



NEW ZEALAND CUSTOMS SERVICE

ANNUAL REPORT 2012/13



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

PROTECTING NEW ZEALAND'S BORDER

ANNUAL REPORT 2012/13

NEW ZEALAND CUSTOMS SERVICE

**REPORT OF THE NEW ZEALAND CUSTOMS SERVICE
FOR THE YEAR ENDED 30 JUNE 2013**



Presented to the House of Representatives pursuant
to section 44(1) of the Public Finance Act 1989

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COMPTROLLER'S OVERVIEW

The 2012/13 financial year was a challenging but very productive one for the New Zealand Customs Service (Customs). Through facilitating and streamlining legitimate trade and travel while also protecting our border, Customs delivers value to the Government by helping New Zealand's economy to grow. We also continued to look for ways to improve our efficiency and to progress the innovation and technology that is necessary for Customs' future.



A primary focus was continuing to develop and implement the first tranche of the Joint Border Management System (JBMS). When it is fully operational, JBMS will be a world-leading border management system, shared by Customs and the Ministry for Primary Industries (MPI). It will provide benefits for industry while at the same time improving efficiency and enhancing risk and intelligence capability for border agencies. We began the staged implementation of JBMS in 2012/13 with the initial focus on delivering the parts that most benefit industry, including the Trade Single Window (TSW). Although the TSW launch was rescheduled from 1 April to 1 August 2013, this is because we recognised the importance of getting it right, and industry supported that approach. An important part of the JBMS development process has been testing the various stages with pilot industry partners before implementation. I want to again acknowledge our appreciation of their support and participation.

SmartGate remains very popular, with over 2.6 million passengers using it in 2012/13. We continue to look for ways to increase uptake and, following successful trials, we formally extended SmartGate to departing United States and United Kingdom passengers from late July 2013.

“When it is fully operational, JBMS will be a world-leading border management system, shared by Customs and the Ministry for Primary Industries. It will provide benefits for industry while at the same time improving efficiency and enhancing risk and intelligence capability for border agencies.”

Intercepting illicit drugs at the border continues to be a primary focus for Customs. We must remain vigilant in order to respond to the constantly evolving risk and importation methods. In 2012/13 this included an increased focus on psychoactive substances and on the purchase of illicit drugs and other prohibited items online from overseas websites. While the evidence suggests the methamphetamine market is smaller than at its peak in 2009, the drug remains a threat to New Zealand and we continue to make regular interceptions of methamphetamine and its precursors.

We continued to enhance our excellent working relationship with China Customs in 2012/13, collaborating with them both in stemming the flow of precursors from China and on trade developments. Both countries see the New Zealand-China Free Trade Agreement as a living document, and China Customs has cooperated with us to improve customs procedures and allow businesses to access the competitive advantages that agreement provides.

Customs recognises the importance and value of the Government's Better Public Services programme, with its goal of more integrated, cost-effective public services that are responsive to both businesses and individuals. In 2012/13, we contributed to Results 9 and 10 through JBMS and SmartGate, and actively participated in other initiatives to make government administration more efficient. Better Public Services remains central to Customs' ongoing strategy and change programme.

Our commitment to Better Public Services is only one of the elements we progressed in 2012/13 to position Customs for the future. We have a reputation for bringing innovative approaches to our work and I want to build on this to ensure we continue to deliver value to New Zealanders. We began a process to identify and develop practices that would best enable Customs to respond to future challenges, including a framework for continuous improvement. One outcome of this work has been the development of *The Customs Story*, which expresses our purpose, beliefs, and character, and identifies the key challenges facing Customs over the next few years.

Because of the critical importance of the change programme to Customs and of JBMS to Customs, MPI, and our industry partners, I made a change in the senior leadership structure in early 2013 to ensure there was sufficient focus on, and leadership for, those areas. More recently, and in recognition of the ongoing nature of these projects, there was a wider restructuring of our leadership, with the new structure being in place from 1 July 2013.

The major challenge identified in *The Customs Story* for us over the next five years is to make compliance easy to do and hard to avoid. We will do this through our continued investment in technology to improve our intelligence-driven risk assessment, leading to high assurance and a light touch at the border. This limits our interaction with legitimate traders and travellers. We recognise that we must also influence clients' compliance, and have begun some specific work to look at our services from the customers' perspective that I expect to see results from in coming years. In the meantime, we have looked at ways to help our customers in the short-term and so to improve compliance. As social media offers another way to interact with clients – especially the general public whose only contact with Customs is when they travel or buy goods online – we added a presence on Facebook, Twitter, and Google Plus. This is proving to be a valuable and successful method of communicating information to clients. We also introduced *What's My Duty* in 2012/13, a website and mobile device app that enables those buying goods from overseas to estimate the duty and GST payable on their purchases at the New Zealand border.

Finally I want to acknowledge that obviously none of these achievements would be possible without the passion, commitment, and dedication that our people have towards the work we do.



Carolyn Tremain
Comptroller of Customs

PART A

NEW ZEALAND CUSTOMS SERVICE

2012/13

THE YEAR AT A GLANCE

IN 2012/13 THE NEW ZEALAND CUSTOMS SERVICE (CUSTOMS) ACHIEVED THE FOLLOWING:

TRAVEL AND TRADE

- » we processed a record 10.702 million arriving and departing travellers. Over 2.6 million of those were processed through SmartGate, leading to passing the 6 million milestone for total passengers through SmartGate in early July 2013
- » we processed a record number of import transactions (6.2 million) while export transactions (3.5 million) decreased slightly from 2011/12.

REVENUE

- » Customs collected \$11.239 billion in Crown revenue, just below the record \$11.346 billion total in 2011/12.

JOINT BORDER MANAGEMENT SYSTEM

- » we made significant progress on the development and staged implementation of the first tranche, including the launch of Trade Single Window to customers from 1 August 2013.

DRUGS

- » we saw continued evidence of the methamphetamine market being smaller than at its peak in 2009/10, a change we contributed to through our ongoing efforts and continued vigilance at the border
- » we played a role in protecting New Zealand from psychoactive substances through intercepting banned and unidentified white substances at the border.

PERFORMANCE IMPROVEMENT FRAMEWORK (PIF) REVIEW

- » Customs received a positive PIF review report in October 2012, and was rated as one of the highest-performing government organisations reviewed.

TECHNOLOGY

- » we continued to expand SmartGate – uptake by passengers increased in 2012/13 and, after a successful trial, it was extended to US and UK departing passengers in July 2013
- » we continued implementing the Digitally Enhanced Systems technology and using operationally the technology in place – with its implementation being completed in July 2013.

COLLABORATION

- » Customs worked on progressing the Future Direction of the Border Sector work programme to further streamline border services.

BETTER PUBLIC SERVICES

- » we contributed to the Better Public Services programme, in particular Result 10 through SmartGate and, going forward, Result 9 through the Trade Single Window.

OPERATING ENVIRONMENT

Customs aims to be an agile organisation that can respond to the challenges and opportunities of the dynamic border environment. We must process rising trade and travel volumes by managing the associated risk while also allowing legitimate trade and travellers to cross the border without unnecessary delays. As part of the public sector, Customs needs to manage within tight financial constraints.

We respond to these demands through border management processes that are increasingly intelligence-driven and technology-supported. We seek to improve our service delivery through increased productivity, customer-focused services, and collaboration with other agencies, including through the Government's Better Public Services programme.

RECORD NUMBER OF INTERNATIONAL TRAVELLERS

In 2012/13 Customs processed 10.702 million international travellers (all passengers arriving and departing, including crew). While this was only 0.68 percent above the 2011/12 total, it is a record year – and 2011/12 included visitors for Rugby World Cup 2011.

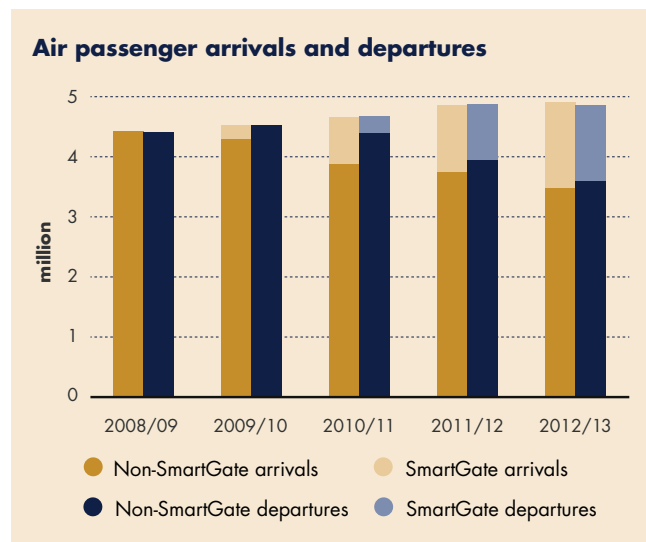
AIR PASSENGERS

Most international travellers are air passengers.¹ We processed a total of 9.703 million arriving and departing air passengers in 2012/13, an increase of 0.34 percent from the 2011/12 total of 9.670 million.

SmartGate automated passenger processing technology² helps us process the increasing volumes. There is pressure, however, on Customs' resources over summer when the volume of visitors grows while the proportion of travellers eligible to use SmartGate drops.

MARINE TRAVELLERS

There was a record 102 visits by cruise ships in 2012/13. While this was only a small rise from the 100 arrivals in 2011/12, there is an increasing number of larger-capacity ships visiting New Zealand. Customs processed over 472,000 arriving and departing marine travellers (passengers and crew) from cruise ships in 2012/13, compared with nearly 395,000 in 2011/12.

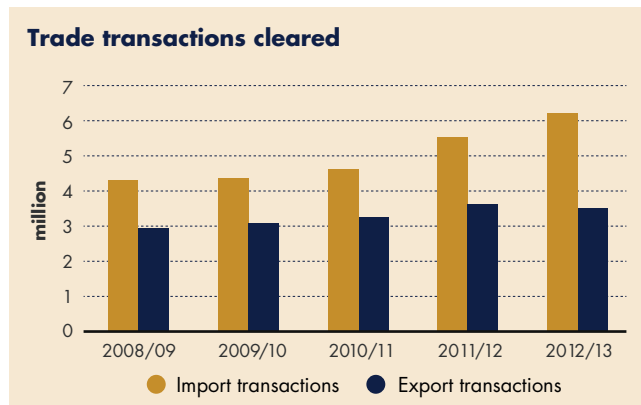


¹ Commercial and non-commercial passengers travelling by air but excluding air crew.

² Processing through SmartGate at New Zealand's three main airports began with arrivals in Auckland in December 2009, and was completed with it being implemented for departures from Christchurch in August 2011. Eligible passengers were initially Australians and New Zealanders who had an electronic passport (ePassport) and were at least 18 years of age. The age dropped to at least 16 years of age in January 2012. Expansion to other nationalities is discussed on page 23.

TRADE TRANSACTIONS CLEARED – IMPORTS UP, EXPORTS DOWN

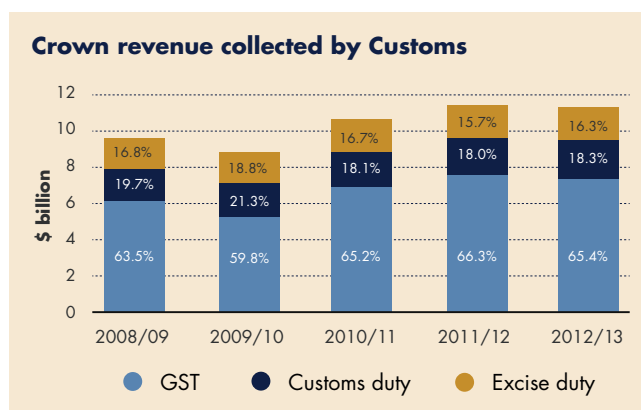
The number of import transactions³ processed by Customs in 2012/13 increased by 12.5 percent from the previous record total in 2011/12. Most of the increase in recent years is in the number of ECI consignments – that is, low-value goods. This reflects the increasing volume of goods purchased from overseas websites, which was driven in part by the strong New Zealand dollar in 2012/13.



Export transactions⁴ decreased by 4.1 percent from the record total in 2011/12.

CROWN REVENUE DOWN SLIGHTLY

Customs collects Crown revenue by way of customs duty and GST on imports together with excise duty on domestically manufactured alcohol, tobacco, and petroleum products, and excise equivalent duty on the same products imported into New Zealand.



The 2012/13 total of \$11.239 billion was a slight decrease (of 0.94 percent) from the record total of \$11.346 billion collected in 2011/12, although the total remains above previous years. The decrease is due to a drop in the GST collected (of \$179 million), which is partially offset by an increase in excise duty (\$54 million) and customs duty (\$18 million).

JOINT BORDER MANAGEMENT SYSTEM (JBMS) – IMPLICATIONS FOR FUNDING

In addition to the current environment of fiscal constraint, JBMS had an effect on Customs' funding in 2012/13.

External revenue was \$6.068 million (10.59 percent) less than budget for 2012/13. This shortfall was primarily in Import Entry Transaction Fees (\$3.45 million) and Goods Cost Recovery fees (\$1.62 million), which was caused by the rescheduling of the implementation of Tranche 1 of JBMS, and associated cost recovery, from 1 April to 1 August 2013 (as discussed on page 19). This revenue shortfall was offset by an underspend of \$1.105 million in operating expenditure, resulting in a deficit at the end of 2012/13 of \$4.963 million. This was just within the deficit of \$5.0 million that was forecast in the Forecast Financial Statements in the Information Supporting the Estimates 2013/14.

³ Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship ECI's (Electronic Cargo Information).

⁴ Export transactions include export entries, drawback entries, and export ECI's.

STRATEGIC DIRECTION

In 2012/13 a number of factors drove Customs' strategic direction, the work we progressed, and the actions we took to position the organisation for the future.

CUSTOMS' PRIORITIES

Customs agreed with the Government that we would adopt the following priorities for 2012/13, in order to contribute to the Government's wider priorities of building a more competitive and productive economy and delivering better public services:

- » disrupt organised crime through a focus on illicit drugs and web of related crimes involving finances, prohibited goods like child pornography, and people smuggling
- » streamline and simplify trade facilitation, and promote secure and efficient trade with key trade partners
- » more efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman and Asia-Pacific travel
- » protect and maintain the Crown revenue base through a focus on revenue compliance and efficiencies.

These priorities are linked to Customs' outcomes of Protection, Trade, Travel, and Revenue. Progress on the outcomes and priorities is discussed on pages 13–27.

BORDER SECTOR

Under the "Future Direction of the Border Sector" work programme, Customs, the Ministry for Primary Industries (MPI), and the Ministry of Business, Innovation and Employment (MBIE) are exploring ways to further streamline border services and work more efficiently to ensure that border services are fit for the future. In September 2012, Cabinet agreed to a number of border management principles and a high-level work programme to 2018 to deliver greater use of shared processes and common infrastructure, and to maximise technology investments.

Following that agreement on the work programme, the initial work undertaken by the three Border Sector agencies in 2012/13 was to identify any specific initiatives that could be achieved or significantly progressed in 2013, while at the same time laying out a pathway for medium- to longer-term initiatives that give life to the overall Future Direction work programme. Agencies agreed on and started to progress short-term initiatives to further integrate operational processes and work more collaboratively in the processing of people, goods, and craft, and to improve intelligence, targeting, and profiling as a group.

BETTER PUBLIC SERVICES

Customs was actively involved in the Government's Better Public Services programme in 2012/13, and its initiatives to deliver more cost-effective and responsive public services remain integral to our strategy going forward. In 2012/13, Customs particularly contributed to:

- » Result 9: New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business
- » Result 10: New Zealanders can complete their transactions with government easily in a digital environment.

JBMS is a major initiative for Result 9, as it will reduce the costs to business of interacting with government, improve the quality of services to business with faster online services, and provide better integration of services. The Trade Single Window (TSW) provides an electronic channel for traders to transact directly with agencies (rather than through an intermediary) and complete border requirements. As discussed on page 19, Customs and MPI made significant progress in 2012/13 on developing and implementing JBMS.

Use of the SmartGate automated passenger processing technology is one of the transactions measured for the Result 10 key target that “by 2017 an average of 70 percent of New Zealanders’ most common transactions with government will be completed in a digital environment”. Uptake by passengers in 2012/13 is discussed on pages 39–40. As discussed on page 23, Customs continues to look for ways to expand and increase the uptake of SmartGate.

Customs continues to participate in other Better Public Services initiatives that aim to improve the efficiency of government administration in areas such as procurement, property, ICT, legal services, human resources, and finance.

CUSTOMS’ PURPOSE AND DIRECTION

In August 2012, Customs commenced a process to help us identify and develop practices to best position the organisation for the future. As the first step of the process, Customs’ leaders, staff, and external stakeholders were engaged in a review of Customs’ purpose and philosophy, leading to the development of *The Customs Story* in late 2012. This sets out our purpose, beliefs, spirit, and day-to-day focus, and identifies the key challenge we seek to address over the next four to five years – “to make compliance easy to do and hard to avoid”. *The Customs Story* and that key challenge drive our planning and organisational development.

CONTINUOUS IMPROVEMENT

In line with the Government’s objectives for the Better Public Services initiative, one of the 11 challenges identified in *The Customs Story* was to continuously improve our processes so that we deliver better services. Because we expect we will continue to face increased demand on our resources, we seek to continually improve our systems, technology, and competencies. Accordingly, in 2012/13 we began to develop a framework for this. Piloting of continuous improvement methods was started and this will be built on through 2013/14 and beyond.

INTEGRITY

One of the key elements of Customs’ character in *The Customs Story* is integrity. Integrity remains highly relevant and important to us as it is fundamental to maintaining public trust and confidence.

While Customs has a set of Integrity Principles and an excellent reputation at the border, we need to be constantly vigilant about our integrity and to continue to refresh our approach. As a result, in 2012/13 we began to develop an integrity framework to cover various aspects including options for reporting allegations, ethics and integrity training, and monitoring and assurance.

THE CUSTOMS STORY



PERFORMANCE IMPROVEMENT FRAMEWORK (PIF) REVIEW

Customs' PIF review report was published in October 2012. It noted that we had earlier completed a comprehensive self-review that the reviewers considered to be balanced and useful, and that they agreed with most of its conclusions. The ratings place Customs as one of the highest-performing government organisations of those reviewed to date.

While recognising that Customs is a successful and adaptive organisation, the report identified a number of challenges seen as vital to Customs' future success, and outlined what success would look like for Customs in the medium term. Customs' process to address PIF review recommendations has been integrated into our organisational planning cycle. Key initiatives to address the PIF recommendations, such as JBMS and the Future Direction of the Border Sector, were underway during 2012/13, while the remainder will be addressed during 2013/14. The PIF review work programme comprises Customs' strategic work programme to address our Ministerial priorities and significant change programme.

SENIOR LEADERSHIP STRUCTURE

In January 2013 Customs' senior leadership was changed on an interim basis until 30 June 2013, to increase our focus on delivering JBMS and our other critical change programmes, as discussed above. Customs' senior leadership structure was realigned from 1 July 2013 to ensure appropriate focus on key initiatives going forward and to best position Customs to address future challenges and operational needs (as discussed on page 28).

