

Statement of Intent

2007–2010



THE TREASURY

Kaitohutohu Kaupapa Rawa

Presented to the House of Representatives Pursuant to Section 39 of the Public Finance Act 1989

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Minister's foreword

MINISTER'S FOREWORD

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THE GOVERNMENT'S LONG-TERM VISION FOR NEW ZEALAND IS TO BUILD A FAIR SOCIETY AND A STRONG AND PROSPEROUS ECONOMY.

This vision is behind our efforts to increase savings, improve export performance and invest in the wellbeing of New Zealanders. It is also behind the Government's drive to ensure a solid foundation for economic growth through continued prudent management of public finances.

The Treasury has a critical role to play in ensuring all elements of this vision are achieved.

As the Government's lead economic and fiscal advisor, the Treasury contributes work critical to achieving better economic performance for New Zealand, as well as to improved State sector performance and responsible macroeconomic objectives.

The Treasury has recently refreshed its own strategic direction, positioning itself to better respond to current and future challenges and identifying ways in which it can produce more effective results.

This Statement of Intent sets out the ways the Treasury will contribute to the Government's goals over the coming year and into the medium term. It identifies key areas of work as well as performance and financial

management information which will enable progress to be monitored.

As the responsible Minister, I am satisfied that the *Statement of Intent 2007-2010* is consistent with the policies and performance expectations of the Government.

I look forward to the Treasury's continued high-quality advice and policy contribution over the coming year, as the Government works towards achieving its social and economic vision for New Zealand.



A handwritten signature in black ink, appearing to read 'M. Cullen', written over a horizontal line.

Hon Dr Michael Cullen
Minister of Finance

Chief Executive's foreword

CHIEF EXECUTIVE'S FOREWORD

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This Statement of Intent is a particularly significant publication for the Treasury.

Over the last year, we undertook a comprehensive strategic and organisational internal review, *Stepping Up*, which assessed how we could have a greater impact on issues important to New Zealand both now and into the future.

The results of this work are currently being put into action and are reflected in the clear priorities in this document.

The priorities fall across the Treasury's three outcomes – improved economic performance, a stable and sustainable macroeconomic environment and improved State sector performance. They are driven by our role not only as the Government's lead economic and financial advisor, but also as one of three central public sector agencies.

The priorities range from exploring ways economic tools such as the Budget can be used to deliver better State sector performance and support a more sustainable and stable macroeconomic environment, to in-depth performance analysis of key public sectors such as health. They also include a focus on core issues such as (but not exclusively) educational achievement at schools, climate change, savings and financial markets, and competition and regulatory frameworks.

We will play a lead role in some of this work, while in many areas we will also be working in partnership with

our colleagues in other central agencies and across the public sector.

As Chief Executive, I am excited by the opportunities of the Treasury's new approach.

My goal is to ensure the Treasury is a highly engaged, relevant and respected economic and financial policy advisor for the Government, making a real difference to the lives of New Zealanders. By being clear on the results we want to achieve, and focusing on the needs of the Ministers and the quality of our policy advice and operations, we will be a step closer to this goal.

During 2007/08, and over the next three to five years, this means seeing measurable headway made on the priorities outlined in this Statement of Intent.

I am confident that the Treasury, with the continued commitment and professionalism of its staff, will achieve this.



A handwritten signature in cursive script that reads "John Whitehead".

John Whitehead
Secretary to the Treasury

Introduction

THE *STATEMENT OF INTENT 2007-2010* ILLUSTRATES HOW THE TREASURY WILL CONTRIBUTE, THROUGH OUR OUTCOMES, TO THE GOVERNMENT'S GOAL OF A STRONGLY GROWING, SUSTAINABLE ECONOMY.

Over the next three years, we plan to have a greater impact on the issues that are important to New Zealand's overall economic performance – working as a highly engaged, relevant and respected economic and financial advisor and central agency, better meeting the needs of the Minister, now and into the future.

THE STEPPING UP CHANGE PROGRAMME

Throughout this Statement of Intent you will see reference to the Stepping Up change programme. This programme began in the 2006/07 year and is being implemented at the time of printing. It has involved a fundamental look at the Treasury's strategic direction – including how we organise ourselves, how we operate, and the systems and processes we need to deliver on that strategic direction.

It has been driven by a desire to move from being an organisation focused at varying levels of intensity on a full range of economic and fiscal issues to one which focuses its resources more intensely – and on issues of the highest priority to the living standards of New Zealanders.

We have also been motivated by the need to position ourselves to respond to significant upcoming challenges.

These challenges are both external, in terms of the economic environment and the policy agenda, and internal, in terms of the challenges of remaining a highly attractive place to work for current and future staff.

Some of these specific challenges are:

- stronger demands for the public sector to improve performance and continuously deliver higher-quality services
- related to this, a desire for stronger Treasury leadership, both separately and as one of three central public sector agencies
- a tightening fiscal position for the Government, which requires starker choices and an increased premium on high-quality advice on those choices
- an increasingly complex public sector environment in which the Treasury works. This is partly related to the evolution of MMP, but extends to ongoing changes in the way the public service operates
- a competitive labour market, which means that the people employed by the Treasury to deliver high-quality advice enjoy many career options. While they are motivated by being able to make a difference to the future of New Zealand, they also want to be part of a high-performing organisation.

A NEW APPROACH

Through Stepping Up, we are seeking a change in emphasis in the Treasury's roles over the medium term. We have clarified these roles, as follows:

- Our **economic role** – focusing on issues that have regulatory or policy implications that may have a significant and therefore pervasive impact on the performance of the economy as a whole, rather than providing second opinion advice on all issues with economic implications.
- Our **financial role** – focusing on issues with a significant fiscal focus – expensive policies and long-term trends and financial management and standards (including financial probity issues), rather than all issues with fiscal implications.
- Our **central agency role** – placing more emphasis on helping the Government develop its overall strategy and manage significant issues that emerge.

Looking forward, the Treasury will focus more on the performance elements of our economic and financial roles, and more overall on the central agency role. In particular, the Treasury will be working more in conjunction with other central agencies on priority economic or performance issues for Ministers.

We have also refocused our strategic agenda on the three outcomes where we can have most influence (with others) to help the Government achieve its goals. These outcomes are:

- Improving New Zealand's economic performance.
- Improving State sector performance.
- A stable and sustainable macroeconomic environment.

The results we are looking to achieve within each of the outcomes over both the medium term and in 2007/08 are outlined in the outcome contribution section that follows.

The Treasury's organisational structure has also changed to help facilitate our change in focus. Policy work, for example, has been reorganised around the three outcomes, resulting in three policy groups, and in some areas functions and teams have been combined and reorganised to provide closer strategic links and improve the quality of advice. We have also created a stronger organisational "centre", run from the Organisational Performance Group, with one team specifically responsible for measuring the Treasury's performance and identifying future priorities for the organisation.

A PLATFORM FOR THE FUTURE

To deliver on our outcomes in the three-to-five-year horizon, the Treasury will need to be flexible and able to respond quickly to changing priorities and external factors.

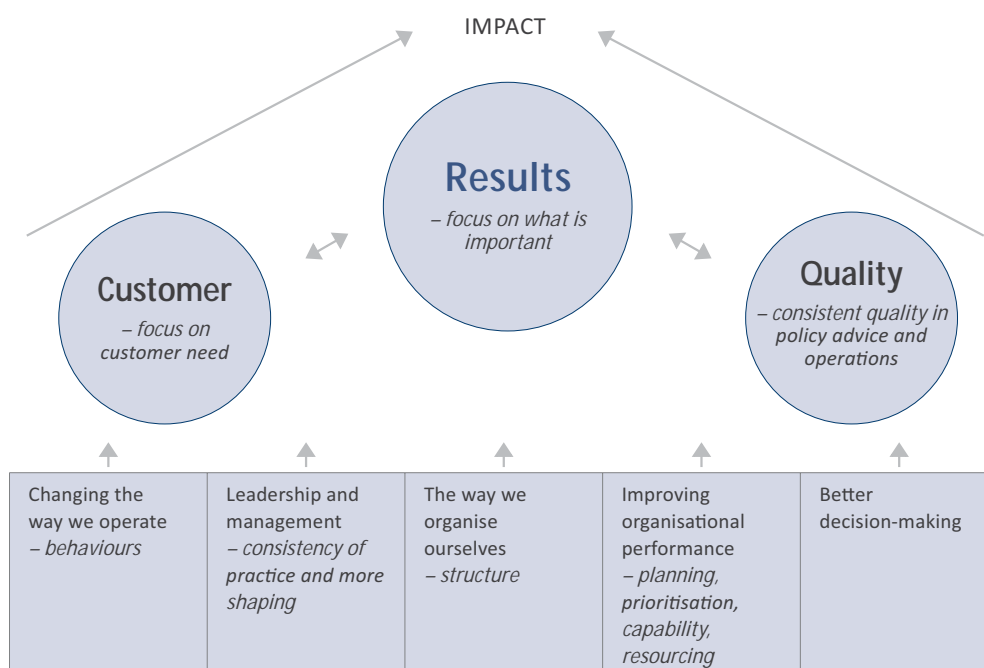
Our new structure, clarity of roles and focus on results will provide the platform for us to do so. The *Statement of Intent 2007-2010* sets out how we intend to get there.

Strengthening our capability

We need to keep a continuous focus on maintaining and developing capability, ensuring we deliver optimal performance to respond to challenges both now and in the future.

In maximising the Treasury's capability, the wider State Sector Development Goals are also taken into account. This includes our role in building a system of world-class professional State services serving the government of the day and meeting the needs of New Zealanders.

The Stepping Up change programme, outlined in the introduction, has been undertaken to ensure that our capability is focused on delivering maximum impact in the areas where we can add most value. The following diagram illustrates our approach to the Stepping Up changes. This is discussed in more detail in this section.



MAXIMISING OUR IMPACT

Results focus

Being clear on how we can add the most value

The main driver to help maximise the Treasury's impact is embedding a results focus into every aspect of our organisation. In order to do that, our Strategic Leadership Team has set our three-to-five-year direction (outlined in the outcome sections) so that there is clarity about the overall impact we are seeking over time. That required impact is now being defined in terms of shorter-term results across all of the work we do.

Defining what is important to the Treasury as a whole makes it easier to allocate resources to the highest Treasury priorities, to work cross-Treasury on issues that will increase our leverage and to move out of areas (in a timely way) that are no longer a priority.

What we are doing to establish a results focus

- Establishment of an Organisational Results Team to provide guidance and assistance on specifying and measuring results across all Treasury groups.
- Asking all groups to undertake full specification of results by June 2007.
- Reviewing our performance management approach to ensure it is aligned with establishing a results focus using our Organisational Development and Capability Team.
- Measuring our impact externally – both when results are specified and then while we are working towards those results, so we can assess how well we are doing.
- Improving our internal assessment tools to review results, priorities and resourcing across the Treasury every six months, in addition to improving our process to resource emerging priorities between these regular reviews.

| Customer need | |
|---|---|
| <p><i>A stronger focus on the needs of our customers</i></p> <p>A critical part of our results specification process is making sure that we understand the requirements of our customers, particularly the Minister of Finance, now and into the future. We build this into our results specification, our work programme and the way we operate on a daily basis.</p> <p>We also need to maintain quality relationships with many other customers, key stakeholders and influencers. These range from the media and business audiences to colleagues in key government departments and agencies. To do so, we are constantly looking at new ways to listen, inform and engage.</p> | <p><i>What we are doing to establish a customer need focus</i></p> <ul style="list-style-type: none"> • Establishment of an Office of the Chief Executive to undertake specific work around identifying and meeting customer need. • Ensuring information about the Minister's requirements is communicated throughout the Treasury to guide day-to-day work, through better use of internal communication channels, and promoting ways to make our ministerial advice more solution-focused. • Identifying potential issues of interest to governments in the future and acting now to position ourselves to be able to respond to these issues if the need arises. • Actively identifying and promoting opportunities for external engagement by senior management with key stakeholder audiences, both formal and informal, centred around the Treasury's work priorities. • Proactively and regularly communicating with key media, particularly those with an interest in the economy and in the Treasury's work, and monitoring the organisation's media coverage and profile. • Using the Treasury's website/s to more effectively meet the needs of all key external audiences and customers, by creating more accessible navigation systems and content. |
| Focus on quality | |
| <p><i>Delivering the best products, services and advice we can</i></p> <p>We are building a focus on quality advice through more consistent quality standards, better timeliness and the provision of options and solutions.</p> | <p><i>What we are doing to establish a quality focus</i></p> <ul style="list-style-type: none"> • Making more explicit and consistent judgements on quality based on the overall results we are trying to achieve, and driving a stronger focus on behaviours that support quality. • Developing and implementing a more systematic quality assurance system to ensure continuous improvement of our products, services and advice. • Establishment of the Organisational Results Team, which has a cross-Treasury quality role and, in conjunction with our Development Centre, ensures more consistent knowledge of policy and analytical frameworks. • Promoting a culture in which people feel comfortable to actively share their work and ideas to ensure there is an appropriately wide range of input, peer review and critique. |

Supporting our focus on results, customer need and quality is a subset of enablers that will provide greater momentum in our quest for impact

| Supporting enabler | What we are doing |
|--|--|
| <i>Changing the way we operate – behaviours</i> | <ul style="list-style-type: none"> • Reviewing our performance management system to ensure it aligns with our results focus and to underpin behavioural change. • Learning and development to support behavioural change. |
| <i>Leadership and management</i> | <ul style="list-style-type: none"> • Creation of a Deputy Secretary Central Agencies position to provide extra focus on working across the three central agencies and on implementing the outcome of the Central Agencies Review. • Creation of Assistant Secretary positions to work with the Deputy Secretaries in providing internal leadership and management within the Treasury groups and in engaging with external stakeholders. • Striving internally for more consistency and a focused approach to leadership and management, including the development of future leaders. Externally, we want to be actively shaping the agenda and providing more leadership across the wider public sector. |
| <i>Improving the way we organise ourselves – structure</i> | <ul style="list-style-type: none"> • Moved from four policy branches to three policy groups to better reflect our three outcomes: Economic Performance (EP), State Sector Performance (SSP) and Macroeconomic. • Establishment of the Central Agency Group to ensure that a central agency perspective is brought to the work we do. • Establishment of the Organisational Performance Group, which is focusing on maximising the performance of the Treasury through the provision of improved advice and services. |
| <i>Improving our organisational performance in planning, prioritisation, capability and resourcing</i> | <ul style="list-style-type: none"> • Using the Organisational Results Team to focus on our planning and prioritisation processes, linking directly with the results required. • Using the Organisational Development and Capability Team to ensure that capability and resource allocation is closely aligned with those planning and prioritisation processes. |
| <i>Improving our cross-Treasury decision-making</i> | <ul style="list-style-type: none"> • Improving the quality of information available, particularly when decisions are taken with cross-Treasury implications, and creating new decision-making and advisory structures. |

Our outcome contribution

OUR OUTCOME CONTRIBUTION

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OUR ROLES

Economic

Providing advice on issues with a significant and pervasive impact on the performance of the economy as a whole

Financial

Providing advice on fiscal management, large areas of spending, long-term trends, financial management and probity issues

Central Agency

Supporting Government strategy development and implementation, and public sector performance

OUR OUTCOMES

Improved Economic Performance

Stable and Sustainable
Macroeconomic
Environment

Improved State Sector
Performance

THE TREASURY'S OUTCOMES

The Treasury has three outcomes. Each of these outcomes reflects, and gives effect to, the Treasury's three roles. These outcomes are equally important and are interrelated. A *stable and sustainable macroeconomic environment* is a key foundation for a growing economy. And while *improved State sector performance* is important in its own right for ensuring the delivery of quality services to New Zealanders, ensuring efficiency in the provision of those services also contributes to *improved economic performance*.

While the work of individual staff may contribute to more than one outcome, the Treasury is structured into policy groups based on the three outcomes. This helps to create shared purpose and gives a concerted focus to our work.

As part of Stepping Up, we are aiming to concentrate more energy, and have more impact, on a smaller number of strategic issues within each of these outcomes. By doing so, we are also better placed to work with other agencies on those issues to offer the

Government more solutions and new ideas. We are also seeking to be more flexible to respond to changes in our operating environment. Some of the changes we are making to achieve this are:

- focusing on the most significant and pervasive economic issues. As part of this we will identify the results that matter most for the economy and monitor actual performance against these
- undertaking in-depth, and more uniform, performance analysis on those parts of the State sector that are most fiscally significant and most important for achieving the Government's economic objectives
- introducing more performance information into the Government Budget process
- seeking more strategic engagement with departments on the overall fiscal position and how they can support Government fiscal objectives
- reducing our involvement in other areas, particularly in non-essential Budget work, in order to focus resources and be more effective.

The Treasury's outcomes also reflect the Government's broad objectives. And in deciding where we will focus our efforts in achieving each outcome, we consider how best we can contribute to achieving those Government objectives.

SUPPORTING THE GOVERNMENT'S OBJECTIVES

The Prime Minister's Statement to Parliament for 2007 urged New Zealand to develop strategies to build and maintain a sustainable society along three fronts:

- To build a sustainable economy based on innovation and quality (the Government's *economic transformation* budget theme).
- To sustain family and community living standards in an open and competitive economy (the Government's *families – young and old* budget theme).

- To sustain our unique culture, values and national identity in a world of globalised media and culture (the Government's *national identity* budget theme).

The challenge for the Treasury is to identify, given our specific skills and role in the public service, how we can best help the Government to develop these strategies.

As the Government's key economic and fiscal advisor, we contribute most directly to the goal of building a sustainable economy, through our *improved economic performance* and *stable and sustainable macroeconomic environment* outcomes. Our *improved State sector performance* outcome contributes to ensuring that government services to families and communities are effective, while supporting the economic objectives.

Under our central agency role, the Treasury has a responsibility to take the lead in promoting sustainable practices within the public service. The Treasury is one of six public service agencies committed to achieving carbon neutrality by 2012. In 2007/08, the Treasury will work with other agencies to develop and begin implementing plans to measure, reduce and offset our carbon emissions. The Treasury's efforts will build on our existing programme of recycling and waste minimisation, put in place as part of the Govt³ initiative to encourage sustainable practices in the public sector.

