	Balance as at 1 July	22,417	22,417	26,483
8,161	Total comprehensive revenue and expenses	12,114	-	-
(8,161)	Return of operating surplus to the Crown	(12,114)	-	-
3,000	Capital contributions	5,888	6,388	-
-	Capital withdrawals	(4,832)	-	-
22,417	Balance as at 30 June	23,473	28,805	26,483

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

Statement of Financial Position

as at 30 June 2019

The Statement of Financial Position reports the total assets and liabilities of the Treasury as at 30 June 2019. Taxpayers' funds are represented by the difference between the assets and liabilities.

2018 Actual \$000		Note	2019 Actual \$000	2019 Main Estimates Unaudited \$000	2020 Forecast Unaudited \$000
Assets					
<i>Current assets</i>					
10,493	Cash and cash equivalents		16,418	5,651	6,111
2,842	Debtors and other receivables		3,206	1,207	2,603
385	Prepayments		436	624	400
18,316	Debtor Crown		8,138	14,000	5,450
32,036	Total current assets		28,198	21,482	14,564
<i>Non-current assets</i>					
4,974	Property, plant and equipment	5	13,662	14,418	13,629
7,181	Intangible assets	6	6,504	8,501	8,754
12,155	Total non-current assets		20,166	22,919	22,383
44,191	Total assets		48,364	44,401	36,947
Liabilities					
<i>Current liabilities</i>					
8,379	Creditors and other payables	9	7,184	10,782	5,332
8,161	Repayment of surplus		12,114	-	-
4,587	Employee entitlements	10	4,878	4,074	4,407
21,127	Total current liabilities		24,176	14,856	9,739
<i>Non-current liabilities</i>					
647	Employee entitlements	10	715	740	725
647	Total non-current liabilities		715	740	725
21,774	Total liabilities		24,891	15,596	10,464
22,417	Net assets		23,473	28,805	26,483
Equity					
22,417	Taxpayers' funds		23,473	28,805	26,483
22,417	Total equity		23,473	28,805	26,483

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

Statement of Cash Flows

for the year ended 30 June 2019

The Statement of Cash Flows summarises the cash movements in and out of the Treasury during the financial year. It takes into 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 54.

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2020 Forecast Unaudited \$000
Cash flows from operating activities				
84,012	Receipts from Crown	111,067	90,395	97,203
15,589	Receipts from other revenue	12,767	17,554	14,169
(25,531)	Payments to suppliers	(26,871)	(37,108)	(35,666)
(64,943)	Payments to employees	(69,848)	(63,023)	(66,448)
(1,166)	Payments for capital charge	(1,290)	(1,537)	(1,587)
(288)	Goods and services tax net	(271)	(2,036)	(1,360)
7,673	Net cash flows from operating activities	25,554	4,245	6,311
Cash flows from investing activities				
(2,185)	Purchase of property, plant and equipment	(11,064)	(8,930)	(2,430)
(3,104)	Purchase of intangible assets	(1,682)	(3,555)	(3,555)
(5,289)	Net cash flows from investing activities	(12,746)	(12,485)	(5,985)
Cash flows from financing activities				
3,000	Capital contributions	5,888	6,388	-
-	Capital withdrawal	(4,610)	-	-
(6,127)	Repayment of surplus to the Crown	(8,161)	-	(11,300)
(3,127)	Net cash flows from financing activities	(6,883)	6,388	(11,300)
(743)	Net (decrease)/increase in cash	5,925	(1,852)	(10,974)
11,236	Cash at the beginning of the year	10,493	7,503	17,085
10,493	Cash at the end of the year	16,418	5,651	6,111