GOVERNANCE

Customs has arrangements in place to help the overall monitoring and direction of the organisation, in order to ensure effective business performance and governance. We have a layered approach to our governance and management committees.

We have a Senior Leadership Team (SLT), consisting of the Comptroller, the Deputy Comptrollers, and Group Managers. The role of the SLT is to provide leadership, manage Customs' work programme, and maintain the management environment for Customs.

The Comptroller of Customs established a new Customs Executive Board (CEB) in February 2013, composed of a smaller group of Customs' senior management. The CEB's focus is on Customs' role in the wider government and industry sector (including our responsibilities under the Better Public Services programme), and on stewardship of the organisation, with the goal of making Customs a more sustainable organisation into the future.

Also supporting SLT is a number of other committees – both standing and project-related – to ensure effective performance and risk management by Customs, and provide upstream advice to SLT.

As JBMS is a major project (and a joint Customs-MPI project), there are specific arrangements for its governance. These include the Joint Executive Board (JEB), which provides and coordinates overall governance, leadership, and strategic management across the development and implementation of JBMS. The Programme Leadership Team (PLT) provides active leadership and governance of the programme. The PLT reports regularly to the JEB. Both bodies are made up of senior management staff from Customs and MPI.

RISK MANAGEMENT

The Audit and Risk Committee is a key governance body. Its purpose is to provide advice to ensure that Customs has an effective and comprehensive framework for corporate governance, and to ensure that significant risks are being identified and mitigated.

At the start of 2012/13 the Committee consisted of both internal and external members and was chaired by the Comptroller of Customs. To ensure the Committee keeps up with best practice, its Charter was reviewed and updated. As a result, a new Committee was created in January 2013, with external members only and an independent Chair, although with members of Customs' senior management attending meetings depending on agenda items.

An updated Risk Management Framework was adopted from May 2013, setting out the risk management principles that will be embedded in all Customs' practices and business processes. The new Framework provides guidance for staff in identifying, assessing, and mitigating risks, and will help achieve the objective of ensuring consistency in Customs' assessment and management of risk.

As Customs' Security Committee has also been a fundamental part of governance in 2012/13, its membership, role, and terms of reference were updated. The Committee provides oversight and governance to ensure that Customs meets its security and privacy obligations. It reports to the CEB on security or privacy concerns that require oversight, and to the Audit and Risk Committee on any major issues or concerns.

OUTCOMES AND PRIORITIES

In 2012/13 Customs continued to contribute to building a more competitive and productive economy and to delivering better public services by focusing on our four overarching outcomes of *Protection*, *Trade*, *Travel*, and *Revenue*.

The Protection outcome and the two facilitation outcomes of Trade and Travel are inextricably linked and must be constantly balanced. *The Customs Story* recognises that our focus is “high assurance, light touch” and that our key challenge is to “make compliance easy to do and hard to avoid”. While Customs seeks to protect New Zealand from external risks and threats at the border, we must do so with minimal impact on legitimate trade and travel, which are significant contributors to New Zealand’s economic health and growth.

Customs’ increasing use of innovation and technology and our focus on intelligence-led, risk-based border management is helping us to create a more streamlined trade and travel experience at the border.

As noted on page 8, our four priorities for 2012/13 were:

- » disrupt organised crime through a focus on illicit drugs and web of related crimes involving finances, prohibited goods like child pornography, and people smuggling – contributing to the *Protection* outcome
- » streamline and simplify trade facilitation, and promote secure and efficient trade with key trade partners – contributing to the *Trade* outcome
- » more efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman and Asia-Pacific travel – contributing to the *Travel* outcome
- » protect and maintain the Crown revenue base through a focus on revenue compliance and efficiencies – contributing to the *Revenue* outcome.

PROTECTION

New Zealand is more safe and secure through reduced risk to New Zealand’s interests arising from international trade and travel

PRIORITY: DISRUPT ORGANISED CRIME THROUGH A FOCUS ON ILLICIT DRUGS AND WEB OF RELATED CRIMES INVOLVING FINANCES, PROHIBITED GOODS LIKE CHILD PORNOGRAPHY, AND PEOPLE SMUGGLING

ILLICIT DRUGS

In 2012/13 Customs continued to contribute to the multi-agency response to the Government’s *Tackling Methamphetamine: an Action Plan* (Methamphetamine Action Plan). We also developed an intelligence-informed, multi-year *Methamphetamine Campaign Plan* to help focus our operational activity targeting criminals, their actions, and the drivers behind supply. We commenced planning and progressing specific targeted activities and initiatives aimed at disrupting the supply of methamphetamine and its precursors.

We continued to develop and expand our working relationship with China Customs to progress the closer cooperation between the two jurisdictions on stemming the flow of precursors from China. This included regular liaison meetings with China's National Narcotics Control Commission, the exchange of intelligence, and reciprocal exchanges of enforcement officers.

Customs has continued to work closely with the Institute of Environmental Science and Research (ESR) on initiatives to enhance the detection of illicit drugs at the border. This introduces a scientific and research dynamic to Customs' efforts to enhance our capabilities to protect New Zealanders from the evolving risk associated with illicit drugs entering New Zealand. The joint work with ESR has included a comprehensive trial of new drug identification tools at the border. It also includes developing an in-house training package that gives Customs officers a better understanding of the benefits in evidence protection as it relates to forensics and DNA preservation.

In 2012/13 there was an increase in the volume of synthetic cannabinoids and other psychoactive substances intercepted at the border, and increasing public concern about these substances. Under the regime then in place, Customs intercepted those substances at the border subject to one-year bans under Temporary Class Drug Notices (TCDNs). In early 2013 we began a specific operation that detained all unidentified white powders intercepted at the border, and referred them to ESR for further testing. No substances were released until Customs was satisfied the substance was legal.

Customs contributed to the development of the Psychoactive Substances Act (passed in July 2013), which puts the onus on importers to obtain approval of their products before Customs will release them. This new regime will enable Customs to better target resources to higher risks from unlicensed importers and non-compliant imports.

FINANCIAL CRIME

Customs continued to work with other agencies to disrupt criminal resources and money laundering. This included working with the Organised and Financial Crime Agency New Zealand (OFCANZ) and the New Zealand Police (NZ Police) Financial Intelligence Unit, as well as ongoing input into a number of projects under the Ministry of Justice-led All-of-Government Response to Organised Crime (AGROC), including the joint Customs/NZ Police project on international liaison good practices completed in December 2012. We undertook a trial with NZ Police in 2012/13 to dual-train drug detector dogs to detect large quantities of cash. During the trial, undeclared or concealed cash totalling more than \$350,000 was intercepted at Auckland International Airport and seized during domestic search warrants. Following this successful trial, Customs commenced further dual-training of current drug detector dogs in June 2013, with the dual-trained teams to be operationally deployed in late 2013.

Customs is also committed to working with Immigration New Zealand, NZ Police, and other organisations to identify people coming into the country with the intention of undertaking fraudulent activity. As a result of our efforts to intercept at the border those attempting to smuggle illegal card-skimming equipment into New Zealand, a number of seizures and arrests were made in 2012/13.

DIGITALLY ENHANCED SYSTEMS (DES) TECHNOLOGY

We continued to implement the DES technology in 2012/13, and to train staff in the use of the new capabilities. Some technology was used operationally during the year, and implementation was completed in July 2013. This introduced a range of operational support capabilities aimed at increasing our operational efficiency and enhancing officer safety. DES supports better collection of evidence and intelligence, facilitates compliance with the Search and Surveillance Act 2012, and enables greater flexibility in staff deployment.

OBJECTIONABLE MATERIAL INVOLVING CHILDREN

Customs continued our efforts in 2012/13 to combat cross-border smuggling of sexual images exploiting children, online child sexual exploitation, and domestic “contact” offending. This includes further developing our relationships and work with other domestic and international agencies and NGOs. We continued to work with the Department of Internal Affairs (DIA) and NZ Police, and from June 2013 the three agencies had access to a shared server (hosted by DIA) that is used to share information, resources, and training. We enhanced our relationships with the Australian Federal Police and other international law enforcement agencies to improve information-sharing on online child sexual exploitation and “sex tourism” through the Integrated Targeting and Operations Centre (ITOC). Customs, with NZ Police, represents New Zealand on an international working group (led by the Virtual Global Taskforce) that was established in late 2012/13 to combat travelling sex offenders.

We also provided input to the new Objectionable Publications and Indecency Legislation Bill introduced to Parliament in May 2013. This will create new offences and increase penalties relating to sexual images exploiting children.

PEOPLE SMUGGLING

The Exercise Barrier⁵ evaluation report was completed in July 2012 and the recommendations were considered by core responder agencies through the Officials Committee for Domestic and External Security Coordination (ODESC). As a result, the Department of the Prime Minister and Cabinet was tasked with drawing together a future plan for key responder agencies to counter incursions of maritime people smuggling ventures, and Customs participated in developing that plan. A revised manual was completed and presented to ODESC in 2012/13. Customs continues to plan and participate in exercises addressing this risk.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

Customs’ *Statement of Intent 2012–2015* recorded specific outcome measures together with a group of indicators and measures to demonstrate our performance and assess our impacts in this area in the three-year period.

RELATIVE RANKING IN DOMESTIC AND INTERNATIONAL COMPARISONS

Customs’ success in protecting New Zealand from various risks cannot currently be quantified directly from our interceptions and seizures at the border. We expect, however, that our protection activities contribute to an overall sense of security among New Zealanders, and to a perception internationally that New Zealand is a secure place.

5 An exercise, co-led by Customs, undertaken in May-June 2012 to practise New Zealand’s operational preparedness for a mass arrival by sea of potentially illegal immigrants.

The Economist Intelligence Unit maintains a risk briefing, which includes a security rating. New Zealand has scored 7 out of 100 (100=most risky) since 2009, and in the July 2013 briefing⁶ again had the third-equal lowest score out of 181 countries, indicating that it is assessed as being very secure. This meets the target of being within the top 15 countries.

The New Zealand public's perceptions of risk and security are assessed by Unisys as part of regular surveys of a number of countries.⁷ The areas covered by the survey include "national security in relation to war or terrorism", "a serious health epidemic", and "personal safety". While none of these areas is directly, or exclusively, a Customs outcome, our work does contribute to each of them. The May 2013 survey found a significant decrease from 2012 in the percentage of New Zealanders who were very or extremely concerned about New Zealand's national security in relation to war or terrorism (from 37 percent to 30 percent). However, there were no significant differences from 2012 in the percentages who were very or extremely concerned about a serious health epidemic occurring in New Zealand (37 percent in 2013), or very or extremely concerned about their personal safety over the next six months (26 percent).

The public's perceptions of Customs' protection functions are also measured by our stakeholder survey. This measures the confidence of travellers and goods clients (importers and exporters) that Customs carries out our protection role in these seven areas: endangered species, flora and fauna; people entering or leaving New Zealand illegally; illicit drugs; indecent material; people with criminal or terrorist intent entering New Zealand; cultural and heritage items leaving New Zealand; and illegal and stolen goods entering or leaving the country. In the 2012/13 survey, between 45 and 65 percent of international travellers, and between 46 and 63 percent of goods clients were confident that Customs is effective in protecting New Zealand against these risks. The 2010 survey found that between 47 and 70 percent of the public were confident that Customs was effective in protecting New Zealand against the risks. The 2012/13 survey was carried out differently, capturing a wider range of both travellers and goods clients, and separating the questions for illicit drugs and indecent materials. The 2010 and 2012/13 results are therefore not directly comparable.

DRUGS

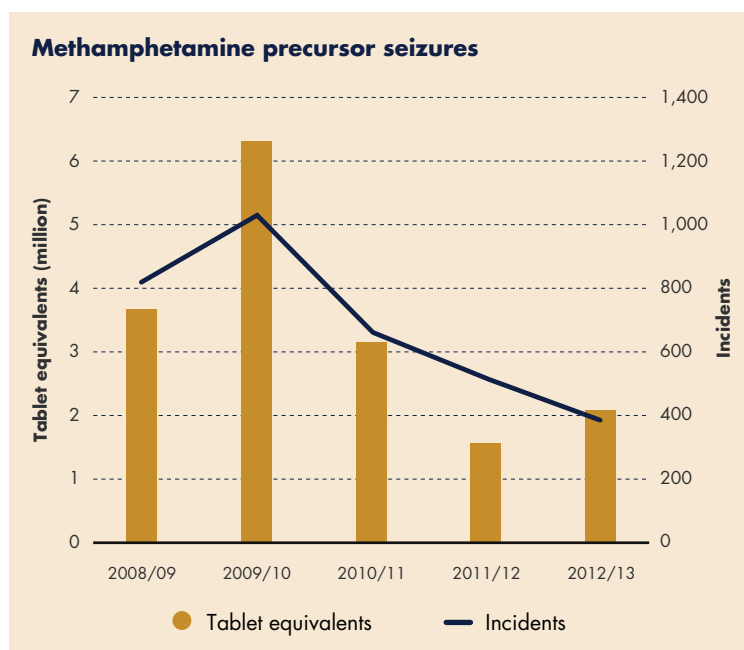
The impacts that Customs is seeking in relation to drugs relate to reducing harm and disrupting drug trafficking. The potential harm avoided by our interceptions of some major classes of illicit drugs in 2012/13 has been quantified by the New Zealand Drug Harm Index⁸ at a little over \$57 million, compared with just over \$49 million in 2011/12. Most of this harm is still due to methamphetamine and its precursors: this accounted for over 97 percent (\$55.5 million) of the assessed drug harm in 2012/13, compared with 87.6 percent of the total (just over \$43 million) in 2011/12. At the peak in 2009/10, seizures of methamphetamine and its precursors equated to nearly \$170 million in assessed potential harm.

6 The Economist Intelligence Unit is an independent business within The Economist Group providing country, industry, and management analysis, including risk analysis (www.eiu.com).

7 Twelve countries were surveyed in 2013: Australia, Belgium, Brazil, Colombia, Germany, Malaysia, Mexico, the Netherlands, New Zealand, Spain, the United Kingdom, and the United States.

8 The New Zealand Drug Harm Index is a NZ Police-led initiative that quantifies the value of the economic and social costs associated with illicit drugs. It was published in 2008.

In 2012/13, seizures of methamphetamine and precursors increased slightly, totalling a little over 8 kilograms of methamphetamine and the equivalent of 2.1 million tablets containing ephedrine or pseudoephedrine.⁹ This included a small number of sizeable seizures late in 2012 that totalled almost 52 percent of the precursors seized in 2012/13. While a little higher than the 2011/12 results, these remain at a much lower level than Customs' interceptions of methamphetamine and precursors at the border at the peak in 2009/10, when we intercepted the equivalent of just over 6.3 million tablets containing precursors.



Many of the indicators, especially around price and availability, remain unchanged. The median price of a gram of methamphetamine returned to \$700 per gram in 2012, after an increase to \$800 in 2011.¹⁰ There was a small increase in the reported availability of methamphetamine, from a score of 3.1 in 2011 to 3.2 in 2012.¹¹ There is, however, some indication that the purity may have dropped, with 30 percent of frequent drug users reporting that purity was high in 2012, compared with 33 percent in 2011 and 36 percent in 2008.

New prevalence data on the frequency of methamphetamine use for 2012/13 is not yet available, but the 2011/12 result indicated a 59 percent drop in the reported use of methamphetamine since the previous data in 2007/08.¹² There are also a number of indications that more users are seeking and getting help with methamphetamine use. For example, 30 percent of frequent methamphetamine users were in treatment in 2012, compared with 17 percent in 2011.

On balance, the evidence continues to suggest that the actions taken by government agencies under the Methamphetamine Action Plan have concurrently reduced demand and constrained supply. Customs has had a key role in constraining supply through intercepting precursors and our subsequent enforcement activities.

⁹ All of the 2012/13 drug (including precursor) totals in this report (and the associated drug harm figures based on those totals) are provisional figures based on Customs' initial weighing and recording of interceptions and are subject to change due to circumstances such as quantities being updated as substances are further tested or the drugs being reweighed as the relevant investigation proceeds to a prosecution. The tablet equivalent total for methamphetamine precursors represents the amount seized converted into the equivalent of 90 milligram tablets.

¹⁰ The Methamphetamine Action Plan and the six-monthly progress reports can be found at www.dpmc.govt.nz/dpmc/publications/methamphetamine. The latest report is *Tackling Methamphetamine: Indicators and Progress Report – April 2013*.

¹¹ On a scale of 1 to 4, with 1 being very difficult, and 4 being very easy.

¹² *Tackling Methamphetamine: Indicators and Progress Report – April 2013*: containing the results of the New Zealand Health Survey 2011/12 (prevalence of 0.9 percent of New Zealand population of 16-64 years vs 2.2 percent in 2007/08).

Frequent drug users reported that most other drug types with significant imported content have become more difficult to get (2011/2012): crystal methamphetamine (2.8/2.7); ecstasy (3.1/2.9); LSD (2.6/2.6); heroin (2.6/2.5); cocaine (2.5/1.9).¹³ The novel synthetic analogues and mimics (psychoactive substances), notably of cannabinoids and ecstasy, entering the market change both availability and risks. For example, synthetic cannabinoids have been implicated in growing numbers of calls to the National Poisons Centre since 2010.

OTHER ILLICIT ACTIVITY

Drug trafficking is only one of a number of linked criminal activities. We seek to disrupt crime by inflicting economic loss through intercepting not only imports of illicit drugs, but also weapons, forged documents, undeclared cash and the proceeds of crime, and other illegal items. The illicit drugs intercepted by Customs in 2012/13 had an estimated street value of \$11.3 million. We also intercepted more than \$325,000 in undeclared border cash; some of this was linked to drug activity, while some was linked to fraud, tax evasion, and potential money laundering.¹⁴ There were also 790 interceptions of firearms and restricted weapons at the border (involving 305 firearms, 909 firearm parts, and 2,265 other weapons). Some of these importers were directly linked to gangs and organised crime, or to drug manufacturers and dealers; half of the prosecutions for weapons offences involved proven links to organised crime.

While drugs and organised crime remain the category where the greatest impact in preventing harm is demonstrated, the impacts of harm from child exploitation are also very high. There were 107 seizures of indecent materials, much of which was abuse imagery. While we cannot directly prevent the harms caused to the children who have been abused, Customs can assist in identifying both victims and offenders. In 2012/13, 20 individual known victims were identified from Customs' seizures, and information packs about probable contact offenders were provided to overseas law enforcement agencies where those offenders live.

Counterfeiting of intellectual property is another form of organised criminal activity. More than 59,000 individual counterfeit goods items were intercepted in 2012/13 and 20 percent of these goods represented a direct safety threat to New Zealanders.

COST-EFFECTIVENESS

The Methamphetamine Action Plan is a multifaceted, coordinated, and sustained attack on the supply and demand sides of the methamphetamine market. It is likely that the resulting combination of reduced demand and increasing risks for precursor importers has reduced the amounts of methamphetamine and precursors that are shipped to New Zealand – and therefore that are available to be seized at the border. This has led to the estimated value of the harm avoided¹⁵ through Customs' drug interceptions in 2012/13 being equivalent to 38.4 percent of Customs' appropriations (excluding capital expenditure) being below the baseline of 74.3 percent in 2008/09.