MEASURING OUR PERFORMANCE – WHAT WE MEAN BY TAKING A RESULTS FOCUS

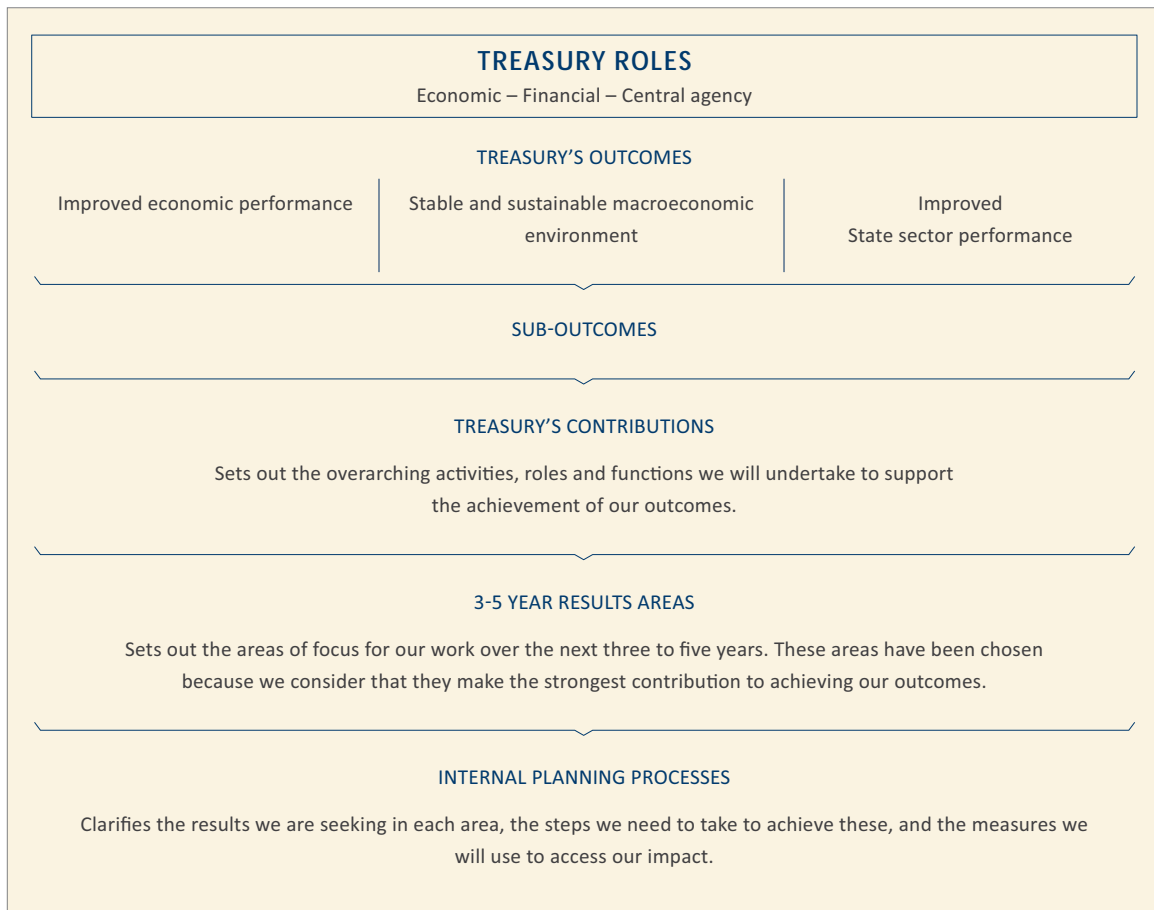
In *Strengthening our Capability* we outlined that as part of Stepping Up we are seeking to apply a results focus to our work.

The Treasury’s three outcomes are broad, and for each there are many factors that will affect whether the outcome is achieved. In practice, the Treasury has always looked to identify those factors that matter most for achieving our outcomes and has undertaken work

on those factors where we believe we can make an impact. Through the results focus, we are attempting to be more explicit about undertaking this prioritisation process and about identifying what we think is a good result for helping to achieve the overall outcome.

The high-level approach we have taken to define our strategic priorities and the results we are seeking is set out in the following diagram:

Results framework



By breaking down the outcomes into sub-outcomes, and then further to “results areas”, we can be clearer about the results we are working towards, the contribution the Treasury can make, how we will work with other agencies to achieve these results and how we will assess our success. This is an important internal management tool both in setting our strategy and work programme and also in assessing our contribution to achieving our outcomes.

Through introducing results specification to all areas of our work, we are introducing better measures of performance.

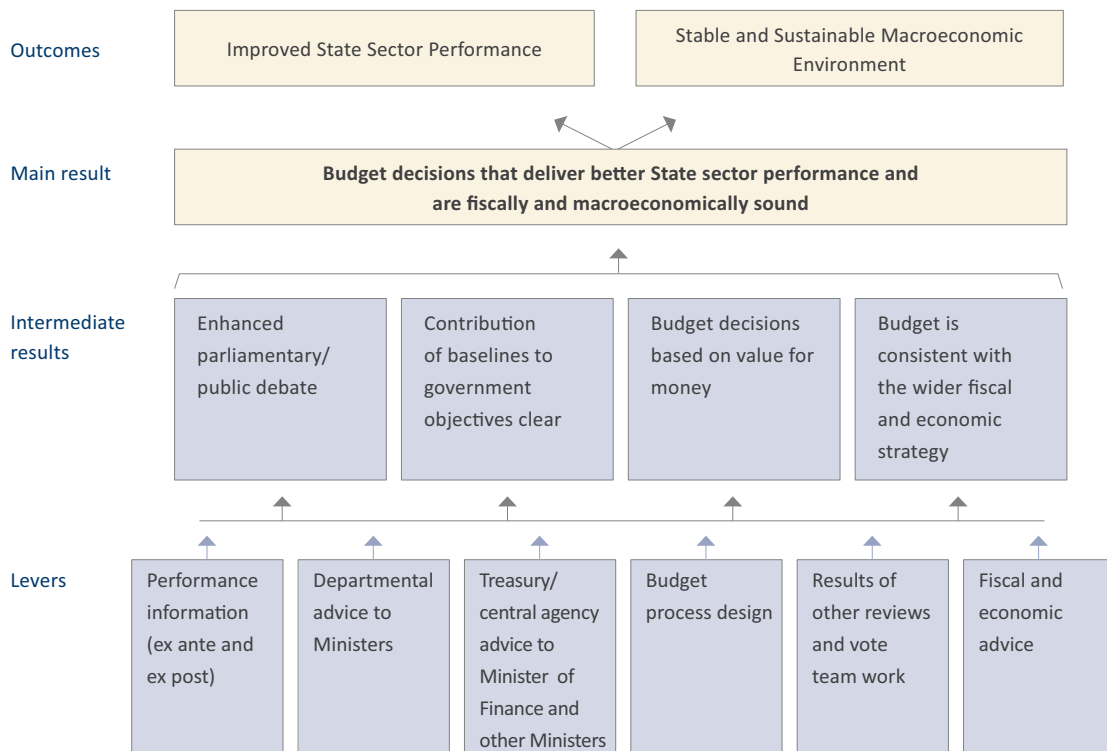
Introducing a results focus is an evolving process. The material in the following pages will illustrate that we

are at different points in that evolution for each outcome. As an example of the type of specification we are working towards in each of the results, the results specification for one of the Treasury’s key products, the Government Budget, is included below.

For the main result and intermediate results, measures of success are then specified. Measures may differ over the three-to-five year horizon as we track progress towards the intermediate and the main result.

On the following pages, we explain each of the Treasury’s three outcomes and why each matters, and describe recent performance towards each outcome. We then break the overall outcome down into our sub-outcomes and results areas and outline the Treasury contributions we are seeking to make in the results areas.

Results specification for the Government Budget



IMPROVED OVERALL ECONOMIC PERFORMANCE

TREASURY ROLES

Economic – Financial – Central agency

TREASURY'S OUTCOME

Improved overall economic performance

SUB-OUTCOMES

Ministers, the Government and government agencies give due consideration to policies that are important for economic growth and the connections between overall economic performance and other desired outcomes when developing strategies and evaluating intervention options.

TREASURY'S CONTRIBUTIONS

To achieve this outcome, the Treasury will:

- provide analysis and advice to Ministers on broad economic strategies to promote economic growth and their impact on living standards
- analyse the drivers of productivity growth and advise Ministers on the policies, regulations and institutional arrangements that best achieve improved overall economic performance
- provide advice on the relationships between these and other government outcomes.

In doing this, our emphasis will shift toward a more dynamic growth story, as well as growth accounting analysis, about economic performance that is strongly evidence and framework based. This means explicit identification and ongoing testing of the results that matter for the economy to ensure our advice remains current and draws on latest information.

3-5 YEAR RESULTS AREAS

We will concentrate our effort on those policy areas, which are most significant and pervasive for New Zealand's economic performance. The most significant and pervasive issues are likely to be those that span many markets and decision-makers, and will in turn have a large growth impact. On this basis, the Treasury expects to undertake work over the next three to five years in the following 12 areas.

- | | |
|--|---|
| • Financial markets, investment and savings | • International connections |
| • Competition and regulatory frameworks | • Infrastructure: energy, telecommunications, transport |
| • Sustainable environment, particularly climate change | • Innovation |
| • Skills acquisition and schooling outcomes | • Auckland |
| • Social mobility | • Labour market performance |
| • Taxation | • Measuring and monitoring economic performance |

WHY ECONOMIC PERFORMANCE IS IMPORTANT

Economic growth is important for increasing New Zealanders' living standards. Through its *economic transformation* theme, the Government is seeking to progress New Zealand to being a high-income, knowledge-based market economy, providing an improved quality of life for all New Zealanders.

We work with other government agencies to achieve our outcomes. However, the Treasury's unique contribution towards these goals is to provide an overall perspective on economic growth that incorporates analysis of institutions, macroeconomics, microeconomics and the economy as a system, complementing the contribution of other government agencies. Combined with ongoing monitoring of the New Zealand economy's performance, the Treasury is able to identify and advise the Government on the pervasive and significant economy-wide issues that matter most for New Zealand's economic performance. As part of this process we seek to identify the key results that matter for the economy and monitor the performance of policy settings against achievement of these.

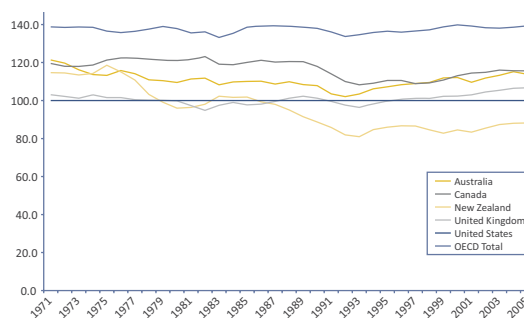
Because we look across the entire State sector and both the macro and micro economy, we are able to make links between sectors and can offer a strategic "helicopter" view to the Government on the priorities for policy change.

The Treasury seeks to focus its analysis on those policy issues that are most significant and pervasive – and to do so in a way that brings together frameworks, empirical analysis and on-the-ground evidence of regulatory performance.

New Zealand's economic performance

The primary challenge in improving New Zealand's economic performance is to improve productivity performance.

Per capita GDP by country compared to OECD total



Source: OECD. Data periods vary between countries. For New Zealand, data is as at year ended 31 March. For most other countries, data is for previous calendar year (eg, 2005 data point is 2004 calendar year).

New Zealand's per capita Gross Domestic Product (GDP) relative to the Organisation for Economic Co-operation and Development (OECD) average declined from the 1970s through until the early 1990s. Since then, our per capita economic growth rate has been similar to or slightly better than the OECD average, leading to a gradual relative improvement. Despite this slight improvement, New Zealand's per capita GDP was approximately 88% of the OECD average in March 2005.

This performance is reflected in the productivity measures for the New Zealand economy. While New Zealand has improved its per capita economic growth performance since the early 1990s, growth in New Zealand's labour productivity rates remains slow. The OECD estimates that New Zealand's labour productivity rates grew at an average annual rate of 0.8% between 2001 and 2005, whereas the average for all OECD countries is estimated at 1.5% for the same time period. While New Zealand's labour productivity performance may have been affected by the increase in labour utilisation that occurred during this period, measures of productivity suggest that there is a large gap

between the level of labour productivity in New Zealand and that of upper-income OECD countries.

In advising on policy changes to improve New Zealand's productivity performance, the Treasury's advice over the next three to five years will consider key social and international trends, including:

- *Globalisation.* This continues to pose both threats and opportunities to New Zealand, with the opening up and integration of capital and product markets and increasing labour mobility.
- *Environmental sustainability, including climate change.* The response of New Zealand and other countries to this challenge will affect consumption trends internationally, and the competitiveness of New Zealand's exports.
- *Ageing population.* This will alter the profile of New Zealand's labour supply and consumption trends. Ageing populations in other developed countries are also likely to affect New Zealand through changes in consumption, capital markets, and the profile of immigrants to New Zealand.
- *Innovation and intellectual property.* Intellectual property is increasingly important as a source of value in products and services. Globalisation and increased speed of information flows pose a challenge to protecting intellectual property.

OUR FOCUS

The Treasury's focus is on significant and pervasive economy-wide issues that will impact on productivity. Generally, policy issues that meet this test are those that span and influence many markets and decision-makers. For example, climate change is a policy area in which the Treasury is active in providing advice. The impact of climate change will potentially have a significant effect on many facets of New Zealand's economy, and the policies to effectively address climate change need to span many markets.

The following areas of the economy are those that contain issues that meet the significant and pervasive test. We will be undertaking work in these results areas over the next three to five years. While the Treasury will seek to contribute to these results by developing well-informed and practical advice for Ministers, their achievement depends on the contribution of other government agencies. We will also continue to respond to ministerial requests for policy analysis and assistance with commercial operations, as required. This includes providing trade credit insurance to exporters through the Export Credit Office.

Savings, investment and financial markets

The three-to-five-year result we would like to see is for New Zealand to have efficient and effective regulatory settings for savings, investment and financial markets that give effect to Government decisions, fit New Zealand circumstances and best support economic growth.

In 2007/08 we will work with the Inland Revenue Department (IRD), Ministry of Economic Development (MED) and other agencies to achieve the effective implementation of Government policies aimed at lifting the saving performance of New Zealanders. We will also be working with MED and others to advise the Government on policy changes to improve the development and performance of financial markets, and to implement any changes agreed by Government.

Competition and regulatory frameworks

The three-to-five-year result we would like to see is effect given to Government decisions and to work with Ministers and other agencies to ensure that competition and regulatory frameworks support a vibrant and dynamic business environment. Regulatory regimes should be stable, consistent and predictable, giving investors and the public a high degree of confidence in the regulatory institutions, and should fit New Zealand's circumstances.

In 2007/08, we will contribute to the review of Parts IV and V of the Commerce Act, with a focus on improving the transparency and predictability of the regime so that it supports innovation and investment. We also intend to develop measures of performance of selected key sectors to assess whether the results achieved on the ground by regulatory frameworks are consistent with a high-performing economy – and to assess whether there is a need for policy change.

Sustainable environment, including climate change

The three-to-five-year result we would like to see is economic and environmental policy that promotes the sustainable management of New Zealand's natural resources in a way that allows resources to be put to their most productive use, and meets Government decisions and environmental objectives at least economic cost. As part of this, effective and predictable policies are needed to meet New Zealand's current climate change commitments, and help efficient adjustment to climate change to occur.

In 2007/08, we will continue to advise the Government on efficient and effective policies for addressing the causes of climate change, with a focus on broad market-based measures. In doing this we will work with the Ministry for the Environment (MfE), MED and other agencies to ensure that policies to mitigate and adapt to climate change are consistent with a sustainable economy and environment.

Skills

The three-to-five-year result we would like to see is the implementation of Government decisions, and improvements in outcomes from schooling, including lower rates of unqualified school leavers, more school leavers with at least NCEA level 2 and improved transitions to further training and work. To achieve this, regulatory, funding and governance systems in schools will need to work in tandem with professional practice and capability improvements.

In 2007/08, the Treasury will concentrate on outcomes at the secondary schooling level. We have identified opportunities to work with the Ministry of Education to improve student retention and achievement through policy change in the senior secondary school and transitions to employment, further training and tertiary education.

Social mobility

A new three-to-five-year result area for the Treasury is to consider the link between issues related to social mobility and economic performance. In 2007/08 we will look to define the importance of social mobility to economic growth. Depending on the outcome of this work we will identify factors that impede social mobility and the policy interventions to help overcome these.

Tax

The three-to-five-year result we would like to see is for New Zealand to have efficient and effective tax policy settings that implement Government decisions and raise required revenue in a way that minimises economic cost and best supports New Zealand's competitiveness, efficiency and economic performance.

In 2007/08, our focus will be on working with IRD to support the introduction of the Government's business tax changes and any changes to the international tax regime. We will also examine issues regarding the longer-term sustainability of the New Zealand tax system in light of international trends such as globalisation.

International connections

The three-to-five-year result we would like to see in international connections is twofold. Firstly, we want domestic policy settings to give effect to Government decisions and support international connections that are important for economic growth. Secondly, in New Zealand's efforts to further our international connections, we want Ministers to have advice on policy

priorities and efficient practical options to deepen the international connections most important for growth.

In 2007/08, we will focus on encouraging those formulating domestic policy to apply a stronger “international” lens. For example, the way we configure our domestic regulations will influence New Zealand’s attractiveness as a destination for capital and skilled labour, and how easy it is for firms to move into exporting.

Infrastructure

Over the next three to five years, the Treasury will undertake a variety of work related to infrastructure. Sector-specific results, in addition to implementing Government decisions, that we would like to see include:

- more effective planning, financing and allocation of land transport investment
- a regulatory and institutional framework for telecommunications that meets Government objectives and enhances the development of a dynamic sector.

In 2007/08, we will focus on the institutional changes required to provide more effective planning, financing and allocation of roading investment, and continue to support the implementation of the Government’s rail policy. We will also support the implementation of Government decisions to increase broadband uptake.

Innovation

The three-to-five-year result we would like to see is effective regulatory and institutional design to encourage research and development and firm investment in innovation in a way that efficiently supports economic growth and implements Government decisions.

During 2007/08, we will continue working with MED and the Ministry of Research, Science and Technology (MoRST) to advise the Government on policy options promoting more firm-led research and development activity supporting innovation in the economy.

