

The Treasury Annual Report

2012/13

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Higher living standards for New Zealanders

Our goals:

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

Our roles:

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

Our values:

Bold and innovative

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

Passionate and ambitious

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

Collaborative and challenging

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

Adaptable and focused

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

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The Treasury's Annual Report for 2012/13 has two functions:

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

The first part of this report explains our mission, vision and values. It explains our journey through the 2012/13 year and what we see as the big issues for the near future. Further into the report, there is more detailed information about our performance and finances.

Chief Executive's Introduction

As Chief Executive of a department with a broad view across the State sector, I am conscious that the work of government touches all our lives, throughout our lives. What the State sector does, how it goes about doing its work and how well it does it, has a direct impact on everyone in the country. That brings with it a great deal of responsibility and expectations.

There are clear expectations from the Government that the State sector will deliver results. And there are clear expectations from the public that the State sector operates efficiently, delivers services that work for people and businesses and focuses on the things that really matter for New Zealand.

My leadership team and I are determined that the Treasury meets those responsibilities and expectations. We are committed to lifting our capability to deliver higher quality advice, analysis and services in better ways. We want the Treasury to be increasingly influential as an organisation through being more collaborative, more outward-facing, more productive and better at our core business. Two elements that I believe will continue to be critical to the Treasury's success are a greater focus on diversity – primarily in how we think, but also in how we behave – and a greater focus on stewardship.

Diversity


Diversity is recognised as critical to business performance around the world. At the Treasury we are intent on creating a culture where there is diversity of thought, with leaders who are able to bring out diverse thinking and to harness it.

An example of our progress on this during the year has been the embedding of the Living Standards Framework in our work. Our vision is to be a world-class Treasury working towards higher living standards for New Zealanders, so our policy advice considers five key dimensions that are important for living standards: economic growth, sustainability for the future, increasing equity, social infrastructure and managing risk.

This approach was used for *Affording our Future: Statement on New Zealand's Long-term Fiscal Position*, which was published in July 2013. Every option in the document regarding ways to meet New Zealand's long-term fiscal challenge was developed through the application of the Framework.

Real-world challenges have also encouraged us to diversify our thinking. The global financial crisis has taught us a few important lessons that have shaped our policy advice. In particular, it reinforced the need for a strong fiscal policy platform and emphasised the importance of identifying and managing systemic risks.

Another way we are bringing diverse ideas and perspectives into our work is through greater external engagement. The Treasury is a much more outwardly focused organisation than in the past and the quality and impact of our work is better because of it. For instance, in recent months we have held workshops with businesses, iwi, non-government organisations and social services to ask them what they see as the opportunities and challenges for economic growth in New Zealand, and ways to make that growth compatible with equity and environmental considerations. Other examples include meeting with sole parents as we developed our policy advice on welfare reforms, and working with each of KiwiRail's business units to understand the challenges in their turnaround plan.



Part of thinking and behaving differently for the Treasury is improving the way we work with others in the State sector. One highlight for us has been the co-production with the Ministry of Business, Innovation and Employment (MBIE) of a comprehensive programme to improve housing affordability. We helped establish the foundations of a more effective and efficient social housing system through our policy and Budget advice, and through working with a number of different agencies such as MBIE, Housing New Zealand Corporation (HNZC) and the Tamaki Redevelopment Company. Another highlight has been combining our efforts with others including the Overseas Investment Office, New Zealand Trade and Enterprise (NZTE), Ministry of Foreign Affairs and Trade (MFAT), MBIE, Ministry for Primary Industries and Statistics New Zealand on issues about foreign direct investment.

Having greater diversity in the people who work for the Treasury can also help us to think and act differently. I acknowledge that there is still a way to go for the Treasury to have a more diverse workforce, and we certainly want to do better in this regard. Behind the headline figures we are making progress, particularly in lifting the proportion of women in leadership roles. For example, a recent recruitment and promotion process for Principal Advisor positions resulted in the appointment of seven women and two men.

Stewardship

Our leadership team is conscious of its stewardship responsibilities for the Treasury, ensuring our organisation is well equipped to look after the Crown's medium- and long-term interests in a sustainable way. I believe a focus on stewardship is important, not just for the Treasury's own performance, but for the whole State sector.

Stewardship has to be shown at all levels. At an agency level, leaders need to ensure their organisations have the capability to work effectively for current and future governments and provide them with free, frank, expert advice. At a sector level it is imperative that we work towards the sector's broader goals, which can mean putting aside departmental interests for the greater good, or perhaps taking on accountabilities outside our normal ambit. And at a system level, we have to put our efforts into driving the capabilities, processes and actions that will lift performance across the State sector and maximise its collective impact.

At a policy level, agencies need to ensure advice that informs government decisions is built on a strong foundation. We have to make sure what looks like a good policy idea is backed up by solid evidence and quality analysis. It is also our duty to review how effective we are being. That means taking a hard look at whether a policy is having the impact we thought it would, whether a service is delivering value for money or what the connections are between an area of regulation and economic, social and environmental outcomes.

The Treasury and our Central Agency colleagues at the State Services Commission (SSC) and the Department of the Prime Minister and Cabinet (DPMC) have a role as stewards of the State sector system. We see ourselves as a corporate centre, looking across the whole operation, working with agencies to deliver, identifying where things need to change and what needs to happen to achieve a step-change in the quality of public services, and the outcomes we achieve for New Zealanders. The Government expects us to ensure State sector leaders are supported, challenged and more effectively held to account for their performance.

This year the Central Agencies integrated the previously required four-year Budget Plans and Workforce Strategies into a single Four-year Plan document. The Plan specifies our strategic objectives, how our resources will be applied to delivery of these and key risks or opportunities that need to be managed. It also gives Ministers greater confidence over delivery of better quality services within financial constraints.

Another stewardship-related initiative that the Treasury and SSC have taken is the establishment of the Performance Hub, a joint team of policy analysts who are responsible for producing and maintaining a big-picture understanding of how the State sector is performing. The team is our 'architect' for the State sector, developing advice on how well the system is working and what we need to do to improve it.

A further big milestone during the year was the passage in July 2013 of the State Sector Reform and Public Finance Reform Bill. This legislation is important for enabling greater collaboration around results and system leadership. The law also makes it clear to State sector leaders that stewardship responsibilities are relevant, not only to Crown assets – as opposed to departmental assets – but also to legislation administered by departments.

Improving Our Core Business and Being More Productive

Complementing our focus on diversity and stewardship is a commitment to improving how we do our core business.

One such area is managing the Crown's balance sheet. There is greater attention now – across the globe – on the size of the contingent liabilities facing governments. It is also critical for New Zealand to maintain stable and prudent debt levels. The effective and efficient use of the many billions of dollars of resources on the Crown's balance sheet is therefore very important for our economic performance. Later in 2013 the Treasury will publish the next *Investment Statement*, which will shed further light on the management of the Crown's balance sheet.

We also want to become a more effective "Ministry of Finance" and get better at driving performance improvements in the State sector. Among our efforts to achieve this have been giving our people better tools and training and a more intensive graduate development programme.

A Continuous Improvement programme for our corporate and policy work has been rolled out across the Treasury. It focuses both on "hard" processes (for example, improving economic and tax forecasting, and Official Information Act 1982 processes) and "soft" processes (such as improving meeting skills, and more effective prioritisation and decision-making). This programme is helping to ensure we are spending our time on the right things, not just the things the Treasury has done in a certain way, and assists us to deliver more for less.

The Economy

A fundamental part of our core business is to effectively fulfil our role as the Government's lead advisor on economic issues, and during the year the economy has performed steadily. After a slow recovery from recession, real gross domestic product (GDP) growth has picked up, with the economy recording growth of 2.5% in the year to March 2013. GDP per person has nearly recovered to its pre-global financial crisis level. The economy is expected to sustain this recent improvement, with the economy forecast to grow at an average pace of around 2.5% per year over the next four years. As reported in the Budget, the growth outlook reflects the net impact of a number of supporting and constraining influences. On the supportive side are the Canterbury rebuild, a high terms of trade, low interest rates and less risk-averse households and firms.

Despite easing from peaks reached in May, the exchange rate remains elevated and will act as a constraining force on growth and rebalancing in the economy. Drought conditions earlier in the year have also impinged on growth in the first half of 2013. Global conditions remain supportive of demand for soft commodities such as dairy and meat, and therefore income growth in the economy, although a sustained pick up in global growth is still subject to uncertainty. Despite there being improved signs for the US economy, and to a lesser extent Europe, focus has recently shifted to risks in emerging markets.

As the economy continues to expand, unemployment is anticipated to gradually decline from its current rate of above 6% to around 5% by 2017. Growing tax revenue associated with the improving economy, combined with expenses growing at a slower rate than in the past, is expected to see the Government's operating balance before gains and losses (OBEGAL) return to surplus in 2014/15.

Quality in Action

During the year teams and individuals throughout the Treasury delivered top-quality work, and out of the many examples I will briefly mention three.

The first is the Government Share Offer programme, which has been and remains a very big undertaking for the Treasury. The public listing of Mighty River Power was achieved successfully and accomplished its main targets. We are now preparing for the listing of Meridian Energy later in 2013.

The second is the borrowing programme managed by the New Zealand Debt Management Office (NZDMO). Among the highlights during the year were the settlement of the largest ever bond maturity – \$10 billion – and the first issue of inflation-indexed bonds since 1999. NZDMO was a finalist for “Debt Issue of the Year” and “Excellence in Treasury” in the 2013 INFINZ Awards.

The third example is our work on legislation and regulation disclosure requirements. The new requirements bring greater transparency to the content of legislation and the process used to develop it, which encourages better legislative quality.

Looking Ahead

The Treasury has some big opportunities and challenges before it.

The world is more complicated, more volatile and changing faster than ever before. It makes effective policy-making more challenging than ever before. But I also believe this is a fantastic moment in time for our country. We are now part of the region that is the centre of global economic activity and where demand for our products and services is growing – New Zealand needs to grab that opportunity.

Across the State sector, delivery of better public services within tight financial constraints is important. The Treasury and the rest of the State sector will need to have a relentless focus on results and have these results underpin how we design policy, implementation and incentives. We also need to evaluate the results and change our approaches if we need to, accepting that sometimes you have to fail if you are to learn and improve. It is part and parcel of stewardship.

The Treasury will also remain committed to thinking, acting and engaging differently. It is absolutely fundamental to us being an effective and influential organisation, respected for providing sound advice that policy-makers and the public can be confident about.

We may still have a way to go to be the best organisation we know we can be, but the Treasury is full of smart, skilled and dedicated people who are determined to make a real difference for New Zealanders. It is truly a privilege to lead them. I thank them all for their efforts over the past year, and in anticipation of a productive and successful year ahead.



Gabriel Makhlouf

Secretary to the Treasury

24 September 2013

Treasury Governance

The Treasury Board is a governance body that supports the Secretary to the Treasury to meet the organisation's strategic goals and ambitions. The Board does this by testing key strategic decisions, offering external expertise and perspectives and providing a strong advisory function.

Treasury Board

The Board is not required by statute and is an innovation in the public sector. Its role and operating practice have evolved over time.

The Board's principal purpose is to hold the Chief Executive to account in an advisory capacity. The statutory responsibilities and accountabilities of the Chief Executive and the State Services Commissioner remain unchanged. The Board:

- ▶ tests high-level strategy set by the executive
- ▶ advises on strategy execution
- ▶ links the Treasury with external expertise, and
- ▶ provides an independent perspective on any area raised by the Chief Executive.