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

Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

2018 Actual \$000		2019 Actual \$000
8,161	Net surplus/(deficit)	12,114
	Non-cash items	
4,699	Depreciation, amortisation and impairment expenses	4,570
4,699	Total non-cash items	4,570
	Add/(less) items classified as investing or financing activities	
-	Net (Gains)/losses on disposal of property, plant	34
	Add/(less) movements in Statement of Financial Position items	
(4,648)	(Increase)/decrease in debtor Crown	10,178
(1,627)	(Increase)/decrease in debtors and other receivables	(368)
233	(Increase)/decrease in prepayments	(51)
896	Increase/(decrease) in creditors and other payables	(1,036)
(289)	Increase/(decrease) in GST	(246)
248	Increase/(decrease) in employee entitlements	359
(5,187)	Net movement in working capital items	8,836
7,673	Net cash flow from operating activities	25,554

Statement of Commitments

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

2018 Actual \$000		2019 Actual \$000
	Non-cancellable operating lease commitments	
3,382	Not later than 1 year	3,611
14,747	Later than 1 year and not later than 5 years	14,995
26,784	Later than 5 years	27,058
44,913	Total non-cancellable operating lease commitments	45,664

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 was 23 February 2019 for a term of 12 years, with an additional three rights of renewal for six years each.

2018 Actual \$000		2019 Actual \$000
	Other commitments	
101	Not later than 1 year	101
303	Later than 1 year and not later than 5 years	202
404	Total capital commitments	303

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 carpark 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 2019, the Treasury had no quantifiable contingent assets or liabilities (2018: Nil).

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

Notes to the Departmental Financial Statements and Non-Departmental Financial Schedules

for the year ended 30 June 2019

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 2019. The Forecast Financial Statements are for the year ending 30 June 2020. These Financial Statements were authorised for issue by the Secretary to the Treasury on 13 September 2019.

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 2019.

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

The Department has adopted PBE IFRS 9 Financial Instruments from 1 July 2018 replacing PBE IPSAS 29 Financial Instruments: Recognition and Measurement. Under the transition options of PBE IFRS 9, the Department has assessed its impact on its Financial Statements and there have been changes made to Export Credit's provision balance.

The adoption of IFRS 9 resulted in an expected loss provision of \$0.522 million being established for New Zealand Export Credit policies outstanding at balance date. This provision is for policies which have not experienced a significant increase in credit risk from initial recognition.

Other than the above, there was no significant impact from the adoption of the standard.

Budget figures shown as Mains

The 2019 budget figures are those included in the Department's Budget Estimates for the year ended 30 June 2019, which are consistent with the financial forecast information submitted for the BEFU for the 2018/19 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 2020 forecast figures are for the year ending 30 June 2020, and are consistent with the financial forecast information submitted for the BEFU for the 2019/20 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 forecast 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 2019/20 Actual Financial Statements include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustments.

Authorisation statement

These Forecast Financial Statements were authorised for issue by the Secretary and Chief Executive of the Treasury on 22 May 2019. 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 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 and Non-Departmental Financial Schedules.

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.

3 Other Revenue

2018 Actual \$000		2019 Actual \$000
12,567	Cost recoveries from SSC and DPMC for shared support services	8,955
1,299	Cost recoveries from secondments	1,453
2,477	Cost recoveries from Gateway projects	2,131
136	Other	806
16,479	Total Other Revenue	13,345

4 Personnel Costs

2018 Actual \$000		2019 Actual \$000
60,315	Salaries and wages	63,885
2,082	Superannuation contributions to defined contribution plans	2,139
289	Increase in employee entitlements	633
1,191	Training and development	1,222
1,311	Other	1,979
65,188	Total Personnel Costs	69,858

5 Property, Plant and Equipment

	Leasehold Improvements \$000	Furniture, Fittings and Office Equipment \$000	Computer Hardware \$000	Total \$000
Cost				
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 1 July 2018	6,763	3,624	8,941	19,328
Additions	8,553	399	2,040	10,992
Disposal	-	(1,509)	(8)	(1,517)
Balance at 30 June 2019	15,316	2,514	10,973	28,803
Accumulated depreciation and impairment losses				
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 1 July 2018	5,545	2,561	6,248	14,354
Depreciation expense	632	347	1,244	2,223
Elimination on disposal	-	(1,436)	-	(1,436)
Balance at 30 June 2019	6,177	1,472	7,492	15,141
Carrying amounts				
At 1 July 2017	633	1,223	2,968	4,824
At 1 July 2018	1,218	1,063	2,693	4,974
Balance at 30 June 2019	9,139	1,042	3,481	13,662