Auckland

The three-to-five-year result we would like to see is increased confidence in the quality of infrastructure investment (including social infrastructure) in Auckland, to support the ongoing growth and development of Auckland as a world-class city and to help implement Government decisions. Part of this will be ensuring there are governance and institutional arrangements (across central, regional and local government) that allow effective planning, decision-making and implementation.

In 2007/08, we will continue to work with Auckland authorities and other government agencies on issues related to Auckland’s economic development, with a focus on ensuring that Auckland has an effective transport system.

While we have three-to-five-year results that we are working towards, as part of the Treasury’s prioritisation processes we will undertake reduced work in the following results areas during 2007/08:

Labour market regulation

The three-to-five-year result we would like to see is that New Zealand has efficient and effective labour market regulations that meet Government objectives and best support economic growth.

In 2007/08, we will continue to monitor developments in the labour market to ensure that outcomes are consistent with a high-performing economy.

Measuring and monitoring economic growth

Best practice measurement of economic growth and productivity is important for informing the Treasury's policy advice. Over the next three to five years, the Treasury's aim is to ensure there is ongoing best practice measurement of productivity (including service and public sectors) and that decision-makers have a better understanding of aggregate growth performance.

In 2007/08, we will undertake routine measuring and monitoring of New Zealand's economic performance.

MEASURING PROGRESS

As part of our results focus, we intend to better identify the contributions that the Treasury will make towards improving New Zealand's economic performance, and how we measure ourselves against our success in making these contributions. Identifying our three-to-five-year results in each of the key areas that matters for economic performance is a first step towards identifying the Treasury's contribution.

In addition, we will continue to monitor New Zealand's overall economic performance to assess both the effectiveness of the policies we advise on and progress towards our outcome, and to identify critical policy issues for economic growth.

Key tools used to monitor economic performance are:

- the Economic and Fiscal updates contained in the annual Budget and the Half Year update publications, which summarise the Treasury's advice to the Government in order to support fiscal policy decisions
- the *Monthly Economic Indicator* report, which provides a snapshot of how the economy performed over the previous month and commentary on key variables and outturns compared with forecasts

- an update on progress against the Growth and Innovation Framework, a set of indicators developed to measure progress towards economic goals, to be published by the Treasury, MED and Statistics New Zealand.

STABLE AND SUSTAINABLE MACROECONOMIC ENVIRONMENT

TREASURY ROLES

Economic – Financial – Central agency

TREASURY'S OUTCOME

A stable and sustainable macroeconomic environment

SUB-OUTCOMES

The results the Treasury is seeking that will lead to a stable and sustainable macro environment include:

- assisting Ministers in taking budget decisions that are conducive to short-term macroeconomic stability, are consistent with meeting long-term fiscal challenges and deliver better State sector performance
- the Minister of Finance and key stakeholders considering that economic and fiscal reporting fully illuminates actual and prospective economic and fiscal developments, and the impact of fiscal policy on the economy and vice versa
- the Minister of Finance and other key stakeholders accepting the Treasury forecasts as being the best possible for the decisions they need to make
- refining processes in all of these areas to reduce low-value-adding activities within the Treasury.

TREASURY'S CONTRIBUTIONS

The Treasury needs to:

- help Ministers make decisions that lead to a stable and sustainable macroeconomic environment. This will require demonstrating a thorough (dynamic) understanding of the domestic and international forces impacting on macroeconomic developments
- develop understanding and support amongst Ministers and other key stakeholders around how a stable and sustainable macroeconomic environment contributes to maximising long-term growth. Ministers and other stakeholders view the institutional frameworks and day-to-day operating rules as being the best possible to deliver in this environment
- demonstrate efficiency and effectiveness in its operations (debt management, economic and fiscal forecasting, budget management).

3-5 YEAR RESULTS AREAS

In working towards these results and the stable and sustainable macro environment outcome, the Treasury undertakes work in the following areas:

- Long-term fiscal policy
- Fiscal policy and strategy advice
- Macroeconomic stabilisation advice
- Forecasting
- Fiscal reporting
- Debt and (DMO) financial asset management
- Budget management

WHY MACROECONOMIC PERFORMANCE IS IMPORTANT

A stable and sustainable macroeconomic environment allows individuals, businesses and the Government to plan more effectively for the longer term, contributing to higher economic growth and higher living standards for New Zealanders.

By creating an appropriate environment for sustainable growth, macroeconomic performance is fundamental to all of the Government's themes – *economic transformation, national identity and families – young and old*. Through the Budget process, the Treasury plays a key role in helping Ministers prioritise initiatives within these themes, ensuring that additional government spending is oriented towards achieving priorities through fiscally sustainable, value-for-money initiatives.

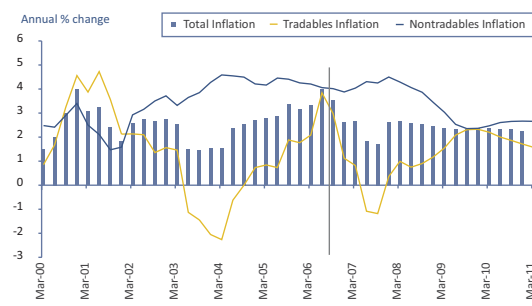
Over the last decade and a half, New Zealand has seen a marked reduction in the variability of many major macroeconomic variables such as economic growth, inflation, unemployment, interest rates and key fiscal aggregates. The exchange rate is one exception to this general trend. Overall, these developments have allowed individuals, firms and governments to make better decisions and contributed to an increase in trend growth. Looking forward, some variability in most, if not all, of these aggregates is expected as the economy responds to domestic and international developments.

New Zealand is recording a sustained period of economic growth increasingly driven by domestic demand. Notwithstanding slower growth over the last two years, this has seen the build-up of macroeconomic imbalances, including a high current account deficit and inflation pressures. Policy response to these imbalances, together with a relatively unusual set of international financial conditions, has led to a sustained high exchange rate. As a result, export- and import-competing sectors of the economy have been under pressure.

The current mix of economic conditions has meant some of the macroeconomic “rules of the game”, as well as the manner in which macroeconomic policy is operated, are being questioned. This discussion, together with the evolving economic and macroeconomic factors discussed above, forms the backdrop for the Treasury's macroeconomic role.

While the macroeconomic imbalances are expected to unwind in a relatively benign manner as the period of moderate growth continues, a sharper adjustment cannot be ruled out. Inflationary pressures stemming from a buoyant housing market and domestic demand growth remain. As the graph below shows, inflation is expected to remain relatively high in some areas of the economy such as in non-tradable goods (those sectors of the economy not exposed to significant international competition, including service industries).

CPI Inflation



These macroeconomic factors impact on fiscal policy. Higher than expected growth has resulted in increased tax revenue, yet there is a trade-off between spending this revenue and the potential for aggravating inflation further.

The Government also faces longer-term challenges. In June 2006, the Treasury produced the first *Statement of Long-term Fiscal Position*, identifying fiscal pressures likely to eventuate over the next 40 years as a result of factors such as population ageing. The Government's fiscal strategy is contributing to dealing with these pressures, for example by building up financial assets

in the New Zealand Superannuation Fund. In addition, the Government is looking at ways to ensure more sustainable funding paths in areas such as health.

The Treasury contributes to a stable and sustainable macroeconomic environment primarily by: advising on the underlying fiscal and macroeconomic policies and frameworks; providing tax, expenditure and macroeconomic forecasts; reporting on the fiscal position; contributing to debt and financial asset management; and managing the Budget process. In doing this, the Treasury works closely with agencies such as the Reserve Bank. It also engages with all government agencies to ensure spending and tax policy support a stable and sustainable macroeconomic environment and a sustainable fiscal position. International relationships include the OECD and the International Monetary Fund.

OUR FOCUS

The Treasury is focusing on areas where our work is likely to have the most impact on the performance of the macroeconomy and supporting Ministers in their priority outcome areas.

Macroeconomic stability

A key focus over the next three to five years will be on the existing macroeconomic imbalances, ensuring that the frameworks and tools available are the best possible for managing the required adjustment of these imbalances.

In 2007/08, the Treasury will:

- provide Ministers with advice that supports them in dealing with the current imbalances in the context of domestic and international forces impacting on macroeconomic developments
- further deepen our understanding of the relationship between current imbalances and macroeconomic frameworks, and investigate any further viable options as appropriate.

Fiscal strategy and long-term fiscal policy

Over the next three to five years, the Treasury will provide advice that helps the Government to make further progress towards its long-term fiscal objectives, as well as ensuring that fiscal policy appropriately contributes to macro stability. This includes advising Ministers on managing cyclical fluctuations and structural changes in the fiscal position. A particular focus for 2007/08 is on the sustainability of health spending and related policies.

In 2007/08, the Treasury will:

- advise Ministers on short- and medium-term fiscal policy settings
- promote understanding of long-term fiscal issues among the public, Vote teams within the Treasury and policy teams within the broader public sector
- support the development of options for managing long-term fiscal challenges, including in healthcare.

Fiscal reporting

Over the next three to five years, the Treasury's goal is that key stakeholders, including the Minister of Finance, consider that the Treasury's reporting fully illuminates fiscal performance and impacts on the economy.

In 2007/08, the Treasury will:

- maintain the quality of the government's financial statements as New Zealand moves to implementing the International Financial Reporting Standards, while clearly communicating Crown financial performance.

Debt and (DMO) financial asset management

Management of Crown debt and financial assets will contribute to the macroeconomic performance outcome over the next three to five years by maximising the long-term net return on the Crown's financial asset and debt portfolios, within an appropriate risk management framework. Asset management also

contributes to the State sector performance outcome; in areas where these assets directly contribute to the Government's overall objectives, the Treasury assists agencies in optimising their performance.

The focus for the macroeconomic performance outcome is contributing to managing the Crown's balance sheet through the Debt Management Office. This provides a resource to help meet future expenditure commitments and claims on the Crown, including those driven by demographic change.

As part of the Stepping Up changes, the Debt Management Office has become part of the Treasury's Macroeconomic Group, to allow advice on macroeconomic and fiscal issues to link with Crown balance sheet management and to better link debt issuing/repayment more closely with Budget and fiscal strategies.

In 2007/08, the Treasury, through the Debt Management Office, will:

- continue managing the shift from predominantly debt management to a mix of debt and asset management, as well as to the increasing importance of foreign-currency hedging.

Budget

Over the next three to five years, the Treasury's high-level result is that Budget decisions deliver better State sector performance, are consistent with meeting the Government's fiscal strategy and take account of short-term macroeconomic stability. Budget management therefore contributes to economic and macroeconomic performance, as well as to the performance of the State sector.

In 2007/08, the Treasury will focus on:

- ensuring funding decisions are more explicitly linked to a clear set of Government theme objectives
- better understanding baseline expenditure and performance information, ensuring baseline funding is focused on key performance priorities for Ministers.

Forecasting

The Treasury's goal over the next three to five years is that key stakeholders, including the Minister of Finance, accept Treasury's tax, expenditure and macroeconomic forecasts as the best possible for the decisions they need to make. In some areas of forecasting, particularly tax forecasting, the current pattern of forecast errors makes effective planning and Budget decision-making more difficult for the Government. We need to improve the quality of our forecasts, and our communication of those forecasts.

In 2007/08, the Treasury seeks to:

- improve the accuracy of our forecasts relative to previous performance
- provide a coherent and integrated "story" derived from the forecasts that is easily accessible and readily applicable to the needs of stakeholders such as the Minister of Finance.

MEASURING PROGRESS

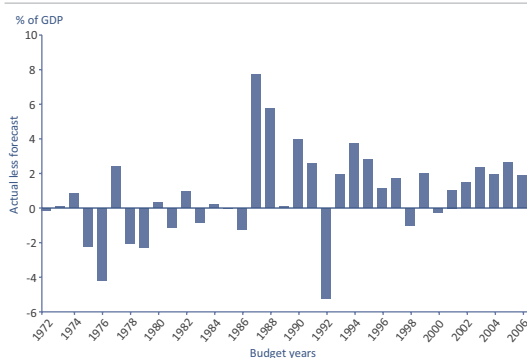
The Treasury uses a number of measures to assess progress on a stable and sustainable macroeconomic environment – an environment in which the fiscal and macroeconomic frameworks are delivering growth without excessive output and inflation volatility. The measures are discussed in detail in the *Economic and Fiscal Updates* and the *Financial Statements of the Government of New Zealand*, and include fiscal and macroeconomic indicators.

In addition to these macroeconomic measures, the Treasury is working towards better identifying the particular contributions we make in improving macroeconomic performance, and improving the methods for measuring our success. The following measures illustrate our approach, though it should be noted that measures for policy-based outcomes are likely to be more qualitative in nature.

Measuring Progress – Forecasting

We routinely assess our forecasting record, and have been doing so regularly for the last 17 years. In the 2006 *Half Year Economic and Fiscal Update*, the Treasury assessed historical data on fiscal forecasting performance using the net cash balance forecasts (total tax receipts less total expenditure) and tax receipt forecasts from the last 35 years.

Net cash balance forecast errors, one-year-ahead forecasts of Budget years 1972 to 2006



Source: The Treasury

Tax receipts forecast errors, one-year-ahead forecasts of Budget years 1972 to 2006



Source: The Treasury

This analysis demonstrated that, while no strong error trend is evident over the whole period, from 1992 to 2006 there has been a pattern of forecast errors correlating to economic growth. During this period forecasts have generally been too low in periods of high economic growth, and too high in periods of low economic growth. For the last six years there has been

a consistent trend of tax forecasts, and so the resulting cash balance forecasts, being too low. Such a pattern makes planning and Budget decisions more difficult.

The Treasury is working towards increases in forecast accuracy. Further research into the error pattern in the working paper *An Analysis of Tax Revenue Forecast Errors* indicated that the main source of tax revenue under-forecasting was the underestimating of macroeconomic variables. The paper suggests further investigation of alternative tax forecasting methodologies, which is currently underway.

Over time we will measure our success through improvements in the accuracy of our forecasts relative to outturns, and the degree to which Ministers are able to utilise Treasury forecasts more effectively in their decision-making. A key measure is that statistical bias should not be evident over time. This is a medium-term measure, as a period of outturns is required to statistically test forecast accuracy.

MEASURING PROGRESS – CROWN DEBT AND (DMO) FINANCIAL ASSET MANAGEMENT

The Treasury is very focused on achieving value for money, both with its own outcomes and across the wider State sector. The gains from policy advice are, by their nature, realised incrementally over a period of years from a cumulative series of interventions, making direct cost-effectiveness analysis difficult.

However, by better specifying our results, we expect over time to be able to make a more nuanced qualitative assessment of our cost-effectiveness in policy areas. Results that are well articulated ex ante and well measured ex post will allow us to assess our impact in various areas, relative to the resource allocation in those areas. At a minimum this will enable internal comparisons as to where our activities are generating the most value for the effort and resource we put in.

One area in which the Treasury can clearly demonstrate the cost-effectiveness of its work is the management of the Crown's debt, associated financial assets, and overall net cash flows by the Debt Management Office (DMO).

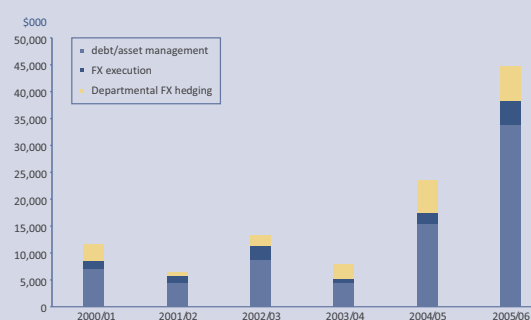
Investment and foreign-currency hedging activities (and associated debt issuance) are managed within DMO through a set of portfolios. Performance measures have been developed to assess the amount of return (profit) and risk incurred by these portfolios, as well as the cost per cashflow transaction settled. The goal is to maximise net return while reducing risk as much as possible. These activities should also be managed as cost-effectively as possible.

Our performance against these measures is discussed below. The measures are not intended to be interpreted with reference to any particular benchmark, but are rather to be seen as highlighting trends in performance in key results areas over time. The Treasury will continue to measure itself in these areas.

COST-EFFECTIVENESS

Profit generated for the Crown

Annual profit

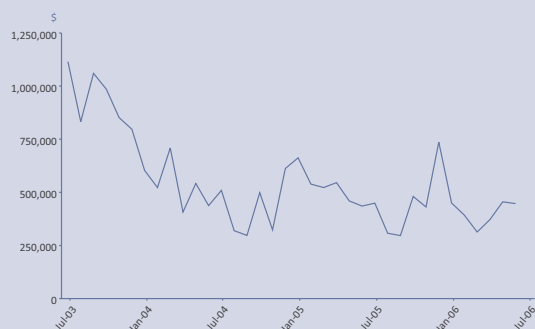


Profit generated for the Crown has increased significantly over the last two years owing to a combination of factors:

- The Government's strong fiscal position providing the opportunity to undertake increased cash management (or investment activity) and a decrease in the Government's cost of funds (as measured by widening swap spreads).
- Substantially increased foreign exchange rate trading stemming from a greater number of Crown clients and the successful risk management and execution of those flows.

Market risk

Average monthly value at risk

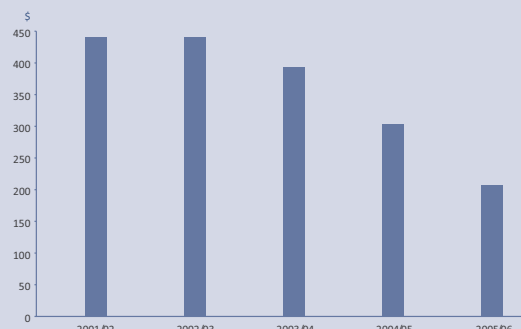


DMO measures market risk (interest rate and foreign exchange rate risk) using a statistical model, Value-at-Risk (VaR). VaR measures the worst expected loss over a given time interval under normal market conditions at a given confidence level. The monthly VaR limit at the 95% confidence level is set at \$14 million. As indicated by the movement of VaR over the past three fiscal years, the market risk that DMO has taken on is well below this limit and has been decreasing over time. This reduction in risk could be attributed to:

- the decline of actual market volatility over that time
- changes in DMO's portfolio composition
- improved risk reduction practices.