The Board aims to replicate the discipline provided by a private sector governance board as far as possible within the public sector management system, providing additional challenge, accountability and external expertise to the executive.

Non-executive Board Members

The Treasury Board is currently made up of six non-executive members, the Chief Executive and Deputy Chief Executive. Current non-executive members of the Board are listed below:

Mr Paul Baines

Mr Paul Baines has a significant background in financial and strategic management. He sits on the boards of the New Zealand Institute of Economic Research (NZIER), the Todd Corporation and is Chair of the Gilles McIndoe Research Institute. He is a former Chair of Barnardos and has served on the boards of Fletcher Building, the Reserve Bank of New Zealand (RBNZ) and Telecom New Zealand.

Mr Whaimutu Dewes

Mr Whaimutu Dewes has a broad range of experience in private and public sector management and governance. He is currently the Chairman of Aotearoa Fisheries Limited and is a director on the boards of Contact Energy, HNZC, Ngati Porou Seafoods, Ngati Porou Forestry and Ngati Porou Holding Company. He is of Ngati Porou and Ngati Rangitihī descent.

Professor Harlene Hayne

Professor Harlene Hayne is Vice-Chancellor of the University of Otago, where she has helped to lead the commercialisation of the university's intellectual property and built strong research links with the private sector. Her current Fellowships include the Royal Society of New Zealand and the American Psychological Society, and she has served on the Royal Society's Academy Council, the Marsden Fund Council and the New Zealand National Science Panel. She is Co-Chair of the Office of the Prime Minister's Science Advisory Committee Working Party on Reducing Social and Psychological Morbidity during Adolescence. Professor Hayne was made an Officer of the New Zealand Order of Merit in 2009 for her services to scientific and medical research.

Dr Susan Macken

Dr Susan Macken is an experienced company director and consultant. She is a director of the Bank of New Zealand, Fertility Associates and Tamaki Redevelopment Company. She is Chair of Crown research institute Environmental Science and Research. Previous directorships have included Southern Cross Healthcare, the NZ Racing Industry Board and the NZ Trade Development Board. She has worked for the World Bank as an economist.

Sir Ralph Norris

Sir Ralph Norris serves on the boards of Fonterra Co-operative Group, Fonterra Shareholder Fund and Origin Energy. He is a member of the Council of the University of Auckland and a Fellow of the New Zealand Institute of Management and the New Zealand Computer Society. His 40-year career in banking included roles as Chief Executive of the Commonwealth Bank of Australia and ASB Bank, and he is also the former Chief Executive of Air New Zealand. Sir Ralph was formerly Chairman of the New Zealand Bankers' Association, Australian Bankers' Association and the New Zealand Business Roundtable, and was previously a Director of the Business Council of Australia. Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009.

Joan Withers

Ms Joan Withers is a full-time company director with significant senior executive and corporate governance experience. She is Chair of Mighty River Power Ltd, Deputy Chair of Television New Zealand (TVNZ), Chair of Auckland International Airport Ltd and an independent director of ANZ Bank New Zealand. She was previously Chief Executive of Fairfax Media in New Zealand and of the Radio Network. Ms Withers stepped down from the Board for most of the 2012/13 year owing to the participation of Mighty River Power in the Government Share Offer programme.

Note: Positions are as at date of publication. Brief biographical information about the Treasury's Executive Leadership Team (ELT) is on pages 127 to 128.

Risk and Audit Committee (RAC)

The RAC is a committee of the Treasury Board. The Committee supports the Chief Executive by providing independent advice, assurance and observations on the adequacy of the internal control and management systems, processes and activities across the Treasury.

The Committee comprises two members of the Board (Susan Macken and Paul Baines) plus an independent person (Roy Tiffin) with significant public sector audit committee experience. The primary benefit of the RAC is its independence and objectivity in relation to management, and the specialist skills of members.

The focus of the Committee includes:

- ▶ risk management framework and processes
- ▶ internal control environment and mechanisms
- ▶ internal and external audit activities relating to the Treasury and non-departmental activities managed and administered by the Treasury on behalf of the Crown
- ▶ processes relating to the preparation and audit of financial statements of the Treasury and of the Financial Statements of the Government
- ▶ the integrity of performance information (including financial reporting)
- ▶ the governance framework and processes, and
- ▶ policies, processes and activities to ensure compliance with legislation, policies and procedures.

The RAC does not manage risk on behalf of the organisation. Rather, it engages with management on areas of risk and provides advice and assurance to the Board and Chief Executive on the completeness, effectiveness and relevance of the arrangements in place to manage risk and ensure sound financial management in the Treasury.

In discharging these responsibilities the RAC separates its focus between Treasury operations and the preparation of the Financial Statements of the Government. During 2012/13 the RAC met five times.

Mr Roy Tiffin

Mr Roy Tiffin serves in an independent advisory role on the Treasury's Risk and Audit Committee. He has extensive audit and probity experience, and in addition to consulting work is currently a member of several public sector audit committees. Mr Tiffin was an Audit Partner at KPMG in Wellington from 1999 to 2004, and previously an Audit Partner at Deloitte in South Africa. He was also the Director of Audit New Zealand from 1994 to 1999, and in 2005, was the President of the New Zealand Institute of Chartered Accountants (NZICA).

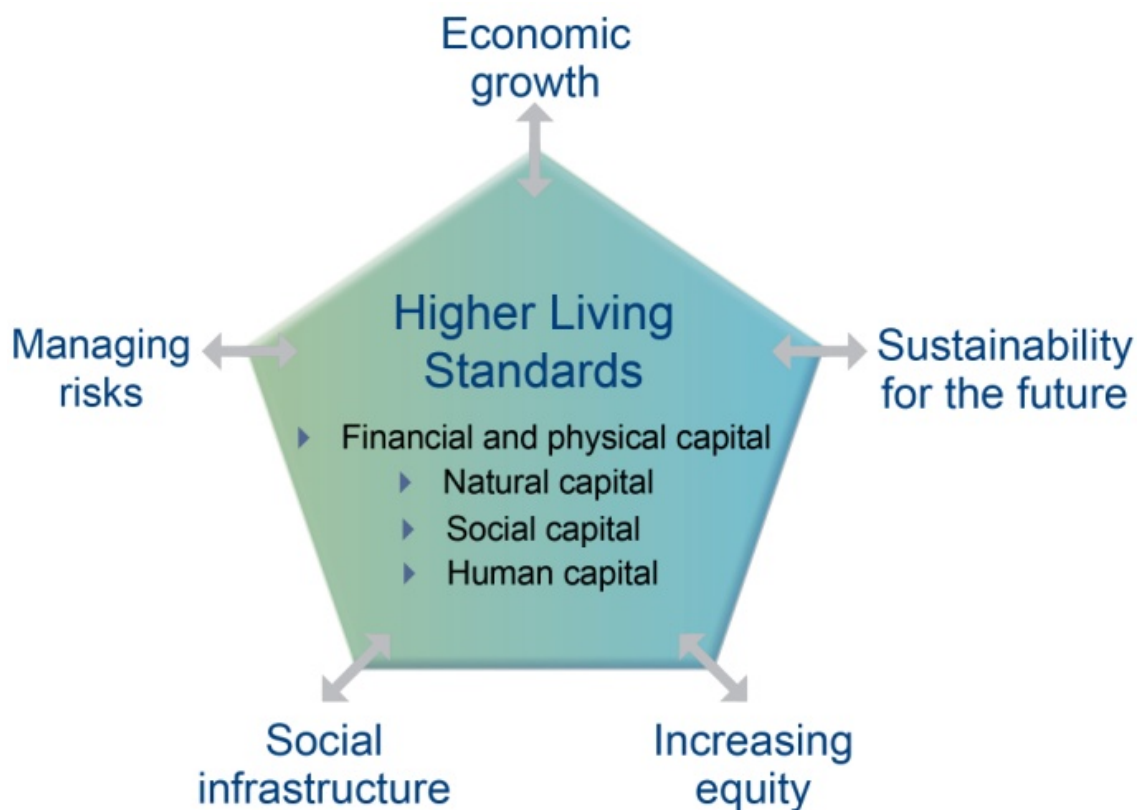
About Us

Our Vision – Higher Living Standards

The Treasury’s overarching vision is to be a world-class Treasury working toward higher living standards for New Zealanders. The Living Standards Framework identifies four essential factors that are essential to current and future living standards:

- 1 Financial and physical capital – resources such as infrastructure, housing and saved wealth
- 2 Natural capital – resources such as a stable climate, quality water and biodiversity
- 3 Social capital – institutions and conventions that make our society work, and
- 4 Human capital – people’s health, education and skills.

We also recognise that there is a range of dimensions of economic and social life that affect living standards and we have identified five key indicators that are particularly important in the current environment. These are reflected in the Living Standards pentagon below.



Our Outcomes – Our Role in Creating Higher Living Standards

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

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

Detailed information about progress on each of the outcomes is included on pages 20 to 32.

Our People and Our Values

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

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



The Work We Do

The Treasury has five different roles:

1 Economic

We are the lead expert for Ministers on economic performance, concentrating on policy areas that have a significant impact on the economy. This includes leading improvement of the quality of regulation, removing barriers to growth and increased productivity.

2 Financial

We manage the financial affairs of the Crown and provide advice on fiscal strategy, policy and performance.

3 Corporate Centre

With DPMC and SSC, we collectively lead the State sector with the aim of delivering outstanding results for New Zealanders. We assist the Government to develop its overall strategy for the State services, provide advice on how to improve the system and manage significant issues.

4 Performance monitoring

We monitor the performance of State sector agencies, including State-Owned Enterprises (SOEs) and the Crown's remaining shares in the Mixed Ownership Model (MOM) companies, and work with them to improve performance.

5 Commercial policy and operations

We provide commercial policy advice (eg, financial markets, assets) and provide financial operational services through NZDMO and the New Zealand Export Credit Office (NZECO). We manage the partial sale of certain SOEs.

Highlights of the Year

More detail about our achievements in 2012/13 are presented on pages 40 to 60.

- ▶ **Borrowing Programme.** NZDMO issued \$14 billion of government bonds in 2012/13. Notably this included the introduction of the first New Zealand Government inflation-indexed bond instrument since 1999. NZDMO also lengthened the maturity profile of bonds on issue, by reducing the volume of short-term Treasury Bills outstanding, and introducing new bonds with maturities in 2020 and 2025, effectively reducing refinancing risk.
- ▶ **Government Share Offer Programme (GSO).** We managed the public listing of Mighty River Power. Forty-eight percent of the company was sold raising \$1.7 billion, and the Government met its New Zealand ownership threshold target of 85%.
- ▶ Both the borrowing and GSO programmes are important components of managing the Crown balance sheet and ensuring the Government has funds to invest in priority initiatives.
- ▶ **Welfare Reform.** We worked with the Ministry of Social Development (MSD) on the policy phase of welfare reform and in the implementation of the key elements of an investment approach to welfare. The investment approach shifts the focus of the benefit system to the long-term costs of welfare receipt with the aim of improving the employment prospects of clients who have the greatest risk of long-term benefit receipt.
- ▶ **Legislation and Regulation Disclosure Requirements.** We introduced disclosure requirements for new legislation and regulation produced by the Government. The new requirements seek to improve legislative quality by increasing the transparency of the development process and the content of legislation, and facilitating greater scrutiny.
- ▶ **The Changing Face of the Treasury.** The Treasury is taking on new ways of working, new ways of thinking and new ways of engaging. Over the past year this has included improving our external engagement, embedding the Living Standards Framework, working more collaboratively and using continuous improvement processes.
- ▶ **Housing.** Housing has emerged as a government priority and the Treasury supported the Government on a number of fronts. Together with MBIE we are leading a comprehensive programme to improve housing affordability. We provided advice on improving the effectiveness and efficiency of the social housing system. We took on monitoring responsibility for HNZC and implemented a new monitoring regime.
- ▶ **Better Public Services.** Alongside our Corporate Centre colleagues we have led the implementation of the Better Public Services programme of reform. We supported the passage of the State Sector and Public Finance Reform Bill. We led the establishment of a Seed Fund and provided advice on and support for the Government's 10 Result areas and functional leadership across the system. These initiatives are designed to create opportunities for greater collaboration and improved system leadership.
- ▶ **Enhancing the Fiscal Management Approach.** This year we worked in collaboration with our Corporate Centre colleagues to integrate the previously required Four-year Budget Plans and Workforce Strategies into a single Four-year Plan document. These were a key input into the Budget 2013 process and helped the Government to remain on track to achieve its 2014/15 return to surplus target. Increasingly, we are drawing together our work on fiscal performance with a broader set of performance indicators, which supports the direction of the Better Public Services work.
- ▶ **Long-term Fiscal Statement.** The Treasury published a *Long-term Fiscal Statement* on 11 July 2013. The process involved using our Living Standards Framework, engaging with a diverse range of groups and undertaking a broad range of options analysis. With Victoria University, we established an external panel of experts, held a conference and created an online "Long-term Fiscal Calculator". This is expected to contribute to greater public understanding of the scale and drivers of long-term fiscal pressures.