13 *Recent trends in illegal drug use in New Zealand 2006-2011* (July 2012) – survey by the Centre for Social and Health Outcomes Research and Evaluation (SHORE), Massey University.

14 The total of the cash intercepted and the estimated street value of drugs intercepted is lower than the baseline of \$23.2 million in 2010/11 due principally to the higher volumes of methamphetamine and cocaine (both Class A drugs – with the highest associated street value) intercepted in 2010/11.

15 Up to just over \$57 million, as calculated using the Drug Harm Index, based on the specified harm associated with specific drugs – and not including psychoactive substances.

TRADE

New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes

PRIORITY: STREAMLINE AND SIMPLIFY TRADE FACILITATION, AND PROMOTE SECURE AND EFFICIENT TRADE WITH KEY TRADE PARTNERS

JOINT BORDER MANAGEMENT SYSTEM (JBMS)

When fully implemented, JBMS will be a set of modern, integrated information technology products that will give New Zealand a vastly improved border management system to better secure the border and facilitate trade. JBMS is being delivered in two tranches and is a jointly-managed project between Customs and MPI.

The key Trade Single Window (TSW) element of the first tranche, known as Tranche 1, will ultimately enable importers, exporters and other supply chain participants to electronically submit information required for the clearance of goods and craft through a single entry point and to receive agencies' responses through the same channel. Industry can choose to contact Customs and other agencies directly rather than through an intermediary.

New craft and cargo reporting and clearance messages are based on the World Customs Organization (WCO) international data model. JBMS's world-leading adoption of the WCO data model is the basis for integration with international supply chains and increased trade competitiveness.

Tranche 1 will also deliver enhanced risk and intelligence capability, better quality data, and new tools and techniques that will improve the identification and targeting of risks at the border. Work on developing and implementing this functionality progressed in 2012/13 and has continued into 2013/14.

Tranche 1 is being implemented in stages to allow for thorough testing of each stage before progressing to the next. We also pilot and test each stage with industry partners before it is implemented. This reduces the risks inherent in implementing a large, complex, transformational system like JBMS, and ensures the least possible disruption to industry.

The first stage was deployed in January 2013. Other stages were released in 2012/13, while some have been, or will be, deployed in 2013/14. Customs and MPI have prioritised delivering the features of JBMS that provide the most benefits for industry. Early trialists who have helped fine-tune JBMS, such as CargoWise, Freightways and Mondiale, have expressed "delight" with the new system.

The launch of TSW to industry was initially scheduled to occur on 1 April 2013, but changes to JBMS to include additional functionality affected the timeline for the deployment of this and subsequent stages. The launch was subsequently delayed to 1 August 2013 to ensure that all functionality had been fully tested and that a robust solution was in place. Associated cost recovery from industry was also deferred to 1 August 2013, when the functionality giving rise to the fee increases became available.

Industry can migrate to the new system over time. Customs' current systems will remain in place to ensure there is no chance of disruption when each stage becomes operational. Industry has been kept fully informed by Customs and MPI throughout the process of development and implementation of JBMS.

Government funding of \$75.9 million was provided in Budget 2010 for capital expenditure in Tranche 1. In March 2013, Cabinet approved the reallocation of an additional \$13.8 million from within Customs and MPI existing baselines.

Tranche 2 is subject to Government approval and funding. A business case has been deferred until Tranche 1 is delivered and consolidated.

COLLABORATION TO STREAMLINE FACILITATION

As discussed on page 8, Customs is working with other border agencies on integrating processes and improving interaction at the border as part of the Future Direction work programme.

Customs also continues to work with industry to streamline and simplify facilitation of trade. In June 2013, new procedures were implemented by Customs, MPI, and the Conference of Asia Pacific Express Carriers (CAPEC, representing TNT, DHL, FedEx and UPS), as a first step in working together to reduce clearance times for express freight packages. Customs and MPI now inspect CAPEC consignments at one site (Customs' Air Cargo Inspection Facility), allowing the agencies to plan and assess risk more efficiently, and to process legitimate consignments faster.

FREE TRADE AGREEMENTS (FTAs)

Customs continued to support New Zealand's active FTA programme in 2012/13 through participating in the negotiations of a number of FTAs, including the Trans-Pacific Partnership (TPP), the Pacific Agreement on Closer Economic Relations (PACER Plus), and the New Zealand-Chinese Taipei Economic Cooperation Agreement. As well as negotiating and implementing FTAs, Customs focuses on developing and facilitating post-implementation initiatives that help New Zealand traders to benefit from those FTAs.

In 2012/13 this included hosting or participating in presentations to industry on the New Zealand-China FTA and the ASEAN-Australia-New Zealand FTA. We also continued to cooperate with other customs administrations to further streamline processes under FTAs. As a result of the excellent working relationship between Customs and China Customs, in April 2013 China agreed to pilot new procedures that allow for clearances of New Zealand goods that are placed into bonded storage in China to benefit from FTA preference. While China later extended this to its other FTA partners, New Zealand exports are being given priority to recognise our role in developing the initiative.

Cabinet transferred from MBIE to Customs, from 1 December 2012, responsibility for functions relating to tariff concessions functions and implementation of tariff policy changes, as well as Rules of Origin policy functions. This involved the transfer of some staff and funding from MBIE. This transfer streamlined the administration of these functions given Customs' existing work on negotiating and implementing FTAs.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

Customs' *Statement of Intent 2012–2015* recorded specific outcome measures together with a group of indicators and measures to demonstrate our performance and assess our impacts in this area in the three-year period.

RELATIVE RANKING IN INTERNATIONAL COMPARISONS

New Zealand's ranking in the World Bank's Doing Business Survey was maintained. In the 2013 survey, New Zealand was ranked 48th out of 192 countries in the cost to export goods, and 31st in the cost to import goods. In the 2012 survey, New Zealand's ranking in the cost to export goods had been 48th out of 183, and 35th in the cost to import goods. Costs are reported in US dollars, and the slight shifts in rankings are likely to reflect shifts in exchange rates.

New Zealand continues to rank highly in the most recent international comparisons of the performance of border administration services.¹⁶ In the 2012 World Bank Logistics Performance Index,¹⁷ New Zealand ranked 20th out of 155 countries for border facilitation. New Zealand ranked 18th out of 146 countries in 2007 (the baseline), but the measure has changed so the results are not directly comparable. In the 2012 World Economic Forum's Enabling Trade Index, New Zealand ranked eighth out of 132 countries in the efficiency of its border administration; this ranking has dropped slightly since 2009, when New Zealand ranked fifth out of 121 countries.

MAINTAINED HIGH LEVELS OF VOLUNTARY COMPLIANCE

Two key drivers for high levels of voluntary compliance are traders knowing how to comply and traders having a high level of trust in Customs.

We sought feedback from a sample of importers and exporters on both of these in the stakeholder survey undertaken in 2012/13, which found that:

- » 82 percent of clients found it “very easy” or “easy” to comply with Customs' requirements
- » 87 percent of clients trusted Customs.

This survey had a number of changes from the previous survey in 2010. It extended the survey population to capture both commercial and private importers and exporters. Further, only those clients who had directly interacted with Customs were asked about the ease of compliance; clients who use brokers should not find it difficult to comply. The percentage who found it easy to comply was relatively unaffected by the use of this more focused population.

Compliance levels are assessed through random inspections of goods (imports and exports), and through random verification checks of the information provided in entries. Both indicators showed non-compliance of less than 10 percent (the baseline) in 2012/13: we found 94.5 percent compliance in physical checks, and 93.3 percent compliance in documentation checks. Common types of non-compliance are incorrect classification, and incorrect value for duty.

¹⁶ These measures include the activities of all border agencies, and so are not exclusively driven by Customs' performance.

¹⁷ This survey was first undertaken in 2007, and was published in 2010 and 2012, with some changes in the measures. There was no new survey in 2013.

REDUCED COMPLIANCE BURDEN FOR COMPLIANT TRADERS

The business case for JBMS identified that traders may have been required to provide up to 18 documents to three different border agencies – Customs, MPI, and the then-New Zealand Food Safety Authority (now part of MPI). TSW, available from 1 August 2013, will reduce duplication and the resulting burden for traders. This should result in lower costs for traders to prepare documents for export and import shipments.

The World Bank Doing Business survey¹⁸ estimated that the cost for preparing documents in New Zealand in 2012 was US\$870 for an export shipment, and US\$825 for an import shipment. This estimate applies to a very specific type of shipment, and further research will be carried out to identify costs for other types of shipments as part of the JBMS evaluation.

INCREASED ACCESS TO OVERSEAS MARKETS

Benefits to traders and to New Zealand's economy from FTAs can be seen in the value of trade with China, particularly export trade. China's importance for New Zealand as a trading partner continued to grow steadily through 2012. Exports to China have grown from \$5.6 billion in 2010/11, to \$6.1 billion in 2011/12, to \$7.7 billion in 2012/13.¹⁹ The value of imports rose in the same period, from \$6.7 billion to \$7.8 billion.²⁰

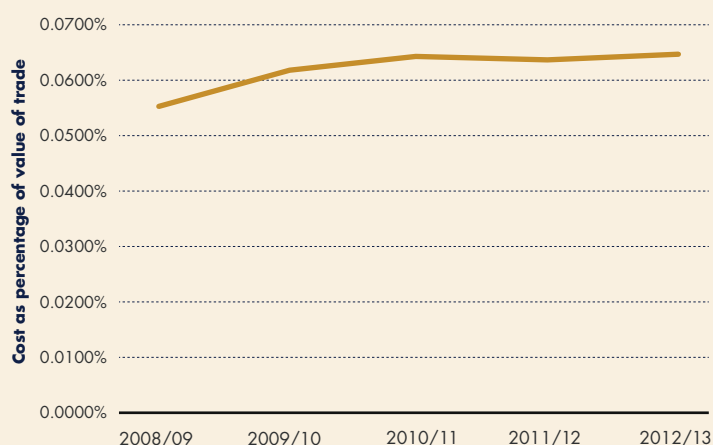
IMPROVED PASSAGE OF NEW ZEALAND TRADE THROUGH CUSTOMS IN NEW ZEALAND AND OVERSEAS

The Secure Exports Scheme (SES), New Zealand's supply chain security programme, provides assurance that goods exported by traders who are SES members are packed and transported securely. SES members face fewer delays from Customs' interventions and inspections, with only 0.03 percent of full container loads (FCL) being subject to x-ray before being exported in 2012/13, compared with 0.80 percent of FCL from non-SES members.

COST-EFFECTIVENESS

The goods clearance cost as a percentage of the value of trade was 0.0645 percent in 2012/13. This was slightly higher than in 2011/12, when the clearance cost as a percentage of the import and export trade was 0.0635 percent, and is below the baseline of <0.07 percent.

Cost-effectiveness of goods clearance and enforcement



18 World Bank, Doing Business 2013. This is the reported (estimated) cost for documents required to import, and documents required to export, a defined shipment, as found in the World Bank's annual survey.

19 Source: Statistics New Zealand, \$NZ (FOB).

20 Source: Statistics New Zealand, \$NZ (CIF).

TRAVEL

Travel to and from New Zealand flows more freely through more secure and efficient border processes

PRIORITY: MORE EFFICIENT, STREAMLINED, AND SECURE PASSENGER FACILITATION, PARTICULARLY FOR TRANS-TASMAN AND ASIA-PACIFIC TRAVEL

SMARTGATE

Customs continually looks to improve the passenger experience and rate of uptake, and we will continue to promote SmartGate as the number of passengers with electronic passports increases. Passenger uptake of SmartGate in 2012/13 is discussed on pages 39–40. We also continue to look to expand SmartGate. This maximises the value of the Government's investment in SmartGate and provides productivity benefits to Customs. Part of this expansion consists of extending the ability to use it to other nationalities.

Following internal testing, we began a field trial inviting departing eligible²¹ United Kingdom (UK) passengers to use SmartGate from December 2012, and a field trial of departing eligible United States (US) passengers in January 2013. This testing collected data that was used to confirm the immigration operational requirements and the biometric performance of UK and US passports in SmartGate, which are critical to maintaining border security. As a result of the successful field trials, SmartGate was formally extended to departing eligible UK and US passengers on 29 July 2013.

We also initiated testing of SmartGate Plus. This next-generation technology eliminates the second kiosk step in the SmartGate process, with the traveller scanning their passport at the gate; this makes the process faster and more efficient. An operational trial of SmartGate Plus commenced in June 2013 with the installation of the gate for departures at Auckland International Airport. The outcomes and evaluation of the pilot will determine next steps, including whether to seek government funding for this new technology.

US PASSENGERS

Customs has been working jointly with Immigration New Zealand to progress the New Zealand-US *Traveller Facilitation Statement of Intent* (signed in May 2012). The facilitation of travel by US citizens to New Zealand was enhanced through making a manual facilitation lane available to members of the US Global Entry trusted traveller programme at Auckland, Wellington, and Christchurch airports from 17 December 2012. Expansion of SmartGate to US travellers is discussed above.

Customs, in liaison with Immigration New Zealand, continues to work with our US counterparts to investigate further initiatives that will improve the identification of, and intervention with, high-risk travellers and improve the facilitation for low-risk travellers.

²¹ Those aged 16 years and over with electronic passports (ePassports).

As the Australian Customs and Border Protection Service (ACBPS) signed a similar Statement of Intent with the US (and Australia also has SmartGate), we have worked with ACBPS to align our approach where practicable.

DEPARTURE INFORMATION

Customs has been working with Statistics New Zealand and Immigration New Zealand to automate the collection of information from passengers on departure from New Zealand. As a first step, we looked to reduce the existing paper-based information collected from passengers to those elements that are essential and not already available from another source. A simplified Departure Card was developed and, following testing, was deployed in July 2013.

As it is consistent with the Result 10 target of increasing opportunities for the public to transact electronically with government services, seed funding was obtained from the Better Public Services programme to progress a Customs-led project in 2013/14 to determine if border agencies can collect departure information electronically and, if so, how. The focus is on improving the passenger experience and improving efficiency for the agencies.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

Customs' *Statement of Intent 2012–2015* recorded an outcome measure together with a group of indicators and measures to demonstrate our performance and assess our impacts in this area in the three-year period.

MAINTAINED HIGH LEVELS OF VOLUNTARY COMPLIANCE

Two key drivers for high levels of voluntary compliance are travellers knowing how to comply and having high levels of trust in Customs. Customs' 2012/13 stakeholder survey found that:

- » 86 percent of the travelling public found that the information provided by Customs helped them to comply
- » 89 percent of the travelling public trusted Customs.

These results are an improvement on those from the 2008 stakeholder survey.

In 2012/13 99.2 percent of arriving international air passengers and crew were assessed by Customs as low risk. Of the remaining 0.84 percent, 27 percent exhibited enough risk to be subject to a baggage examination (as discussed on page 41).

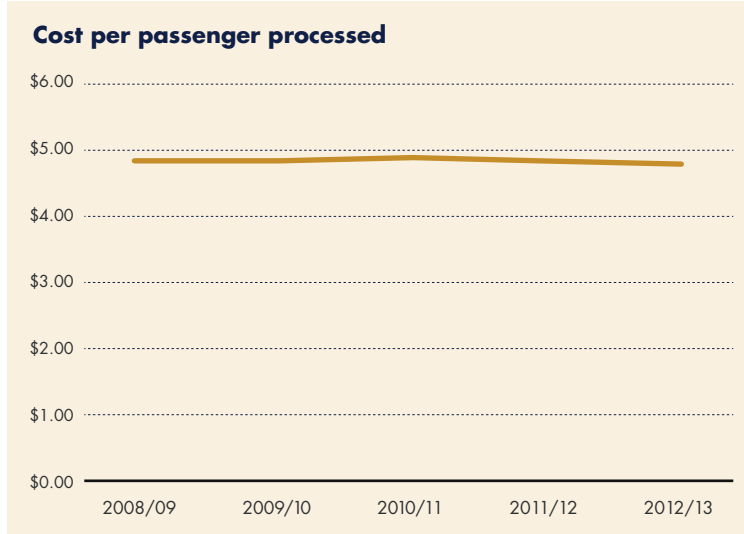
RATING OF IMMIGRATION PROCESS AT NEW ZEALAND AIRPORTS IMPROVED EXPERIENCE FOR TRAVELLERS THROUGH BORDER PROCESSES

Feedback from international travellers in Customs' 2012/13 stakeholder survey found that 82 percent were satisfied that Customs processed passengers quickly and conveniently. In relation to Customs' processing of passengers, 90 percent were satisfied – for manual processing the level of satisfaction was 87 percent and for processing through SmartGate 93 percent.

The results of the Skytrax World Airport Awards are no longer made available by the research company. An alternative survey, the Airline Service Quality (ASQ) survey, has the advantages that the results are reported to participants, and that it is run at a number of airports in New Zealand and internationally. Results aggregated from the 2012/13 ASQ surveys,²² carried out at New Zealand's three main airports, indicate high levels of satisfaction with waiting times for immigration processing (rated 4.22). The process itself was rated 4.08, and the courtesy and helpfulness of the staff carrying out the immigration processing was rated 4.22.

COST-EFFECTIVENESS

In the 2012/13 financial year the cost per passenger processed was \$4.88. This is comparable with 2011/12, when the cost was \$4.92.²³



REVENUE

The rate of collection of due Crown revenue is maintained for New Zealand

PRIORITY: PROTECT AND MAINTAIN THE CROWN REVENUE BASE THROUGH A FOCUS ON REVENUE COMPLIANCE AND EFFICIENCIES

Customs collects roughly 15 percent of total Crown revenue, which supports the Government in meeting its goals for New Zealanders.²⁴ We monitor the changing environment and routinely review our processes to ensure we are collecting revenue effectively and efficiently.

Customs' collection of revenue is based on voluntary compliance, and we recognise that most traders and travellers aim to meet their revenue obligations on time. We seek to improve compliance and generate efficiencies through making it easier for traders and travellers to comply with their obligations, and by ensuring that the compliance requirements are easy for them to access and understand.

²² Source: Individual ASQ results provided by airports (Auckland, Wellington, and Christchurch). The ASQ survey is an international survey carried out in over 190 airports on behalf of the Airports Council International. Each dimension is measured on a scale from 1 (Poor) to 5 (Excellent).

²³ The calculation for cost-effectiveness in the passenger stream has been adjusted for wage inflation, with inflation rates sourced from the Reserve Bank.

²⁴ Customs revenue also supports other economic and social outcomes. Excise and excise equivalent duty is levied for a number of reasons, including to reduce demand for goods such as cigarettes and alcohol that contribute to social costs. Customs tariffs are collected on a small number of commodities to protect vulnerable industries in New Zealand from competing producers in lower-cost economies.

We continually revise our trade compliance strategy and programme to achieve enhanced revenue assurance (in relation to the self-assessment processes used by traders in completing customs formalities) through managing risk and ongoing education (discussed on page 50).

With the continuing growth in online shopping from overseas websites, an area of focus for Customs in 2012/13 has been low-value goods.

We undertook targeted activities to identify the revenue leakage on low-value goods due to undervaluation. Crown revenue, mainly GST, was recovered as a result of these activities and we continue to work with the fast freight industry to improve compliance.