Cost per transaction

Annual cost per cashflow settled



While the number of transactions has been steadily increasing over the past five years (mainly foreign exchange and money market deals), the cost per transaction settled has decreased. This improvement in operational efficiency is due to a combination of factors:

- Improvements in system design and efficiency.
- Reduction in staff, and a change in the composition of staff.
- A reduction in operating costs.

IMPROVED STATE SECTOR PERFORMANCE

TREASURY ROLES

Economic – Financial – Central agency

TREASURY'S OUTCOME

The work of the State sector represents value for money in achieving the Government's aims and objectives.

SUB-OUTCOMES

- The Government makes good decisions on the choice of the most efficient and effective policies, regulation, administration and delivery to achieve its objectives.
- Government spending achieves the maximum possible results for the funding put in.
- The Government's assets and liabilities are efficiently and effectively managed to support its objectives, and to optimise the return on its investments.

TREASURY'S CONTRIBUTIONS

The Treasury's main contributions to achieving this outcome are as follows:

- The Treasury will support the delivery of key fiscal and financial management for all government agencies, Crown entities and State-owned enterprises, including those not identified as a key government priority.
- The Treasury will work jointly with the State Services Commission to develop and maintain the public management system, to provide the framework for a high-performing, innovative State sector.
- In key priority areas, the Treasury's efforts to advise Ministers will be focused on more in-depth and uniform performance analysis, including a focus on the most efficient and effective policies, regulation, administration and delivery to achieve the Government's aims and objectives.
- In all other areas, the Treasury's efforts will be streamlined to focus on maintaining an informed overview to foresee significant emerging risks, managing core Budget processes, and efficiently supporting good financial management and probity.
- The Treasury will have a focus on overall performance in the State sector, including cross-cutting and thematic analysis (eg, capital and asset management).

3-5 YEAR RESULTS AREAS

- Improving overall performance (ie, achieving the desired outcomes in the most efficient and effective manner) in the following fiscally significant areas (note this could include sector or agency performance as appropriate): health, education, maintaining the revenue base, the benefit system, roading/transport.
- Improving the performance of agencies that contribute strongly to the following areas (note these areas have been identified because they significantly impact on the priorities in the economic performance or macro performance outcomes): firms/economic transformation, skills, transport, climate change.
- Improving capital and asset management system-wide, with a particular focus on the following asset-rich areas: corrections, justice, police, defence.
- Developing a consistent and coordinated approach to managing State sector remuneration pressures.
- All other areas will be streamlined to enable the Treasury to achieve its outcomes for State sector performance.

WHY IMPROVED STATE SECTOR PERFORMANCE IS IMPORTANT

Under the State sector performance outcome, we are primarily concerned with ensuring that State services are delivered in the most efficient and effective way, both to meet the Government's objectives, and to generate the maximum possible benefit for taxpayers for a given level of expenditure.

The State sector is a significant part of the economy in its own right. Because of its size, improvements in performance, for example through increases in labour and capital productivity or through delivering services in a more cost-effective way, will have an impact on economic growth. Improved performance will also place less stress on fiscal policy, assisting in finding fiscal headroom to progress priority areas, and contributing to the Treasury's stable and sustainable macroeconomic environment outcome.

Understanding both the current and potential performance of the State sector also directly supports the Government to achieve the goals contained in its three themes of *economic transformation*, *families – young and old* and *national identity*. It helps identify where the Government should focus its expenditure and what level of funding represents value for money. This in turn gives Ministers and taxpayers confidence that the system can deliver the results sought, and supports a sustainable economy and society. It also allows the Government to assess whether or not these results have actually been delivered.

Improved State sector performance requires a combination of policies, regulations, administration and delivery that leads to value for money in each area of government activity. We need a public management system that provides the framework for a high-performing, innovative State sector. We also need to ensure that the Government's assets and liabilities are efficiently managed. The Treasury, working with other central agencies and departments, is responsible for providing advice in all of these areas.

Current environment and challenges ahead

The wider economic and social context within which the State sector operates is characterised by an international environment where a growing population and higher levels of economic growth are putting pressure on scarce resources such as energy and infrastructure. This increases the importance of finding more efficient, effective and sustainable ways of delivering government services.

New Zealand faces its own challenges, not least of which is an ageing population that places heavier demands on public services and impacts on the skill mix in the economy. At the same time, consumer expectations of State services are rising in relation to quantity, quality and effectiveness. People expect personalised government services and want choice about how these are delivered. They also expect that the Government will solve wider-reaching, longer-term challenges such as climate change.

Balancing the desire for more complex and diverse public services with the imperative of securing a sustainable future means we need to find effective ways to place a clear focus on lifting performance, while also maintaining effective fiscal management.

Central agency contributions to State sector performance

The Treasury's interest in improving State sector performance arises from its combined roles as an economic and financial advisor *and* a central agency. As a result of the Stepping Up change programme we have created a specific organisational group to provide, amongst other things, a stronger focus on working across the three central agencies to increase collective leverage on performance issues.

The contribution of the central agencies to improving public sector performance is set out in more detail in the central agency leadership section on page 31.

OUR FOCUS

Over the longer term, we are interested in ensuring we have a sustainable public sector that represents value for money in responding to the challenges set out in the Government's themes. This means that, in the short- to medium-term, our focus must be on improving our ability to measure performance and advise Ministers on how they can get better results.

The State sector is large and the Treasury's resources are finite, so we need to focus our efforts on those areas of performance that are most critical to the Government's objectives, and where we are likely to get the greatest returns for improved performance. Over the next three to five years, we will prioritise our efforts on the following aspects of State sector performance:

Improving overall performance in priority areas

The overall result we will be looking for over three to five years is improved overall performance in the priority areas identified in the table on page 27. The Treasury's role, in conjunction with other central agencies and government departments, is to:

- identify the elements of performance that we consider to be the most important for achieving the Government's objectives, and establish a baseline of evidence on current performance and any relevant benchmarks to measure ourselves against
- understand the key drivers of performance and what we need to do to influence these
- develop indicators of success that will help us to measure the impact of our actions over time on the performance improvements we are seeking.

The structural changes we have made within our policy groups, notably the decision to combine the ownership monitoring functions for State-owned enterprises (SOEs) with the relevant policy teams, will support us to provide more "seamless" advice on performance (whilst also having appropriate safeguards to ensure sensitive policy issues are separated where necessary).

In 2007/08, we will undertake in-depth performance analysis in two main areas:

Priority areas that are fiscally or financially significant – focusing on assessing and advising on improving the value for money of expenditure in priority areas of health, education, the benefit system and roading/transport. These areas have been identified because they have the most pervasive impact on the long-term fiscal position.

Priority government agencies that make a key contribution to the growth outcome – focusing on assessing and advising on the performance of agencies operating in areas most important for improving economic growth, and where we can make the greatest immediate gains. The areas of focus are competition, climate change and skills.

Streamlined analysis

To improve the efficiency of our work and allow a greater focus of resource on priority areas, the Treasury's efforts in other areas will be streamlined. This means that, over the next three to five years, we will maintain an informed overview of streamlined areas to foresee and appropriately manage emerging fiscal, economic and policy risks. Our level of engagement will reflect the level of risk involved.

In 2007/08, we will develop the Treasury's internal capability and frameworks to deliver streamlined analysis in relevant areas with respect to fiscal management, policy analysis, financial management and probity, and SOEs.

Improving State sector capital and asset management

In addition to managing the Crown's balance sheet to maximise returns and minimise risk on financial assets and liabilities, the Treasury also helps ensure the Government's physical assets are efficiently and effectively managed to support its policy objectives. This performance focus complements the macroeconomic focus in this area, also ensuring that material risks and liabilities are managed, and that the Government is getting an optimal return on investments held by SOEs, Crown research institutes, Crown companies and Crown financial institutions. (This is discussed further on pages 43-45.)

Over the next three to five years, we will achieve measurable value-for-money gains both from the operation of existing assets and from new investments, and build stakeholder confidence in the current and future performance of the Crown's physical assets. To achieve this, the Treasury will adopt a central leadership role – developing, promulgating and maintaining a proposed new framework for State sector capital and asset management, and monitoring and reporting on asset management performance in departments and Crown entities.

In 2007/08, we will ensure agreement is reached between central agencies and other stakeholders on a common framework for improving capital and asset management in the State sector. We will apply this framework in the asset-rich areas of justice, police, corrections and defence.

Developing a consistent and coordinated approach to managing State sector remuneration pressures

State sector wages represent a large proportion of the Government's total expenditure and are an important lever for supporting the Government's fiscal and economic strategies.

Over the next three to five years, the Treasury will work with central agencies to take a consistent and coordinated approach to addressing State sector remuneration pressures, based on a sound understanding of State sector labour market dynamics. The overall aim is to ensure a strong correlation between the overall rate of State sector wage growth and associated productivity increases.

In 2007/08, we will develop a shared framework with central agencies for providing advice to Ministers on State sector remuneration pressures.

MEASURING PROGRESS ON OUR RESULTS

As outlined in the *Strengthening Our Capability* section, over the next year we want to re-orient our business around the concepts of defining the results we are seeking and measuring our progress towards those results.

This work is currently underway in the State sector performance area. For example, we have developed a set of interim results and indicators of success for the Treasury's advice on the health sector. Here, the Treasury is seeking the overall result that "health decision-makers take into account the long-term fiscal impacts of their current actions on policy and fiscal outcomes, and that their actions are informed by robust cost-effectiveness analysis". The interim results and measures we have developed help us to prioritise our efforts towards the areas that will yield the greatest benefit for the overall result we are seeking. One such interim result is that "the long-term fiscal perspective is reflected in advice to Ministers on key health policy areas, including the health workforce, the primary care strategy and the health of older people".

Providing advice to Ministers is one of the ways in which we support their decision-making, and therefore getting the long-term fiscal impact routinely reflected in this advice is vital. One of the ways we will measure our success in this area is by assessing how effective we are at creating opportunities to provide this type of advice to decision-makers.

CENTRAL AGENCY LEADERSHIP

A high-performing, trusted and accessible State sector, delivering the right things in the right way at the right prices.

The common purpose of the central agencies is a shared or mutual interest in a high-performing, trusted and accessible State sector. Central agencies have a key leadership role to play in aligning the activities of the State services with Government's priorities and making sure that Ministers receive the best possible advice before making decisions. Each central agency has its own key responsibilities, but they also require contributions from the other two agencies.

- **The Department of the Prime Minister and Cabinet (DPMC)** exists to support the process of collective decision-making, to convey Cabinet's decisions to the relevant Ministers and officials and ensure that the Cabinet receives well-conceived and coordinated advice. DPMC also has a leadership role in relation to government themes and priorities, including conveying government's priorities to officials.
- **The Treasury** exists to monitor and manage the financial affairs of the Government and to provide economic and fiscal policy advice. Treasury is the key agency to support Ministers in balancing priorities through the Budget process. They provide insight into the efficiency and effectiveness of government agencies and their interventions.
- **The State Services Commission** exists to appoint and manage Public Service chief executives, to provide leadership in capability of agencies, sectors and systems, and to ensure that State servants are appropriately focussed on addressing the Government's priorities.

In 2006 an independent in-depth review of the central agencies was completed. While the review pointed to successes, Ministers agreed that more is needed from the Central Agencies, both jointly and separately, if we are to lift performance in the State sector. Central Agencies must:

Provide effective leadership...

Central agencies need to take responsibility for making our devolved system work. To that end, central agencies will work alongside other agencies on specific issues.

Central agencies will work to give Ministers better information and advice. We will ensure that the right guidance and monitoring is in place to enable the system to run smoothly ensuring agencies will have a clear understanding of Ministers' performance expectations.

Focus on the things that matter...

Central agency efforts need to be better targeted to where they are going to have the most impact on results. Central agencies will focus on priority issues and get action on these while retaining responsibility for a system-wide view.

Work together more effectively...

By sharing information and integrating aspects of our planning, we will aim to develop joint views on where priority issues lie. We can then identify where there is value in taking joint action on issues, or where separate action is likely to be more productive.

In 2007/08 the central agencies will work in a number of areas including:

- **Cross-government policy issues** – central agencies will provide the leadership and support needed to achieve progress on complex issues where government expects to see significant shifts in outcomes. These issues often cross agency and sector boundaries.
- **State systems improvement** – central agencies will work together where systems improvements would significantly assist government to deliver on priorities.
- **Central agency organisational improvements** – each central agency is changing and better aligning its internal processes to more effectively carry out the shared central agency role.

Measurement

Feedback, through an annual survey to State sector agency leaders, and from central agencies Ministers, indicates that central agencies are adding-value to State sector performance.

THE TREASURY'S APPROACH TO OUR CENTRAL AGENCY COMMITMENTS

We plan to embed our responsibilities under our central agency role at all levels in the work we undertake. To provide momentum for this, we have recently appointed a Deputy Secretary Central Agencies and a team to support that focus in the Central Agencies Group.

The agreed priorities the central agencies will be progressing together are:

- sustainability (including climate change)
- engagement and achievement of youth in education
- State sector reprioritisation.

They will be working alongside other groups, and in particular in the State Sector Performance Group, to ensure that:

- the Treasury's central agency leadership role is fully understood and complementary to other central agencies
- the Treasury provides good leadership and adds value to the State sector via that central agency role
- there are constructive and consistent central agency engagements with the wider State sector on performance improvement.

Leadership and structure

LEADERSHIP AND STRUCTURE

SOI B.27 › 2007–2010 › THE TREASURY



Peter Bushnell, Mike James, Angela Hauk-Willis, Peter Mersi, Tony Hartevelt, John Whitehead

STRATEGIC LEADERSHIP TEAM

The Treasury has changed its organisational structure to better deliver on outcomes. Our three new policy groups are the Economic Performance Group, the Macroeconomic Group and the State Sector Performance Group. Supporting the policy groups in their work are the Organisational Performance Group and the Central Agencies Group.

Each of the five groups is led by a Deputy Secretary; the five Deputy Secretaries, together with the Secretary to the Treasury, form the Strategic Leadership Team.

OUR STAFF

Our human resource policies, organisational arrangements and staff development initiatives are designed to help us recruit and train the best staff possible. The Organisational Development and Capability

team ensures capability and resource allocation are closely aligned, identifies capability gaps and provides capability development to deliver on our current and future results.

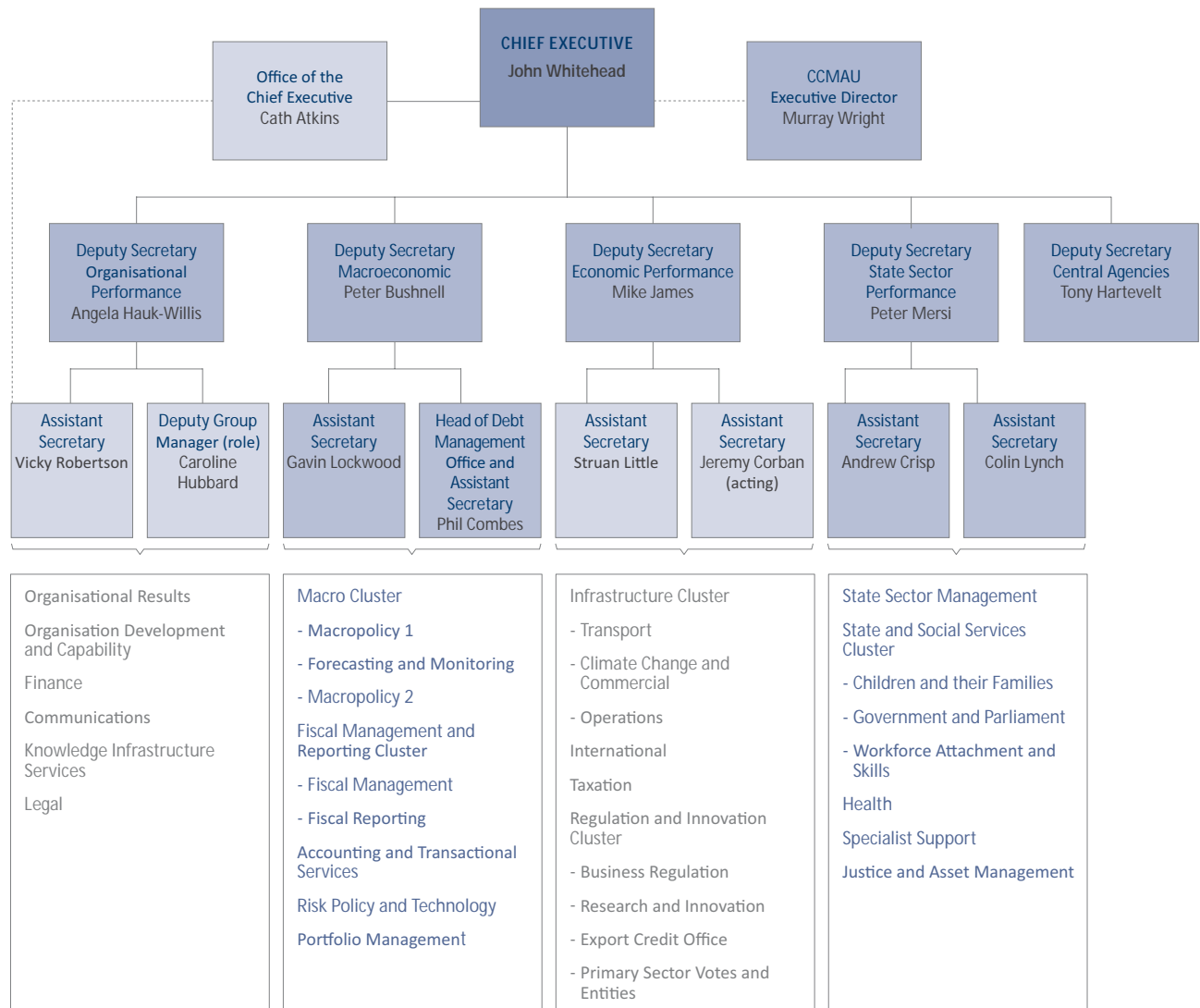
Our success in contributing to our outcomes depends on maintaining and developing a talented workforce and making full use of its experience and expertise. The Treasury employed 309 staff (158 women and 151 men) as at the end of March 2007 with a further 16 staff on secondment to various agencies and Ministers' offices. This SOI is prepared on the basis of similar staff numbers with no major changes envisaged in the medium term.