Asset	Useful Life	Depreciation/Amortisation Rate
Cost		
Furniture and fittings and office equipment	3–10 years	10%–33%
Leasehold improvements	12 years	12 years
Computer equipment	3–5 years	20%–33.3%
Computer software – intangibles	3–5 years	20%–33.3%

6 Intangibles Assets

	Acquired Software \$000	Internally Generated Software \$000	Total \$000
Cost			
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 1 July 2018	8,456	8,531	16,987
Additions	529	1,315	1,844
Disposal	(215)	(94)	(309)
Balance at 30 June 2019	8,770	9,752	18,522
Accumulated depreciation and impairment losses			
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	43	170	213
Balance at 1 July 2018	4,565	5,241	9,806
Depreciation expense	931	1,416	2,347
Elimination on disposal	(79)	(56)	(135)
Balance at 30 June 2019	5,417	6,601	12,018
Carrying amounts			
At 1 July 2017	3,882	2,867	6,749
At 1 July 2018	3,891	3,290	7,181
Balance at 30 June 2019	3,353	3,151	6,504

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 2019 was 6% (2018: 6%).

8 Other Operating Expenses

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates Unaudited \$000	2020 Forecast Unaudited \$000
3,978	Rental of premises	4,477	4,447	4,422
1,093	Commissions, service charges and bank fees	1,197	1,255	1,629
	<i>Fees to auditor:</i>			
345	- Fees for audit of the Department	418	476	427
242	- Audit of the Financial Statements of the Government	266	260	265
7,037	Consultants	8,295	10,360	10,541
344	Legal fees	907	1,528	1,563
324	Process management services	258	624	670
1,778	Transport and travel	1,849	2,262	2,261
8,137	Information and communication costs	7,020	7,822	7,591
1,075	Office administration costs	687	1,014	1,064
1,580	Other operating costs	1,029	2,457	3,572
25,933	Total Operating Expenses	26,403	32,505	34,005

In addition to the audit fees billed by KPMG, fees of \$180,135 were paid to KPMG for their consultancy work for the Social Housing Reform Programme, which is funded via the Treasury although has application outside of Treasury's internal functions. Fees of \$239,830 were paid to KPMG for other non-audit services including staff secondments and advisory services.

9 Creditors and Other Payables

2018 Actual \$000		2019 Actual \$000
3,327	Payables	1,779
3,709	Accrued expenses	4,308
1,343	GST payable to Inland Revenue	1,097
8,379	Total Creditors and Other Payables	7,184

10 Employment Entitlement Provisions

2018 Actual \$000		2019 Actual \$000
Current employment entitlement provisions		
545	Accrued salaries	559
470	Accrued performance payments	254
3,011	Annual leave	3,557
136	Sick leave	100
419	Retirement, resigning and long service leave	408
6	Other employee entitlements	-
4,587	Total Current Employment Entitlement Provisions	4,878
Non-current employment entitlement provisions		
647	Retirement, resigning and long service leave	715
647	Total Non-current Employment Entitlement Provisions	715
5,234	Total Employee Entitlements	5,593

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 \$100.889 million to provide services to the public for the year ended 30 June 2019 (2018: \$88.667 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 2019 totalled \$4.846 million (2018: \$3.632 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 normal terms and conditions.

Key management personnel compensation

2018 Actual \$000		2019 Actual \$000
2,322	Salaries and other short-term employee benefits	3,059
61	Post-employment benefits	71
2,383	Total Key Management Personnel Compensation	3,130

Key management personnel of the Treasury as at 30 June 2019 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 (2018: Nil).