To help those buying goods online know how much duty and GST they might be liable for²⁵ (and improve compliance as a result), Customs introduced the *What's My Duty* website and mobile device app in 2012/13 (including an upgrade that estimates duty and GST on multiple items). Both of these have been popular. *What's My Duty* was also awarded a “Highly commended” certificate in the Government Relations category at the Public Relations Institute of New Zealand’s awards in May 2013. We have had expressions of interest from other customs administrations and have provided the tool to our Australian counterpart, ACBPS.

Customs, the Inland Revenue Department (the IRD), and The Treasury commenced a project in 2012/13 examining a number of areas relating to goods and services bought online from overseas, including revenue collection and risk management. Due to the wide scope of the project, along with the considerable public interest in this area, an issues paper is being developed by the three agencies, and is to be released for public consultation. The paper will include options for collecting revenue on those shipments.

Customs’ revenue collection is based on self-assessment of duty liability and voluntary compliance, and we therefore need the information provided to be robust and accurate. As part of ensuring the integrity of the data, we may impose administrative penalties on errors in entries. In light of strengthened legislative provisions in this area,²⁶ we undertook a review in 2012/13 to identify the resulting opportunities to increase the effectiveness of Customs’ imposition and collection of administrative penalties, maximise data integrity, and improve collection of revenue.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

Customs’ *Statement of Intent 2012–2015* recorded specific indicators and measures that would be used to assess our impacts in this area in the three-year period.

Customs collected 99.5 percent of the revenue due in 2012/13 on time (compared to the baseline of 99.7 percent in 2010/11). We continued to manage longstanding aged debt and to minimise write-offs. The debt written off in 2012/13 was 0.014 percent of the total revenue collected; this is below the target of no more than 0.02 percent, but was an increase over the 2011/12 debt written off (0.003 percent). The percentage of invoiced revenue that was collected is therefore 99.986 percent.

²⁵ If the amount to pay is less than \$60, it is waived under the de minimis provision of the Customs and Excise Act 1996.

²⁶ The new sections 128 to 128D of the Customs and Excise Act 1996 in place from April 2012 (through the Customs and Excise Amendment Act 2012).

Our risk-based compliance and assurance processes confirmed high levels of compliance. The additional revenue generated through these processes (of \$24.91 million, as discussed further on page 50) was only 0.22 percent of the total Crown revenue collected in 2012/13, which indicates a high level of compliance (and is significantly below the baseline of 0.49 percent in 2008/09). The extent of revenue compliance is also assessed through random inspections of goods, and through random verification checks of the information provided in entries – both indicators showing compliance of over 93 percent in 2012/13, as discussed on page 21.

COST-EFFECTIVENESS

Customs' National Credit Control Unit (NCCU) is responsible for the efficient collection of Crown revenue, and for managing debt. The NCCU's roles include the early identification and proactive management of outstanding debt, including addressing and resolving aged debt. It also has a long-term focus on working with clients to seek continuous improvements in managing debt, and in preventing aged and bad debt. In 2012/13 there was a decrease in the debt requiring attention by NCCU, indicating a better first-time collection rate for revenue. This resulted in the ratio of the value of aged debt collected in 2012/13 to the cost of running the NCCU being 23:1, lower than the baseline of 63:1 in 2010/11.

ORGANISATIONAL HEALTH AND CAPABILITY

Customs aims to be an agile, innovative, and client-focused organisation. We continue to improve our service delivery and efficiency through border management processes that are increasingly intelligence-driven and technology-based, and that support effective, targeted risk management while at the same time facilitating compliant trade and travel. We seek to have the operational agility to adapt quickly to the changing border environment, including rising trade and travel volumes, and to focus our resources where they are needed most in an ongoing climate of fiscal constraint. We also continue to develop and support our leaders at all levels in order to encourage high performance and service excellence, while also implementing our change programme.

PEOPLE

As a service-based organisation, Customs relies on the quality of its people to achieve excellence in border management. Key to this is ensuring we have staff with the right leadership and technical skills. To ensure that we continue to be highly productive and deliver value, our people need to be multi-skilled and adaptive, and able to use the modern technology that Customs is increasingly adopting.

In late 2012/13 we initiated a process to review our leadership structure in order to best position Customs to address future challenges and operational needs, to better align the organisation with our strategic priorities, and to build leadership capability for the future. Voluntary redundancy was offered to some Customs staff. The new structure was in place from 1 July 2013. There was no reduction in frontline staff.

The People and Capability group was restructured in 2012/13 so that it is better able to deliver a comprehensive and strategic approach to learning and organisational development in addition to human resources functions. This has led to a number of new initiatives to deliver technical training and develop leadership.

Customs' Leadership Framework was reviewed in 2012/13, and this led to the development of a new framework aligned with *The Customs Story*. We also revised our Career Development Board²⁷ process to identify opportunities for professional development. Giving our people the opportunity to develop and achieve in the workplace has mutual benefit for Customs and our employees. This approach aligns with that led by the State Services Commission for the identification of leaders for system-level roles.

To maximise the effectiveness of our staff's learning, we introduced a blended learning approach for technical training in 2012/13, using online videos and e-learning modules. We have also provided access to online self-help tools and resources that help our staff develop particular skills.

Flexibility is needed to meet the changing border environment and we therefore continued to expand our port model in 2012/13. Through its integrated approach to managing and allocating resources in a geographical area, the port model enables Customs to be flexible and agile in allocating resources to meet varying service demands effectively.

As the existing collective employment agreement expired on 30 June 2013, a new agreement was negotiated (negotiations being completed in July 2013) with three of the four unions present in Customs (those three representing 91 percent of the unionised workforce). This was achieved within

²⁷ A senior management forum set up to govern leadership talent.

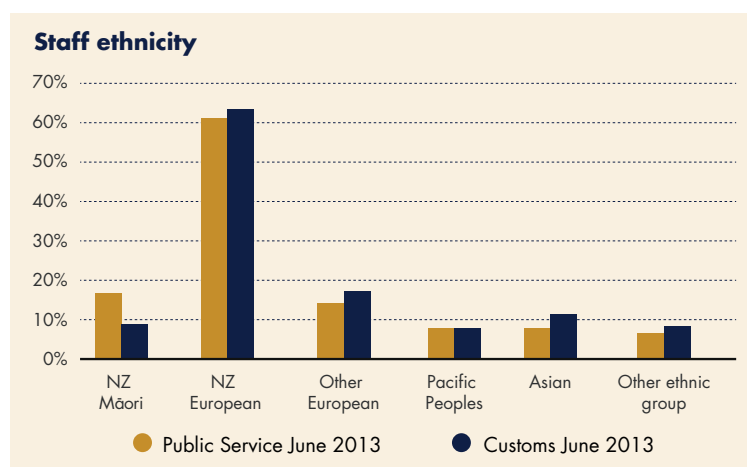
budget and tight fiscal constraints. The new agreement incorporates amended terms and conditions that allow Customs to be more flexible in deploying our workforce at the frontline, and so contributes to improving productivity. The agreement also provides industrial stability for its 34 month duration. Negotiations with the remaining union continued in 2013/14, with the objective of reaching a mutually beneficial settlement.

CULTURE

As discussed on page 9, Customs has advanced work in 2012/13 on a significant change management programme that will better position us for the future.

Equal employment opportunities

As part of being a good employer, Customs remains committed to equality and diversity across our workforce. We also recognise that a diverse workforce gives us a variety of perspectives on our work and helps us to understand and meet the needs of our clients.



The proportion of female staff as at 30 June 2013 was 42 percent. There has been a 3 percent increase in the proportion of females in management roles at Customs, and the review commenced in 2012/13 of how to increase the number of women in leadership positions continued into 2013/14. We continue to monitor the composition of our staff (staff may self-identify as more than one ethnicity). This has remained relatively constant in the past few years.

COLLABORATION

Customs recognises that collaboration and partnerships with industry and other stakeholders, other New Zealand agencies (particularly those with responsibilities at and interests in the border), and relevant international organisations are essential for maximising the value we deliver to industry and government.

In 2012/13 this has included the work on the Future Direction of the Border Sector (discussed on page 8), and with MPI on JBMS (page 19). We continued to collaborate with a wide range of agencies to influence policy and operational border management.

Customs, New Zealand Post, and MPI commenced a project in 2011/12 that reviewed the mail processing system at the International Mail Centre (IMC) to identify opportunities for improvement. Some improvements have been made, resulting in better use of resources through improved allocation of staff and less duplication of processes. A Memorandum of Understanding (MoU) was signed in November 2012 formalising the project and setting a platform for ongoing work in partnership at the IMC.

We signed an MoU with Muriwhenua Corporation in October 2012, the first such agreement signed by Customs with an iwi, which allows Customs to access Muriwhenua land to carry out our activities to protect New Zealand. Under the MoU, we also continue to develop our relationship with Muriwhenua to assist with Coastwatch, and through regular visits, such as visiting schools and assisting local export businesses.

Customs continued to participate in the international customs community in 2012/13, including through membership of the WCO Policy Commission and our co-chairing of the WCO working group on the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework).

TARGETED RISK MANAGEMENT

Customs has a targeted, intelligence-driven approach to risk management, which will be enhanced by the advanced risk capability in JBMS.

BORDER MANAGEMENT IT SYSTEM

The existing CusMod border management system and the replacement JBMS (discussed on pages 19–20) are critical to New Zealand's economy and security.

PROCESSES AND TECHNOLOGY

Customs' *Business Technology Strategy 2012–2016* outlines the areas we are focusing on over that period to ensure we are getting the best value from our investment in technology. Technology is increasingly essential to Customs' work and our ability to respond to the changing border management environment. This is reflected in the change in Customs' senior leadership structure discussed on page 28. A Technology and Business Transformation Leadership Committee was also established to provide focus and oversight.

We have made significant progress under this Strategy in 2012/13, advancing the key technology developments of JBMS (discussed on page 19), SmartGate enhancements (page 23), and the DES technology (page 15).

We undertook a number of other initiatives in 2012/13 to improve and future-proof Customs' IT performance and reliability. This included replacing the servers that run CusMod, which resulted not only in faster processing of goods entries and passengers, but also greater capacity, enabling JBMS and other initiatives. We upgraded Customs' data networks, anti-virus capability and firewalls, and our data analysis and reporting IT system. We also progressed our Microsoft desktop upgrade.

In October 2012, we updated our National Contact Centre capability by completing the transition of our telephone platform to the internet-based VoIP (Voice over Internet Protocol) system. This has reduced call abandonment rates and improved business continuity by enabling us to use operators from multiple locations. It also positions Customs more favourably for any future integration in an all-of-government VoIP solution as part of a Better Public Services initiative.

We also continue to invest in technology that will enable us to undertake our protection and facilitation activities more efficiently. In 2012/13 this included a custom-built, movable and extendable conveyor system that enables us to clear (unpack, inspect, and repack) containers more quickly. This enables our officers to focus on inspections rather than having to perform physical labour (so also providing health and safety benefits).

As well as building specific new technology capabilities, Customs continues to look to adopt, contribute to, and leverage off relevant all-of-government ICT capabilities, as set out in the Government ICT Roadmap,²⁸ rather than duplicating similar services.

MEASURES OF CAPABILITY

Customs' *Statement of Intent 2012–2015* identified a set of indicators and measures to be used in demonstrating performance for capability objectives in the three-year period.

CULTURE

The level of engagement of our people is a key factor in Customs being able to deliver services well, and so we aim to have high levels of staff engagement. In our most recent Employee Engagement Survey (April–June 2013), the Engagement Index of 66.7 was comparable to the 2012 result of 67.9 but is below the State Sector Benchmark of 68.9. Where teams were actively involved in making changes through giving feedback and undertaking action planning, engagement was higher. The focus is on improving the understanding of results of the 2013 survey and the accountability for actions responding to those results across all teams and all levels of Customs.

Staff retention remained high in 2012/13. As at 30 June 2013 the average length of service was 13.6 years and the unplanned annual turnover rate was 6.6 percent – the former is above the public sector average and the latter is below.

The public continues to view Customs positively, as shown by us receiving in March 2013 the Randstad Award²⁹ for New Zealand's most attractive employer for the public sector for the second year in a row. We were also runner-up (up from third in 2012) in the overall category for most attractive employer in New Zealand.

Customs' existing mission, vision and values were replaced in 2012/13 with *The Customs Story* (page 10). As a result, the redesigned stakeholder surveys undertaken for 2012/13 did not ask commercial clients and international travellers to rate our staff on the values of Commitment, Integrity, Respect, and Agility. We instead obtained their views on the following elements of Customs' character in *The Customs Story*:

	Commercial clients	International travellers
Integrity	88%	92%
Professionalism	84%	92%

²⁸ www.ict.govt.nz/programme/government-ict-roadmap.

²⁹ Randstad is the second largest employment consultant company in the world and the awards are presented to the most attractive employer in 40 countries. More than 7,000 New Zealand jobseekers between the ages of 18 and 65 voted in the online survey.

COLLABORATION

In our 2012/13 stakeholder survey, 88 percent of Customs' commercial clients rated the quality of their working relationship with us as "high" or "very high", compared with 82 percent in the 2008 survey. Our responsiveness to commercial clients' needs was rated as "good" or "very good" by 76 percent of clients, compared with 71 percent in the 2008 survey.

Results from Customs' 2011 stakeholder survey (qualitative survey of stakeholders other than commercial clients and international travellers) indicated that we had strengthened our relationships and collaboration with other border agencies and that stakeholders had noticed improvements in these areas in recent years. No such survey was undertaken in 2012/13. We expect, however, that commercial clients would identify further improvement through JBMS (a joint Customs/MPI system). The Future Direction of the Border Sector work programme (page 8) will also see results in this area.

BORDER MANAGEMENT IT SYSTEMS

Customs' work relies heavily on our IT systems, particularly for processing trade and travel. The ongoing availability and capability of those systems is therefore vital for us. CusMod, which is expected to be available 24 hours a day, seven days a week, was available for 99.99 percent of 2012/13.

Opportunities for improving Customs' service depend on our computer systems being compatible with those of other countries. CusMod does not meet the requirements set out in the SAFE Framework or the requirements for the WCO data model for a single window environment. As discussed on page 19, the new craft and cargo reporting and clearance messages in JBMS are based on WCO's data model. When fully implemented, JBMS will be compatible with the SAFE Framework.

PART B

CUSTOMS' PERFORMANCE

2012/13

STATEMENT OF RESPONSIBILITY

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as Chief Executive of the New Zealand Customs Service, for the preparation of the New Zealand Customs Service's financial statements, non-financial performance information, and non-departmental statements and schedules, and the judgements made in the process of producing those statements and that information.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial and non-financial performance reporting.

In my opinion, these financial statements, non-financial performance information, and non-departmental statements and schedules fairly reflect the financial position and operations of the New Zealand Customs Service for the year ended 30 June 2013.

Signed by:



Carolyn Tremain
Comptroller of Customs
24 September 2013

Countersigned by:



Kevin Martin
Chief Financial Officer
24 September 2013

INDEPENDENT AUDITOR'S REPORT

To the readers of New Zealand Customs Service's financial statements, non-financial performance information and schedules of non-departmental activities for the year ended 30 June 2013

The Auditor-General is the auditor of New Zealand Customs Service (the Department). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- » the financial statements of the Department on pages 56 to 83, that comprise the statement of financial position, statement of commitments, statement of departmental contingent liabilities and assets as at 30 June 2013, the statement of comprehensive income, statement of change in equity, statement of departmental expenditure and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure, schedule of trust monies and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- » the non-financial performance information of the Department that comprises the statement of service performance on pages 38 to 55 and the report about outcomes on pages 15 to 18, 21–22, 24–25, and 26–27; and
- » the schedules of non-departmental activities of the Department on pages 84 to 91 that comprise the schedule of non-departmental assets, schedule of non-departmental liabilities, statement of non-departmental contingent liabilities and assets, and schedule of non-departmental commitments as at 30 June 2013, the schedule of non-departmental revenue, statement of non-departmental expenditure and capital expenditure against appropriations, schedule of non-departmental expenditure, statement of non-departmental unappropriated expenditure and capital expenditure for the year ended on that date and the notes to the non-departmental financial statements that include accounting policies and other explanatory information.

OPINION

In our opinion:

- » the financial statements of the Department on pages 56 to 83:
 - › comply with generally accepted accounting practice in New Zealand; and
 - › fairly reflect the Department's:
 - financial position as at 30 June 2013;
 - financial performance and cash flows for the year ended on that date;
 - expenditure and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2013; and
 - unappropriated expenditure and capital expenditure for the year ended 30 June 2013.
- » the non-financial performance information of the Department on pages 38 to 55, 15 to 18, 21–22, 24–25, and 26–27:
 - › complies with generally accepted accounting practice in New Zealand; and
 - › fairly reflects the Department's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and

- its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- » the schedules of non-departmental activities of the Department on pages 84 to 91 fairly reflect, in accordance with the Treasury Instructions:
 - › the assets, liabilities, contingencies and commitments as at 30 June 2013 managed by the Department on behalf of the Crown; and
 - › the revenues, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 24 September 2013. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. Also we did not evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE COMPTROLLER

The Comptroller is responsible for preparing:

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

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

The Comptroller's responsibilities arise from the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we have carried out assignments in the areas of assurance regarding the Joint Border Management System. Other than the audit and this assignment, we have no relationships with or interests in the Department.



John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2013

This Statement of Service Performance reflects the new output class structure in place from 2012/13, with the two new output classes “Policy Advice” and “International Services and Ministerial Servicing” replacing the previous output class “Policy Advice and International Services”. The actual values for the year ended 30 June 2012 have been restated from the previous six output classes into the seven current output classes to provide a comparative with the expenditure and appropriations for the year ending 30 June 2013.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO PASSENGERS AND CREW

Scope of Appropriation: The provision of services relating to passengers and crew crossing the border, including collecting information, clearance of people and their possessions, and protection of New Zealand’s interests through interventions, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
51,528	Crown	50,640	50,535	51,458
1,864	Other	1,608	1,921	2,035
53,392	TOTAL REVENUE	52,248	52,456	53,493
54,239	EXPENSES	52,723	52,456	53,493
(847)	SURPLUS/(DEFICIT)	(475)	-	-

PERFORMANCE

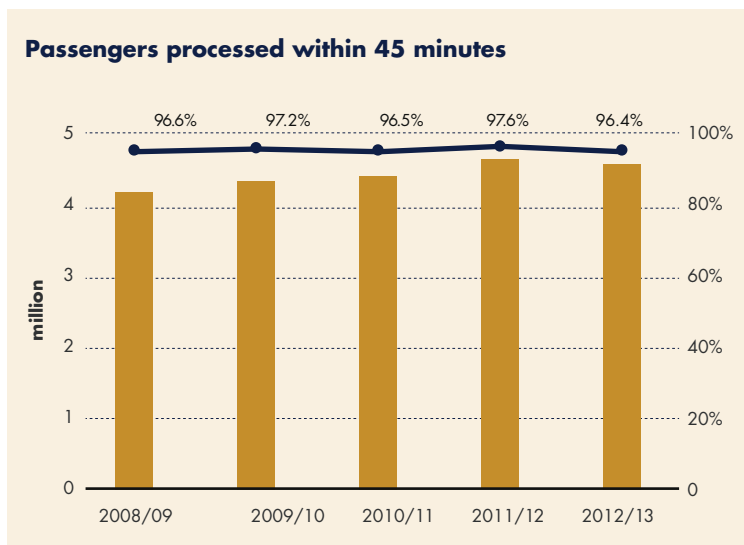
Customs processed a record 5.082 million arriving international air passengers and crew in 2012/13, within the expected range of 4.875–5.400 million.