In the year ahead the Treasury will complete the Government's Pay and Employment Equity Plan of Action. The intention of this plan is to identify how gender may affect employment, areas that are already performing well and areas where there may be gender difference that might require further investigation and response. Results will be published in the Annual Report 2008.

CROWN COMPANY MONITORING ADVISORY UNIT

The Crown Company Monitoring Advisory Unit (CCMAU) is a stand-alone unit within the Treasury. The Executive Director of the Unit is directly accountable to the Secretary to the Treasury for the Crown's investment in CCMAU, and for CCMAU's performance.

ORGANISATIONAL CHART



Output performance Vote Finance

OUTPUT PERFORMANCE – VOTE FINANCE

SOI B.27 › 2007–2010 › THE TREASURY

Statement of Forecast Service Performance

Section 38 Public Finance Act 1989

This section provides information about the services and activities (outputs) that the Treasury intends to provide during the 2007/08 financial year.

Over the 2006/07 year, we significantly changed our output structure, moving from nine outputs to six. This change will better support the delivery of our three outcomes and provide an accountability framework for our output delivery and results focus. It will also help us to manage our business more efficiently and effectively.

Descriptions of the Treasury's six output classes follow, along with some performance measures and cost information. Through introducing results specification to all areas of our work we are introducing better measures of performance. Performance measures of quantity, quality and timeliness will be developed for these results, and the outputs given below will be linked to them.

Detailed service performance standards for all output classes can be found on page 42.

VOTE FINANCE AT A GLANCE

| OUTCOMES | OUTPUT CLASSES (\$M AND % OF BASELINE TOTAL) | TREASURY GROUPS |
|---------------------------|---|---|
| Macroeconomic Performance | Debt and Related Financial Asset Management \$7.3m (13%) | Macroeconomic \$18.7m (33%) |
| | Policy Advice and Management: Macroeconomic \$11.4m (20%) | |
| State Sector Performance | Policy Advice: State Sector Performance \$17.6m (31%) | State Sector Performance \$20.8m (37%) |
| | Management of Claims Against the Crown, Contractual Liabilities and Crown Properties \$5.7m (10%) | |
| Economic Performance | NZ Export Credit Office \$1.2m (2%) | Economic Performance \$17.0m (30%) |
| | Policy Advice: Economic Performance \$13.3m (24%) | |

POLICY ADVICE: STATE SECTOR PERFORMANCE

This class of outputs involves the provision of policy advice related to ensuring the work of the State sector represents value for money in achieving the Government's aims and objectives. This includes advice on:

- fiscal and financial management of all government agencies
- specific agency or entity performance (including Crown entities, Crown companies, Crown financial institutions and State-owned enterprises)
- in-depth performance analysis of priority agencies or sectors
- the overall performance of the public management system including thematic and cross-cutting analysis, eg, capital asset management.

The Treasury is seeking to differentiate the level of advice and service routinely provided on, or to, different government agencies and sectors. Those agencies and sectors judged priorities will be a focus for Treasury advice and services. Priority agencies and sectors will be significant for State sector performance, fiscal management, or economic performance.

For all departments and votes, Treasury advice and services will include:

- management of core government Budget processes
- efficient support of good financial management and probity within agencies
- maintaining an informed overview to foresee significant emerging financial or performance risks.

For priority sectors and agencies, Treasury advice will extend to in-depth performance analysis, including a focus on the most efficient and effective policies, regulation, administration and delivery to achieve the Government's aims and objectives.

Empirical and analytical research will also be undertaken as required to inform the above policy advice.

Performance dimensions*

Quality

- Outputs produced under this output expense related to reporting on the financial performance of SOEs, Crown Research Institutes (CRIs) and other Crown companies monitored by CCMAU will be undertaken in conjunction with CCMAU.
- Outputs produced in relation to Housing New Zealand Corporation will be undertaken in conjunction with the Ministry of Housing.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 17,067 | 17,067 | 17,300 |
| Department | 361 | 361 | 287 |
| Other | 3 | 3 | 3 |
| TOTAL REVENUE | 17,431 | 17,431 | 17,590 |
| TOTAL EXPENSES | 17,431 | 17,431 | 17,590 |

* General service performance standards are detailed on page 42.

POLICY ADVICE: ECONOMIC PERFORMANCE

This class of outputs involves the provision of policy advice and services relating to helping the Government to improve New Zealand's economic performance. This includes helping Ministers, the Government and State agencies understand policies that are important for economic growth and the connections between overall economic performance and other desired outcomes when developing strategies and evaluating intervention options.

The advice the Treasury will provide includes:

- analysis and advice to Ministers on broad economic strategies to promote economic growth and their impact on living standards
- analysing the drivers of productivity growth and advising Ministers on the policies, regulations and institutional arrangements that best achieve improved overall economic performance
- advice on trade-offs between these and other government outcomes.

The Treasury's advice will concentrate on those policy areas that are most significant and pervasive for New Zealand's economic performance. These are:

- financial markets, investment and savings
- competition and regulatory frameworks
- sustainable environment, particularly climate change
- skills acquisition and schooling outcomes
- taxation
- international connections
- infrastructure: energy, telecommunications, transport
- innovation
- Auckland
- labour market performance
- social mobility.

In addition, the Treasury will:

- continue to measure and monitor New Zealand's economic performance
- undertake empirical and analytical research to inform policy advice.

Performance dimensions*

Quality

Outputs produced under this output expense are to be undertaken in conjunction with Inland Revenue and other relevant collection agencies where reports are produced on revenue policy issues.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 13,447 | 13,447 | 13,102 |
| Department | 284 | 284 | 218 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUE | 13,731 | 13,731 | 13,320 |
| TOTAL EXPENSES | 13,731 | 13,731 | 13,320 |

* General service performance standards are detailed on page 42.

POLICY ADVICE AND MANAGEMENT: MACROECONOMIC

This class of outputs involves the provision of policy advice and services related to helping the Government maintain a stable and sustainable macroeconomic environment. This includes advice on:

- budget management, including management and delivery of the Budget process
- forecasting, including macroeconomic, tax and fiscal forecasting
- fiscal policy and strategy
- long-term fiscal sustainability
- macroeconomic stabilisation
- fiscal reporting, including the application and development of current Generally Accepted Accounting Principles (GAAP), as it applies to the Crown.

Empirical and analytical research will also be undertaken to inform advice in the above areas.

Performance dimensions*

Quality

Under this outputs expense:

- outputs will meet the agreed standard for publication of parliamentary papers, as relevant
- outputs will be prepared within the Budget timetable set by the Government and the statutory limits of the Public Finance Act 1989
- Crown financial statements will conform with GAAP and fairly reflect the operations, cash flows and financial position of the Crown
- the monitoring report on appropriations for the Auditor-General (the Controller function report) will be prepared and forwarded to the Auditor-General on a monthly basis as required by the Public Finance Act 1989
- delegations for the management of foreign-exchange risks, Crown bank accounts and trust money will be managed to ensure that the conditions of the delegations are not breached and that they permit financial activity to be authorised at an appropriate level
- management statements required under section 29 of the Public Finance Act 1989 will be signed within the time limits set out in that Act and will be supported by analysis and reviews of departmental financial management.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 10,771 | 10,771 | 11,248 |
| Department | 228 | 228 | 187 |
| Other | 4 | 4 | 4 |
| TOTAL REVENUE | 11,003 | 11,003 | 11,439 |
| TOTAL EXPENSES | 11,003 | 11,003 | 11,439 |

* General service performance standards are detailed on page 42.

DEBT AND RELATED FINANCIAL ASSET MANAGEMENT

Management of Crown debt and related financial assets contributes to the Treasury's macroeconomic performance outcome by maximising the long-term net return on the Crown's financial asset and debt portfolios, within an appropriate risk management framework. Specific activities include:

- developing and maintaining an appropriate framework for efficiently managing the portfolio and the risks associated with it
- issuing domestic-currency debt to meet the Government's funding requirements
- disbursing cash to departments and facilitating departmental cash management
- advancing funds to government entities in accordance with Government policy
- providing capital market services and derivative transactions for departments and government entities
- funding the Reserve Bank's foreign-exchange reserves
- managing foreign-currency assets required to meet net foreign-currency interest and principal payments
- maintaining hedges of foreign-currency debt that cannot be bought back from investors.

Performance dimensions*

Quality

- The Secretary to the Treasury will monitor the operation of the New Zealand Debt Management Office with the assistance of an Advisory Board. Performance in portfolio management, debt issuance, capital market transactions and advice, transactional processing and compliance with risk management policies will be reported regularly to the Secretary to the Treasury, the Advisory Board and the Minister (in the context of the Treasury's regular reporting).
- Policies regarding the strategic objectives for domestic and foreign-currency debt, instruments and currencies for transactions, limits in respect of market and credit risk utilisation, composition requirements for the liquidity asset portfolio, and maturity profile requirements will be adhered to.
- Policies, delegations, limits, reporting and performance management requirements, procedural manuals, established processes and other controls for managing internal operations will be adhered to.
- Issuance of domestic-currency debt will be transparent and predictable.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 7,139 | 7,139 | 7,127 |
| Department | 142 | 142 | 119 |
| Other | 9 | 9 | 9 |
| TOTAL REVENUE | 7,290 | 7,290 | 7,255 |
| TOTAL EXPENSES | 7,290 | 7,290 | 7,255 |

* General service performance standards are detailed on page 42.

MANAGEMENT OF CLAIMS AGAINST THE CROWN, CONTRACTUAL LIABILITIES AND CROWN PROPERTIES

This class of outputs involves managing a range of commercial, contractual, legal and Treaty of Waitangi-related claims against the Crown. Outputs contribute to minimising Crown financial risk within the bounds of Government objectives. Specific outputs include:

- management of commercial and contractual risks associated with the 1973 Maui Gas Contract, including the operation of the gas notification system with downstream gas users
- management of contractual and commercial issues arising from completed asset sales and wind-up of the Crown's previous ownership interests in SOEs, Crown companies and other entities
- advice on the management of historical claims under the Treaty of Waitangi and assistance with the Crown's negotiation of specific settlements
- provision of legal title to land sold to SOEs and other Crown companies as a part of their sale and purchase agreements with the Crown
- management of litigation against the former Building Industry Authority relating to weather-tight homes
- management of New Zealand House, London.

Specific outputs often depend on the actions of third parties.

Performance dimensions*

Quality

Outputs produced under this output expense will:

- explore all opportunities to reach a satisfactory settlement of liabilities within parameters set by Ministers
- meet the Treasury's policies and procedures for the employment of advisors and consultants
- meet the Crown's contractual responsibilities and enforce the Crown's contractual rights.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 2,026 | 2,026 | 5,572 |
| Department | 43 | 43 | 93 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUE | 2,068 | 2,068 | 5,665 |
| TOTAL EXPENSES | 2,068 | 2,068 | 5,665 |

* General service performance standards are detailed on page 42.

NEW ZEALAND EXPORT CREDIT OFFICE

This class of outputs involves the provision of export credit insurance and managing and operating the New Zealand Export Credit Office (NZECO) in accordance with the delegated authority from the Minister of Finance. Outputs contribute to greater export activity within the bounds of the Government's financial risk parameters set out in the delegation agreement. Specific outputs include:

- provision of medium- to long-term export credit insurance via the NZECO in accordance with the delegation agreement with the Minister of Finance
- management of the ongoing operation of the NZECO in accordance with the delegation agreement with the Minister of Finance
- advice to the Secretary via the NZECO Advisory Board on proposed transactions
- review of the NZECO during 2007/08 to evaluate the NZECO's statutory form, and in particular to assess the merits of establishing NZECO as a separate Crown entity and also to reconsider the NZECO's product suite.

Performance dimensions*

Quality

- The Secretary to the Treasury will monitor the operation of the NZECO with the assistance of an Advisory Board. The performance of the NZECO will conform to international best practices as measured by the OECD Arrangement on Export Credits.
- The Treasury will commit the resourcing and support necessary to assist the NZECO in achieving the performance targets outlined in its 2007/08 Statement of Intent.

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 925 | 925 | 1,250 |
| Department | 20 | 20 | 15 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUE | 945 | 945 | 1,265 |
| TOTAL EXPENSES | 945 | 945 | 1,265 |

* General service performance standards are detailed on page 42.

SERVICE PERFORMANCE STANDARDS: VOTE FINANCE OUTPUT CLASSES

Performance dimensions

Quantity

The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister of Finance and the Secretary to the Treasury (as amended from time to time) for 2007/08. Reporting at least twice a year will enable the Minister to assess actual performance in output delivery against those expectations.

Based on previous years' figures, the volume of Parliamentary Questions (PQs), Ministerial Correspondence (MCs) and Official Information Act requests (OIAs) is estimated to be:

| FORECAST 2007/08 | PQs | MCs | OIAs |
|--|-------|---------|-------|
| Debt and Financial Asset Management | 0-5 | 0-5 | 0-5 |
| New Zealand Export Credit Office | 15-20 | 0-5 | 0-5 |
| Management of Claims Against the Crown, Contractual Liabilities and Crown Properties | 0-5 | 10-20 | 0-5 |
| Policy Advice and Management: Macroeconomic | 15-20 | 40-50 | 10-20 |
| Policy Advice: Economic Performance | 50-60 | 700-750 | 60-70 |
| Policy Advice: State Sector Performance | 60-80 | 270-300 | 40-50 |
| Ownership | 30-40 | 20-30 | 10-20 |

Quality

All reports will comply with the Treasury's quality standards for analysis and advice outlined on page 75. Output quality will be assessed as follows:

- The Treasury will implement suitable quality assurance control procedures to support the expectations for analysis and advice delivered under this Vote.
- Managerial and peer (internal and external) review will be maintained to ensure that the quality standards are met.
- The Minister will be formally requested, at least twice a year, to indicate his or her level of satisfaction with the overall quality of the outputs produced.

Timeliness

Timeframes will be agreed between the Minister and the Secretary to the Treasury for the financial year.

- Advice will be delivered within the agreed and/or statutory timeframes so that Ministers have sufficient time to consider the issues and take appropriate action. Where agreed deadlines will not be met, extensions are to be formally requested.
- MCs, PQs, Cabinet agendas and OIAs will be responded to within agreed and/or statutory timeframes.
- The Department will respond within agreed timelines to requests for attendance at Parliament during debates and at Cabinet and Select Committee meetings.
- Drafting instructions in the form of draft legislation will be provided to the Parliamentary Counsel Office within the timeframes agreed with that Office.
- Reporting at least twice a year will enable the Minister to assess actual performance in the timeliness of output delivery against those expectations.

Coverage

A comprehensive range of services will be provided as agreed with the Minister. These will include the capacity to react quickly and provide support for the Minister in Cabinet committees, including relevant briefings on significant issues and regular evaluation of the impacts of policy on the Government's desired outcomes.

Crown Company Monitoring Advisory Unit

CCMAU

SOI B.27 | 2007–2010 | THE TREASURY

EXECUTIVE SUMMARY

Executive Director – Murray Wright

CCMAU remains committed to being the Government's ownership advisor of choice. Ultimately, our success is based on the performance of the companies and entities in our portfolio and the impact they have on New Zealand.

One of the three themes that constitute the Government's priorities for the next decade is economic transformation. The performance of all the companies and commercial entities owned by the Crown is critical to achieving this priority theme.

CCMAU contributes to the improved State sector performance outcome as set out on pages 27-30. We do not expect our core services to change over the coming year. The focus of our work will continue to be on creating the environment for excellent company performance by assisting the Government to communicate clearly what it expects from an ownership perspective.

Measuring the impact of what we do is difficult. Nonetheless, we are committed to trying to develop some meaningful performance indicators by which our Ministers can assess the value of our contribution to portfolio performance.

Over the coming 12 months, CCMAU expects to manage and provide advice on a range of issues affecting individual or groups of companies in its portfolio. These issues can be complex and have long-term impacts on ownership policy or company performance.

We will continue to give priority to the training and development of our staff. The quality of CCMAU's advice depends heavily on the calibre of staff we are able to recruit. Staff retention is an ongoing challenge for CCMAU.

CCMAU'S PURPOSE

CCMAU contributes to the efficient management of the Crown's balance sheet and net worth by providing services which enable shareholding Ministers to hold Crown company and entity boards accountable for their performance in maintaining and enhancing shareholder value.

CCMAU provides services in the following areas:

- Monitoring – reporting on business plans, company reports, and performance against targets and sectoral trends.
- Ownership advice – advising on strategic issues, investment and diversification opportunities, restructuring issues, and the impact of policy positions.

- Ministerial servicing – managing issues and drafting replies to correspondence, Parliamentary Questions and Official Information Act requests.
- Governance – identifying and screening potential directors, managing the board appointment process and promoting best-practice corporate governance of Crown companies and entities.

To achieve its purpose, CCMAU is structured around four sector-focused teams supported by a pan-unit corporate team that provides administrative and legal services. Details of each team follow.

Science and Innovation Team

Acting Manager – David Ryan

The portfolio of companies monitored by this team comprises the nine CRIs, New Zealand Venture Investment Fund Ltd (NZVIF) and Research and Education Advanced Network New Zealand Ltd (REANNZ). These Crown entity companies have a key role to play in the Government's economic transformation agenda by providing or supporting the research that will boost New Zealand's innovation system. The portfolio has total assets of \$520 million.

Energy, Land and Environment Team

Manager – Michael Moore

This portfolio is made up of two sector groups – the energy sector and the land and environment sector. All companies in the portfolio are SOEs.

The energy sector companies include the three generator-retailers (Meridian Energy Ltd, Genesis Power Ltd and Mighty River Power Ltd), Transpower New Zealand Ltd, Solid Energy New Zealand Ltd, and the residual business of Electricity Corporation of New Zealand Ltd (ECNZ). Together, they account for nearly \$13 billion of assets.

The seven land and environment sector companies are more diverse in nature and have total assets of around \$1.6 billion. Landcorp Farming Ltd is by far and away the most significant of the companies in this sector, but the others still have a major impact on the New Zealand economy. They include AgriQuality Ltd, Asure New Zealand Ltd, Animal Control Products Ltd, Meteorological Service of New Zealand Ltd (MetService), Quotable Value Ltd and Timberlands West Coast Ltd.