Looking Ahead

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

- ▶ **Making the most of uncertainty and change.** The world continues to be a dynamic place with the formation of new trade blocs and alliances; the march of technology; the changing nature of doing business; and the European economy and the financial markets remaining volatile. This environment creates opportunities for New Zealand. We are now part of the region that is the centre of global economic activity; demand from the middle classes in Asia for our products and services will grow as they grow in number; and technology – in particular broadband – means we are getting closer to the rest of the world. The Treasury will continue to monitor international developments and local economic indicators so we can help the Government create appropriate policies to counter these challenges and benefit from the opportunities. We are also using the global financial crisis to learn and shape our policy advice. For example, it reinforced the need for a strong fiscal policy platform and emphasised the importance of identifying and managing systemic risks. We need to ensure that we are resilient to any shocks that might come our way.
- ▶ **The Growth Agenda.** New Zealand needs sustainable growth in incomes in order to achieve higher living standards. We'll continue to recommend improvements in tax and regulatory settings; we'll work to ensure that we are making the right infrastructure investments; we'll aim to improve the international competitiveness of our business environment; we'll seek greater integration and connections with the global economy's resources, knowledge and economies of scale; and we'll seek enhanced skills and labour productivity as part of the plan to grow the economy.
- ▶ **Better Public Services.** People expect better public services, delivered to them in more accessible, responsive and flexible ways. They also expect these services to be value for money. Together with our Corporate Centre colleagues (SSC and DPMC) we'll collectively lead the State sector to deliver outstanding results for New Zealanders while achieving the Government's fiscal strategy. We'll assist agencies to find new ways to work, behave and interact with each other and with New Zealanders. For example, we have commenced the Optimise Finance programme designed to improve department financial management across the State sector. We'll help agencies to manage within the tight fiscal constraints and to develop sustainable financial management plans. Increasingly, we are drawing together our work on fiscal performance with a broader set of performance indicators to get a comprehensive picture of how agencies are delivering the objectives of Better Public Services.
- ▶ **Focusing on the balance sheet.** The Crown currently owns around \$240 billion of assets funded by \$180 billion in liabilities, leaving \$60 billion in equity. Apart from improving our ability to manage risk, the effective and efficient use of these resources plays a critical role in the performance of the economy. Even small improvements to the management of the balance sheet could free up capital for priority areas and generate efficiencies. We are taking a much closer look at the Crown's balance sheet. As part of this we have more closely aligned asset and liability management responsibilities within the Treasury and are also reviewing the way we manage oversight of Crown companies and entities to maximise the value from these assets.
- ▶ **Changing the Treasury.** We aim to be among the most respected and influential organisations in New Zealand, renowned for credible analysis and well-researched evidence that presents a more complete picture of complex issues. We want to be an exciting place to work. While we are making real progress in thinking differently, working differently and engaging differently, we still have further to go.

State of the Economy

A better understanding of New Zealand's economic performance is important to the Treasury; it informs our short-term economic and fiscal forecasts, our long-term fiscal projections and our wider policy advice.

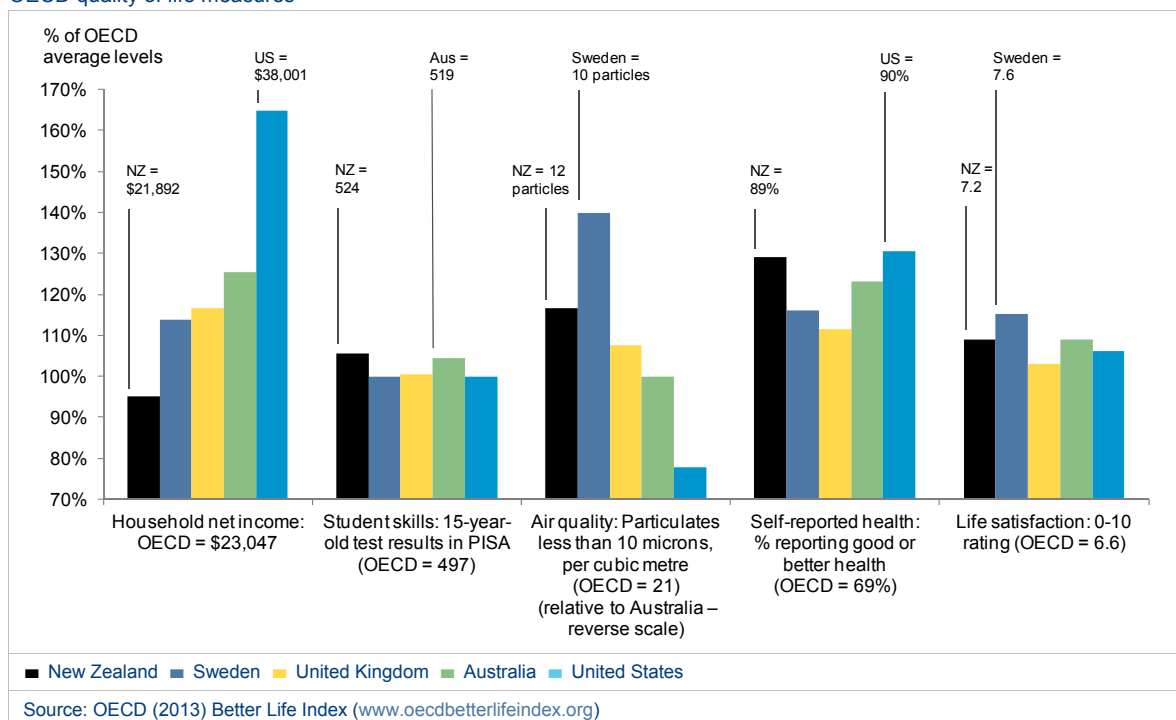
We are involved in a process of listening, learning and testing our understanding of the issues influencing economic performance with a broad range of stakeholders. This process has included workshops in Auckland, Wellington and Christchurch, a seminar series to bring in alternative perspectives, a cross-government panel to test our work and visits to businesses and others throughout New Zealand.

In addition to policy settings around tax, regulations, infrastructure and macroeconomic stability, the Treasury's work on economic growth is also examining a set of inter-related themes. These themes include export performance and international competitiveness, economic growth and living standards, competition and innovation and the role and performance of the State sector. In examining these themes we are looking at a wider set of comparator countries beyond Australia, as well as a broader set of economic statistics, including those that examine the dispersion of performance within industries.

As this work develops, we will move into the testing period with key stakeholders, including academics, government agencies and other groups.

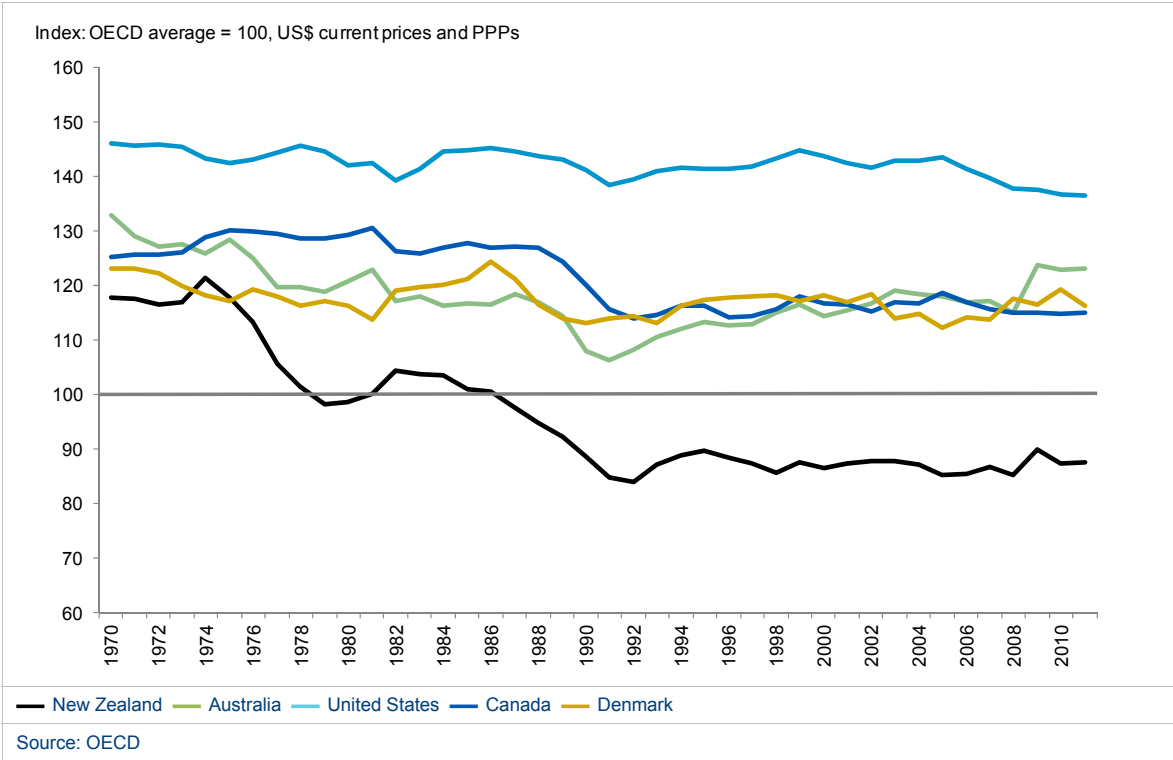
From a living standards viewpoint New Zealand does particularly well on the Organisation for Economic Co-operation and Development (OECD) quality of life measures such as health, civic engagement, education, safety, environment and life satisfaction.

OECD quality of life measures



We also know that New Zealand does less well on material living conditions, as reflected in measures such as income per capita and productivity.¹ The gap in New Zealand's GDP per capita reflects a gap in the level of labour productivity (output per hour worked) with some offset created by slightly higher than average labour utilisation (hours worked per capita).