Processing of arriving commercial air passengers

The experiences that visitors to New Zealand have when they arrive at the border affect their perception of the country as a destination. Most travellers comply with our border requirements. To ensure that those people receive an appropriate welcome, Customs focuses on identifying those travellers who are likely to pose a risk, and on timely processing of those who do not.

We aim to process a minimum of 90% of arriving commercial passengers within 45 minutes of their plane arriving at its gate. This period includes disembarking from the plane, walking to the Customs hall, duty-free shopping, and queuing for and being processed through Customs primary processing.

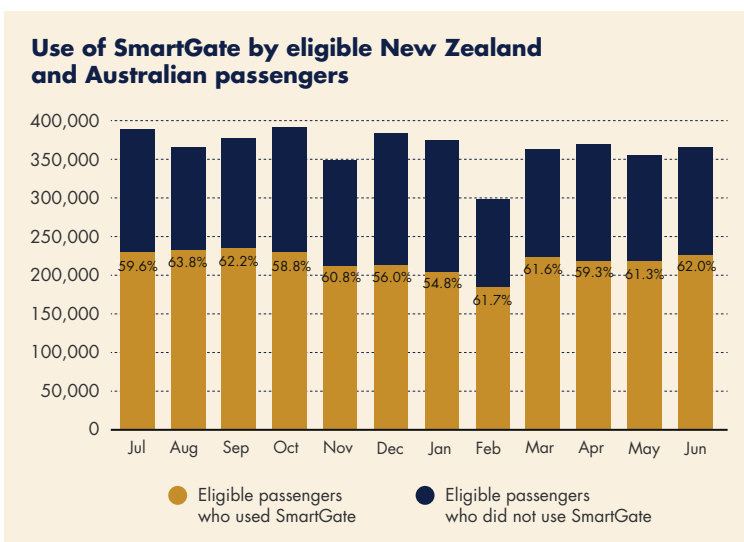
The quality and speed of passenger processing must be balanced against the need to effectively manage risk, while also efficiently allocating our resources. Therefore Customs does not aim to increase the percentage processed within the 45 minute timeframe each year. The record of 97.6% in 2011/12 was also due in part to our efforts to efficiently process Rugby World Cup 2011 visitors by temporarily redeploying additional staff to processing.



SmartGate

SmartGate continues to be popular, with an average of nearly 51,000 arriving and departing passengers using it each week in 2012/13. It helped Customs to process the record volume of passengers in the year.

A total of 2.632 million eligible³⁰ Australian and New Zealand passengers used SmartGate in 2012/13, an increase of 30.1% (0.609 million passengers) from the 2011/12 total.



A further 20,608 departing UK passengers and 5,332 departing US passengers used SmartGate in 2012/13 as part of the field trials discussed on page 23.

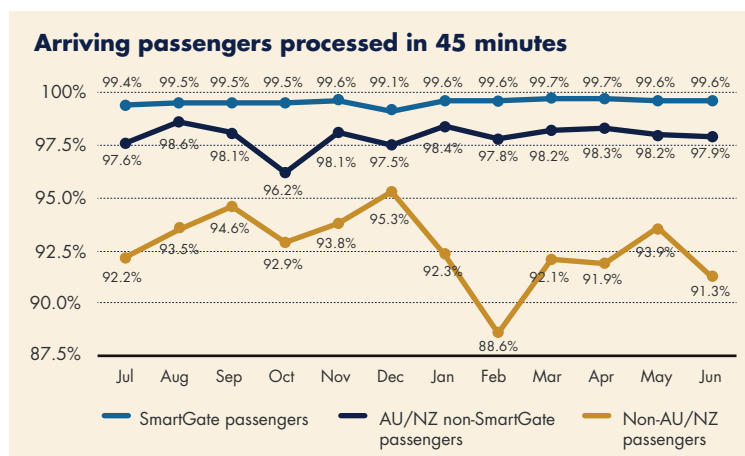
On 9 July 2013 the six millionth passenger was processed through SmartGate since it was first introduced in December 2009.

Arriving passengers

As it was initially developed and introduced as an initiative to improve the passenger experience for those travelling between New Zealand and Australia, the performance measure in 2011/12 and previous years related only to arriving trans-Tasman passengers. While the majority of passengers using SmartGate continue to be on trans-Tasman flights, for 2012/13 the measure relates to all eligible arriving New Zealand and Australian passengers – with 64.8% of those passengers using SmartGate. Of the total passengers arriving at the relevant three airports in 2012/13, the proportion who used SmartGate in 2012/13 was 30.2%.

³⁰ Australians and New Zealanders who have an ePassport and were at least 16 years of age, and who are arriving at or departing from the airports that have SmartGate (Auckland, Wellington, and Christchurch).

The percentage of arriving passengers processed within 45 minutes was higher for those using SmartGate than for those who were processed manually. The accompanying graph indicates that the processing time is shortest for Australian and New Zealand passport holders who choose to use SmartGate, with a slightly longer processing time for Australian and New Zealand passport holders who choose to be processed by a Customs officer. This suggests SmartGate is effective in reducing processing times for eligible passengers.



It also indicates that the holders of other passports have the longest processing times. This reflects both the additional time taken to assess risk for some of these passengers, and slower processing of passengers who do not have fluent English. Over the summer months there is a higher volume of these passengers (and they also represent a greater proportion of total passengers).

Departing passengers

On departure, 55.5% of eligible passengers used SmartGate in 2012/13. Of the total departing passengers at the relevant three airports in 2012/13, the proportion who used SmartGate (including the 29,940 UK and US passengers) was 26.7%.

Stakeholder survey – passengers

Stakeholder surveys provide an opportunity to check that Customs continues to meet our stakeholders' needs and expectations, and to identify areas where we could improve. For some years up to 2010, Customs had carried out a biennial survey of travellers' and commercial clients' satisfaction with our service. While that existing survey design had been reliable and valid, it did not cover some key stakeholder groups – notably overseas visitors and smaller businesses. The relatively long period between surveys had also meant we were not able to quickly identify, or flexibly monitor, the effects of changes in how we deliver our services. In late 2011/12, Customs began redesigning our survey to provide better coverage and to make the survey more regular, and more responsive. As a result, there was no stakeholder survey in 2011/12.

Following the redesign, we introduced a new survey of travellers in late 2012/13 to find out their views on the quality of Customs' service and their satisfaction with our service. For the first time this survey included non-New Zealanders. The 2012/13 results for the relevant performance measures below are from this survey.

Risk management

All arriving international travellers are assessed for risk. The performance measures and standards set out below provide information on those air passengers and crew who, after primary processing (including those who have self-processed through SmartGate), are selected for further risk assessment and directed to Customs' secondary areas for additional interaction. From that point on, passengers and crew are no longer being facilitated, and Customs is instead carrying out an enforcement role.

Customs aims to limit our interaction with legitimate travellers who comply with border requirements. Accordingly, we continually seek to enhance risk assessment and better target our interventions to risk, and in recent years this has resulted in a smaller percentage of travellers being selected for further risk assessment. We profile and target all arriving international air passengers and crew, taking into account changing risks, to determine who will be referred for further risk assessment at our secondary areas. Based on that process, 0.84% of passengers and crew were referred in 2012/13.

Customs can examine passengers' baggage to ensure that no prohibited, dutiable, or forfeit goods are crossing the border. In 2012/13, 27.0% of the passengers and crew selected for further risk assessment in our secondary areas were later subject to a full or partial baggage examination.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
97.6%	Percentage of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival	96.4%	≥90%	–
99.1%	Percentage of arriving international air passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention ³¹	99.2%	≥98%	–
– ³²	Average percentage of international travellers satisfied that Customs processes passengers quickly and conveniently (as measured biennially by Customs' stakeholder survey)	81.7%	≥70%	–
–	Percentage of international travellers that find the information provided by Customs helpful (as measured biennially by Customs' stakeholder survey)	86.0%	≥80%	–
Amended measure	Percentage of eligible arriving passengers who use SmartGate	64.8%	≥50%	–
–	Average percentage of international travellers satisfied that Customs provides a friendly welcome to New Zealand (as measured biennially by Customs' stakeholder survey)	85.7%	≥65%	–
0.95%	Percentage of arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas	0.84%	0.8%–1.2%	–
25.3%	Percentage of arriving international air passengers and crew who were selected for further risk assessment who were subsequently subject to a full or partial baggage examination	27.0%	20%–30%	–

³¹ Action by Customs to carry out further risk assessment. This may include, but is not limited to, further questioning, an interview, a baggage examination, and/or a personal search.

³² A stakeholder survey was not undertaken in 2011/12, as discussed on page 40.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO GOODS

Scope of appropriation: The provision of services relating to goods crossing the border, including clearance of goods, assessment and audit of revenue, trade compliance and supply chain security assurance, and protection of New Zealand's interests through interventions, audits, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
18,157	Crown	15,852	15,709	23,342
41,653	Other	43,640	49,099	45,476
59,810	TOTAL REVENUE	59,492	64,808	68,818
57,266	EXPENSES	65,228	64,808	68,818
2,544	SURPLUS/(DEFICIT)	(5,736)	-	-

PERFORMANCE

In 2012/13 Customs expected to process an estimated 4.6–5.5 million import transactions, 3.1–3.8 million export transactions, and 3,600–4,200 excise returns. We processed 6.205 million import transactions, 3.482 million export transactions, and 3,742 excise returns.

Mail

Customs processed 50.47 million mail items in 2012/13 (66.4% of that total being import mail items, and 33.6% export mail items). This was just below the forecast range of 51–59 million, and 7.8% less than the 2011/12 total of 54.76 million. The continued decrease in mail volumes in recent years is due to the decline in letter mail (likely the result of increasing use of alternative methods of communication such as email and social networking websites), which still makes up the majority of total mail items.

A proportion of the total mail items processed are subject to additional interaction by Customs, determined by operational alert activity and manual profiling. Operational activity is targeted at mitigating specific risks.

As a result of the project to improve processes at the IMC (discussed on page 29), in 2011/12 New Zealand Post staff took over, on Customs' behalf, the screening of incoming mail at the IMC for items liable for GST and duties. This led to improved revenue profiling and recovery, as well as freeing up Customs staff to spend more time identifying higher-risk mail items containing contraband. As a result of this change, the 2012/13 standard for the measure relating to those mail items referred for risk assessment resulting in an enforcement consequence was increased to $\geq 55\%$ (from $\geq 35\%$ in 2011/12).

The freeing up of Customs' resources, however, led to a change in approach from late 2011/12 to our risk assessment and the resulting operational activity. This was to mitigate the risks from the ability to buy contraband online from overseas websites for delivery to New Zealand by mail (including letters) and the continued increase in the number of higher-risk small packets and parcels (driven by the New Zealand public buying low-value goods from overseas).

Our assessment of how to mitigate these risks resulted in all mail from a range of risk countries being subject to specific targeted operational activity by Customs in 2012/13, with a consequent significant increase in the number of mail items (1.0% of the total) referred for further risk assessment.

Due to the ongoing change in Customs' risk assessment of mail and the type and volume of mail referred for additional interaction, the two output performance measures relating to mail items subjected to risk assessment have been combined into one adjusted measure from 2013/14.

Stakeholder survey – commercial clients

As discussed on page 40, commercial clients (importers and exporters) were last surveyed in June 2010, and therefore there are no 2011/12 results for the relevant performance measures below. The results for 2012/13 are those from the redesigned survey, which was changed to capture feedback from low-volume clients and members of the public who shop online, as well as high-volume importers and exporters.

Investigations

Customs conducts investigations relating to: the trafficking of illicit drugs; money laundering and financing of terrorism; trade in endangered species; trade mark and copyright infringement; objectionable material; and duty and excise fraud. We commenced 606 investigation cases³³ in 2012/13, just above the 400–600 estimate. We also finalised 95.6% of investigation cases within 12 months. The majority (333) of the cases commenced in 2012/13 related to Intellectual Property Rights (IPR) infringements. The IPR file process is continually being improved, leading to significant reductions in the time required to finalise an investigation and close the file.

We allocate our investigative resources based on the gravity of the particular offence being investigated, with priority being given to serious investigation cases. These cases are usually more complex and require longer investigation times and greater commitment of resources. In 2012/13, 50 serious investigation cases were finalised with an offence and suspect(s) being identified, and punitive action was taken against the offender(s) in 48 of those cases.

³³ An investigation case is commenced when resources are assigned to investigate an offence that has been committed, or where information suggests an offence has been or may be committed, against the Customs and Excise Act 1996, the Misuse of Drugs Act 1975, or other relevant legislation.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
99.9%	Percentage of trade transactions (other than those referred for compliance checks) processed (including assessment against business rules and intelligence alerts) within 30 minutes	99.5%	≥95%	–
97.2%	Percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention ³⁴	97.0%	≥95%	–
99.4%	Percentage of export transactions that are deemed compliant based on risk assessment and proceed without further intervention	99.4%	≥99%	–
– ³⁵	Average percentage of commercial customers satisfied or very satisfied with Customs' service (as measured biennially by Customs' stakeholder survey)	81.4%	≥75%	–
–	Average percentage of commercial customers rating the quality of the working relationship with Customs as good or very good (as measured biennially by Customs' stakeholder survey)	88.0%	≥80%	–
–	Average percentage of commercial customers rating Customs' responsiveness to commercial needs as good or very good (as measured biennially by Customs' stakeholder survey)	77.1%	≥70%	–
–	Average percentage of commercial customers that find it easy to comply with Customs requirements (as measured biennially by Customs' stakeholder survey)	82.1%	≥80%	–
0.35%	Percentage of mail items that are referred for further risk assessment ³⁶	1.0%	≥0.1%	–
30.7%	Percentage of mail items subjected to further risk assessment that result in an enforcement consequence ³⁷	12.4%	≥55%	-77.5%
820	Number of trade compliance field audit activities undertaken	542	≥700	-22.6%
20,080	Number of transactional audit activities undertaken	20,145	≥20,000	–
95.4%	Percentage of investigation cases finalised within 12 months of commencement	95.6%	≥80%	–
98.5%	Percentage of serious investigation cases ³⁸ that lead to punitive action ³⁹	96.0%	≥95%	–

³⁴ Further intervention in relation to both import and export transactions means action by Customs to carry out further risk assessment. This may include, but is not limited to, document inspection, screening, or search.

³⁵ A stakeholder survey was not undertaken in 2011/12.

³⁶ Mail items selected for additional interaction during the primary screening process. This may include a closer visual check of the external wrapping and/or declaration, or physical examination without opening and examining the contents. The mail that is then identified for additional Customs attention is retained for further interaction by way of physical inspection (opening and examining the contents).

³⁷ "Enforcement consequence" means: Customs' Activity Reports raised at the International Mail Centre; items referred to MPI, New Zealand Post or Ministry of Health; and items that require an entry due to revenue (duty/GST) owing. Activity Reports are raised when non-compliant items are found, and action taken in response.

³⁸ A serious investigation case involves, or has the potential to involve, serious community harm. Examples of serious investigation cases include those that involve more than \$250,000 drug harm (as calculated using the New Zealand Drug Harm Index), Class A or B drugs for supply, objectionable material involving child exploitation, or the importation of counterfeit medicines.

³⁹ The action resulting from a closed or completed serious investigation case where an offence has been committed and an offender has been identified and the result includes but is not limited to: offender is placed before the Courts by Customs or New Zealand Police; seizure of goods; a formal warning of the offender; imposition of section 223 Customs and Excise Act 1996 penalty i.e. fine or other penalty; an administrative penalty.

Explanation of variances

Mail items subjected to further risk assessment that result in an enforcement consequence

As Customs' operational activity at the IMC in 2012/13 has (as discussed on page 43) included all mail items from particular countries being referred for further risk assessment, there has been a significant increase in the number of mail items referred. A significant proportion of those mail items is letter mail (lower risk mail items), leading to a lower percentage of the mail items subjected to further risk assessment resulting in an enforcement consequence.

Number of trade compliance field audit activities undertaken

This variance is due to an adjustment in Customs' trade assurance strategy and programme for 2012/13 relating to how to determine which trade compliance field audit activities would be undertaken (to a more intelligence-led, risk-based approach to targeting subjects of audits). As a result, fewer targets were identified and the work involved in each audit increased in complexity, with an emphasis on quality (given the selection for audit based on identified or suspected risk) rather than quantity.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO CRAFT

Scope of appropriation: The provision of services relating to craft arriving in and departing from New Zealand, including clearance of craft, protection of New Zealand's interests through interventions, audits, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
7,930	Crown	8,424	8,413	7,017
267	Other	236	280	371
8,197	TOTAL REVENUE	8,660	8,693	7,388
8,220	EXPENSES	8,640	8,693	7,388
(23)	SURPLUS/(DEFICIT)	20	-	-

PERFORMANCE

Numbers of craft

In 2012/13 we processed 2,386 arriving commercial marine craft (craft excluding small craft and military vessels – and so including a record 102 cruise ships), which was within the expected 2,200–2,450, and a slight increase from the 2011/12 total of 2,358. The 674 arriving small marine craft processed in 2012/13 was within the estimated range of 640–715.

Each year, the bulk of small craft arrivals are before summer (October–December, with the peak in November) and the bulk of departures are when summer ends (April–June, with the peak in May). Most cruise ships visit in the summer months. Customs manages its resources accordingly.

Managing risk relating to craft

Customs uses intelligence-based risk profiles to determine the risk level of arriving craft and to mitigate risk through further interaction with craft that are assessed as a potential risk and with the people/crew associated with those craft. The ITOC applies rules relating to craft risk assessment to determine risk ratings. Intelligence and risk management processes determine the level and type of interaction.

We undertook a targeted response (these range from surveillance to a full rummage) on all of the marine craft assessed as high risk (20) in 2012/13. We also intended to have additional interaction with a minimum of 5% of arriving commercial marine craft that are not assessed as high risk. As few high risk craft were identified by the ITOC in 2012/13, Customs proactively targeted and responded to other vessels and crew based on risk factors and/or as a result of current operations. This activity resulted in us collecting information to factor into future risk assessment by the ITOC, and this may potentially result in more vessels being identified as high risk.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
99.8%	Percentage of marine craft ⁴⁰ arriving that are boarded at first port of arrival	99.7%	100%	-0.3%
14.1%	Percentage of all arriving commercial marine craft that are not assessed as high risk that will be subject to Customs secondary interaction ⁴¹	11.2%	≥5%	–

Explanation of variances

Marine craft arriving boarded at first port of arrival

Ten craft (of a total of 3,060) were not boarded at their first port of arrival in New Zealand. Four small craft were not boarded as they had previously arrived in New Zealand (and been boarded) and had only departed temporarily – either departing and re-entering the country to satisfy the requirements for remaining permanently in New Zealand after entering on a temporary basis (two craft) or due to mechanical difficulties (two craft). Six commercial vessels remained at anchorage in the relevant port on arrival, rather than entering a Customs place. For all 10 craft, the decision was made not to board as the risk had been mitigated.