Communications, Services and Infrastructure Team

Manager – James Cunningham

This team monitors a diverse group of companies and entities in the broadcasting, telecommunications, services and transport infrastructure sectors. The group includes five SOEs (Airways Corporation of New Zealand Ltd, Kordia Group Ltd, Learning Media Ltd (LML), New Zealand Post Ltd, New Zealand Railways Corporation (ONTRACK)), two Crown entity companies (Radio New Zealand Ltd (RNZ) and Television New Zealand Ltd (TVNZ)), three partly Crown-owned airports (Christchurch International Airport Ltd, Dunedin International Airport Ltd and Invercargill Airport Ltd), two Crown entities (New Zealand Lotteries and Public Trust), and a partly owned shipping company (Pacific Forum Line Ltd). Collectively, these companies have assets of nearly \$18 billion.

Appointments and Governance Team

Manager – Steve Rich

This team manages, on behalf of responsible Ministers, the board appointment process for all the SOEs, CRIs, and Crown companies and entities monitored by CCMAU. Broadly, this process includes identifying the skills needed on each board, identifying a range of suitable candidates for appointment, and managing the various processes that enable Ministers to confirm the numerous appointments and reappointments that occur each year.

The team also manages the board fee-setting process, aspects of the induction of new directors, and CCMAU's director training and development activities.

LOOKING AHEAD

In 2007/08, we plan to build on a number of outputs that have been achieved in the last 12 months.

The Science and Innovation Team will continue to engage broadly with other government agencies on policies affecting the companies in the portfolio, such as the impact of the funding system on the CRIs, the respective roles of CRIs and tertiary education institutions in the innovation sector, and issues affecting the venture capital market in which NZVIF operates. During 2007/08, the CRIs will report for the first time on the "research application indicators" developed during 2006 to measure their technology transfer activities. CCMAU will use this information to assess the non-financial performance of CRIs.

The energy sector will continue to face challenges in 2007/08 in both electricity generation and distribution. CCMAU is committed to building further its capability in assessing energy sector performance. The sector includes some of New Zealand's largest SOEs and their performance has a significant downstream effect on New Zealand's economy, including access to affordable electricity, both commercial and domestic. We also expect to monitor closely the contribution of the Crown's energy companies to the Government's draft New Zealand Energy Strategy.

In the land and environment sector, CCMAU expects to play a central role in implementing outcomes from the Landcorp-related land review, the assessment of the viability of merging AgriQuality and Asure into a single SOE, and MetService and the National Institute of Water and Atmospheric Research's (NIWA) collaboration initiatives.

The convergence of broadcasting and telecommunications is likely to have a significant impact over time on companies like TVNZ and RNZ, as well as Kordia and LML. Equally, implementing digital television transmission (following decisions by the Government earlier in 2007) will be a key focus for TVNZ and Kordia. CCMAU expects to consider and monitor TVNZ's strategic response to the changing technology and market.

We also expect to publish SOE- and CRI-specific versions of an updated Owner's Expectations Manual.

Managing the core appointments activity for all the SOEs and Crown companies and entities around the prospect of a General Election sometime in 2008 will be a key focus for the Appointments and Governance Team. This will necessitate careful planning to avoid the period before the election when, by convention, governments do not generally make any new appointments.

Furthermore, our existing board succession management system and candidate database is coming to the end of its useful life and decisions will have to be made about how we replace this critical tool early in 2007/08, if not before. If possible, we will discuss with central agencies the possibility of our new system having cross-government functionality. Whatever approach is taken, the design, build and implementation of a new system will be a significant undertaking for the Appointments and Governance Team.

In addition, we expect to "bed in" our new director training and development activities following a change in provider during 2006/07. We will also conduct an annual review of director fees against market benchmarks, consistent with the Crown company fees framework already in place.

Finally, CCMAU will continue to maintain and enhance its relationships with other agencies involved in board appointment and governance activity, whether as nominating agencies or as departments or ministries seeking assistance with appointments to the boards of non-commercial Crown entities.

Maintaining and developing capability

MAINTAINING AND DEVELOPING CAPABILITY

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SETTING STRATEGIC DIRECTION

The foundations of the strategy adopted in 2005/06 are largely in place. We are well placed to take advantage of new opportunities as they arise, without undermining the way we do things at CCMAU and the culture that has developed. It is important to us that we continue to create the environment and conditions that enable excellent individual and portfolio-wide company performance.

We are committed to being the New Zealand Government's ownership advisor of choice and welcome the central agency focus on improving the efficiency and effectiveness of ownership monitoring across the public sector. To this end, we have played an active role in the departmental Monitoring, Appointments and Governance Network (MAGNet) led by the State Services Commission and the Treasury, and will continue to do so in 2007/08.

We will continue to pay close attention to government and stakeholder priorities and, by doing so, will demonstrate the critical role CCMAU can play in developing and implementing ownership policy that supports the economic transformation agenda.

MANAGING OUR PEOPLE

Exceeding the expectations of Ministers and key stakeholders requires CCMAU to recruit and retain a skilled, experienced and motivated team. This is not

easy in a competitive market environment where the skills staff acquire at CCMAU are keenly sought after by other employers, particularly in the private sector. Our strategy will be to continue to upskill staff and develop their industry knowledge where appropriate.

Moving to newly refurbished, open-plan offices early in 2006/07 has had a positive impact on the way we work. This, coupled with contemporary staff policies, has contributed to our aim of making CCMAU a great place to work.

Feedback from staff is important and valued. We will continue to monitor staff satisfaction levels by conducting an annual staff climate survey.

IMPROVING COMMUNICATIONS AND STAKEHOLDER RELATIONSHIPS

CCMAU relies on close working relationships with responsible Ministers, the SOEs and Crown companies and entities in its portfolio, and a wide range of other key stakeholders. Timely and constructive feedback, whether formal or informal, is important to our continuous performance improvement. Our strategy of increasing our interactions with our stakeholders has proved beneficial and will continue.

CCMAU's efforts in leading the establishment of an international network of like organisations are starting to pay dividends – the challenge will be to maintain the momentum to ensure there is an ongoing free flow of

information between members. By the end of 2007/08, we expect to have passed on this leadership role to another jurisdiction.

CCMAU's website is the primary means by which we communicate with the public of New Zealand. Our aim is to ensure the website is an informative, useful and up-to-date resource for those interested in what we do and the performance of the companies and entities we monitor. It is also a channel through which people can express interest in being a director and find out about current board vacancies.



A handwritten signature in black ink, appearing to read 'Murray Wright' in a cursive style.

Murray Wright
Executive Director

Output performance CCMAU

OUTPUT PERFORMANCE – CCMAU

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Statement of Forecast Service Performance

Section 38 Public Finance Act 1989

VOTE CROWN RESEARCH INSTITUTES

Crown company monitoring advice to the Minister for Crown Research Institutes (CRIs), Minister for Economic Development and Minister of Research, Science and Technology.

This output involves the provision of policy and ownership monitoring advice on nine CRIs, NZVIF and REANNZ, and the provision of advice on the performance of the CRI Capability Fund, and includes:

- advising the Minister for CRIs, the Minister for Economic Development and the Minister of Research, Science and Technology on the strategic direction of CRIs, NZVIF and REANNZ, respectively and the commercial and fiscal risks associated with Crown ownership
- providing advice which assists the Minister for CRIs, the Minister for Economic Development and the Minister of Research, Science and Technology to set ownership objectives and targets for CRIs, NZVIF and REANNZ
- monitoring and advising the Minister for CRIs, the Minister for Economic Development and the Minister of Research, Science and Technology of CRIs', NZVIF's, and REANNZ's performance against these objectives and targets
- providing policy advice on, and managing issues arising out of the ownership of CRIs, NZVIF and REANNZ, including residual implementation issues
- managing, on behalf of the responsible Ministers, the appointment of CRI, NZVIF and REANNZ directors and monitoring the performance of those directors and boards
- assisting the responsible Ministers in the formulation of shareholders' expectations in relation to the governance practices and structures companies adopt.

Maintaining and enhancing the Crown's ownership interest in these companies contributes to the efficient management of the Crown's assets and liabilities. The CRIs, NZVIF and REANNZ have an important role to play in the New Zealand innovation system, thereby contributing to improving New Zealand's overall economic performance.

Performance dimensions

Quality

The Minister for CRIs, the Minister for Economic Development or the Minister of Research, Science and Technology will expect advice to demonstrate a sound knowledge of the Crown company or fund's business, the environment within which the company or fund operates and the consequences of shareholder or CRI/NZVIF/REANNZ or fund actions.

Timeliness

PQs, MCs and OIAs will be responded to within agreed and statutory timeframes. Based on previous years' figures, expected quantities of PQs, MCs and OIAs will be:

| FORECAST 2007/08 | PQs | MCs | OIAs |
|------------------|--------|-------|------|
| Output expense | 60-100 | 30-50 | 4-8 |

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 1,052 | 1,052 | 1,052 |
| Department | 20 | 20 | 21 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUE | 1,072 | 1,072 | 1,073 |
| TOTAL EXPENSES | 1,072 | 1,072 | 1,073 |

VOTE STATE-OWNED ENTERPRISES

Crown company monitoring advice to the Minister for State-Owned Enterprises and other responsible Ministers.

This output involves the provision of policy and ownership monitoring advice on SOEs, Crown entity companies and Crown entities covered by Vote SOEs (collectively referred to below as “SOEs”). This includes:

- advising the Minister for SOEs and other responsible Ministers on the strategic direction of SOEs; the commercial and fiscal risks associated with Crown ownership; proposals to establish and restructure SOEs; and the processes and outcomes of significant SOE divestments and acquisitions
- providing advice which assists Ministers to set ownership objectives and targets for SOEs
- monitoring and advising Ministers of SOEs’ performance against these objectives and targets
- providing policy advice on, and managing issues arising out of, the ownership of SOEs, including residual implementation issues
- managing, on behalf of responsible Ministers, the appointment of SOE directors and monitoring the performance of those directors and boards
- assisting responsible Ministers in the formulation of shareholders’ expectations in relation to the governance practices and structures companies adopt.

Maintaining and enhancing the Crown’s ownership interest in these entities contributes to the efficient management of the Crown’s assets and liabilities.

Performance dimensions

Quality

The Minister for SOEs and other responsible Ministers will expect advice to demonstrate a sound knowledge of the Crown company’s business, the environment within which the company operates and the consequences of shareholder or company actions.

Timeliness

PQs, MCs and OIAs will be responded to within agreed and statutory timeframes. Based on previous years’ figures, expected quantities of PQs, MCs and OIAs will be:

| FORECAST 2007/08 | PQs | MCs | OIAs |
|------------------|---------|---------|-------|
| Output expense | 100-140 | 160-180 | 12-20 |

Cost

| \$000 (Figures are GST exclusive) | Budget 2006/07 Supps | Estimated Actual 2006/07 | Forecast 2007/08 |
|-----------------------------------|-------------------------|-----------------------------|---------------------|
| REVENUE | | | |
| Crown | 2,538 | 2,538 | 2,400 |
| Department | 65 | 65 | 66 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUE | 2,603 | 2,603 | 2,466 |
| TOTAL EXPENSES | 2,603 | 2,603 | 2,466 |

SERVICE PERFORMANCE STANDARDS: ALL CCMAU OUTPUT CLASSES

Performance dimensions

Quantity

The quantity and nature of advice and operational services will be supplied on the basis agreed between the Minister for SOEs, the Minister for CRIs and the Executive Director of CCMAU (as amended from time to time) for 2007/08. Half-yearly and end-of-year reporting will enable the Ministers to assess actual performance in output delivery against those expectations.

Quality

All reports will comply with the generic quality standards for analysis and advice outlined on page 75. Output quality will be assessed as follows:

- The Ministers will expect CCMAU to implement suitable quality control procedures to support the expectations for analysis and advice delivered under the relevant Votes.
- Managerial and peer (internal and external, where appropriate) review will be maintained to ensure that the quality standards are met.
- The Ministers will be formally requested, on a half-yearly basis, to indicate their level of satisfaction with the overall quality of the outputs produced.

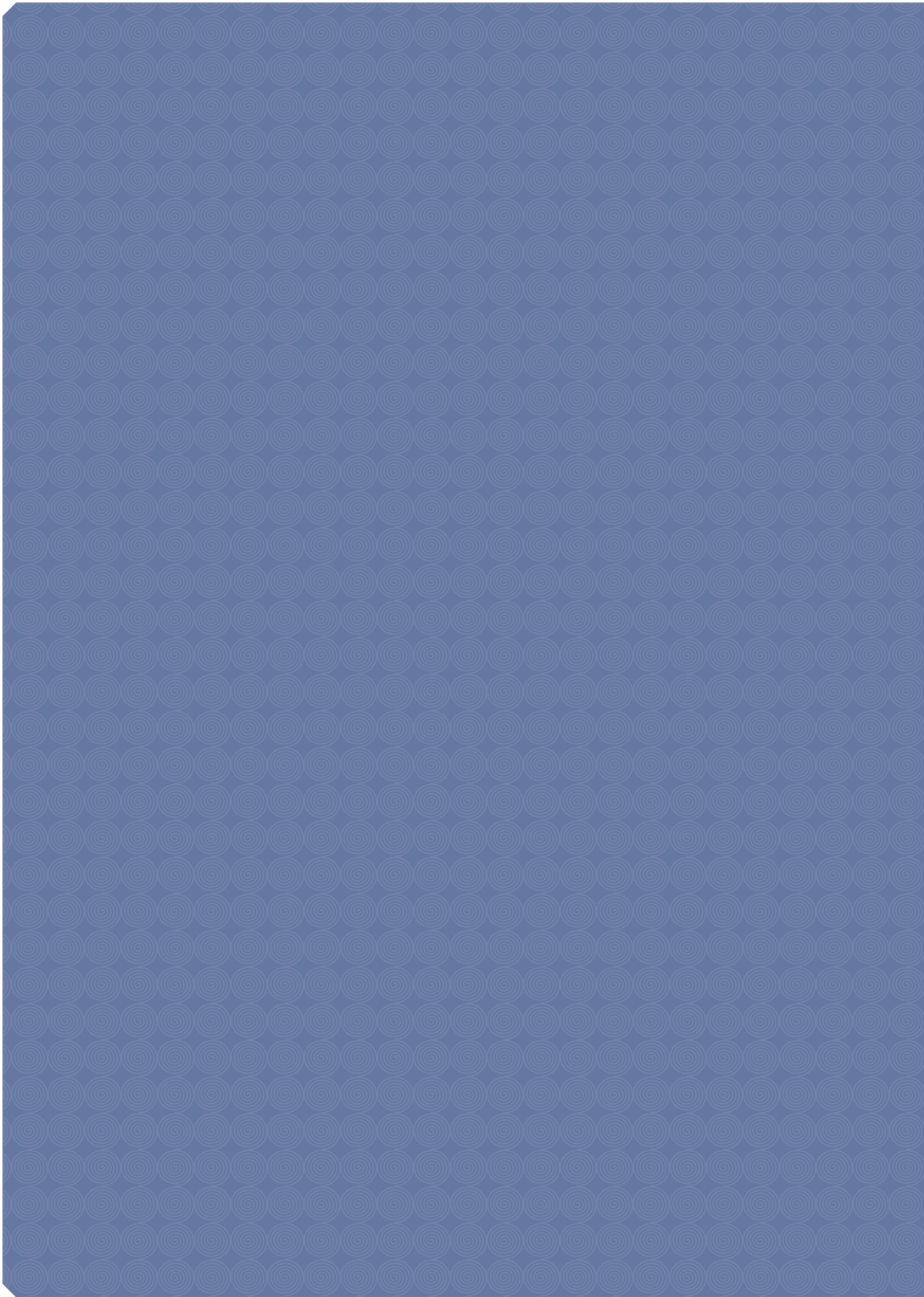
Timeliness

Timeframes will be agreed between the Ministers and the Executive Director of CCMAU for the financial year.

- Advice will be delivered within the agreed and/or statutory timeframes so that Ministers have sufficient time to consider the issues and take appropriate action. Where agreed deadlines will not be met, extensions are to be formally requested.
- MCs, PQs, Cabinet agendas and OIAs will be responded to within agreed and/or statutory timeframes.
- CCMAU will respond appropriately to requests for attendance at Parliament during debates and at Cabinet and Select Committee meetings.
- Half-yearly and end-of-year reporting will enable the Ministers to assess actual performance in the timeliness of output delivery against those expectations.

Coverage

A comprehensive range of services will be provided as agreed with the Minister for CRIs and the Minister for SOEs. These will include the capacity to react quickly and provide support for Ministers in Cabinet committees, including relevant briefings on significant issues and regular evaluation of the impacts of shareholder decisions and company actions on the Government's desired outcomes.



Part B

FORECAST FINANCIAL STATEMENTS FOR 2007/08

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STATEMENT OF RESPONSIBILITY

The information contained in this Statement of Intent for the Treasury has been prepared in accordance with section 38 of the Public Finance Act 1989.

As Chief Executive of the Treasury, I acknowledge, in signing this statement, that I am responsible for the information contained in this Statement of Intent.

The performance forecast for each output in the Output Performance (statement of forecast service performance) section for the year ending 30 June 2008 is as agreed with the Ministers responsible for each Vote administered by the Treasury.

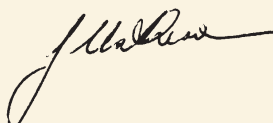
The financial performance forecast for the Treasury in the forecast financial statements is as agreed with the Minister of Finance, who is the Minister responsible for the financial performance of the Treasury. For the purposes of preparing the forecast financial statements presented in this report, the Treasury and the Crown Company Monitoring Advisory Unit (CCMAU) are treated as one entity.

The information contained in this Statement of Intent is consistent with existing appropriations and financial authorities, and with the proposed appropriations set out in the Main Estimates for the 2007/08 financial year, as presented to the House of Representatives in accordance with section 13 of the Public Finance Act 1989.