GDP per capita as a proportion of OECD average



New Zealand's productivity performance was the subject of a July 2013 symposium organised by the Productivity Hub, a partnership of public sector agencies with interests in productivity analysis and policy.²

Previous OECD analysis has indicated that, given generally good policy settings, GDP per capita in New Zealand is predicted to be 20% above the OECD average. Yet New Zealand's actual GDP per capita is some 23% below the OECD average.³ Preliminary OECD research for the productivity symposium suggests that the productivity gap and lack of convergence is not well explained by relative investment in physical or human capital. In contrast, comparatively remote access to markets and low investment in innovation (as measured by research and development intensity) together can account for between 13% to 20% of the gap.

¹ International comparisons of income, productivity and the quality of institutions comprise a wide set of indicators and are produced by a number of organisations. The Economic Development Indicators report prepared by MBIE, the Treasury and Statistics New Zealand includes a large number of such indicators. The most recent report was published in 2011. In addition, as part of the Business Growth Agenda, MBIE is producing a series of New Zealand Sectors Reports.

² The Productivity Hub partners include the Treasury, the New Zealand Productivity Commission, RBNZ, Statistics New Zealand and the Ministries of Business Innovation and Employment, Foreign Affairs and Trade, Primary Industries, Transport and Health. The productivity symposium papers can be accessed at: <http://www.productivity.govt.nz/event/unpicking-new-zealand%E2%80%99s-productivity-paradox-symposium>

³ The "OECD average" in this analysis comprises a smaller set of OECD countries, compared to the full set of OECD member countries in the GDP per capita chart.

New Zealand's relatively small size, distance from markets and particular industry and export mix necessitate looking at comparator countries beyond OECD front-runners such as the United States and Australia. Notwithstanding structural differences between Australia and New Zealand, the broad similarity of institutions, significant migration flows and the comparability of productivity statistics still makes Australia a useful comparator. Since the mid-1990s, the period over which comparable official productivity statistics for Australia and New Zealand are available, labour productivity growth in New Zealand has been below Australia's. Growth in multifactor productivity (output growth relative to combined growth in labour and capital) has been broadly similar in the two economies. However, the capital-to-labour ratio in Australia has grown twice as fast, reflecting high investment in mining-related activity.

Australia and New Zealand productivity growth		
Australia's MFP16 and New Zealand's measured sector. Average annual growth rates, percent: 1996 to 2012		
	Australia	New Zealand
Output	3.5	2.5
Labour input	1.4	1.1
Capital input	5.4	3.1
Labour productivity	2.1	1.4
Multifactor productivity	0.5	0.6
Capital-to-labour ratio	3.9	2.0

Source: Statistics New Zealand

The productivity symposium also included new comparisons of trans-Tasman productivity levels on an industry basis. The main conclusions from this analysis include:

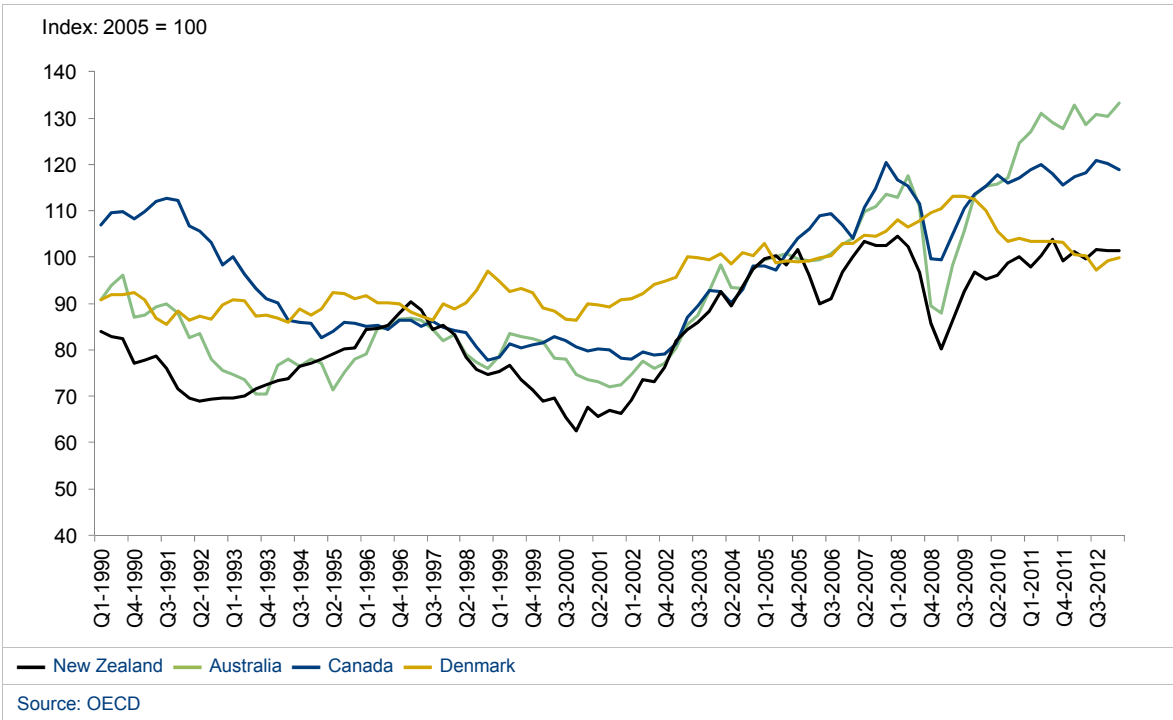
- ▶ Labour productivity levels in New Zealand across all market industries were more than a third lower than in Australia, in 2009. New Zealand's lower multifactor productivity accounted for 58% of this gap, with relatively lower skills and capital per worker accounting for 3% and 39% respectively.
- ▶ Australia's labour and multifactor productivity exceeded that of New Zealand in 12 of the 24 market industries, while New Zealand was ahead on both productivity measures in five industries.
- ▶ The labour productivity gap can be assessed in terms of the contribution from differences in the structure of the two economies. It is estimated that 30% of the labour productivity gap comes from such differences, with employment in Australia more concentrated in certain high labour productivity industries such as mining, utilities (electricity, gas and water) and financial services. The other 70% of the gap is accounted for by productivity differences across the two economies within the same industry.

In addition to differences in the productivity of the same industries across countries, a number of international studies have found large differences in productivity of firms across the economy and within narrowly defined industries. For example, the productivity of a New Zealand firm in the 90th percentile is around seven times that of a firm in the 10th percentile, and there is considerable variation in the ratio across different industries.

The productivity symposium, and previous Treasury analysis, has considered the impact of the exchange rate on international competitiveness, exports and wider productivity performance. In March 2013 the Treasury and RBNZ hosted a forum on exchange rate issues and policy implications.⁴ The forum examined both the cyclical movements in New Zealand’s real exchange rate, as well as its persistently high level since the mid-2000s.⁵ The relationships between changes in the real exchange rate and adjustments in the economy depend on the nature of the shocks affecting the economy, including external shocks such as a rising terms-of-trade.

Looking beyond the short to medium term, New Zealand’s international competitiveness will be influenced by a range of factors beyond relative prices and costs, including the ability of the economy to adapt to changing external influences, and ultimately its overall productivity performance.

International competitiveness as measured by real exchange rates (relative unit labour costs)

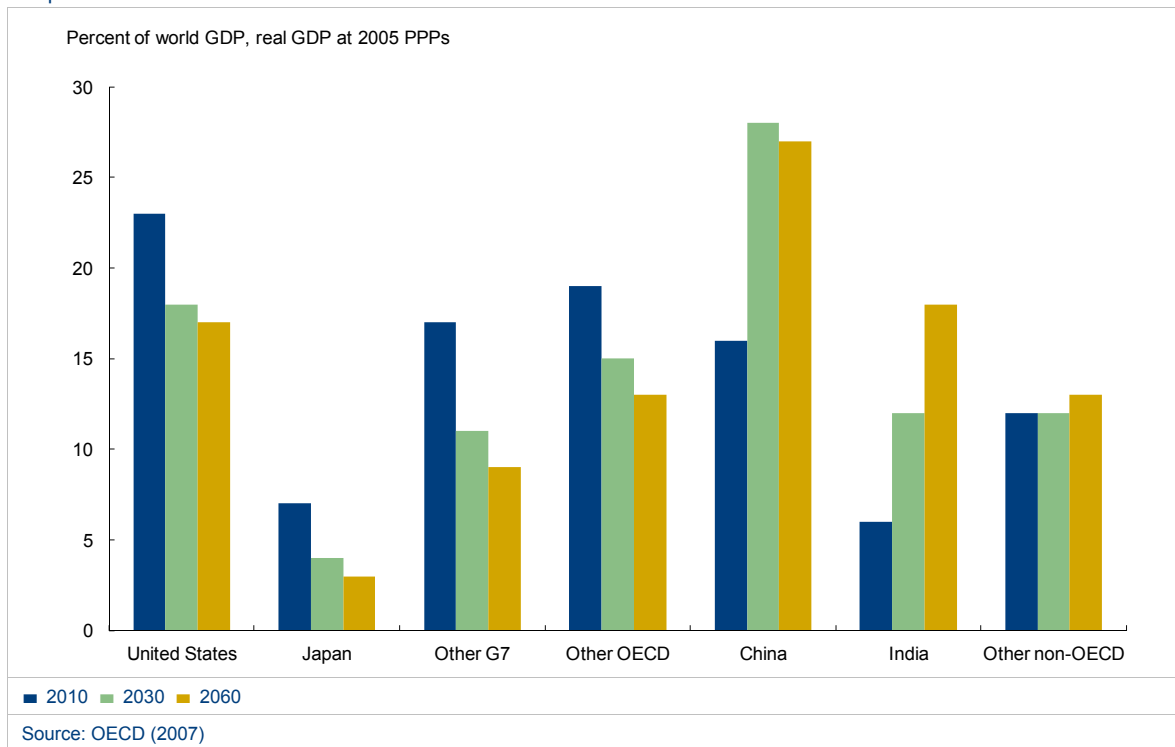


In terms of external influences, the New Zealand economy has demonstrated significant flexibility and adaptability in responding to large shocks in recent years. Longer term trends influencing the economy include the fact that New Zealand is now part of the region that is the centre of global economic activity. Demand from the middle classes in Asia for New Zealand products and services will grow as they grow in number.

⁴ The exchange rate forum papers can be accessed at: http://www.rbnz.govt.nz/research_and_publications/seminars_and_workshops/Mar2013/programme.html

⁵ An increase in the index indicates a real exchange rate appreciation and a corresponding deterioration of the countries’ competitive position against a basket of 49 countries. Unit labour costs reflect the nominal labour cost per unit of output.

Composition of world GDP



The indicators in the Economic Development Indicators report provide additional information on New Zealand's wider international competitiveness and can also be used to assess the quality of New Zealand's institutions.