⁴⁰ For the purposes of this measure, marine craft means commercial craft (including cruise ships) and small craft.

⁴¹ Secondary interaction may range from talking to the crew to a full rummage. This output maintains high levels of voluntary compliance, and acts as a check on risk assessments.

OUTPUT CLASS – INFORMATION AND INTELLIGENCE SERVICES

Scope of appropriation: The provision of information, intelligence and risk assessment services to external clients, and the operation of the National Maritime Coordination Centre.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
8,140	Crown	12,413	12,409	9,730
683	Other	3,453	3,435	10,731
8,823	TOTAL REVENUE	15,866	15,844	20,461
8,606	EXPENSES	14,616	15,844	20,461
217	SURPLUS/(DEFICIT)	1,250	-	-

PERFORMANCE

Services for other agencies

Customs provides a range of intelligence and risk products for use by external clients in relation to craft, individuals, groups, events, and commodities that could present a risk that falls under the jurisdiction of other agencies. These products are developed with a focus on tactical, operational, and strategic intelligence, and provide knowledge to improve decision-making and inform risk. In 2012/13 we disseminated 1,425 intelligence and risk products, fewer than the expected 1,600–1,800. This is due to a number of factors, including a liaison officer from a major external agency working closely with us (which meant we gave fewer formal briefings), and relevant Customs staff being temporarily redeployed to work on JBMS and long-term operations. The feedback provided by the external clients (the seven agencies who responded to the year-end survey) on the products provided was very positive, with 100% satisfaction.

We expected to manage 35,500–39,500 alerts⁴² created by other agencies in 2012/13. The 2012/13 total of 51,804 exceeded that forecast, and is an increase of 31.7% from 2011/12. These alerts were created by the Ministry of Justice (53.4% of the total), the IRD (26.1%), NZ Police (9.3%), Immigration New Zealand (8.5%), and other agencies (2.7%). The increase in the total alerts was mainly due to the rise in the number of alerts (up 215.6% from its 2011/12 total) created by the IRD following the change in April 2013 to allow for alerts for serious student loan defaulters to be created.

National Maritime Coordination Centre (NMCC)

The NMCC is a single, centralised, operationally independent entity that supports the Government's maritime goals, both civilian and military. Its key role is to manage New Zealand's maritime surveillance. Although the NMCC is operationally independent (and staffed by both civilian and military personnel from a number of agencies), it is directly responsible to Customs.

⁴² Agencies provide Customs with information about people or goods that are of interest to them. Our border management system electronically screens data for profile matches, enabling Customs to notify the other agency if the person or goods arrive at the border.

In this context, New Zealand's collective maritime patrol and surveillance interests reflect individual agencies' overlapping responsibilities for maritime sovereignty and security, law enforcement, maritime safety, marine resources management, environmental protection, and external relations. The NMCC supports the effective and efficient use of New Zealand's maritime patrol and surveillance assets for civilian purposes through a coordinated whole-of-government approach to maritime tasking and maritime domain awareness.

To ensure optimal use, the NMCC prioritises and matches the available resources to those marine areas assessed as presenting the greatest risk to New Zealand based on risk assessments (of agreed geographic areas using a common risk assessment framework) completed by the civilian agencies.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
100%	Percentage of external clients who are satisfied with intelligence and risk products disseminated by Customs	100%	≥80%	–
75%	Percentage of external clients who are satisfied with Customs' management of alerts created by their agency	100% ⁴³	≥80%	–
89.5%	Percentage of marine areas with aggregated risk assessments in the highest 5% that are allocated resources	79.7%	≥90%	-11.4%
100%	Percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's responsiveness, transparency, and prioritisation in coordination of tasking	80%	≥90%	-11.1%

Explanation of variances

Marine areas with aggregated risk assessments in the highest 5% allocated resources

There were 59 marine areas with aggregated risk assessments in the highest 5% in the 2012/13 financial year and 47 of these were allocated resources. Eleven areas were not allocated resources as in each instance there were no suitable (for the relevant area) patrol and surveillance assets available for allocation by the NMCC. One area was not allocated resources as its priority was elevated later in the relevant month after all assets had already been allocated to other areas.

Satisfaction with National Maritime Coordination Centre's responsiveness, transparency, and prioritisation in coordination of tasking

We sought feedback from seven agencies and received responses from four of those agencies. Of the total 12 responses (the four agencies being surveyed on each of the elements of responsiveness, transparency, and prioritisation in coordination of tasking), eight were "satisfied" or "very satisfied" while the remaining four were "neither satisfied nor dissatisfied".

⁴³ We sought feedback from seven agencies for which we manage alerts and received responses from only two of those agencies.

OUTPUT CLASS – REVENUE COLLECTION

Scope of appropriation: The provision of services relating to receipt and processing of revenues owing to the Crown and other agencies, revenue assurance, credit and debt management.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
5,385	Crown	5,354	5,551	5,509
350	Other	261	281	17
5,735	TOTAL REVENUE	5,615	5,832	5,526
5,951	EXPENSES	5,903	5,832	5,526
(216)	SURPLUS/(DEFICIT)	(288)	-	-

PERFORMANCE

Customs' National Credit Control Unit is responsible for the efficient collection and accounting of Crown, departmental, and agency revenues, and the management of credit and debt. Its roles include effective credit management, establishing and maintaining deferred and broker credit facilities, and early identification and proactive management of outstanding debt. The Unit continues to focus on ensuring that revenue due to the Crown is collected promptly and efficiently in an economic climate that is challenging for some traders. This effort is reflected in the proportion (99.5%) collected by the due date and in the debt written off in 2012/13 being only 0.014% of the total revenue collected.

Customs' deferred payment scheme benefits both Customs and clients. It allows approved importers who are registered for GST to defer payment of customs charges (including GST) accounted for on import entries to the month after the goods are imported. Clients gain flexibility, which helps them to comply with their revenue obligations, while the scheme also minimises the transaction cost of revenue collection for Customs.

Additional revenue owed that is identified through the trade compliance programme

Customs' revenue collection is based on voluntary compliance, relying on traders (in the self-assessment processes used in completing customs formalities) to accurately calculate and declare the amount of customs revenue owed. However, Customs maintains (and regularly reviews and updates) a strategy and programme that addresses risk and provides assurance across import, export, and excise trade streams. A key objective is delivering assurance over Customs revenue, including identifying and recovering due and unpaid customs revenue through our programme of audits (the number of field and transactional audits undertaken in 2012/13 is noted on page 44).

The target of a minimum of \$15 million in additional revenue collected through the trade compliance programme was exceeded, with a net total of \$24,913,220 collected in 2012/13. There is a high degree of variability in the total collected year-to-year as it is frequently affected by a small number of high value collections. As Customs also seeks to achieve enhanced revenue assurance through ongoing trader education, a decrease in this total is not necessarily an unfavourable result.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
\$11,346 million	Revenue collected on behalf of the Crown, as advised by Treasury	\$11,239 million	\$12,216 million ⁴⁴	-8.0%
\$386.7 million	Revenue collected for other agencies, as advised by the agencies involved	\$381.8 million	\$360–\$400 million	–
97.9%	Percentage of revenue that is collected electronically	98.6%	≥95%	–
99.6%	Percentage of revenue that is collected by the due date	99.5%	≥98%	–
8,301	Number of clients that meet credit criteria and have access to the deferred payment scheme	8,400 ⁴⁵	≥8,000	–
0.003%	Debt write-offs as a percentage of total revenue collected in that year	0.014%	≤0.02%	–
\$32.58 million	Additional revenue owed that is identified through the trade compliance programme	\$24.91 million	>\$15 million	–

Explanation of variances

Revenue collected on behalf of the Crown

The standard for this measure is based on the April 2012 estimate by The Treasury.

⁴⁴ This standard was changed to \$11,307 million in the 2012/13 Supplementary Estimates to reflect the updated April 2013 estimate received from The Treasury (which was updated again later in April 2013 by The Treasury to \$11,269 million).

⁴⁵ This is an average of the 12 monthly totals of clients. As at 30 June 2013, the total was 8,520.

OUTPUT CLASS – POLICY ADVICE

Scope of appropriation: The provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
2,151	Crown	1,995	2,015	1,805
48	Other	128	91	39
2,199	TOTAL REVENUE	2,123	2,106	1,844
2,128	EXPENSES	2,051	2,106	1,844
71	SURPLUS/(DEFICIT)	72	-	-

PERFORMANCE

Customs provided policy advice to the Minister of Customs in 2012/13 on a range of topics related to border security, border management, customs revenue, and policy proposals. We have also been consulted on and/or provided input to policy advice led by a number of other agencies on issues in which Customs has a role or interest – such as immigration advice being developed by MBIE, and advice by the DIA relating to the mass arrival of potentially illegal immigrants.

In order to monitor the quality of our policy advice, in addition to internal quality assurance, Customs seeks the Minister's assessment of his satisfaction and obtains an external review of our policy papers by NZIER. The Minister advised that the advice provided in 2012/13 met and sometimes exceeded his expectations. NZIER awarded a median score of 7.0 for the quality of policy papers in 2013/13, based on a review of 20 randomly selected papers (the basis of selection having changed from 2011/12). The median score received is adequate, and comparable to other agencies, with six of 19 agencies reviewed receiving a median score lower than 7, and nine receiving a median score of 7 to 7.5.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
Meets and sometimes exceeds expectations	Minister's assessment of his satisfaction that the policy advice conforms to the quality characteristics	Meets and sometimes exceeds expectations	Meets expectations	–
7.5	Median score (out of 10) for policy papers as assessed by the external reviewer (NZIER)	7.0	≥7.5	-6.7%

Explanation of variances

Median score for policy papers as assessed by the external reviewer

There was a wider spread of scores in 2012/13. Six of the 20 papers were identified as high quality papers. A small number of papers were identified as low quality; these papers were required to be completed in very short timeframes, which resulted in standard quality assurance processes being abbreviated.

OUTPUT CLASS – INTERNATIONAL SERVICES AND MINISTERIAL SERVICING

Scope of appropriation: The provision of international services, obligations, and assistance, and the provision of services to Ministers to enable them to discharge their portfolio (other than policy-decision making) responsibilities.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/12		30/06/13		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
2,737	Crown	2,670	2,716	3,177
1,399	Other	1,881	2,167	2,328
4,136	TOTAL REVENUE	4,551	4,883	5,505
4,130	EXPENSES	4,356	4,883	5,505
6	SURPLUS/(DEFICIT)	195	-	-

PERFORMANCE

Ministerial servicing

The services and support that Customs provides to the Minister of Customs include preparing draft replies to ministerial correspondence and draft responses to parliamentary questions. We estimated that in 2012/13 we would provide:

- » 75–100 draft replies to ministerial correspondence
- » 50–100 draft responses to parliamentary questions.

These volumes are demand-driven. We provided 68 draft replies to ministerial correspondence and 36 draft responses to written parliamentary questions.

We provided 64 of the total of 68 draft replies to ministerial correspondence within 20 working days or the later deadline (for five draft replies) agreed with the Minister's office – in some instances an extension is agreed (for example, where the issue is a complex one or where the response will require input from another agency). Customs provided all draft responses to parliamentary questions received by the Minister in 2012/13 in sufficient time for those answers to meet the deadline set out in the Parliamentary Standing Orders.

International services and assistance

A key contribution by Customs in this arena is participation in New Zealand's FTA programme (as discussed on page 20).

Customs plays an active role in the international customs community, ensuring that New Zealand's interests are actively represented both in international customs policy, trade, and security interests, and in law enforcement relationships. We achieve this primarily by developing and maintaining bilateral and multilateral relationships, and through input and representation at international forums, particularly the WCO and APEC. In 2012/13 we have specifically contributed to international developments in data quality and data security, supply chain connectivity, and global data standards.

As in previous years, in 2012/13 the five Customs Counsellors in Canberra, Washington DC, Beijing, Bangkok, and Brussels contributed in a number of ways from a Customs and NZ Inc perspective. They provided additional policy and operational capability, including enhancing Customs' policy influence and bilateral arrangements, and helped to build better relationships and deeper trust – which can lead to the development of wider networks and to greater access to information and intelligence.

Customs continues to contribute to strengthening border management and building customs capacity in the Pacific, particularly under the 10-year Partnership Arrangement for customs sector development in the Pacific entered into with the Ministry of Foreign Affairs and Trade in 2011 (providing funding to Customs from the New Zealand Aid Programme). In 2012/13 this included further advancing our Cook Islands customs modernisation project (involving implementation of a new border management system, the development of new legislation, and a leadership development programme). We also commenced a Pacific Leadership Development Programme in Samoa, and (as part of a multi-agency team including NZ Police and an ESR forensic scientist) delivered drug awareness and identification sessions to relevant agencies in Samoa, the Cook Islands, Tonga, Vanuatu, and Fiji.

PERFORMANCE MEASURES AND STANDARDS

2011/12		2012/13		
Actual	Measure	Actual	Standard	Variance
85.7%	Percentage of draft replies to ministerial correspondence that are provided within 20 working days ⁴⁶ or as agreed with the Minister	94.1%	≥90%	–
100%	Percentage of draft responses to parliamentary questions that are provided to the Minister's office so that answers can meet the timeframe set in Parliamentary Standing Orders	100%	100%	–
Meets and sometimes exceeds expectations	Minister's satisfaction with advice and support in relation to international services and assistance provided	Meets and sometimes exceeds expectations	Meets expectations	–

⁴⁶ For the purposes of this measure, "working day" means a working day as defined in the Official Information Act 1982 (and so excludes the period from 25 December to 15 January in the following year from "working day").

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

2012			2013		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue					
96,028	Crown		97,348	97,348	102,038
46,264	Other	2	51,206	57,274	60,997
142,292	Total revenue		148,554	154,622	163,035
Expenditure					
84,146	Personnel costs	3	87,503	85,833	86,447
41,052	Operating costs	4	48,702	50,379	50,983
10,824	Depreciation and amortisation expense	5	11,040	12,138	18,008
4,518	Capital charge	6	6,272	6,272	7,597
140,540	Total expenses		153,517	154,622	163,035
1,752	Net operating surplus/(deficit)		(4,963)	-	-
-	Other comprehensive income		-	-	-
1,752	TOTAL COMPREHENSIVE INCOME		(4,963)	-	-

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

STATEMENT OF CHANGE IN EQUITY

For the year ended 30 June 2013

2012			2013		
ACTUAL \$000			ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
56,479	Taxpayers' funds as at 1 July		64,748	64,748	64,748
1,752	Total comprehensive income		(4,963)	-	-
(1,752)	Provision for repayment of surplus to the Crown		-	-	-
8,269	Capital contributions		76,434	76,434	68,634
-	Capital withdrawals		-	-	-
8,269	Movements in equity for the year		71,471	76,434	68,634
64,748	TAXPAYERS' FUNDS AS AT 30 JUNE		136,219	141,182	133,382

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

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

2012			2013		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
64,748	TAXPAYERS' FUNDS		136,219	141,182	133,382
	<i>Represented by:</i>				
	Current assets				
2,390	Cash and cash equivalents		36,220	35,178	47,329
2,093	Prepayments		1,836	2,093	607
4,995	Debtors and receivables	7	9,843	5,111	4,852
9,478	Total current assets		47,899	42,382	52,788
	Non-current assets				
43,347	Property, plant and equipment	8	47,190	44,302	41,255
40,153	Intangible assets	9	66,962	80,560	63,353
33	Receivables and advances		33	–	–
83,533	Total non-current assets		114,185	124,862	104,608
93,011	TOTAL ASSETS		162,084	167,244	157,396
	Current liabilities				
10,699	Creditors and payables	10	8,676	10,490	9,992
11,045	Employee entitlements	11	12,864	11,846	10,247
1,752	Provision for repayment of surplus to the Crown		–	–	–
135	Other short term liabilities	12	513	395	35
23,631	Total current liabilities		22,053	22,731	20,274
	Non-current liabilities				
4,010	Employee entitlements	11	3,612	2,760	3,116
621	Other long term provisions	13	200	571	624
4,632	Total non-current liabilities		3,812	3,331	3,740
28,263	TOTAL LIABILITIES		25,865	26,062	24,014
64,748	NET ASSETS		136,219	141,182	133,382

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

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

2012			2013		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
	CASH FLOWS – OPERATING ACTIVITIES				
	<i>Cash was provided from:</i>				
96,404	Crown		97,336	97,336	102,038
45,588	Other		46,102	57,203	60,497
141,992			143,438	154,539	162,535
	<i>Cash was applied to:</i>				
(83,022)	Personnel		(86,082)	(85,483)	(85,947)
(38,782)	Operating		(49,961)	(51,179)	(59,051)
(164)	net GST paid/(received)		(686)	–	–
(4,518)	Capital charge		(6,272)	(6,272)	(7,597)
–	Other		–	–	–
(126,486)			(143,001)	(142,934)	(152,595)
15,506	Net cash inflow from operating activities	18	437	11,605	9,940
	CASH FLOWS – INVESTING ACTIVITIES				
	<i>Cash was provided from:</i>				
294	Sale of fixed assets		256	200	200
–	Purchase of accommodation bonds		–	–	–
294			256	200	200
	<i>Cash was disbursed to:</i>				
(8,747)	Purchase of fixed assets		(13,847)	(11,074)	(10,889)
(36,954)	Purchase of intangible assets		(27,698)	(42,626)	(25,691)
(45,701)			(41,545)	(53,700)	(36,580)
(45,407)	Net cash inflow from investing activities		(41,289)	(53,500)	(36,380)
	CASH FLOWS – FINANCING ACTIVITIES				
	<i>Cash was provided from:</i>				
8,269	Capital contributions		76,434	76,434	68,634
–	Capital withdrawals		–	–	–
	<i>Cash was disbursed to:</i>				
(1,578)	Repayment of surplus		(1,752)	(1,752)	(2,100)
6,691	Net cash inflow from financing activities		74,682	74,682	66,534
(23,211)	Net increase in cash		33,830	32,787	40,094
25,601	Cash at the beginning of the year		2,390	2,391	7,235
2,390	CASH AT THE END OF THE YEAR		36,220	35,178	47,329

The GST (net) component of operating activities reflects the net GST paid and received with the IRD.

The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

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

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

STATEMENT OF COMMITMENTS

As at 30 June 2013

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at balance date.

Non-cancellable operating lease commitments

The New Zealand Customs Service has long-term leases on its premises throughout the country and overseas. Annual lease payments on the four largest leases, located in Auckland, Wellington, and Christchurch, are subject to three-yearly reviews. Other leases are subject to a range of review periods.

The amounts disclosed below as future commitments are based on the current rental rates.

2012		2013
ACTUAL \$000		ACTUAL \$000
Capital commitments		
1,389	Property, plant and equipment	–
16,699	Intangible assets	13,070
18,088	Total capital commitments	13,070
Non-cancellable operating lease commitments		
8,309	Not later than one year	7,007
20,911	Later than one year and not later than five years	17,721
17,650	Later than five years	14,032
46,870	Total non-cancellable operating commitments	38,760
64,958	TOTAL COMMITMENTS	51,830

The New Zealand Customs Service has future non-cancellable sublease of premises receipts due over the next 10 financial years of \$0.23 million as at 30 June 2013 (30 June 2012: \$1.50 million).