John Whitehead
Secretary to the Treasury

19 April 2007



John Matheson
Chief Financial Officer

19 April 2007

FORECAST STATEMENT OF FINANCIAL PERFORMANCE

for the year ending 30 June 2008

The Forecast Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) to be produced by the Department, including CCMAU. Total Forecast Expenses equals Total Forecast Voted Expenses in the Forecast Output Class Operating Statements on page 59.

| | Notes | 2007 Budget ¹ \$000 | 2007 Estimated Actual ² \$000 | 2008 Forecast \$000 |
|--------------------|-------|--------------------------------------|---|---------------------------|
| REVENUE | | | | |
| Crown | | 54,965 | 54,965 | 59,051 |
| Other revenue | | 1,178 | 1,178 | 1,022 |
| | | 56,143 | 56,143 | 60,073 |
| EXPENSES | | | | |
| Personnel | | 35,850 | 35,850 | 36,926 |
| Operating | | 14,368 | 14,368 | 16,794 |
| Consultants | | 3,897 | 3,897 | 4,260 |
| Depreciation | | 1,411 | 1,411 | 1,347 |
| Amortisation | 1 | 0 | 0 | 174 |
| Capital charge | | 617 | 617 | 572 |
| | | 56,143 | 56,143 | 60,073 |
| NET SURPLUS | | - | - | - |

In relation to all forecast financial statements:

- 1 Total budget figures equal the Supplementary Estimates appropriations for Votes Finance, CRIs and SOEs for the year ending 30 June 2007.
- 2 Estimated Actual figures incorporate the actuals results to 28 February 2007 and the revised budget for the four months ending 30 June 2007.

FORECAST STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS

for the year ending 30 June 2008

The Forecast Statement of Movements in Taxpayers' Funds combines information about the net surplus with other aspects of the financial performance of the Department, including CCMAU, to give a degree of measure of comprehensive income.

| | Notes | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|---|-------|-------------------------|--------------------------------------|---------------------------|
| Taxpayers' funds at the beginning of the year | 2 | 8,527 | 8,527 | 7,787 |
| Movements during the year | | | | |
| Net surplus | | - | - | - |
| TOTAL RECOGNISED REVENUE AND EXPENSES FOR THE YEAR | | - | - | - |
| Capital contributions from the Crown | | - | - | - |
| Capital withdrawal repaid to the Crown | | (600) | (600) | (600) |
| Provision for repayment of surplus to the Crown | | - | - | - |
| TAXPAYERS' FUNDS AT THE END OF THE YEAR | | 7,927 | 7,927 | 7,187 |

FORECAST STATEMENT OF FINANCIAL POSITION

as at 30 June 2008

The Forecast Statement of Financial Position reports the total assets and liabilities of the Department, including CCMAU. Taxpayers' funds are represented by the difference between the assets and liabilities.

| | Notes | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|-------------------------------------|-------|-------------------------|--------------------------------------|---------------------------|
| TAXPAYERS' FUNDS | | | | |
| General funds | 3 | 7,927 | 7,927 | 7,187 |
| TOTAL TAXPAYERS' FUNDS | | 7,927 | 7,927 | 7,187 |
| <i>Represented by:</i> | | | | |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and bank balances | | 2,666 | 2,666 | 2,612 |
| Prepayments | | 444 | 444 | 444 |
| Accounts receivable | | 408 | 408 | 408 |
| Debtor - Crown | | 6,358 | 6,358 | 6,696 |
| | | 9,876 | 9,876 | 10,160 |
| Non-Current Assets | | | | |
| Intangible assets | 3 | - | - | 752 |
| Property, plant and equipment | 3 | 5,970 | 5,970 | 5,019 |
| | | 5,970 | 5,970 | 5,771 |
| TOTAL ASSETS | | 15,846 | 15,846 | 15,931 |
| <i>Less:</i> | | | | |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Payables and accrued expenses | | 3,704 | 3,704 | 4,300 |
| Provision for employee entitlements | 3 | 3,876 | 3,876 | 4,141 |
| Provision for onerous contracts | | 17 | 17 | 0 |
| Finance lease liability | | 19 | 19 | 2 |
| | | 7,616 | 7,616 | 8,443 |
| Non-Current Liabilities | | | | |
| Provision for employee entitlements | | 301 | 301 | 301 |
| Finance lease liability | | 2 | 2 | - |
| | | 303 | 303 | 301 |
| TOTAL LIABILITIES | | 7,919 | 7,919 | 8,744 |
| NET ASSETS | | 7,927 | 7,927 | 7,187 |

FORECAST STATEMENT OF CASH FLOWS

for the year ending 30 June 2008

The Forecast Statement of Cash Flows summarises the cash movements in and out of the Department during the financial year. It takes no account of money owed to the Department or owing by the Department and therefore differs from the Forecast Statement of Financial Performance on page 55.

| | Notes | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|--|-------|-------------------------|--------------------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash was provided from: | | | | |
| Supply of outputs to the Crown | | 54,360 | 54,360 | 58,713 |
| Supply of outputs to third parties | | 1,178 | 1,178 | 1,022 |
| | | 55,538 | 55,538 | 59,735 |
| Cash was disbursed to: | | | | |
| Personnel | | 35,955 | 35,955 | 36,800 |
| Operating | | 17,889 | 17,889 | 20,495 |
| Capital charge | | 617 | 617 | 572 |
| | | 54,461 | 54,461 | 57,867 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 1,077 | 1,077 | 1,868 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash was provided from: | | | | |
| Sale of property, plant and equipment | | - | - | - |
| Cash was disbursed to: | | | | |
| Purchase of intangible assets | 4 | | | (320) |
| Purchase of property, plant and equipment | 4 | (993) | (993) | (1,002) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (993) | (993) | (1,322) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Cash was provided from: | | | | |
| Capital contribution | | - | - | - |
| Cash was disbursed to: | | | | |
| Capital withdrawal | | (600) | (600) | (600) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (600) | (600) | (600) |
| NET (DECREASE) IN CASH AND BANK BALANCES | | (516) | (516) | (54) |
| Cash and bank balances at the beginning of the year | | 3,182 | 3,182 | 2,666 |
| CASH AND BANK BALANCES AT THE END OF THE YEAR | | 2,666 | 2,666 | 2,612 |

FORECAST OUTPUT CLASS OPERATING STATEMENTS

for the year ending 30 June 2008

| | Crown Revenue \$000 | Revenue Other \$000 | Total Revenue \$000 | Total Voted Expenses ³ \$000 | Net Surplus \$000 |
|--|---------------------------|---------------------------|---------------------------|---|-------------------------|
| VOTE FINANCE: DEPARTMENTAL OUTPUT CLASSES | | | | | |
| Debt and Related Financial Asset Management | 7,127 | 128 | 7,255 | 7,255 | - |
| Policy Advice and Management: Macroeconomic | 11,248 | 191 | 11,439 | 11,439 | - |
| Policy Advice and Management: Economic and State Sector Performance (MCOA) | | | | | |
| - Management of Liabilities, Claims Against the Crown, Contractual Liabilities and Crown Properties | 5,572 | 93 | 5,665 | 5,665 | - |
| - New Zealand Export Credit Office | 1,250 | 15 | 1,265 | 1,265 | - |
| - Policy Advice: Economic Performance | 13,102 | 218 | 13,320 | 13,320 | - |
| - Policy Advice: State Sector Performance | 17,300 | 290 | 17,590 | 17,590 | - |
| | 55,599 | 935 | 56,534 | 56,534 | - |
| VOTE CROWN RESEARCH INSTITUTES: DEPARTMENTAL OUTPUT CLASSES | | | | | |
| Crown Company Monitoring Advice to the Minister for Crown Research Institutes the Minister for Economic Development and the Minister for Research, Science and Technology | 1,052 | 21 | 1,073 | 1,073 | - |
| VOTE STATE-OWNED ENTERPRISES: DEPARTMENTAL OUTPUT CLASSES | | | | | |
| Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers | 2,400 | 66 | 2,466 | 2,466 | - |
| TOTAL DEPARTMENTAL OUTPUT CLASSES EXPENDITURE AND APPROPRIATION | 59,051 | 1,022 | 60,073 | 60,073 | - |

Forecast performance for each class of outputs is detailed on pages 35-42 for Vote Finance and pages 48-51 for Vote CRIs and SOEs.

³ The aggregate "Total Voted Expenses" for all six Treasury and two CCMAU output classes corresponds to "Total Expenses" for the year ending 30 June 2008 in the Forecast Statement of Financial Performance on page 55. The voted expenses for each departmental output class correspond to the bolded annual appropriation for the year ending 30 June 2008 appearing in the Estimates of Appropriations, Part B1 of Vote Finance, Vote CRIs or Vote SOEs.

FORECAST RECONCILIATION OF NET CASH FLOWS

for the year ending 30 June 2008

This forecast reconciliation discloses the non-cash adjustments applied to the net surplus reported in the Forecast Statement of Financial Performance on page 55 to arrive at the net cash flows from operating activities disclosed in the Forecast Statement of Cash Flows on page 58.

| | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|--|-------------------------|--------------------------------------|---------------------------|
| NET SURPLUS FROM STATEMENT OF FINANCIAL PERFORMANCE | - | - | - |
| Non-cash items: | | | |
| Depreciation and Amortisation | 1,411 | 1,411 | 1,521 |
| Add/(less) working capital movements - | | | |
| (Increase)/decrease in advances and prepayments | - | - | - |
| (Increase)/decrease in accounts receivable | - | - | - |
| Decrease/(increase) in debtor - Crown | (605) | (605) | (338) |
| (Decrease)/increase in payables, accrued expenses and provisions | 402 | 402 | 579 |
| Increase/(decrease) in other current liabilities | (128) | (128) | 108 |
| Increase/(decrease) in non-current liabilities | (11) | (11) | (2) |
| Investing activity items: | | | |
| Net loss/(gain) on sale of property, plant and equipment | 8 | 8 | - |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 1,077 | 1,077 | 1,868 |

FORECAST DETAILS OF PROPERTY, PLANT AND EQUIPMENT

as at 30 June 2008

| | Notes | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|--|-------|-------------------------|--------------------------------------|---------------------------|
| COMPUTER HARDWARE | | | | |
| Cost | | 4,604 | 4,604 | 5,205 |
| Accumulated depreciation | | (3,649) | (3,649) | (4,136) |
| | | 955 | 955 | 1,069 |
| COMPUTER SOFTWARE | | | | |
| | 3d | | | |
| Cost | | 1,787 | 1,787 | - |
| Accumulated depreciation | | (1,180) | (1,180) | - |
| | | 607 | 607 | - |
| FURNITURE AND FITTINGS | | | | |
| Cost | | 1,100 | 1,100 | 1,100 |
| Accumulated depreciation | | (572) | (572) | (781) |
| | | 528 | 528 | 319 |
| LEASEHOLD IMPROVEMENTS | | | | |
| Cost | | 5,058 | 5,058 | 5,059 |
| Accumulated depreciation | | (1,228) | (1,228) | (1,642) |
| | | 3,830 | 3,830 | 3,417 |
| LEASED EQUIPMENT | | | | |
| Cost | | 56 | 56 | 56 |
| Accumulated depreciation | | (36) | (36) | (54) |
| | | 20 | 20 | 2 |
| OFFICE MACHINERY AND ELECTRICAL EQUIPMENT | | | | |
| Cost | | 664 | 664 | 864 |
| Accumulated depreciation | | (634) | (634) | (652) |
| | | 30 | 30 | 212 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | | 5,970 | 5,970 | 5,019 |

FORECAST DETAILS OF INTANGIBLES

as at 30 June 2008

| | Notes | 2007 Budget \$000 | 2007 Estimated Actual \$000 | 2008 Forecast \$000 |
|---|-------|-------------------------|--------------------------------------|---------------------------|
| COMPUTER SOFTWARE - INTERNALLY GENERATED | 3e | | | |
| Cost | | - | - | 820 |
| Accumulated amortisation | | - | - | (179) |
| | | - | - | 641 |
| COMPUTER SOFTWARE - OTHER | 3e | | | |
| Cost | | - | - | 1,086 |
| Accumulated amortisation | | - | - | (975) |
| | | - | - | 111 |
| TOTAL INTANGIBLES | | - | - | 752 |

FORECAST DEPARTMENTAL CAPITAL EXPENDITURE

for the year ending 30 June 2008

Forecast departmental capital expenditure to be incurred in accordance with section 24 of the Public Finance Act 1989.

| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 | 2008 |
|--|-------|--------------|------------|--------------|--------------|--------------|------------|------------|--------------|
| | Notes | Actual | Actual | Actual | Actual | Actual | Budget | Estimated | Forecast |
| | | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | Actual | \$000 |
| PROPERTY, PLANT AND EQUIPMENT | | | | | | | | | |
| Computer hardware | | 734 | 897 | 912 | 610 | 873 | 497 | 497 | 802 |
| Computer software | 3f | 634 | 9 | 16 | - | 278 | 418 | 418 | - |
| Furniture and fittings | | - | - | 32 | 884 | 126 | 10 | 10 | - |
| Leasehold improvements | | - | - | 2,664 | 1,927 | 433 | 33 | 33 | - |
| Leased equipment | | - | - | - | - | 56 | - | - | - |
| Office machinery and electrical equipment | | - | 15 | 52 | - | 5 | 17 | 17 | 200 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | | 1,368 | 921 | 3,676 | 3,421 | 1,771 | 975 | 975 | 1,002 |
| INTANGIBLES | | | | | | | | | |
| Computer software - internally generated | 3f | - | - | - | - | - | - | - | 200 |
| Computer software - other | 3f | - | - | - | - | - | - | - | 120 |
| Total Intangibles | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 320 |
| TOTAL CAPITAL EXPENDITURE | | 1,368 | 921 | 3,676 | 3,421 | 1,771 | 975 | 975 | 1,322 |

The forecast capital expenditure for the 2007/08 financial year is primarily for the routine replacement and upgrade of the Department's information technology. The forecast capital expenditure will support the efficient delivery of services as set out in this SOI.

STATEMENT OF SIGNIFICANT UNDERLYING ASSUMPTIONS

The forecast financial statements on pages 55 to 63 have been compiled on the basis of Government policies at the time the statements were finalised.

The 2007/08 forecast financial statements have been prepared in accordance with the New Zealand equivalent to the International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. However, the comparative financial information for 2006/07 and prior financial years has been prepared under current New Zealand GAAP. A reconciliation of the closing 30 June 2007 balances under current New Zealand GAAP to the opening 1 July 2007 balances prepared under NZ IFRS are provided in the notes to the forecast financial statements on pages 69 to 74.

The measurement base applied is historical cost.

The accrual basis of accounting has been used unless otherwise stated. These forecast financial statements are presented in New Zealand dollars rounded to the nearest thousand.

These forecast financial statements have been prepared on a going-concern basis.

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY AND STATUTORY BASE

These are the forecast financial statements of the Treasury, a government department (the “Department”) as defined by section 2 of the Public Finance Act 1989. The forecast statements have been prepared pursuant to section 38 of that Act. For the purposes of financial reporting the Treasury is a public benefit entity.

The activities of CCMAU have been incorporated into the forecast financial statements.

ACCOUNTING POLICIES

Judgements and estimations

The preparation of forecast financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revenue

The Department derives revenue through the provision of outputs to the Crown and for services to third parties. Such revenue is recognised in the Forecast Statement of Financial Performance when earned.

Cost allocation

The Department has derived the cost of outputs using a cost allocation system, which is outlined below.

Definition of terms

“Group” is a cost centre that directly and indirectly contributes to outputs.

“Corporate overhead costs” are those costs attributed to support service cost centres.

“Direct costs” are costs that can be identified with a single output.

“Indirect costs” are costs that cannot be identified with an output in an economically feasible manner. They are incurred for the common benefit of more than one output.

Corporate overhead costs

Corporate overhead costs are assigned to groups on an approximate resource usage basis.

Direct costs

Where possible costs are assigned directly to outputs.

Direct labour costs

A time recording system is used to collect and assign direct labour costs to outputs.

Indirect costs

Indirect costs, including corporate overhead costs, are allocated to outputs on a direct labour cost basis.

Accounts receivable

Accounts receivable are recorded in the Forecast Statement of Financial Position at the amounts expected to be ultimately collected.

Leases*Operating lease*

The Department leases office premises. Substantially all the risks and benefits of ownership are retained by the lessor, and therefore these leases are classified as operating leases. Operating lease costs are expensed in the Forecast Statement of Financial Performance in the year in which they are incurred, except for onerous lease provisions.

Finance lease

The Crown Company Monitoring Advisory Unit leases computer equipment. Substantially all the risks and benefits of ownership belong to the lessee and therefore this lease is classified as a finance lease. The obligation under this lease is capitalised at the present value of the minimum lease payments. The capitalised values are amortised over the period in which CCMAU expects to receive benefits from their use.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. All computer equipment assets and all other assets costing more than \$5,000 are capitalised.

Depreciation

Depreciation of property, plant and equipment is provided on a straight line basis so as to allocate the cost of property, plant and equipment, less their estimated residual values, over their estimated useful lives. The estimated economic useful lives are:

| | | |
|--|-----------------------------|----------|
| FURNITURE AND FITTINGS: | Safes | 15 years |
| | Shelving | 10 years |
| | Other | 5 years |
| LEASEHOLD IMPROVEMENTS: | | 12 years |
| OFFICE MACHINERY AND ELECTRICAL EQUIPMENT: | Photocopiers | 5 years |
| | Other | 5 years |
| | Electronic white boards | 5 years |
| | Facsimile machines | 3 years |
| COMPUTER HARDWARE: | UPS/Air conditioning | 5 years |
| | Cabling | 5 years |
| | PCs, terminals and printers | 3 years |
| | Other hardware | 3 years |
| PLANT: | | 5 years |

Intangible assets

Intangible assets include computer software, which has a finite useful life. They are recorded at cost less any amortisation and impairment losses.

Amortisation

Amortisation of intangible assets is charged to the Forecast Statement of Financial Performance on a straight line basis over the useful life of the asset. The estimated useful lives of these assets are as follows:

| | | |
|--------------------|-------------------------------|---------|
| COMPUTER SOFTWARE: | Internally generated software | 3 years |
| | System software | 3 years |

Provisions

Employee entitlements

The Department's obligations for contributions to defined contribution retirement plans are recognised in the Forecast Statement of Financial Performance as they fall due.

Employee entitlements to salaries and wages, annual leave, sick leave, long service leave, retirement leave and other similar benefits are recognised in the Forecast Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Onerous contracts

Where the benefits expected to be derived from a contract are lower than the unavoidable costs of meeting the Department's obligation under the contract, a provision is recognised. The provision is stated at the value of the future net cash outflows expected to be incurred in respect of the contract.

Foreign currency

Foreign-currency transactions, relating primarily to information, travel and training costs, are reported at the New Zealand dollar exchange rate at the date of the transaction.