12 Events After Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2018: Nil).

13 Explanation of Major Variances Between Actual 2018/19 and Budget

The Treasury achieved a higher net surplus than estimated, mainly as a result of one-off projects including Implementation of the Social Housing Reform Programme, Green Investment Fund, Establishment of the Infrastructure Commission, Enhanced EQC Monitoring and Insurance Policy Advice being delayed. The unspent funding on these projects in 2018/19 will transfer into 2019/20 as these projects continue or are transferred to other Departments.

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 lower than estimated owing to the Treasury releasing capital funds that were held by the Treasury on behalf of the State Services Commission (SSC) as part of the delivery of shared support services. Following SSC's partial withdrawal from the shared service, SSC confirmed that they did not require the capital and it was released and repaid to the Crown to allow reprioritisation to other areas within Central Government.

Non-Departmental Financial Schedules

for the year ended 30 June 2019

This section reports the non-departmental financial schedules in the forms of revenue and capital receipts, expenses, assets and liabilities, commitments, contingent liabilities and trust accounts that the Treasury manages on behalf of the Crown.

These 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.

What is Non-Departmental 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 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 include:

Entities	Activities
New Zealand Debt Management (NZDM)	NZDM is a unit within the Treasury that 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).
New Zealand Export Credit (NZEC)	NZEC 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.

Schedule of Revenue and Capital Receipts

for the year ended 30 June 2019

2018 Actual \$000		Note	2019 Actual \$000	2019 Main Estimates Unaudited \$000
Vote Finance				
Non-Departmental Revenue				
1,886,637	Capital charge		1,958,575	1,932,201
44,561	Change in other Crown's assets and liabilities		3,605	4,169
793,315	Dividends from SOEs		775,236	783,495
9,016	Dividends from Crown entities		3,749	-
251,038	Interest revenue - NZDM		289,697	255,772
172,437	Other income, fair value and foreign exchange gains - NZDM	3(b)	366,866	21,751
208,742	Other current revenue	4	482,826	389,250
19,085	Other income from Associates		26,530	-
3,384,831	Total Non-Departmental Revenue and Receipts		3,907,084	3,386,638
Non-Departmental Capital Receipts				
39,020	Return of advances by IMF members	1	28,329	-
5,096	Loan and other repayments		62,244	79,289
335,854	Housing New Zealand Corporation Limited and Housing New Zealand Limited Loan Repayments		127,185	127,185
379,970	Total Non-Departmental Capital Receipts		217,758	206,474
3,764,801	Total Non-Departmental Revenue and Capital Receipts		4,124,842	3,593,112

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 2019.

Schedule of Expenses

for the year ended 30 June 2019

2018 Actual \$000		Note	2019 Actual \$000	2019 Main Estimates Unaudited \$000
Vote Finance				
22,322	Non-departmental output expenses		27,082	29,238
9,167	Non-departmental multi-category output expenses		741	3,420
3,412,689	Debt servicing - NZDM	3(a)	3,349,692	3,285,111
534,305	Non-departmental other expenses		625,310	616,126
101,948	Non-departmental multi-category other expenses		82,550	73,900
Re-measurements:				
553,000	Government Superannuation Fund revaluation: actuarial loss/(gain)*		2,758,963	-
30,300	Change in NPF DBP(A) Scheme provision under Crown Guarantee*		96,400	-
-	Change in Rehabilitation of Stockton Mine Acid Mine Drainage provision		21,731	-
564	Change in AIB re-measurement of liability		115	-
219	Other re-measurements incurred by the Treasury		2,550	-
4,664,514	Total Non-Departmental Expenses		6,965,134	4,007,795

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 2019.

* 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 2019 respectively.