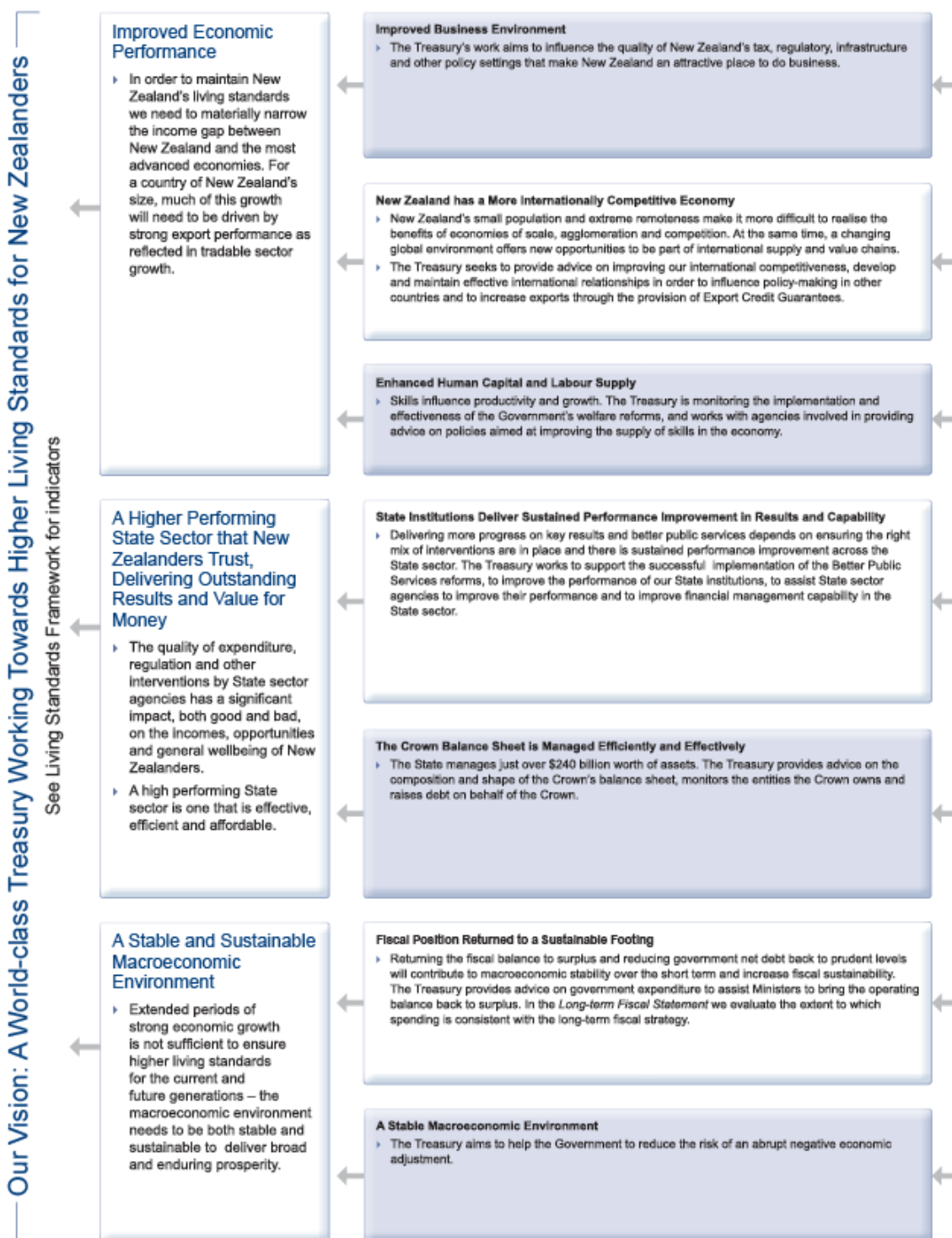
For example, New Zealand maintained its third ranking out of 185 countries in the World Bank's Ease of Doing Business 2013 rankings. New Zealand was 26th in 2008 on the OECD Product Market Regulation Barriers to Entrepreneurship indicator.

Finally, summaries of the most recent policy assessments of New Zealand by the International Monetary Fund (IMF) and OECD can be found on pages 125 and 126.

The Treasury's Performance Framework

Our outcomes and vision

Our intermediate outcomes



Outputs

Improved Business Environment

- › Policy advice on tax policy, the regulatory quality system, infrastructure frameworks, medium-term economic growth strategy
- › Advice on key regulatory sectors, including better devolved management of our natural resources
- › Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements, including Regulatory Impact Statement assessments

New Zealand has a More Internationally Competitive Economy

- › Policy advice on medium-term economic growth strategy, international financial institutions and investment
- › Policy advice relating to exports and trade
- › Provision of export credit

Enhanced Human Capital and Labour Supply

- › Monitoring the implementation of the welfare reform programme
- › Policy advice on education, schooling, youth achievement

State Institutions Deliver Sustained Performance Improvement in Results and Capability

- › Policy advice on institutional settings and the public management system
- › Implementation of the Better Public Services reforms
- › Monitoring, assessing and providing advice on the performance of agencies, sectors and the overall State sector system
- › Capability building and performance improvement initiatives
- › Guidance and support to agencies to enable them to fulfil their Public Finance Act 1989 and Cabinet requirements and to lift performance
- › Policy advice on agency interventions

The Crown Balance Sheet is Managed Efficiently and Effectively

- › Policy advice on balance sheet management, Crown ownership, SOE governance and policy settings, Private Public Partnerships (PPPs), Capital Asset Management (CAM) framework
- › Implementing the MOM
- › Monitoring advice and board appointments
- › Managing New Zealand's debt
- › Managing any residual issues arising from the expired Deposit Guarantee Scheme (DGS)

Fiscal Position Returned to a Sustainable Footing

- › Policy advice on fiscal policy, strategy and frameworks; fiscal reporting frameworks; and balance sheet management
- › Fiscal monitoring, reporting and forecasting, including the production of the Crown financial statements and the *Long-term Fiscal Statement*
- › Budget production
- › Managing New Zealand's debt

A Stable Macroeconomic Environment

- › Policy advice on macroeconomic strategy; fiscal policy, strategy and frameworks; and financial stability
- › Research and advice on savings policy
- › Economic and fiscal monitoring, reporting and forecasting
- › Advice on proposals that impact on the macroeconomic environment

Appropriations

- › Policy Advice – Finance
- › Provision of Financial Operations Services and Operational Advice
- › Provision of Financial Services to the New Zealand Local Government Funding Agency

- › Policy Advice – Finance
- › Provision of Financial Operations Services and Operational Advice

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- › Policy Advice – Finance
- › Provision of Financial Operations Services and Operational Advice
- › Implementation of Mixed Ownership Model
- › Crown Company Monitoring Advice to Ministers
- › PLA funded outputs

- › Policy Advice – Finance
- › Provision of Financial Operations Services and Operational Advice
- › PLA funded outputs

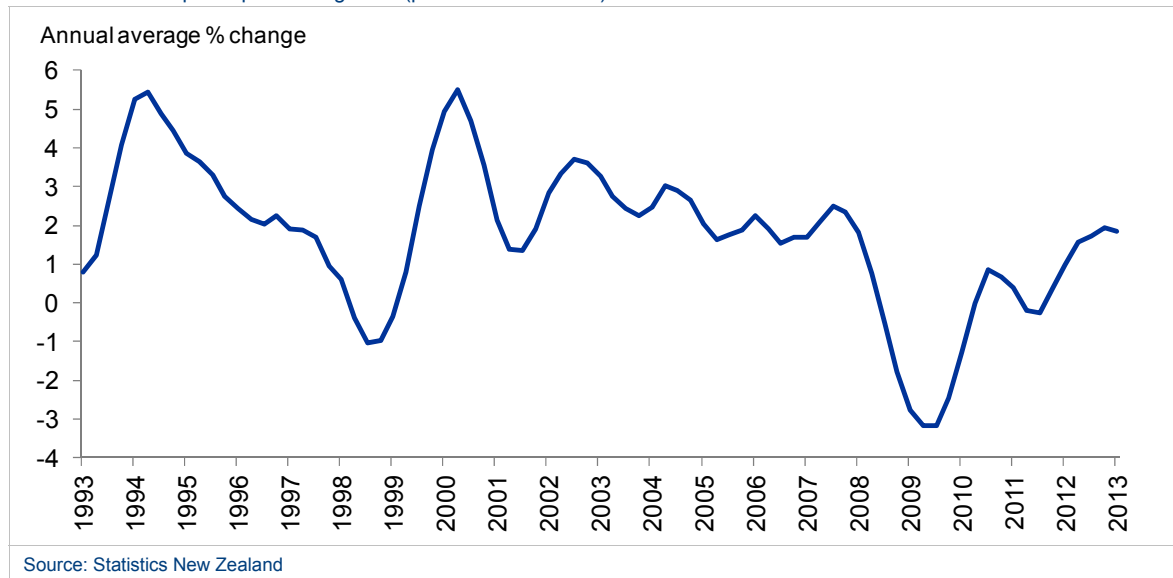
- › Policy Advice – Finance
- › Provision of Financial Operations Services and Operational Advice

Our Outcome Performance

Improved Economic Performance

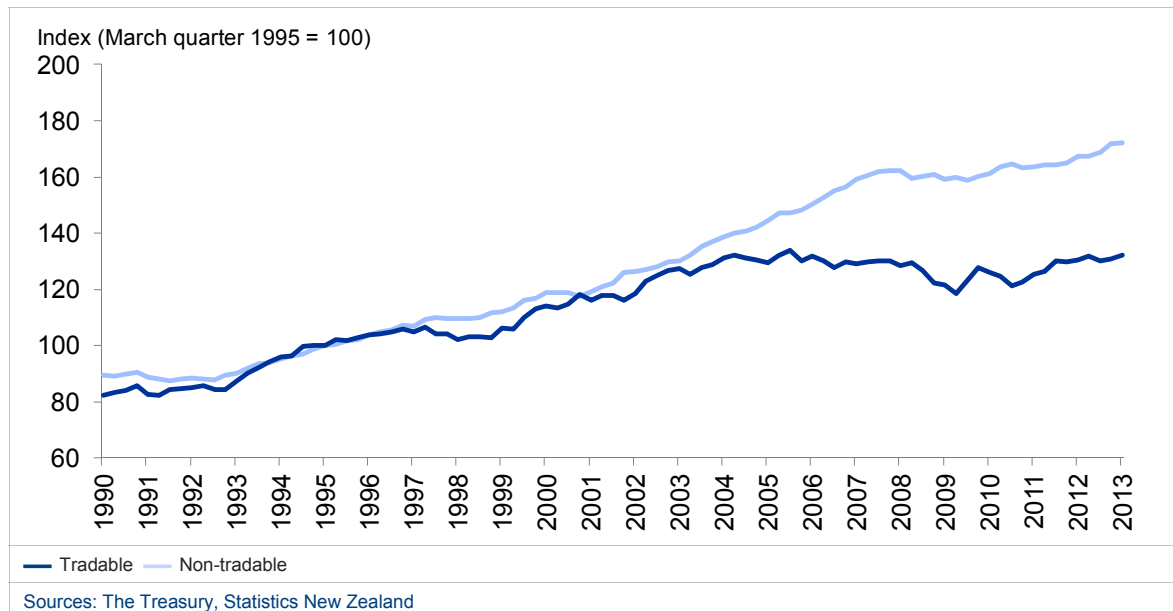
New Zealand's average GDP per capita growth for the past six decades has been poorer than all other OECD countries. In order to maintain New Zealand's living standards we need to materially narrow the income gap between New Zealand and the most advanced economies (see page 14 for a graph comparing New Zealand's GDP per capita with other countries). New Zealand's economic growth performance relative to other countries is improving, with New Zealand's real GDP growth projected to exceed the aggregate OECD growth rate from 2012.

New Zealand real per capita GDP growth (production measure)



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

New Zealand real tradable and non-tradable GDP



Achieving improved economic performance requires policy changes with the potential to lift productivity across the economy and support a substantial lift in export performance. The Treasury provides policy advice that focuses on three intermediate outcomes that will contribute towards improved economic performance, which are reported on below. The OECD's 2013 Economic Survey of New Zealand provided broad endorsement of New Zealand's approach to policy priorities to lift growth, while highlighting the challenges in achieving long-term sustainable growth.