Financial instruments

Financial instruments primarily comprise cash and bank balances, accounts receivable and payables. All financial instruments are recognised in the Forecast Statement of Financial Position at cost. Revenues and expenses in relation to all financial instruments are recognised in the Forecast Statement of Financial Performance.

Goods and services tax

Amounts in the financial statements are reported exclusive of GST except for advances and prepayments, accounts receivable, debtor – Crown and payables.

The forecast amount of GST owing to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in the Forecast Statement of Financial Position as either a payable or a receivable (as appropriate).

Income tax

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1976. Accordingly, no charge for income tax has been provided for.

Changes in accounting policies

There have been no changes in accounting policies, including cost allocation accounting policies, since the date of the last audited financial statements for the year ended 30 June 2006 except for the following:

Intangible assets

The Department has applied NZ IAS 38 to its software. Under current GAAP, software assets had been recorded as property, plant and equipment but under NZ IFRS software is classified as an intangible asset and is amortised over its estimated useful life.

Employee benefits

The Department has applied NZ IAS 19, which requires the recognition of a sick leave liability which is an accumulating compensated absence balance that is non-vesting.

The impact of these accounting policy changes is detailed in the notes to these forecast financial statements on pages 69 to 74.

NOTES TO THE FORECAST FINANCIAL STATEMENTS

Explanation of transition to NZ IFRS

These are the Treasury's first forecast financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in the "Statement of Accounting Policies" on pages 65 to 68 have been applied in preparing the forecast financial statements for the year ending 30 June 2008. The comparative financial information for 2006/07 and prior financial years has been reported under current New Zealand GAAP. The following is a reconciliation of the closing balances as at 30 June 2007 under current New Zealand GAAP to the opening 1 July 2007 balances prepared under NZ IFRS.

Note 1: Reconciliation of Forecast Statement of Financial Performance

| | Notes | Current GAAP 2006/07 \$000 | Effect of Transition to NZ IFRS \$000 | NZ IFRS 2006/07 Comparatives \$000 |
|--------------------|-------|-------------------------------------|--|---|
| REVENUE | | | | |
| Crown | | 54,965 | - | 54,965 |
| Other revenue | | 1,178 | - | 1,178 |
| | | 56,143 | - | 56,143 |
| EXPENSES | | | | |
| Personnel | | 35,850 | - | 35,850 |
| Operating | | 11,469 | - | 11,469 |
| Consultants | | 6,796 | - | 6,796 |
| Depreciation | a | 1,411 | (65) | 1,346 |
| Amortisation | a | 0 | 65 | 65 |
| Capital charge | | 617 | - | 617 |
| | | 56,143 | - | 56,143 |
| NET SURPLUS | | - | - | - |

a Intangible assets are amortised and the expense is disclosed separately in accordance with NZ IAS 38. The above reconciles 2006/07 comparatives under GAAP to NZ IFRS.

Note 2: Reconciliation of Forecast Statement of Movements in Taxpayers' Funds

| | Notes | 30 June 2007 Balance under Current GAAP \$000 | Effect of Transition to NZ IFRS \$000 | 1 July 2007 Balance under NZ IFRS \$000 |
|---|----------|--|--|--|
| Taxpayers' funds at the beginning of the year | | 8,527 | - | 8,527 |
| Movements during the year | | | | |
| Net surplus | | - | - | - |
| TOTAL RECOGNISED REVENUE AND EXPENSES FOR THE YEAR | | - | - | - |
| Capital contributions from the Crown | | - | - | - |
| Capital withdrawal repaid to the Crown | | (600) | - | (600) |
| Provision for employee entitlements | | - | (140) | - |
| Provision for repayment of surplus to the Crown | | - | - | - |
| TAXPAYERS' FUNDS AT THE END OF THE YEAR | b | 7,927 | (140) | 7,787 |

b In accordance with NZ IAS 19, a provision for sick leave has been included in the Statement of Financial Position NZ IFRS balance as at 1 July 2007. The effect of this is to increase the Provision for employee entitlements by \$140,000 and decrease equity by \$140,000.

Note 3: Reconciliation of Forecast Statement of Financial Position accounts

| | Notes | 30 June 2007 Balance under Current GAAP \$000 | Effect of Transition to NZ IFRS \$000 | 1 July 2007 Balance under NZ IFRS \$000 |
|-------------------------------------|-------|--|--|--|
| TAXPAYERS' FUNDS | | | | |
| General funds | c | 7,927 | (140) | 7,787 |
| Total Taxpayers' Funds | | 7,927 | (140) | 7,787 |
| Represented by: | | | | |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and bank balances | | 2,666 | - | 2,666 |
| Prepayments | | 444 | - | 444 |
| Accounts receivable | | 408 | - | 408 |
| Debtor - Crown | | 6,358 | - | 6,358 |
| | | 9,876 | - | 9,876 |
| NON-CURRENT ASSETS | | | | |
| Intangible assets | e | - | 607 | 607 |
| Property, plant and equipment | d | 5,970 | (607) | 5,363 |
| | | 5,970 | - | 5,970 |
| TOTAL ASSETS | | 15,846 | - | 15,846 |
| Less: | | | | |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Payables and accrued expenses | | 3,704 | - | 3,704 |
| Provision for employee entitlements | c | 3,876 | 140 | 4,016 |
| Provision for onerous contracts | | 17 | - | 17 |
| Finance lease liability | | 19 | - | 19 |
| | | 7,616 | 140 | 7,756 |
| Non-Current Liabilities | | | | |
| Provision for employee entitlements | | 301 | - | 301 |
| Finance lease liability | | 2 | - | 2 |
| | | 303 | - | 303 |
| TOTAL LIABILITIES | | 7,919 | 140 | 8,059 |
| NET ASSETS | | 7,927 | (140) | 7,787 |

c In accordance with NZ IAS 19, a provision for sick leave has been included in the Statement of Financial Position NZ IFRS balance as at 1 July 2007. The effect of this is to increase the Provision for employee entitlements by \$140,000 and decrease equity by \$140,000.

d Forecast Property, Plant and Equipment

| | 30 June 2007 Balance under Current GAAP \$000 | Effect of Transition to NZ IFRS \$000 | 1 July 2007 Balance under NZ IFRS \$000 |
|--|--|--|--|
| COMPUTER HARDWARE | | | |
| Cost | 4,604 | - | 4,604 |
| Accumulated depreciation | (3,649) | - | (3,649) |
| | 955 | - | 955 |
| COMPUTER SOFTWARE | | | |
| Cost | 1,787 | (1,787) | - |
| Accumulated depreciation | (1,180) | 1,180 | - |
| | 607 | (607) | - |
| FURNITURE AND FITTINGS | | | |
| Cost | 1,100 | - | 1,100 |
| Accumulated depreciation | (572) | - | (572) |
| | 528 | - | 528 |
| LEASEHOLD IMPROVEMENTS | | | |
| Cost | 5,058 | - | 5,058 |
| Accumulated depreciation | (1,228) | - | (1,228) |
| | 3,830 | - | 3,830 |
| LEASED EQUIPMENT | | | |
| Cost | 56 | - | 56 |
| Accumulated depreciation | (36) | - | (36) |
| | 20 | - | 20 |
| OFFICE MACHINERY AND ELECTRICAL EQUIPMENT | | | |
| Cost | 664 | - | 664 |
| Accumulated depreciation | (634) | - | (634) |
| | 30 | - | 30 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 5,970 | (607) | 5,363 |

e Forecast details of intangibles

| | 30 June 2007 Balance under Current GAAP \$000 | Effect of Transition to NZ IFRS \$000 | 1 July 2007 Balance under NZ IFRS \$000 |
|---|--|--|--|
| COMPUTER SOFTWARE - INTERNALLY GENERATED | | | |
| Cost | - | 620 | 620 |
| Accumulated amortisation | - | (50) | (50) |
| | - | 570 | 570 |
| COMPUTER SOFTWARE - OTHER | | | |
| Cost | - | 1,167 | 1,167 |
| Accumulated amortisation | - | (1,130) | (1,130) |
| | - | 37 | 37 |
| TOTAL INTANGIBLES | - | 607 | 607 |

In accordance with NZ IAS 38, computer software has been recorded as intangible assets at 1 July 2007 and separated into internally generated computer software and other software. The effect of this is to increase intangible assets by \$607,000 and decrease property, plant and equipment by \$607,000.

f Forecast departmental capital expenditure

| | Previous GAAP 2006/07 \$000 | Effect of Transition to NZ IFRS \$000 | NZ IFRS 2006/07 Comparative \$000 |
|--|--------------------------------------|--|--|
| Computer hardware | 497 | | 497 |
| Computer software | 418 | (418) | 0 |
| Furniture and fittings | 10 | | 10 |
| Leasehold improvements | 33 | | 33 |
| Leased equipment | - | | 0 |
| Office machinery and electrical equipment | 17 | | 17 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 975 | (418) | 557 |
| Computer software - internally generated | - | 401 | 401 |
| Computer software - other | - | 17 | 17 |
| TOTAL INTANGIBLE ASSETS | 0 | 418 | 418 |

The Department has applied NZ IAS 38 to its computer software. Under current GAAP, computer software assets have been recorded as Property, Plant and Equipment but under NZ IFRS they are classified as Intangible Assets.

Note 4: Reconciliation of Forecast Statement of Cashflows

| | Notes | Current GAAP 2006/07 \$000 | Effect of Transition to NZ IFRS \$000 | NZ IFRS 2006/07 Comparatives \$000 |
|--|-------|-------------------------------------|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash was provided from: | | | | |
| Supply of outputs to the Crown | | 54,360 | | 54,360 |
| Supply of outputs to third parties | | 1,178 | | 1,178 |
| | | 55,538 | | 55,538 |
| Cash was disbursed to: | | | | |
| Personnel | | 35,955 | | 35,955 |
| Operating | | 17,889 | | 17,889 |
| Capital charge | | 617 | | 617 |
| | | 54,461 | | 54,461 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 1,077 | | 1,077 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash was provided from: | | | | 0 |
| Sale of property, plant and equipment | | - | | 0 |
| Cash was disbursed to: | | | | 0 |
| Purchase of property, plant and equipment | g | (993) | 418 | (575) |
| Purchase of intangible assets | g | | (418) | (418) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (993) | 0 | (993) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Cash was provided from: | | | | |
| Capital contribution | | - | | |
| Cash was disbursed to: | | | | |
| Capital withdrawal | | (600) | | (600) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (600) | | (600) |
| Net (Decrease) in cash and bank balances | | (516) | | (516) |
| Cash and bank balances at the beginning of the year | | 3,182 | | 3,182 |
| CASH AND BANK BALANCES AT THE END OF THE YEAR | | 2,666 | | 2,666 |

g The Department has applied NZ IAS 38 to its computer software. Under current GAAP, computer software assets have been recorded as Property, Plant and Equipment but under NZ IFRS they are classified as intangible assets.

QUALITY STANDARDS FOR ANALYSIS AND ADVICE

| Quality / Characteristic | Description |
|--------------------------|--|
| Purpose | The objective for the advice is clearly stated, it answers any financial and economic issues raised by the Minister and demonstrates a clear understanding of the desired outcome(s) of the Government and/or the Minister. |
| Problem definition | Any public policy problem, including the underlying causes, size and materiality of issues, is identified and supported by data or other evidence. |
| Context | It is clear where the advice stands in the context of the wider policy process, including what has already been undertaken and what is expected to occur in the future. CCMAU's advice is undertaken in the context of the Government's ownership expectations for SOEs and/or CRIs. |
| Logic | An appropriate analytical framework is used. Assumptions behind the advice are explicit and the argument is logical and supported by facts. |
| Accuracy | All material facts are present and accurate. Known gaps that could significantly affect the conclusions are identified and the range of uncertainty stated. Forecasts are credible at the time they are produced and take into account all relevant information. |
| Options | A range of options is presented that provides clearly differentiated choices and these are rigorously evaluated against the analytical framework. Costs, benefits, consequences and risks/opportunities of the options are assessed as part of the analysis. Where it is not appropriate to use a range of options the reasons are clearly stated. |
| Recommendations | Recommendations are clear, logical and action oriented and can stand alone from the rest of the advice. They are sufficient to enable a decision to be made on the proposal or to move to the next decision/action point. |
| Consultation | Evidence of thorough and timely consultation with other government departments and interested parties is presented, and their views, including objections, incorporated as appropriate. |
| Practicality | Issues of implementation, technical feasibility, practicality and timing are considered and advice accurately identifies compliance, transitional, political, legislative, revenue, expense and administrative implications and costs (quantified where possible). |
| Communication | Guidance is provided on how communications arising from decisions on the advice should be handled, including an assessment of key stakeholders who should be informed and how. |
| Presentation | Material is presented to suit the target audience and: <ul style="list-style-type: none"> • is concise and structured in a way which assists others to understand the aim of the advice, key features of the information, analysis and recommendations, and their key implications • uses appropriate language and style • uses empirical evidence • avoids clichés and technical jargon (or where the latter is not possible, it is used appropriately for a general audience) • is consistent with departmental and Cabinet Office presentation requirements. |

Note: All aspects of the standards may not apply to specific pieces of policy advice, given considerations of urgency or the particular nature of the advice to be provided. For instance, much of our work is second-opinion advice on other departments' proposals often undertaken under tight time pressures.

MONITORING OF CROWN AGENCIES IN 2007/08

The Treasury has sole monitoring responsibility for the following:

- Earthquake Commission (EQC)
- National Provident Fund (NPF)
- New Zealand Superannuation Fund (NZSF)
- Government Superannuation Fund (GSF)
- Air New Zealand Ltd

CCMAU has sole monitoring responsibility for the following:

- New Zealand Lotteries Commission (Lotteries)
- Pacific Forum Line Ltd (PFL)

CCMAU has a lead monitoring role with support from the Treasury for the following:

State-Owned Enterprises

- AgriQuality Ltd (AgriQuality)
- Airways Corporation of New Zealand Ltd (Airways)
- Animal Control Products Ltd (ACP)
- Asure New Zealand Ltd (Asure)
- Electricity Corporation of New Zealand (Residual) Ltd (ECNZ)
- Genesis Power Ltd (Genesis)
- Kordia Group Ltd (Kordia)
- Landcorp Farming Ltd (Landcorp)
- Learning Media Ltd (LML)
- Meridian Energy Ltd (Meridian)
- Meteorological Service of New Zealand Ltd (MetService)
- Mighty River Power Ltd (Mighty River Power)
- New Zealand Post Ltd (NZ Post)
- New Zealand Railways Corporation (ONTRACK)
- Public Trust (Public Trust)
- Quotable Value Ltd (Quotable Value)
- Solid Energy New Zealand Ltd (Solid Energy)
- Timberlands West Coast Ltd (Timberlands)
- Transpower New Zealand Ltd (Transpower)

Other Crown Companies

- New Zealand Venture Investment Fund Ltd (NZVIF)
- Radio New Zealand Ltd (RNZ)
- Television New Zealand Ltd (TVNZ)
- Research & Education Advanced Network New Zealand Ltd (REANNZ)

Crown Research Institutes

- AgResearch Ltd (AgResearch)
- Institute of Environmental Science and Research Ltd (ESR)
- Institute of Geological and Nuclear Sciences Ltd (GNS Science)
- Landcare Research New Zealand Ltd (Landcare Research)
- National Institute of Water and Atmospheric Research Ltd (NIWA)
- New Zealand Forest Research Institute Ltd (Scion)
- New Zealand Institute for Crop and Food Research Ltd (Crop and Food Research)
- The Horticulture and Food Research Institute New Zealand Ltd (HortResearch)

Other

- Christchurch International Airport Ltd (CIAL)
- Dunedin International Airport Ltd (DIAL)
- Invercargill Airport Ltd (IAL)

LEGISLATION

as at April 2007

Budget legislation administered by the Treasury during the year:

- Appropriation Act(s)
- Imprest Supply Act(s)

Other legislation administered by the Treasury:

- Bank of New Zealand Act 1988
- Crown Entities Act 2004 (Part 4)
- Crown Forest Assets Act 1989
- Crown Research Institutes Act 1992
- Export Guarantee Act 1964
- Farm and Fishing Vessel Ownership Savings Schemes (Closure) Act 1998
- Finance Acts (Various)
- Government Superannuation Fund Act 1956
- Hawkes Bay Earthquake Act 1931
- Institute of Chartered Accountants of New Zealand Act 1996
- International Finance Agreements Act 1961
- National Expenditure Adjustment Act 1932
- National Provident Fund Restructuring Act 1990
- National Savings Act 1940
- New Zealand Council Planning Dissolution Act 1991
- New Zealand Government Property Corporation Act 1953
- New Zealand Railways Corporation Restructuring Act 1990
- New Zealand Railways Staff Welfare Society Dissolution Act 1999
- New Zealand Superannuation Act 2001 (various provisions)
- Overseas Investment Act 2005
- Post Office Bank Act 1987
- Public Audit Act 2001
- Public Finance Act 1989
- Rural Banking and Finance Corporation of New Zealand Act 1989
- Southland Electricity Act 1993
- State Insurance Act 1990
- State-Owned Enterprises Act 1986
- Superannuation Schemes Act 1989
- Tourist Hotel Corporation of New Zealand Act 1989
- Treasurer (Statutory References) Act 1997

Delegated legislation administered by the Treasury:

- Bank of New Zealand Order 1989
- Cityline (NZ) Vesting order 1992
- Crown Entities (Financial Powers) Regulations 2005
- Electricity Industry Reform Act Commencement Orders (various)
- Export Guarantee Amendment Act Commencement Order 1990
- Finance Acts Orders (various)
- International Finance Agreements Amendment Act Commencement Order 1978
- National Provident Fund (Approval of Amendments to Restructuring Proposal) Order 1993
- National Savings Investment Account Regulations (various)
- New Zealand Railways Corporation Restructuring Act Orders (various)
- New Zealand Railways Staff Welfare Society Dissolution Act Commencement Order 1999
- Overseas Investment Regulations 2005
- Post Office Bank Amendment Act Orders (various)
- Public Audit (West Coast Development Trust) Order 2002
- Public Finance Act Orders (various)
- State-Owned Enterprises Act Orders (various)
- Tourist Hotel Corporation of New Zealand Act Commencement Order 1990
- Tower Corporation Act Commencement Order 1990