Schedule of Assets and Liabilities

as at 30 June 2019

2018 Actual \$000		Note	2019 Actual \$000	2019 Main Estimates Unaudited \$000
Current assets				
10,532,749	Cash and cash equivalents		6,874,812	2,550,797
10,420	Accounts receivable and prepayments		166,816	4,871
821,735	Advances		528,816	147,748
8,798,726	Marketable securities, deposits and derivatives in gain – NZDM		9,062,771	4,198,100
20,163,630	Total Current Assets		16,633,215	6,901,516
Non-current assets				
4,023,016	Advances		4,000,357	4,716,530
257,950	Air New Zealand goodwill		257,950	257,950
97,323	Marketable securities, deposits and derivatives in gain – NZDM		449,969	170,000
418,018	Other share investments	1	418,145	398,748
250,019	Other equity-accounted investments		300,357	237,342
47,008	Property, plant and equipment		44,704	45,194
5,093,334	Total Non-Current Assets		5,471,482	5,825,764
25,256,964	Total Non-Departmental Assets		22,104,697	12,727,280
Current liabilities				
5,552,201	Crown balances with Westpac		8,450,075	5,215,756
547,234	Payables and accrued expenses		208,239	45,573
15,413,591	Borrowings – NZDM	3(c)	10,943,453	8,895,566
608,000	GSF unfunded liability		555,000	529,812
183,478	Provisions	2,5,6	140,896	29,722
22,304,504	Total Current Liabilities		20,297,663	14,716,429
Non-current liabilities				
71,284,492	Borrowings – NZDM	3(c)	72,729,590	71,866,655
10,379,852	GSF unfunded liability		12,606,474	9,455,370
835,000	NPF DBP(A) Scheme unfunded provision		879,000	751,000
206,506	Provisions	2,5,6	106,083	81,556
82,705,850	Total Non-Current Liabilities		86,321,147	82,154,581
105,010,354	Total Non-Departmental Liabilities		106,618,810	96,871,010

In addition, the Treasury monitors 13 SOEs, three mixed ownership model entities and 23 Crown entities. The investment in these entities is consolidated in the Financial Statements of the Government 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 2019.

Schedule of Commitments and Contingent Liabilities

as at 30 June 2019

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 \$0.871 million for the year ended 30 June 2019 (2018: \$0.924 million).

Disclosure of contingent liabilities incurred by the Crown is detailed in the Financial Statements of the Government for the year ended 30 June 2019.

Statement of Trust Monies

as at 30 June 2019

2018 Actual \$000		2019 Actual \$000
12,779	Unclaimed money	15,515
1	Genesis Initial Public Offer Trust Account	1
1	Mercury (formerly Mighty River Power) Initial Public Offer Trust Account	1
12,781	Total Trust Account monies closing balance	15,517

(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 \$3.048 million of contributions (2018: \$4.840 million) and \$0.322 million (2018: \$0.550 million) of distributions made from the Trust Account. Interest earned on the Trust Account for the year was \$0.119 million (2018: \$0.122 million).

(b) Government Share Offer Trust Accounts

The Crown opened Initial Public Offer Trust Accounts to facilitate the partial sale of Meridian, Genesis and Mercury (formerly Mighty River Power) during 2013. The source of funds relates to proceeds from the sale of shares and distributions where investors cannot be contacted.

There has been insignificant movement in the Trust Accounts for both the 2018/19 and 2017/18 financial years.

Explanatory Notes to Non-Departmental Financial Schedules

Explanatory notes provide details of significant Treasury non-departmental expenditure and revenue variances between actual results in 2017/18 and 2018/19. 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 \$418.145 million in IFIs (2018: \$417.284 million).

During the year, a gain of \$0.861 million on revaluation of the IFIs' investment was recorded as a result of New Zealand dollar foreign exchange rate movement (2018: a gain of \$34.919 million). This revaluation gain is included in the Schedule of Revenue and Capital Receipts.

Capital receipts of \$28.329 million were received from International Monetary Fund (IMF) members, representing repayment of earlier advances originally made to support members in financial difficulties (2018: \$39.020 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 2018/19, the Crown incurred \$21.446 million in respect of Ōtākaro operating grant and financing expenses (2018: \$21.680 million). The Crown also incurred \$195.498 million in respect of Greater Christchurch Anchor Projects MCA (2017: \$130.562 million).