Intermediate Outcome: Improved Business Environment

New Zealand's business environment needs to strongly outperform other countries to overcome the disadvantages of size and distance. The Government impacts on the business environment particularly through its policies relating to education, welfare, tax, savings incentives, regulation, science and innovation, infrastructure and the management of natural resources.

Our Business Environment

New Zealand maintained its ranking of third out of 185 countries in the World Bank's Ease of Doing Business 2013 rankings.

New Zealand was 26th in 2008 on the OECD Product Market Regulation Barriers to Entrepreneurship indicator (this indicator is only updated every five years).

New Zealand has:

- ▶ the most comprehensive (least distorting) Goods and Services Tax (GST) or VAT in the OECD
- ▶ amongst the lowest tax wedges on labour income in the OECD
- ▶ amongst the easiest tax systems in the OECD to comply with, and
- ▶ a relatively high share of taxes collected from capital income compared with other OECD countries.

New Zealand ranked 47th out of 144 countries in the 2012/13 World Economic Forum Global Competitiveness report on its perceived infrastructure quality, a small improvement on our 2011/12 ranking.

Over the year we provided advice to Ministers, alongside the Ministry of Economic Development (MED) and subsequently MBIE, on implementation, coordination and next steps in the Government's business growth agenda. We commenced work on refreshing our medium-term economic strategy thinking, which sets out what the Treasury considers important to achieve economic growth. This has seen us engaging with other public sector agencies along with the private sector and non-government sector to garner their perspectives. We also provided support to MBIE during its establishment and supported the establishment of Callaghan Innovation.

We have continued to work with the Inland Revenue Department (IRD) to deliver the Government's tax policy work programme. This helped the Government to make decisions in a range of areas, including improving the tax settings for mixed-use assets, salary trade-offs, foreign superannuation and specified mineral mining, and in making changes to the thin capitalisation rules. These changes help to achieve the Government's revenue strategy, which supports a broad-base, low-rate tax system that raises revenue as efficiently and fairly as possible.

The Treasury published the *2012 National State of Infrastructure Report* which provides an update on progress and challenges in the infrastructure sector. Broadly positive ministerial and stakeholder feedback on the National Infrastructure Plan indicates solid progress and emerging clarity on the way forward.

Through our role in assessing major Regulatory Impact Statements and by helping to build agency capability, we aim to increase the proportion of significant Regulatory Impact Statements meeting most or all of Cabinet's regulatory impact analysis (RIA) requirements. We set a target of 90% by 2013 although in 2012/13 only 71% of departments' Regulatory Impact Statements achieved this. In addition, we introduced disclosure requirements for legislation and regulation produced by the Government, and Regulatory Stewardship Expectations for departments.

We provided advice to ensure that policy settings maximise the value of New Zealand's significant natural resource endowment. We worked with the Ministry for the Environment (MfE) on a package of Resource Management Act 1991 (RMA) reforms that, if implemented well, should significantly improve planning outcomes in the medium to long term, leading to increased value derived from natural and physical resources and reduced costs, delays and complexity between regional and local council plans. We also worked with MfE on the 2013 freshwater reforms aimed to improve the effectiveness of water management.

The Treasury continued to support the recovery of the Canterbury region. This included supporting a greater whole-of-government approach to dealing with issues in Christchurch, the central-city rebuild and the formalisation of a cost sharing agreement between the Crown and Christchurch City.

During the year the Government announced a comprehensive programme to improve housing affordability which is being jointly led by the Treasury and MBIE. The Treasury's advice helped the Government to develop this work programme. Subsequently, our work on this work programme helped the Government to deliver the Housing Accords and Special Housing Bill which was introduced on Budget night.

For more detail on our policy outputs in this area, see pages 40 and 44.

Intermediate Outcome: New Zealand has a More Internationally Competitive Economy

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

Our International Competitiveness

Exports as a % of GDP (real) have been between 30% and 33% over the past 10 years, most recently around 33%.

GDP per hour worked increased by 0.9% per year in New Zealand between 2001 and 2011, compared to an OECD-wide increase of 1.5% per year over the period.

In 2011, New Zealand's business investment as a percentage of GDP (real) was 19.2% compared to the OECD average of 14.4%.

The World Economic Forum ranked New Zealand as the 23rd most competitive economy in 2012/13, an increase from 25th place in 2011/12.

The Treasury provided economic strategy advice to the Minister of Finance on improving our international competitiveness. In supporting the Government's Business Growth Agenda and the associated targets to increase trade flows, the Treasury provided advice on trade and free trade agreements, including contributing to research into trade in services and supporting the Trans-Pacific Partnership activities. The Treasury also led a seven-agency working group on inward and outward foreign direct investment, undertaking research into the impact of foreign investment on the New Zealand economy and what factors can support foreign investments to benefit New Zealand economic growth and employment.

We have continued to build relationships with our foreign counterparts so that we can influence policy-making by other countries and international institutions. In the past year we held dialogues with our counterparts in the US, China, India and the Republic of Korea to increase the profile of international issues that are important to New Zealand and increase our depth of understanding of those countries. We managed New Zealand's ownership interests in international financial institutions and New Zealand's input into international Finance Ministers' forums, such as the East Asia Summit Finance Ministers meeting.

The Treasury also delivered NZECO products and services to increase exports that otherwise would not have occurred owing to constrained access to trade finance or appropriate risk mitigation techniques. For more information on NZECO outputs, see pages 46 to 49.

Intermediate Outcome: Enhanced Human Capital and Labour Supply

Skills influence productivity and growth directly, through their impact on labour productivity and labour utilisation; and indirectly, through their effect on other drivers of growth, such as innovation and international connectedness. The Government has outlined a number of results it wishes to achieve with respect to enhancing New Zealand's human capital and labour supply.

Enhanced Human Capital and Labour Supply

Reducing long-term welfare dependence

The Government's target is to reduce the number of people continuously receiving these working-age benefits, which will become the new Jobseeker Support, for more than 12 months by 30%, from 78,000 in April 2012 to 55,000 by 2017. As at March 2013 the number had dropped to 75,366.

Boosting skills and employment

The Government's targets are:

- ▶ 85% of 18-year-olds will have achieved National Certificate of Educational Achievement (NCEA) Level 2 or an equivalent qualification in 2017. In 2012 this was at 77.2%, and
- ▶ 55% of 25- to 34-year-olds will have a qualification at Level 4 or above in 2017. In 2012 this was at 52.6%.

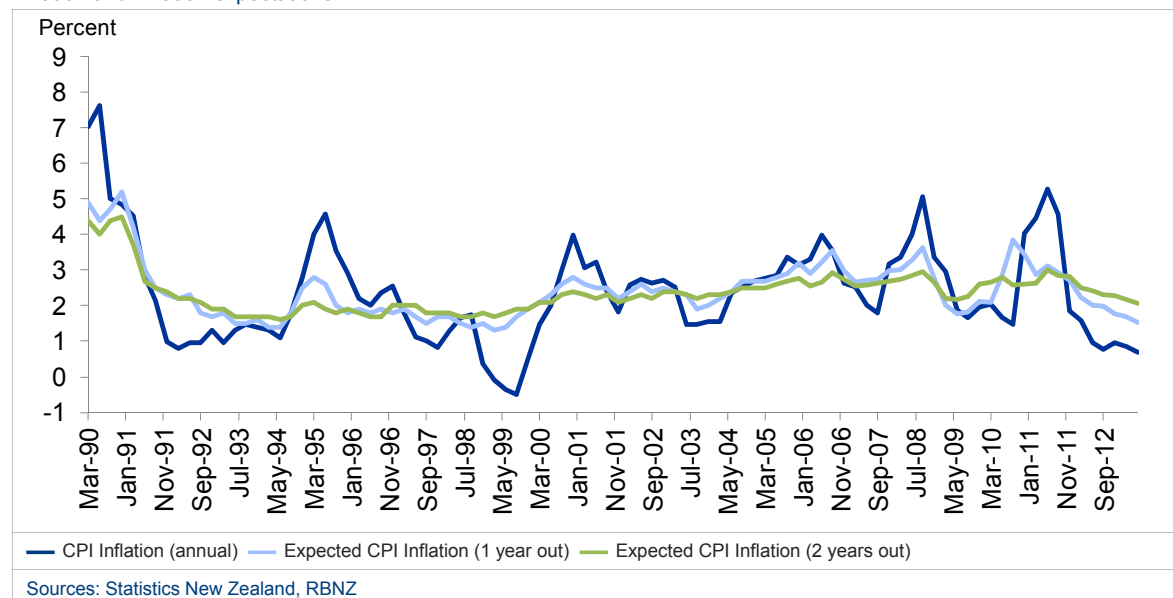
Over 2012/13 the Treasury worked alongside MSD in the policy development phase of welfare reform and in the implementation of the key elements of an investment approach to welfare. The investment approach shifts the focus of the benefit system to the long-term costs of welfare receipt with the aim of improving the employment prospects of clients who have the greatest risk of long-term benefit receipt. Substantial progress has been made on implementing the accountability and outcome aspects of this approach. The Treasury has also worked with MSD on the development of a model for managing resources and funding.

In addition, we advised on progress towards the Better Public Services skills and employment results outlined in the box above. We worked with other agencies to ensure the change agenda across early childhood education, schooling and tertiary education is evidence based, cost effective and well integrated with wider welfare and labour market policies. Collectively, the changes across the education system are seeking to lift our educational participation and achievement. Our specific areas of focus have included work on partnership schools, school property, the review of the New Zealand Teachers Council and capital business cases for Canterbury Tertiary Education Institutions. Current funding policy settings are financially sustainable but improvements are required to ensure that maximum value for money is being obtained in the education area.

A Stable and Sustainable Macroeconomic Environment

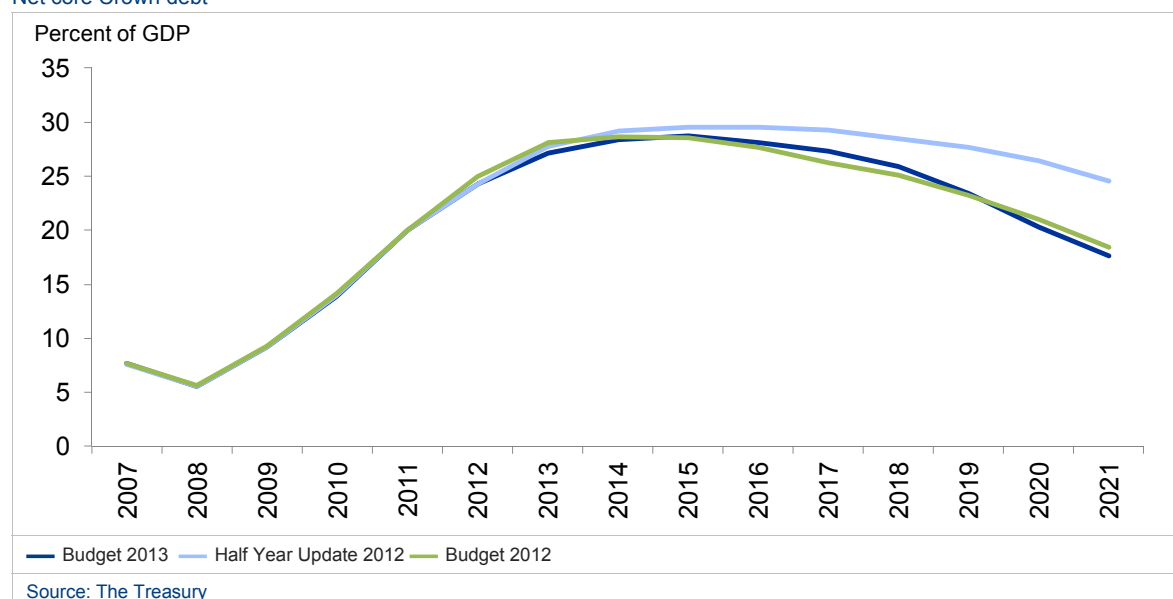
A stable and sustainable macroeconomic environment is a fundamental precursor for strong, sustained economic growth and higher living standards. Macroeconomic stability (as partly indicated through inflation, see graph below) provides households and firms with the predictability and certainty they need to make good decisions about employment, saving, investing, innovating and pursuing opportunities.