STATEMENT OF DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2013

As at 30 June 2013 there are no contingent liabilities (30 June 2012: nil).

As at 30 June 2013 there are no contingent assets (30 June 2012: nil).

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

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2013

2012		2013		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
VOTE CUSTOMS				
<i>Appropriations for classes of outputs</i>				
54,239	Clearance and enforcement services related to passengers and crew	52,723	52,456	53,493
57,266	Clearance and enforcement services related to goods	65,228	64,808	68,818
8,220	Clearance and enforcement services related to craft	8,640	8,693	7,388
8,606	Information and intelligence services	14,616	15,844	20,461
5,951	Revenue collection	5,903	5,832	5,526
2,128	Policy advice	2,051	2,106	1,844
4,130	International services and ministerial servicing	4,356	4,883	5,505
140,540	Total appropriations for classes of outputs	153,517	154,622	163,035
<i>Appropriations for capital expenditure</i>				
45,865	Capital investment	41,971	53,700	36,580
186,405	TOTAL APPROPRIATIONS	195,488	208,322	199,615

The 2012 actual values have been restated from the previous six output classes into the seven current output classes to provide a comparative with the expenditure and appropriations for the year ending 30 June 2013.

In April 2013, the Minister of Finance approved an in-principle transfer of up to \$2.0 million of operating funding from the 2012/13 to the 2013/14 financial year. This provides for the timing impact of any final one-off costs moving from the last quarter of 2012/13 to the first quarter of 2013/14 in regards to the phased implementation of Tranche 1 of JBMS.

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

STATEMENT OF UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE

For the year ended 30 June 2013

2012		2013		
UNAPPROPRIATED EXPENDITURE \$000		ACTUAL \$000	APPROPRIATION VOTED 2013 \$000	UNAPPROPRIATED EXPENDITURE \$000
VOTE CUSTOMS				
<i>Appropriations for classes of outputs</i>				
– Clearance and enforcement services related to passengers and crew		52,723	52,456	(267)
– Clearance and enforcement services related to goods		65,228	64,808	(420)
– Clearance and enforcement services related to craft		8,640	8,693	–
– Information and intelligence services		14,616	15,844	–
– Revenue collection		5,903	5,832	(71)
– Policy advice		2,051	2,106	–
– International services and ministerial servicing		4,356	4,883	–
Total appropriations for classes of outputs		153,517	154,622	(758)
<i>Appropriations for capital expenditure</i>				
– Capital investment		41,971	53,700	–
– TOTAL APPROPRIATIONS		195,488	208,322	(758)

The New Zealand Customs Service had voluntary redundancies in the 2012/13 and 2013/14 financial years as part of the leadership restructure to address future challenges and operational needs commenced in May 2013 with decisions made in June 2013. This resulted in actual costs exceeding those appropriated by \$0.758 million.

The New Zealand Customs Service expenditure in the Clearance and enforcement services related to craft output class exceeded its appropriation by \$0.724 million from May 2013 until the Appropriation (2012/13 Supplementary Estimates) Act was passed on 28 June 2013. This breach is of a technical and timing nature. It is the result of a correction to the Clearance and enforcement services related to craft output class allocation identified and corrected after the 2013 March Baseline Update.

Expenses and capital expenditure incurred in excess of appropriation Nil.

Expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation Nil.

Breaches of projected departmental net asset schedules Nil.

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

SCHEDULE OF TRUST MONIES

For the year ended 30 June 2013

ACCOUNT	AS AT 01/07/2012	AS AT 30/06/2013				
	\$000	CONTRIBUTION \$000	DISTRIBUTION \$000	REVENUE \$000	EXPENSES \$000	\$000
Health Promotion Agency Trust	788	13,631	13,654	–	–	765
Heavy Engineering Research Association Trust	63	780	770	–	–	73
Customs Regional Deposit/Bonds Trust	5,809	16,245	16,052	–	–	6,002
TOTAL	6,660	30,656	30,476	–	–	6,840

The funds held in the Health Promotion Agency and Heavy Engineering Research Association accounts represent funds collected and held on their behalf that will be transferred to these entities at the beginning of the next financial year end. The Customs Regional Deposit/Bonds trust accounts hold funds under the Customs-administered deposit and bond schemes.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The New Zealand Customs Service is a government department as defined by the Public Finance Act 1989. The primary objective of the New Zealand Customs Service is to facilitate the movement of people, goods and craft across the border and protect New Zealand's border and revenue. Accordingly, the New Zealand Customs Service has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

In addition, the New Zealand Customs Service has reported on Crown activities and trust monies which it administers.

The financial statements are for the year ended 30 June 2013. The financial statements were authorised for issue by the Comptroller of Customs on 24 September 2013.

BASIS OF PREPARATION

Statement of compliance

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

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

MEASUREMENT SYSTEM

Functional and presentation currency

The general accounting systems recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been followed. The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand. The functional currency of the New Zealand Customs Service is New Zealand dollars.

ACCOUNTING POLICIES

Changes in accounting policies

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

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Retirement and long service leave

Note 11 and Employee Entitlements accounting policy below provide an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations 2012/13. In addition, the financial statements also present the updated budget information from the 2013 Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

REVENUE

The New Zealand Customs Service derives revenue through the provision of outputs to the Crown, and services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Revenue from the supply of goods and services is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from the supply of services is recognised at balance date on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

CAPITAL CHARGE

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

COST ACCOUNTING POLICIES

The New Zealand Customs Service has determined the costs of outputs using a cost allocation system, which is outlined below.

Cost allocation policy

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.

Criteria for Direct and Indirect Costs

“Direct costs” are those costs directly attributed to an output. “Indirect costs” are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs assigned to outputs

Direct costs are charged directly to outputs, where appropriate. This includes depreciation and occupancy costs.

For the year ended 30 June 2013, direct costs accounted for 84% of the New Zealand Customs Service's costs (previous year: 85%).

Basis for assigning Indirect and Corporate costs to outputs

Indirect costs are assigned to outputs based on a proportion of direct staff costs usage for each output.

For the year ended 30 June 2013, indirect costs accounted for 16% of the New Zealand Customs Service's costs (previous year: 15%).

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

OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of furniture and office equipment, plant and equipment, computer hardware, motor vehicles, launches and watercraft.

Property, plant and equipment is shown at cost less accumulated depreciation and impairment losses.

All property, plant and equipment costing individually \$500 or more, or as a group of assets more than \$10,000, are capitalised.

Additions

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Work in progress is recognised at cost less impairment and is not depreciated.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

Subsequent costs

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

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and office equipment	4 to 5 years	(20%–25%)
Plant and equipment	5 to 10 years	(10%–20%)
Computer hardware	4 to 5 years	(25%)
Motor vehicles	5 years	(20%)
Launch and watercraft	5 to 10 years	(10%–20%)
Leasehold improvements	5 to 15 years	(7%–20%)

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

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

INTANGIBLE ASSETS

Software acquisition and development

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the New Zealand Customs Service are recognised as an intangible asset. Direct costs include the software development, employee costs, and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Amortisation

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

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

Computer software	5 to 15 years	(10%–20%)
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IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at balance date is tested for impairment annually.

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

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

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

CREDITORS AND OTHER PAYABLES

Short-term creditors and other payables are recorded at their fair value.

EMPLOYEE ENTITLEMENTS

Short-term employee entitlements

Employee entitlements that the New Zealand Customs Service expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

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

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- » likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- » the present value of the estimated future cash flows. A weighted average discount rate of 4.62% and a salary inflation factor of 3.00% were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2013. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

SUPERANNUATION SCHEMES – DEFINED CONTRIBUTION SCHEMES

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Income as incurred.

PROVISIONS

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

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

Make good provision

Where there is certainty that a premises lease will not be renewed and, in accordance with the lease provisions, there is an indication or expectation from the lessor that the building is to be returned to its original condition, a provision for the estimated cost to make good the premises is made.

Any significant make good provision will be measured at amortised cost using the effective interest rate method. Non-significant make good provision will be based on the best estimation of future payment.

EQUITY

Equity is the Crown's investment in the New Zealand Customs Service and is measured as the difference between total assets and total liabilities. Taxpayers' funds is disaggregated and classified as general funds and property, plant and equipment revaluation reserves where applicable.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the Statement of Comprehensive Income.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and funds on deposit with banks.

DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value, less impairment charges.

Impairment of a receivable is established when there is objective evidence that the New Zealand Customs Service will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

FINANCIAL LIABILITIES

Financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than twelve months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the Statement of Comprehensive Income as is any gain or loss when the liability is derecognised. There have been no financial liabilities designated as hedge items, therefore, no hedge accounting applied.

ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS

Foreign currency 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 Statement of Comprehensive Income.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses are recognised in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

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

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

Commitments and contingencies are disclosed exclusive of GST.

INCOME TAXATION

Government departments are exempt from income tax as public authorities in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

COMPARATIVES

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

COMMITMENTS

Expenses yet to be incurred on non-cancellable operating lease contracts and cancellable operating lease commitments that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

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

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are recorded in the Statement of Departmental Contingent Liabilities and Assets at the point at which the contingency is evident.

Contingent liabilities are disclosed if the possibility that they will crystallise is probable. Contingent assets are disclosed if it is probable that the benefits will be realised.

RELATED PARTIES

The Government reporting entity comprises a large number of commonly controlled entities, which includes the New Zealand Customs Service. These entities, and their key management personnel, transact among themselves and with the Government reporting entity on a regular basis, for example, for the purchase of postage stamps or the registration of vehicles. These transactions are conducted on an arm's-length basis. Any transactions not conducted at arm's-length will be disclosed in the financial statements.

These financial statements disclose the gross remuneration paid to key management personnel.

CHANGES IN ACCOUNTING POLICIES

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information. There have been no changes in accounting policies, including cost allocation accounting policies, since the date of the last audited financial statements.

There have been no revisions to accounting standards during the financial year which have had an effect on the New Zealand Customs Service financial statements.

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

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

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the New Zealand Customs Service is classified as a Tier 1 reporting entity and it will be required to apply full public sector Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB and are mainly based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the New Zealand Customs Service expects to transition to the new standards in preparing its 30 June 2015 financial statements.

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

NOTE 2: OTHER REVENUE

2012		2013
ACTUAL \$000		ACTUAL \$000
128	Sale of publications	127
473	Compliance activity – officers time	459
214	Compliance activities – other	220
1,341	Overseas aid projects	1,874
933	Information processing	6,477
924	Rental income	480
759	Cost recoveries – other	804
28,652	Import Entry Transaction Fees	29,543
11,181	Goods Cost Recovery	11,222
1,659	State Sector Retirement Savings Scheme and KiwiSaver recoveries	–
46,264	TOTAL OTHER REVENUE	51,206

NOTE 3: PERSONNEL COSTS

2012		2013
ACTUAL \$000		ACTUAL \$000
81,761	Salaries and wages	85,073
726	Government Superannuation Fund expense	680
1,659	State Sector Retirement Savings Scheme and KiwiSaver expenses	1,750
84,146	TOTAL PERSONNEL COSTS	87,503

NOTE 4: OPERATING COSTS

2012		2013
ACTUAL \$000		ACTUAL \$000
(23)	Net (gain)/loss on sale of fixed assets	22
7	Bad debts written-off	–
45	Increase (decrease) in provision for doubtful debts	(7)
217	Fees paid to Audit NZ for the financial statement audit	218
–	Fees paid to Audit NZ for audit-related assurance services	57
8,768	Operating lease rentals	8,165
3,693	Occupancy costs (excluding rentals)	3,431
2,793	Computer equipment costs	8,253
3,368	Communication costs	2,690
4	Net foreign exchange losses	7
22,180	Other operating costs	25,866
41,052	TOTAL OPERATING COSTS	48,702

NOTE 5: DEPRECIATION AND AMORTISATION

2012		2013
ACTUAL \$000		ACTUAL \$000
<i>Depreciation</i>		
1,626	Leasehold improvements	1,725
280	Office equipment	234
4,759	Other equipment and plant	5,103
683	Furniture and fittings	748
1,011	Computer equipment	1,368
504	Motor vehicles	537
11	Launch and watercraft	11
8,874	Total Depreciation	9,726
<i>Amortisation</i>		
1,950	Intangible assets – computer software	1,314
10,824	TOTAL DEPRECIATION AND AMORTISATION COST	11,040

NOTE 6: CAPITAL CHARGE

The New Zealand Customs Service pays a capital charge to the Crown on its taxpayers' funds balance as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2013 was 8.0% (2012: 8.0%).

NOTE 7: DEBTORS AND RECEIVABLES

2012		2013
ACTUAL \$000		ACTUAL \$000
434	Trade debtors	1,051
(65)	Less: provision for doubtful debts	(58)
369	Net trade debtors	993
872	Receivables	4,804
–	– GST receivable	199
2,374	Debtor – Import Entry Transaction Fee	2,509
(1)	Debtor – Crown	11
1,381	Debtor – Goods Cost Recovery	1,327
4,995	TOTAL DEBTORS AND RECEIVABLES	9,843

	2013			2012		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	8,560	–	8,560	4,707	–	4,707
Past due 1–30 days	1,174	–	1,174	275	(41)	234
Past due 31–60 days	77	–	77	37	–	37
Past due 61–90 days	21	–	21	17	–	17
Past due >90 days	69	(58)	11	24	(24)	–
Total	9,901	(58)	9,843	5,060	(65)	4,995

Movements in the provision for the impairment of receivables are as follows:

2012		2013
ACTUAL \$000		ACTUAL \$000
27	Balance at 1 July	65
45	Additional provisions made during the year	(7)
(7)	Receivables written-off during the year	–
65	Balance at 30 June	58

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	LEASEHOLD IMPROVEMENTS \$000	OFFICE EQUIPMENT \$000	OTHER EQUIPMENT \$000	FURNITURE AND FITTINGS \$000	COMPUTER EQUIPMENT \$000	MOTOR VEHICLES \$000	LAUNCHES/ WATERCRAFT \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
COST									
Balance at 1 July 2011	14,922	2,374	35,716	4,582	11,999	5,066	1,085	9,552	85,296
Additions	852	87	6,266	1,124	815	159	34	(590)	8,747
Disposals	-	(137)	(20)	-	(225)	(535)	-	-	(917)
Balance at 30 June 2012	15,774	2,324	41,962	5,706	12,589	4,690	1,119	8,962	93,126
Balance at 1 July 2012	15,774	2,324	41,962	5,706	12,589	4,690	1,119	8,962	93,126
Additions	1,798	41	4,808	358	4,164	565	-	2,113	13,847
Disposals	-	-	(1)	(5)	(1,772)	(917)	-	-	(2,695)
Balance at 30 June 2013	17,572	2,365	46,769	6,059	14,981	4,338	1,119	11,075	104,278
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES									
Balance at 1 July 2011	5,294	1,557	18,212	2,830	10,556	2,284	817	-	41,550
Depreciation expenses	1,626	280	4,759	683	1,011	504	11	-	8,874
Disposals	-	(62)	(21)	(1)	(191)	(370)	-	-	(645)
Balance at 30 June 2012	6,920	1,775	22,950	3,512	11,376	2,418	828	-	49,779
Balance at 1 July 2012	6,920	1,775	22,950	3,512	11,376	2,418	828	-	49,779
Depreciation expenses	1,725	234	5,103	748	1,368	537	12	-	9,726
Disposals	-	-	(1)	(3)	(1,772)	(641)	-	-	(2,417)
Balance at 30 June 2013	8,645	2,009	28,052	4,257	10,972	2,314	839	-	57,088
CARRYING AMOUNT									
At 1 July 2011	9,628	817	17,504	1,752	1,443	2,782	268	9,552	43,746
At 30 June 2012	8,854	549	19,012	2,194	1,213	2,272	291	8,962	43,347
At 30 June 2013	8,927	356	18,717	1,802	4,009	2,024	280	11,075	47,190

NOTE 9: INTANGIBLE ASSETS

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	TOTAL \$000
COST			
Balance at 1 July 2011	4,501	19,785	24,286
Additions	721	36,397	37,118
Disposals	–	–	–
Balance at 30 June 2012	5,222	56,182	61,404
Balance at 1 July 2012	5,222	56,182	61,404
Additions*	337	27,786	28,123
Disposals	–	–	–
Balance at 30 June 2013	5,559	83,968	89,527
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2011	1,440	17,861	19,301
Amortisation expenses	1,290	660	1,950
Disposals	–	–	–
Balance at 30 June 2012	2,730	18,521	21,251
Balance at 1 July 2012	2,730	18,521	21,251
Amortisation expenses	1,098	216	1,314
Disposals	–	–	–
Balance at 30 June 2013	3,828	18,737	22,565
CARRYING AMOUNT			
At 1 July 2011	3,061	1,924	4,985
At 30 June 2012	2,492	37,661	40,153
At 30 June 2013	1,731	65,231	66,962

* The amount of additions that are in work in progress as at 30 June 2013 are \$27.786 million (30 June 2012: \$36.397 million).

There are no restrictions over the title of the New Zealand Customs Service's intangible assets, nor are any intangible assets pledged as security for liabilities.

NOTE 10: CREDITORS AND PAYABLES

2012		2013
ACTUAL \$000		ACTUAL \$000
10,212	Trade creditors and accrued expenses	8,676
487	GST payable	–
10,699	TOTAL CREDITORS AND PAYABLES	8,676

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

NOTE 11: EMPLOYEE ENTITLEMENTS

2012		2013
ACTUAL \$000		ACTUAL \$000
<i>Current liabilities</i>		
4,474	Personnel accruals	6,546
4,893	Annual leave	4,753
1,678	Retirement and long service leave	1,565
11,045	Total current portion	12,864
<i>Non-current liabilities</i>		
4,010	Retirement and long service leave	3,612
4,010	Total non-current portion	3,612
15,055	TOTAL EMPLOYEE ENTITLEMENTS	16,476

NOTE 12: OTHER SHORT TERM LIABILITIES

2012		2013
ACTUAL \$000		ACTUAL \$000
135	Due to Crown – sale of seized goods	13
–	Lease make good provision	500
135	TOTAL OTHER SHORT TERM LIABILITIES	513

NOTE 13: OTHER LONG TERM PROVISIONS

2012		2013
ACTUAL \$000		ACTUAL \$000
621	Lease make good provision	200
621	TOTAL OTHER LONG TERM PROVISIONS	200

Movement for provisions are as follows:

2012		2013
ACTUAL \$000		ACTUAL \$000
624	Lease make good provision as at 1 July	621
–	Additional provisions made	79
(3)	Amounts utilised	–
621	Lease make good provision at 30 June	700

In respect of a number of its leased premises, the New Zealand Customs Service is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the New Zealand Customs Service. In many cases the New Zealand Customs Service has the option to renew these leases, which impacts on the timing of expected cash outflows to make good the premises.

NOTE 14: FINANCIAL INSTRUMENTS

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

MARKET RISK

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The New Zealand Customs Service has five overseas posts and operates three foreign currency bank accounts. The New Zealand Customs Service is exposed to currency risk arising from various currency exposures, primarily with respect to the US dollars, Australian dollars, and Thailand Thai Baht. Currency risk arises from future overseas posts operation, which is denominated in a foreign currency.