The transfer of additional assets to Ōtākaro Limited amounted to \$1.377 million (2018: \$33.519 million), representing the fair value of Anchor Projects assets, funded via an equity injection by the Crown of \$1.377 million. No Vendor Finance Loan was issued during the year (2018: Nil). Interest on existing vendor finance 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 2019 was \$64.513 million (2018: \$49.524 million). This includes a vesting provision during the 2018/19 financial year of \$14.989 million (2018: \$6.972 million); recognised in the total Anchor Projects MCA expenses.

The Crown and the Christchurch City Council are negotiating the terms of a settlement of issues arising from the 2010–2011 earthquake sequence and the 2013 Cost Sharing Agreement, including ownership of a number of assets, and payments from Council to Crown for built assets and for land that was red-zoned in the aftermath of the earthquakes. The parties are yet to agree on the terms of that settlement, which is not likely to go to Cabinet for approval until late September 2019.

3 New Zealand Debt Management (NZDM)

The following sections cover explanations of NZDM's interest expense, revaluations and borrowing profile.

(a) Interest expense

2018 Actual \$000	Interest expense	2019 Actual \$000
2,577,172	NZ Government Nominal Bonds	2,421,873
698,709	NZ Government Inflation-indexed Bonds	792,450
73,229	NZ Government Treasury Bills	73,239
63,579	Other	62,130
3,412,689	Total Interest Expense	3,349,692

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 reducing year on year and the cost of Nominal Bonds declining.

(b) Other income, fair value and foreign exchange gains

The net unrealised valuations on financial instruments moved from a gain of \$138.611 million to a gain of \$398.468 million. The realised losses on financial instruments increased by \$7.208 million to \$45.836 million. Other income including foreign exchange gains decreased by \$57.124 million to \$14.234 million.

(c) Borrowings

The outstanding borrowings have reduced from previous year. Nominal Bond levels decreased following the repayment of the March 2019 bond. Issuance of the September 2040 bond during the period has increased Inflation-indexed Bonds outstanding.

2018 Actual \$000	Borrowings at amortised cost	2019 Actual \$000
Current Liabilities		
10,291,000	NZ Government Nominal Bonds	5,793,256
4,171,647	NZ Government Treasury Bills	3,455,374
120,000	KiwiBonds	131,378
830,944	Other	1,563,445
15,413,591	Total Borrowing – Current Liabilities	10,943,453
Non-Current Liabilities		
51,599,032	NZ Government Nominal Bonds	51,253,506
17,838,253	NZ Government Inflation-indexed Bonds	19,504,851
61,781	KiwiBonds	37,450
1,785,426	Other	1,933,783
71,284,492	Total Borrowing – Non-Current Liabilities	72,729,590

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

2018 Actual \$000	Movement in NZ Government Bonds	2019 Actual \$000
79,824,095	NZ Government Bonds opening balance	79,728,286
4,000,000	NZ Government Nominal Bonds – issued via tender	6,900,000
1,000,000	NZ Government Inflation-indexed Bonds – issued via tender	1,100,000
2,000,000	NZ Government Nominal Bonds – issued via syndication	-
27,000	Net – Non-market Bonds	(150,000)
(1,750,000)	NZ Government Nominal Bonds repurchased	(2,378,000)
(5,466,000)	NZ Government Nominal Bonds matured	(9,237,000)
93,191	Net premium/discount and accrued interest	588,327
(95,809)	Net movement for the period	(3,176,673)
79,728,286	NZ Government Bonds closing balance	76,551,613

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 provided 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 2019, Southern Response had called 746 million shares (\$746 million) with the balance of 234 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 2019. 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 \$3.297 million (2018: \$6.857 million).

On 16 August 2019, a judgement was issued in the High Court in litigation against the company. The damages were awarded in relation to causes of action under the Contract and Commercial Law Act 2017 and Fair Trading Act 1986. The judgment is being appealed. During the prior financial year, a separate representative action proceeding was filed against SRESL. With preliminary matters are still being dealt with so the case is still to be heard. 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.