Inflation and inflation expectations



Moody's has New Zealand's credit rating as AAA, while the other two of the three major rating agencies have us remaining at AA. This is largely owing to the perceived vulnerability associated with New Zealand's large negative net international investment position that has arisen from a long-standing gap between national saving and investment. Importantly, government debt remains low by international standards notwithstanding the increase experienced over recent years (see graph below).

Net core Crown debt



Achievement of our desired outcomes in this area requires a further lift in economic and fiscal performance. Global economic and financial conditions, such as the exchange rate, continue to have a major negative bearing on domestic economic and financial developments and overall macroeconomic stability.

Intermediate Outcome: A Stable Macroeconomic Environment

The Treasury's work aims to help keep economic activity close to full employment levels, keep economic variability to a minimum and avoid abrupt negative economic adjustments when hit by shocks. Over the year the global economy and financial market conditions improved, but overall conditions remain fragile and subject to ongoing risks. Financial stability risks have increased, however, with house price growth increasing and private debt levels increasing again.

A Stable Macroeconomic Environment

Economic variability

The standard deviation of New Zealand's annual real GDP growth (which shows economic variability) was around 2 percentage points in the 10 years to 2012 (10th out of 34 OECD economies), compared to 2 (12th out of 28) and 2.5 (21st out of 34) in the 1980s and 1990s respectively. This shows an improvement in New Zealand's relative ranking, with GDP variability now in the lowest third of OECD countries.

Macroeconomic vulnerability

The Treasury forecasts in the *Budget 2013 Economic and Fiscal Update* (BEFU) show the current-account deficit increasing from current levels, such that the net international liability position also begins to increase again. The net international liability position fell as a share of GDP between March 2009 and March 2011 partly owing to re-insurance inflows associated with the Canterbury earthquakes, but has since increased slightly and remains at a high level by international standards.

Over the year, we provided advice on macroeconomic policy settings and frameworks, and on fiscal policy and strategy. This included advice to the Government on the impact of government policy on the macroeconomic environment. This advice enabled the Government to operate fiscal policy in a way that contributed to macroeconomic stability, balancing short- and medium-term requirements and supporting the economic recovery, while remaining on track to meet its fiscal objectives over the medium term.

We supported the Government to table amendments to the Public Finance Act 1989 designed to ensure the fiscal responsibility principles help reduce future cyclical rises in interest and exchange rates. We continued to provide economic and fiscal monitoring, reporting and forecasting.

We provided advice to the Minister of Finance on the Memorandum of Understanding (MOU) with RBNZ which sets out the purposes and processes for the use of macro-prudential tools. We provided joint advice with RBNZ on the implicit guarantee of the financial sector, and worked with Trans-Tasman Banking Council agencies to enhance cross border crisis resolution strategies.

IMF's 2013 Article IV report and the OECD Survey of New Zealand endorsed the key elements of our macroeconomic framework and current policy settings.

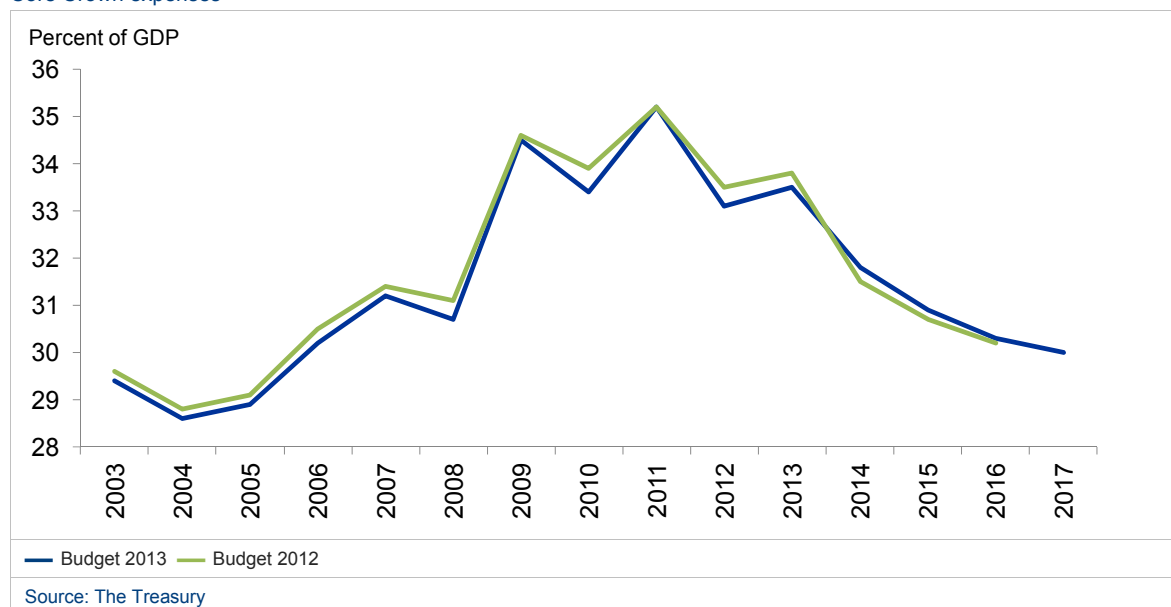
Intermediate Outcome: Fiscal Position Returned to a Sustainable Footing

Returning the fiscal balance to surplus and reducing government net debt back to prudent levels will contribute to macroeconomic stability over the short term and increase fiscal sustainability. The act of reducing the fiscal deficit will directly reduce upward pressure on interest and exchange rates over the next few years and help manage external vulnerabilities. Returning to surplus on a sustained basis will restore the fiscal buffer provided by low debt, will increase public saving and reduce future borrowing and finance costs.

Fiscal Position Returning to a Sustainable Footing

Budget forecasts show the operating balance (before gains and losses) returning to surplus in 2014/15 and core Crown expenses reducing to around 30% in 2015/16 (see graph below).

Core Crown expenses



The Budget also shows that gross new capital requirements over the next four years are forecast to be met from the balance sheet.

In addition, projections in the *Fiscal Strategy Report* (FSR) show net core Crown debt falling below 20% of GDP by 2020/21.

The Treasury, through our advice on fiscal policy and budget and balance sheet management, has worked to assist the Government to achieve its fiscal objectives as outlined in the box above. This included helping deliver a Budget that allowed for a modest amount of new operating spending and the first significant amount of capital spending from the Future Investment Fund. The 2013 Budget was in line with both short-term fiscal intentions and long-term objectives in the *Budget Policy Statement* (BPS).

The Treasury published a *Long-term Fiscal Statement* on 11 July 2013. The Statement projects that if core Crown expenses were to revert to their historic rates of growth from the 2015/16 fiscal year (taking into account legislative settings and expected future demand for various government services), expenses would soon outstrip revenue. Policy changes will be necessary on either the spending or revenue sides, or both, in order to keep to prudent government debt levels over the long term. The two spending areas that are projected to see the most pressure are public healthcare and New Zealand Superannuation.

The Government's fiscal strategy (discussed above) adopts a more restrained fiscal path than that outlined in the *Statement on the Long-term Fiscal Position*. If the current fiscal strategy were followed until 2020, it would lead to a significant improvement in the Treasury's long-term fiscal projections (although some underlying pressures would remain).

The Auditor-General tabled a report on the Statement in Parliament on 8 August 2013. The Auditor-General noted that since the Treasury's first Statement, published in 2006, the Treasury has improved how it prepares its long-term fiscal statements, making them more inclusive. Overall, the Treasury is assessed to have done a good job in preparing *Affording Our Future*, and presenting it in an easy-to-understand format. The Auditor-General's report also made some recommendations about how the Treasury could further improve its long-term fiscal reporting, including that consideration be given to using a wider set of indicators.

The media response to the Statement has been balanced and measured, and largely reflects the Statement's key messages. Both the Statement itself and the attendant response from the media and other commentators can be expected to contribute to greater public understanding of the scale and drivers of long-term fiscal pressures.

In addition, the Treasury continued to provide quality fiscal monitoring, reporting and forecasting (for more information on these outputs, see page 46).

A Higher Performing State Sector that New Zealanders Trust, Delivering Outstanding Results and Value for Money

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

The FSR specifies the Government's long-term objective is to reduce core Crown expenses to below 30% of GDP. Current forecasts show that we are on track to achieve that around 2017 as shown in the graph on page 26. Given the limited resources available, the State sector needs to be aligned and organised to achieve a core set of critical, measurable priorities and to deliver these well.

The Government has set 10 challenging Results to be achieved over the next three to five years. A number of the Result areas are on track to achieve their targets – for example, immunisation and reducing crime. In a number of the other Result areas it is too early to call the trend or claim success, but there are encouraging indicators. For example, early childhood education (ECE) participation is up 0.8% on the March 2012 figure and 41% of New Zealanders are transacting with Government online (for a selected bundle of services), up from about 30% nine months ago. More detail is available at: www.ssc.govt.nz/better-public-services

Kiwis Count

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

The overall satisfaction score for the March 2013 quarter was 72 as in the June and December 2012 quarters' scores after a two-point increase in the September 2012 quarter. The June, September and December scores are the first quarterly results and so seasonal patterns are still to be established. They follow two point-in-time surveys with results of 68 in 2007 and 69 in 2009.

There are no strong trends, positive or negative, in the March 2013 quarter.

Out of the 10 service groups, two (Health and Justice and Security) improved their scores over the quarter, four maintained their previous scores and four decreased their scores.

More details are available at: www.ssc.govt.nz/kiwis-Count

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

Delivering more progress on key results and better public services depends on ensuring the right mix of interventions (expenditure, regulatory and ownership) are in place and there is sustained performance improvement across the State sector.

Measuring performance

We continued our focus on developing or enhancing tools to understand performance in the State sector. We ran the third year of the Better Administrative and Support Services (BASS) benchmarking exercise,⁶ we developed and introduced a common indicator set for policy advice and continued to support SSC in the delivery of the Performance Improvement Framework (PIF) (see box below). These measurement tools, together with Four-year Plans (discussed further below), engagement surveys, audit results and other published data sources, now enable a much better understanding of State sector performance, at an agency, sector and system level.

⁶ <http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12>

Performance Improvement Framework

Since 2009 PIF reviews have examined the current state of an agency and how well it is placed to deal with the issues that confront it in the medium-term future. Ten more reviews were conducted during 2012/13.

The PIF system findings show we do a number of things really well. We are responsive to Ministers. We are good at delivering against government priorities. We work well with a number of external stakeholders and we are good around the probity of our financial management system. These are all good characteristics of the New Zealand public management system.

So far the reviews have a very common theme. They show the need for us as a system (ie, the wider State Services) to get better at working together. We also need to take a longer-term view to what we do; this means anticipating the issues that the State Services needs to deliver on for New Zealanders in the future. For some agencies, it is clear they can do better at managing and developing their people.