The New Zealand Customs Service's foreign exchange management policy requires the New Zealand Customs Service to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to reduce its foreign currency risk exposure. The New Zealand Customs Service's policy has been approved by The Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

Interest rate risk

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

The New Zealand Customs Service has no interest bearing financial instruments and, accordingly, has no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the New Zealand Customs Service, causing the New Zealand Customs Service to incur a loss.

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

The New Zealand Customs Service is only permitted to deposit funds with Westpac and operate foreign currency accounts for overseas posts expenses, with registered overseas banks, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the New Zealand Customs Service does not have significant concentrations of credit risk.

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

Liquidity risk

Liquidity risk is the risk that the New Zealand Customs Service will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the New Zealand Customs Service closely monitors its forecast cash requirements with expected cash draw downs from the New Zealand Debt Management Office. The New Zealand Customs Service maintains a target level of available cash to meet liquidity requirements.

The table below analyses the New Zealand Customs Service's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows.

	LESS THAN 6 MONTHS \$000	BETWEEN 6 MONTHS AND 1 YEAR \$000	BETWEEN 1 AND 5 YEARS \$000	OVER 5 YEARS \$000
2012				
Creditors and other payables (note 10)	10,699	–	–	–
Provision for repayment of surplus	1,752	–	–	–
TOTAL	12,451	–	–	–
2013				
Creditors and other payables (note 10)	8,676	–	–	–
Provision for repayment of surplus	–	–	–	–
TOTAL	8,676	–	–	–

NOTE 15: RELATED PARTY INFORMATION

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

The New Zealand Customs Service is a wholly owned entity of the Crown. The Government significantly influences the roles of the New Zealand Customs Service as well as being a major source of revenue with \$97.3 million provided in 2012/13 (\$96.0 million, 2011/12).

Departmental revenue earned for the year ended 30 June 2013 totalled \$9.2 million (2012: \$4.3 million). This revenue relates to recoveries from MPI for JBMS and recoveries for shared facilities. At year-end an amount of \$4.7 million (2012: nil) was owed to Customs by MPI. Departmental revenue is also derived from activities the New Zealand Customs Service carries out at the border or supporting international projects on behalf of other entities controlled, significantly influenced, or jointly controlled by the Crown.

In conducting its activities, the New Zealand Customs Service is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC 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 New Zealand Customs Service is exempt from paying income tax.

The New Zealand Customs Service also purchases 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 2013 totalled \$4.9 million (2012: \$4.1 million). These purchases included the purchase of air travel from Air New Zealand, legal services from the Crown Law Office, training facilities from New Zealand Police, and postal services from New Zealand Post.

KEY MANAGEMENT PERSONNEL COMPENSATION

2012		2013
ACTUAL \$000		ACTUAL \$000
2,993	Salaries and other short-term employee benefits	3,451
–	Other long-term benefits	4
2,993	TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	3,455

Key management personnel of the New Zealand Customs Service comprise the Minister of Customs, the Comptroller of Customs, Deputy Comptrollers, and Group Managers.

The above key management personnel compensation excludes the remuneration and other benefits the Minister of Customs receives. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the New Zealand Customs Service. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the New Zealand Customs Service.

There are close family members of key management personnel employed by the New Zealand Customs Service. The terms and conditions of those arrangements are no more favourable than would have been adopted if there were no relationship to key management personnel.

Apart from those transactions described above, the New Zealand Customs Service has not entered into any related party transactions. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

NOTE 16: CATEGORIES OF FINANCIAL INSTRUMENTS

2012		2013
ACTUAL \$000		ACTUAL \$000
<i>Loans and receivables</i>		
2,390	Cash and cash equivalents	36,220
4,995	Debtors and other receivables	9,843
7,385	Total loans and receivables	46,063
<i>Financial liabilities measured at amortised cost</i>		
10,699	Creditors and other payables	8,676
10,699	Total financial liabilities measured at amortised cost	8,676

NOTE 17: CAPITAL MANAGEMENT

The New Zealand Customs Service's capital is its equity (or taxpayers' funds).

Equity is represented by net assets. The New Zealand Customs Service manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The New Zealand Customs Service's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions and the Public Finance Act 1989.

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

NOTE 18: RECONCILIATION OF NET SURPLUS/DEFICIT TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2013

2012		2013
ACTUAL \$000		ACTUAL \$000
1,752	Net operating surplus/(deficit)	(4,963)
10,824	Depreciation and amortisation expense	11,040
10,824	Total non-cash items	11,040
	<i>Working capital movements</i>	
(381)	(Increase)/decrease in debtors and receivables	(4,849)
(1,486)	(Increase)/decrease in prepayments	257
3,911	Increase/(decrease) in creditors and payables	(2,023)
530	Increase/(decrease) in employee entitlements	1,819
(50)	Increase/(decrease) in short term liabilities	378
2,524	Working capital movements – net	(4,418)
	<i>Movements in non-current liabilities</i>	
(3)	Provision for premises make good	(421)
595	(Increase)/decrease in employee entitlements	(398)
592	Movements in non-current liabilities	(819)
(164)	Increase/(decrease) in investing activity items	(425)
(22)	Net (gain) loss on sale of fixed assets	22
(186)	Total investing activity items	(403)
15,506	NET CASH FROM OPERATING ACTIVITIES	437

NOTE 19: MAJOR BUDGET VARIATIONS

STATEMENT OF COMPREHENSIVE INCOME

Other Revenue is below forecast mainly as a result of the delay in implementation of JBMS and the associated delay in fee increases.

Depreciation and amortisation are less than forecast as a result of the timing of the completion and bringing into use of capital expenditure projects.

Personnel costs are greater than forecast as a result of voluntary redundancies as part of the leadership restructure to address future challenges and operational needs.

Other operating costs are less than forecast as a result of the timing of project related expenditure and activity in some areas being less than forecast.

STATEMENT OF CHANGE IN EQUITY

Capital contributions are greater than forecast due to the approved transfers of capital expenditure from MPI and Customs' operating to capital expenditure, both for JBMS.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents are less than forecast primarily as a result of the timing of capital expenditure against capital contributions and a net decrease in the forecast level of payables and increase in non-current assets as at 30 June 2013.

Property, plant and equipment are greater than forecast as a result of the timing of capital expenditure between financial years.

STATEMENT OF CASH FLOWS

The net cash flow from operating activities is slightly less than forecast as a result of lower than budgeted revenues, offset by lower than forecast other operating expenditure, and a net decrease in payables and employee entitlements at year-end.

The net cash flow from investing activities is greater than forecast as a result of the timing of capital expenditure between financial years.

NOTE 20: EVENTS AFTER THE BALANCE DATE

There have been no significant events after the balance date.

NON-DEPARTMENTAL STATEMENTS AND SCHEDULES

For the year ended 30 June 2013

The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the New Zealand Customs Service manages on behalf of the Crown.

SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL

For the year ended 30 June 2013

2012		2013		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
11,346,078	Revenue	11,239,202	11,307,125	12,216,132
396	Expenses	1,388	2,045	2,052
1,824,806	Assets	1,666,751	1,879,805	1,895,812
22,423	Liabilities	23,784	22,423	19,112

Explanations of significant variances against budget are detailed in note 5.

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2013

2012		2013		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
	REVENUE			
	<i>Indirect taxation</i>			
2,037,636	Customs Duty	2,055,950	2,037,000	2,037,000
655,768	Excise Duties – Alcohol	662,811	656,000	698,000
243,718	Excise Duties – Tobacco	281,038	288,000	223,000
882,250	Excise Duties – Fuels	891,560	954,000	978,000
7,526,654	Goods and Services Tax	7,347,797	7,372,000	8,280,000
11,346,026	Total indirect taxation	11,239,156	11,307,000	12,216,000
	<i>Indirect non-taxation</i>			
52	World Customs Organization	45	45	52
–	Sale of seized goods	1	80	80
52	Total indirect non-taxation	46	125	132
11,346,078	TOTAL NON-DEPARTMENTAL REVENUE	11,239,202	11,307,125	12,216,132

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

STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2013

2012		2013		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
VOTE CUSTOMS				
<i>Non-departmental appropriations</i>				
52	World Customs Organization	45	45	52
344	Change in doubtful debt provision	1,343	2,000	2,000
396	TOTAL NON-DEPARTMENTAL APPROPRIATIONS	1,388	2,045	2,052

SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE

For the year ended 30 June 2013

2012		2013		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
52	World Customs Organization	45	45	52
344	Change in doubtful debt provision	1,343	2,000	2,000
396	TOTAL NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS	1,388	2,045	2,052

STATEMENT OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE

For the year ended 30 June 2013

There has been no unappropriated expenditure for the year ended 30 June 2013 (30 June 2012: nil).

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2013

2012		2013		
ACTUAL \$000	NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
<i>Current assets</i>				
911,499	Cash and cash equivalents	708,058	911,498	958,680
913,307	Receivables and advances	958,693	968,307	937,132
1,824,806	TOTAL ASSETS	1,666,751	1,879,805	1,895,812

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

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2013

2012			2013		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
<i>Current liabilities</i>					
20,037	Payables and provisions		21,265	22,423	19,112
2,386	Creditor – departmental		2,519	–	–
22,423	TOTAL LIABILITIES	3	23,784	22,423	19,112

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2013

2012		2013
ACTUAL \$000		ACTUAL \$000
<i>Contingent liabilities</i>		
–	Legal proceedings and disputes – assessed	16,496
–	TOTAL NON-DEPARTMENTAL CONTINGENT LIABILITIES	16,496
<i>Contingent assets</i>		
22,000	Legal proceedings – non-assessed	9,400
22,000	TOTAL NON-DEPARTMENTAL CONTINGENT ASSETS	9,400

Legal proceedings and disputes – assessed

Assessed legal proceedings and disputes represent the disputed assessments of revenue amounts in relation to the performance of the New Zealand Customs Service's statutory role and associated estimated legal costs. The New Zealand Customs Service is currently defending these assessments of revenue.

Legal proceedings – non-assessed

Non-assessed legal proceedings represent the disputed non-assessed revenue amounts in relation to the performance of the New Zealand Customs Service's statutory role and associated estimated legal costs. The New Zealand Customs Service is currently disputing these assessments of revenue.

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

As at 30 June 2013

The New Zealand Customs Service has no Crown Commitments as at 30 June 2013 (30 June 2012: nil).

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

NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2013

REPORTING ENTITY

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

These non-departmental schedules and statements present financial information on public funds managed by the New Zealand Customs Service on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government.

BASIS OF PREPARATION

The non-departmental schedules and statements have been prepared in accordance with the Government's accounting policies as set out in the Financial Statements of the Government, and in accordance with relevant Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The following particular accounting policies have been applied.

BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations 2012/13. In addition, the financial statements also present the updated budget information from the 2013 Supplementary Estimates.

REVENUE

New Zealand has a broad based taxation policy framework and the principle in the Customs and Excise Act 1996 is that tax is collected as early as possible in the supply chain.

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, in itself, entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers.

Tax revenue becomes due when a taxable event has occurred and the tax revenue liability can be reliably measured. For the New Zealand Customs Service the taxable event is defined as follows:

Tax type	Taxable activity
Goods and services tax	The importation (and therefore supply) of goods ⁴⁶ for home consumption
Excise duty	A tax on the production within New Zealand of alcohol, tobacco and motor spirit prior to the point of sale
Excise equivalent duty	A tax equivalent to the local excise tax on imported alcohol, tobacco, and motor spirit payable upon entry for home consumption
Customs duty	A tax on the importation (usually) or exportation (unusually) of goods in accordance with their classification in the harmonised tariff

The New Zealand tax system is predicated on self-assessment. Taxpayers are expected to understand the tax laws and to comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply, for example, if they do not declare the correct value of goods liable for taxation. The New Zealand Customs Service has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the legislation it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the New Zealand Customs Service. Such procedures cannot be expected to identify all sources of non-compliance with tax laws. The New Zealand Customs Service is therefore unable to estimate the amount of unreported tax.

DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that the New Zealand Customs Service will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities and assets are disclosed at the point at which the contingency is evident.

CHANGES IN ACCOUNTING POLICIES

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

46 "Fine metals" are the only zero rated or non-taxable goods.

NOTE 2: DEBTORS AND OTHER RECEIVABLES

2012		2013
ACTUAL \$000		ACTUAL \$000
726,391	Crown receivables	764,937
(1,715)	Less provision for doubtful debts	(3,050)
724,676	Net Crown receivables	761,887
188,631	Accrued revenue	196,806
913,307	Total accrued revenue and receivables	958,693
<i>Represented by:</i>		
913,307	Current	958,693
–	– Non-current	–

2012		2013
ACTUAL \$000		ACTUAL \$000
772,908	Not past due	757,397
137,181	Past due 1–30 days	196,031
1,836	Past due 31–90 days	3,387
1,382	Past due 91–360 days	1,878
–	– Past due >360 days	–
913,307	TOTAL	958,693

Movements in the provision for doubtful debts are as follows:

2012		2013
ACTUAL \$000		ACTUAL \$000
1,430	Balance at 1 July	1,715
344	Additional provisions made during the year	1,343
(59)	Less: Bad debts written off	(8)
1,715	BALANCE AT 30 JUNE	3,050

The provision for impairment has been calculated based on a review of specific overdue receivables and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs.

NOTE 3: CREDITORS AND OTHER PAYABLES

2012		2013
ACTUAL \$000		ACTUAL \$000
20,037	Payables and accruals	21,265
2,214	Import Entry Transaction Fees payable	2,303
172	Other creditors – departmental	216
22,423	TOTAL	23,784

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

NOTE 4: FINANCIAL INSTRUMENTS

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

2012		2013
ACTUAL \$000		ACTUAL \$000
<i>Cash and receivables</i>		
911,499	Cash and cash equivalents	708,058
913,307	Debtors and other receivables	958,693
1,824,806	Total cash and receivables	1,666,751
<i>Financial liabilities measured at amortised cost</i>		
22,423	Creditors and other payables	23,784
22,423	Total financial liabilities measured at amortised cost	23,784

CREDIT RISK

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

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

Funds must be deposited with Westpac, a registered bank.

Maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net debtors. There is collateral held as security against some of these financial instruments in the form of bank guarantees and deposits held in trust.

NOTE 5: MAJOR BUDGET VARIATIONS

SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL

Non-Departmental revenue

The budget for this is the April 2012 estimate provided by The Treasury, which was an overestimate.

Non-Departmental expense

The budget is based on the performance target maximum debt write off as a percentage of revenue. The less than budgeted expense is as a result of New Zealand Customs Service effective debt management.

Non-Departmental assets

The less than budgeted assets is due to the timing of the receivables being received and transfer of cash held at year-end.

INFORMATION REQUIRED BY STATUTE

FOR THE PERIOD FROM 1 JULY 2012 TO 30 JUNE 2013

SEARCH AND SURVEILLANCE ACT 2012, RELATING TO THE UTILISATION OF POWERS OF ENTRY, SEARCH, AND SURVEILLANCE

Section 171(1)(a) – this subsection only relevant for the period from 1 October 2012 (when it came into force) to 30 June 2013

The number of occasions on which entry or search powers were exercised without a warrant: *40*

Section 171(1)(b)

The number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device: *Nil*

Section 171(1)(c)

In respect of each kind of surveillance device used without a warrant, the numbers of that kind of device used:

- (i) for a period of no more than 24 hours: *Nil*
- (ii) for a period of more than 24 hours but no more than 48 hours: *Nil*

Section 171(1)(d)

The number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by the exercise of a warrantless search or surveillance power: *Three*

Section 171(1)(e)

The matters set out in section 172 in relation to surveillance device warrants and declaratory orders:

- » 172(a) – the number of applications for surveillance device warrants and declaratory orders granted or refused: *Eleven surveillance device warrants granted, four refused*
- » 172(b) – the number of surveillance device warrants granted that authorised the use of a surveillance device, and the number in respect of each kind of surveillance device: *Eleven surveillance device warrants granted – six for tracking devices and five for visual surveillance devices*
- » 172(c) – the number of declaratory orders made that related to the use of a device, technique, procedure, or activity, and the number in respect of each device, technique, procedure, or activity: *Nil*
- » 172(d) – the number of surveillance device warrants granted that authorised entry into private premises: *Nil*
- » 172(e) – in respect of each kind of surveillance device authorised by a surveillance device warrant issued, the numbers of that kind of device used—
 - (i) for a period of no more than 24 hours: *Nil*
 - (ii) for a period of more than 24 hours but no more than 3 days: *Nil*
 - (iii) for a period of more than 3 days but no more than 7 days: *One tracking device*
 - (iv) for a period of more than 7 days but no more than 21 days: *One tracking device; one surveillance device*
 - (v) for a period of more than 21 days but no more than 60 days: *Four tracking devices; four surveillance devices*
- » 172(f) – in respect of each declaratory order made, a general description of the nature of the device, technique, procedure, or activity covered by the order: *Nil*
- » 172(g) – the number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities—
 - (i) under the authority of a surveillance device warrant issued: *Nine*
 - or
 - (ii) covered by a declaratory order made: *Nil*

- » 172(h) – if a Judge has reported to the chief executive under section 61 or 62 about a breach of any of the conditions of the issue of a surveillance device warrant, or about the use of a surveillance device not authorised under section 48, the number of those reports and the details of the breaches or the lack of authorisation reported: *Nil*

MISUSE OF DRUGS ACT 1975 (MISUSE OF DRUGS AMENDMENT ACT 1978), RELATING TO THE UTILISATION OF POWERS OF DETENTION AND SEARCH

Section 13M(a)

The number of applications for detention warrants made under section 13E by any officer of Customs: *Nil*

Section 13M(b)

The number of applications for renewal of detention warrants made under section 13I by any officer of Customs: *Nil*

Section 13M(c)

The number of such applications referred to in each of the preceding paragraphs of this section that were granted and the number that were refused (i.e. sections 13E and 13I): *Nil*

Section 13M(d)

The average duration of the detention warrants (including renewals) granted on applications by officers of Customs: *Nil*

Section 13M(e)

The number of prosecutions that have been instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants granted on applications by officers of Customs, and the results of those prosecutions: *Nil*

Section 13M(f)

The number of rub-down searches and strip searches undertaken by Customs officers under section 13EA: *Nil*

TELECOMMUNICATIONS (RESIDUAL PROVISIONS) ACT 1987, RELATING TO THE UTILISATION OF POWERS TO OBTAIN CALL DATA WARRANTS – TO 30 SEPTEMBER 2012 (REPEALED FROM 1 OCTOBER 2012 BY SEARCH AND SURVEILLANCE ACT 2012)

Section 10R(2)(a)

The number of applications made by Customs officers for call data warrants: *Nil*

Section 10R(2)(b)

The number of applications made under section 10K by Customs officers for renewals of call data warrants: *Nil*

Section 10R(2)(c)

The number of applications referred to in each of paragraphs (a) and (b) (i.e. sections 10R(2)(a) and (b)) that were granted, and the number that were refused: *Nil*

Section 10R(2)(d)

The average duration of call data warrants (including renewals) issued to Customs officers: *Nil*