On 26 September 2018, the Crown entered into a Deed of Indemnity agreeing to indemnify SRESL in relation to certain litigation. On 28 June 2019 the scope of the indemnity was amended to include any present or future legal proceeding or claim relating to a housing claim against SRSEL that is agreed as covered by both the SRSEL and the Crown.

The SRESL provision included in the total provisions in the Schedule of Assets and Liabilities was \$132.295 million (2018: \$296.427 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 non-current provision of \$87.150 million represents the forecast cost of meeting the Crown's obligations for AMD remediation (2018: \$65.761 million). This represents a long-term obligation under current treatment methods. The Treasury is exploring alternative treatment options to manage the Crown's future liability.

7 Events After Balance Date

Crown's global settlement with the Christchurch City Council

The Crown and the Christchurch City Council are negotiating the terms of a settlement of issues arising from the 2010–2011 earthquake sequence and the 2013 Cost Sharing Agreement, including ownership of a number of assets, and payments from Council to Crown for built assets and for land that was red-zoned in the aftermath of the earthquakes. The parties are yet to agree on the terms of that settlement, which is not likely to go to Cabinet for approval until late September 2019.

Earthquake Commission (EQC) Deficiency Funding Deed

As a result of the Canterbury and Kaikōura earthquakes it has been necessary since November 2018 for the Crown to fund cash shortfalls in the Natural Disaster Fund. Up to 30 June 2019, \$125 million of guarantee funding has been paid to EQC and since then EQC have made further calls of \$90 million.

There were no events subsequent to balance date that required adjustment to the Financial Statements (2018: Nil).



Independent Auditor's Report

To the readers of the Treasury's Annual Report for the year ended 30 June 2019

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 54 to 65, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2019, 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 2019 on page 5, pages 18 to 36 and pages 44 to 52;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2019 on pages 38 to 42; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 67 to 73 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2019;
 - the schedules of expenses; and revenue for the year ended 30 June 2019;
 - the statement of trust monies for the year ended 30 June 2019; 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 54 to 65:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; 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 page 5, pages 18 to 36 and pages 44 to 52:
 - presents fairly, in all material respects, for the year ended 30 June 2019:
 - 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 38 to 42 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 67 to 73 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 2019; and
 - expenses; and revenue for the year ended 30 June 2019; and
 - the statement of trust monies for the year ended 30 June 2019.

Our audit was completed on 13 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to a matter below. 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 Deed of Indemnity 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. The Deed of Indemnity was amended on 28 June 2019 to include any present or future proceeding or claim relating to a housing claim against SRESL that is agreed by both SRESL and the Crown. 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, 6 to 15, 66 and 77 to 78 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



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 2019 (including reporting by the Treasury on appropriations for that year).

Two appropriations in this appendix met the requirement, set out in the supporting information to the 2018/19 Estimates or 2018/19 Supplementary Estimates for information on certain non-departmental appropriations to be reported by the Minister of Finance:

- Refinancing of Housing New Zealand Corporation and Housing New Zealand Limited Debt.
 - Ahu Whenua Trust Ex-gratia Payment.
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Refinancing of Housing New Zealand Corporation and Housing New Zealand Limited Debt

What is intended to be achieved with this appropriation

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

Financial information

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates \$000	2019 Supp. Estimates \$000
335,854	Capital expenditure	127,184	195,909	195,909

What was achieved in this appropriation

Performance measure	Target for 2018/19	Performance for 2017/18	Performance for 2018/19
Refinancing will be undertaken in accordance with the agreed appropriation limits.	Achieved	Achieved	Achieved

Significant achievements

During 2018/19, seven refinancing requests were actioned for Housing New Zealand Limited, totalling \$127.184 million.

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

2018 Actual \$000		2019 Actual \$000	2019 Main Estimates \$000	2019 Supp. Estimates \$000
-	Expenditure	-	-	9,000

What was achieved in this appropriation

Performance measure	Target for 2018/19	Performance for 2017/18	Performance for 2018/19
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.