In addition, the results for the end of the 2012/13 year show 59% of agencies were strong or well placed in core business effectiveness; 52% in core business efficiency; and just 40% in financial and resource management. Of the 10 2012/13 reviews, 53% show agencies are strong or well placed in core business effectiveness, 44% in core business efficiency and 26% in overall financial and resource management.

It is not possible to draw strong conclusions from this information, though, as the criteria for assessment of financial and resource management were toughened during the year, which will raise expectations for future performance. PIF now provides a stronger platform for demonstrating future efficiency and effectiveness.

More details are available at: <http://www.ssc.govt.nz/pif>

Better public services

The Better Public Services programme sets out the next phase of public sector reforms. It is focused on getting the system working to deliver better results and improved services for New Zealanders; delivering better value for money through greater collaboration, innovation and continuous improvement; and strengthening system leadership.

The Treasury, alongside SSC and DPMC as the “Corporate Centre”, has a key role in ensuring the successful implementation of the Better Public Services programme. To enable the Corporate Centre to play a stronger and more cohesive leadership role, we established a joint venture called the “State Sector Policy and Performance Hub” (the Performance Hub) in February 2013. The Performance Hub will undertake performance monitoring of the system and provide advice on improving its performance.

The Treasury also led and supported a number of initiatives as part of the Better Public Services programme. With our Corporate Centre colleagues, we supported the passage of the State Sector and Public Finance Reform Bill, the provisions of which were passed in July 2013, which will enable greater collaboration around results and system leadership. We led the establishment of a Better Public Services Seed Fund designed to remove actual and perceived barriers to agencies working together. We provided advice on and support for the Government’s 10 Result areas and the increasing role of functional leadership across the system (in the Information Communication Technology, procurement and property areas).

A prime example of the type of changes the Better Public Services programme is seeking to achieve is the Wiri Prison PPP deal that was closed this financial year after several years of effort. The Treasury worked in partnership with the Department of Corrections on this initiative. The initiative was procured on an outcomes basis with the primary focus on rehabilitation. This has built experience, demonstrated new ways of undertaking procurements and is the first contract of its kind in the world.

Enhancing fiscal management

This year we worked in collaboration with our Corporate Centre colleagues to integrate the previously separately required Four-year Budget Plans and Workforce Strategies into a single Four-year Plan document. These were a key input into the Budget 2013 process and are designed to provide Ministers and Central Agencies with a clear and integrated view of an agency's/sector's direction on strategy, financial performance and workforce, and to show how agencies will achieve their priorities within baseline.

Overall, the integrated plans this year were of a much higher standard than previous Four-year Budget Plans and separate Workforce Strategies, providing richer information to understand agencies' ability to deliver on the Government's priorities and other intentions.

The financial picture shows that significant cost pressures will arise over the next four years and a number of key agencies have a significant challenge to manage within baselines (and indicative new funding allocations). Notwithstanding this, the aggregate "funding gap" has significantly reduced from last year's plans, reflecting an increased ability by agencies to manage within available funding.

Delivering value for money

There is some evidence that agencies are looking to lift the pace of planned operational changes in order to drive improved value from current spending and achieve "more for less". It is evident that those agencies that have the most developed strategy were able to provide the best understanding of how they will be able to manage their resources in the next four years to deliver on the Government's intentions. This aligns with the PIF lead reviewer findings that "best institutions are clear about their purpose; know how they can add most value to New Zealand now and in the future; and are clear about their strategy for delivering that value".⁷

Over the year we helped establish the foundations of a more effective and efficient social housing system through our policy and Budget advice, and through working with a number of different agencies such as MBIE, HNZA and the Tamaki Redevelopment Company. We took on the role of monitoring HNZA and introduced a new monitoring framework for this role.

We continued to work alongside departments to improve their performance; including working closely with IRD on their business transformation programme and working with the New Zealand Defence Forces on the Defence Mid-Point Rebalancing Review which is seeking to achieve a sustainable funding path for Defence. We also worked with the Justice sector to develop options to ensure it can live within baselines and with the Office of Treaty Settlements to provide a funding base to maintain momentum in Treaty Settlements. We worked closely with the Ministry of Health (MOH) on a number of issues, including advice for Cabinet on the redevelopment of the Christchurch and Burwood hospitals, having previously supported the partnership group that developed the business case; we also worked with the Ministry on the development and costing of options to respond to litigation by family carers.

Improving performance and financial management capability

We have continued to work on improving the performance and financial management capability of the State sector (including our own). A key element of this was the commencement of the "Optimise Finance" programme designed to improve department financial management. Optimise Finance is an initiative working with a group of 11 agencies to deliver a business case considering how to encourage demand for more strategic financial management services; improve strategic financial management and governance capabilities; leverage the sector's size to achieve economies of scale and adopt best practices; and simplify and streamline finance services within and across agencies.

⁷ See: <http://www.ssc.govt.nz/pif-core-guide-3>

The Treasury developed a programme designed to improve our performance and financial management capability. Over the year this included the development of a new graduate induction programme, updating our written guidance and reference materials, developing a knowledge management tool and developing and piloting new tools to support financial analysis of departments.

The Treasury continued to provide guidance and support to agencies to ensure activities comply with the Public Finance Act 1989 and Cabinet directions.

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

The State sector manages just over \$240 billion worth of assets – across three portfolios of social assets (such as roads and schools), commercial assets and financial assets and liabilities. Currently the overall composition and shape of the Crown balance sheet appears reasonable but there is no objective measure to support this conclusion.

The Treasury's roles with respect to these assets include ensuring there are incentives to use existing capital well, introducing private sector capital and commercial disciplines where this is appropriate and advising on the allocation of capital to its highest value use. These activities and interventions are designed to increase State sector productivity and the ability of the Crown to deliver more for less.

Financial assets and liabilities

This year the Treasury started implementing a more operational approach to managing the Crown's balance sheet which takes a portfolio management view that focuses on aggregate Crown risk exposures (financial and otherwise), returns and performance of all the components of the balance sheet. We will also seek to increase the efficiency of financial operations within the Crown.

We provided advice on the performance of Crown Financial Institutions (CFIs). The two largest CFIs, the New Zealand Superannuation Fund (NZSF) and Accident Compensation Corporation (ACC), combined manage more than 85% of the Crown's investment assets. Both entities are ahead of their longer term performance objectives.

NZDMO issued \$14 billion of government bonds in 2012/13 with the cost of new borrowing being 3.05%, compared with a benchmark of 5.5%. Notably this included the introduction of the first New Zealand Government inflation-indexed bond instrument since 1999. NZDMO also lengthened the maturity profile of bonds on issue, by reducing the volume of short-term Treasury Bills outstanding, and introducing new bonds with maturities in 2020 and 2025, effectively reducing refinancing risk. (For more information on NZDMO outputs, see pages 50 to 52.)

Social assets

While there have been no formal independent assessments of agency asset management maturity in 2012/13, there is evidence that the level of maturity is improving in agencies that have previously had large gaps between current and target maturity. Compared with the situation in 2011/12 this means capital intentions forecasting is likely to be more reliable, key asset-related risks are being better managed and real options are more likely to be analysed.

We continued to play a lead role in influencing the quality of investment analysis, accountability and performance through Budget, monitoring and guidance processes. An independent review of our Better Business Cases guidance materials confirmed the materials and associated support services are both valued and effective. The Treasury is now routinely capturing and reporting to Ministers and Corporate Centre stakeholders, information from all departments and key Crown agents on significant capital projects planned or underway.



Commercial assets

We provided advice on the performance of SOEs and significant entity-specific issues, including undertaking a considerable amount of work in relation to Solid Energy.

The most recent economic profit analysis, completed in 2011, suggested the Crown's portfolio of commercial entities has generally met its cost of invested capital. We analysed the extent to which the Crown's financial and commercial assets met their cost of capital and benchmark returns, publishing the results in the Treasury's *Annual Portfolio Report (APR)*. The Treasury also commenced a work programme to strengthen our monitoring of the commercial assets owned by the Crown. We also reinvigorated a Crown director development programme offering a tailored range of events to improve governance knowledge and capability. For more information on these outputs, see pages 57 and 58.

We managed the successful public listing of Mighty River Power. The listing achieved its targets including a threshold of 85% to 90% New Zealand ownership on listing. For more information on these outputs, see pages 54 and 55.

A Higher Performing Treasury: Our Organisational Health and Capability

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

We have four objectives that reinforce each other:

- ▶ Every member of staff, led by our ELT, lives our values.
- ▶ We work collaboratively with others to achieve our outcomes, informed by an understanding of what is happening in the real world.
- ▶ We are an adaptive and productive workforce.
- ▶ We are a well-managed public sector organisation focused on continuous improvement.

Living our Values

The Treasury is seeking to lift its performance by changing the Treasury's culture – how we go about our business – so that the way all Treasury people work is representative of and aligned to the Treasury values: bold and innovative; collaborative and challenging; adaptable and focused; passionate and ambitious.

Our 2012 follow-up PIF review found that we had made good progress since our first review and had stronger leadership, but that a gap still existed between the desired culture and values for the organisation and the current reality. This is to be expected as culture change takes time. We have a change programme in place which includes a range of initiatives driven by our leadership team that will further embed our vision and values. We are re-energising the programme by focusing on having teams take ownership of change and be more specific about how they need to change.

There are a number of examples of our values in action across the Treasury. For example, we are demonstrating passion and ambition for our staff by ensuring we offer flexible career pathways and developing a comprehensive development programme for our graduates. There are many examples of our teams collaborating with others, including the extensive engagement with a diverse range of groups that was undertaken to develop the 2013 *Long-term Fiscal Statement*. We are getting better at adapting to changing priorities through a focus on cross-Treasury prioritisation and embedding more systematic approaches to project management.

Leadership is important for organisational culture and change. Over recent years our leadership team has been working on establishing a collaborative and challenging executive team dynamic. ELT members are surveyed every two years, and the last survey was done in May 2012. That survey showed an improvement in the behaviours being targeted.

Working Collaboratively

We are seeking to improve the Treasury's external leadership role, in both the economic and State sector areas. We particularly want to lift our financial and performance management capability, as part of an effective Corporate Centre, and collectively lead the State sector to deliver outstanding results for New Zealanders. In doing so, we will work in partnership with other agencies and use our complementary skills to lift State sector performance.

Our 2012 follow-up PIF review found that, while we had made progress since our first review, we still need to improve in some areas. These include the quality of our performance analysis and advice and the way we engage externally. These are priorities within our change programme. For example, we are investing in giving our staff better tools and training to enable us to be more effective in our Ministry of Finance role (as part of the Corporate Centre). We are refining and more systematically applying our Living Standards Framework to our policy analysis so that we incorporate a wider range of perspectives in our advice. An increasing number of teams across the Treasury are co-producing advice with other agencies where it makes sense to do so, as well as proactively engaging with a wide range of stakeholders to exchange ideas and ensure our advice is grounded in reality.

We also want to engage with New Zealanders to better understand how we can make a difference. We are committed to greater depth and breadth of two-way engagement with external stakeholders in all areas of our work, with the aim of lifting the quality of our advice and being more influential by tapping into real-world external expertise.

The last Treasury stakeholder survey was in August 2011. It showed that, while stakeholders are interested in the Treasury, they want more frequent and richer engagement, and more collaboration and partnership. We expect to undertake a stakeholder survey towards the end of 2013. In the interim, the Communications team is scanning and synthesising other sources of feedback from our stakeholders on how the Treasury is conducting its business, including media coverage and formal/informal feedback, which reveals some positive views of our performance.

An Adaptable and Productive Workforce

We need a workforce that can adapt quickly and act to meet changing demands within the limited financial resources available to us. We need to be able to prioritise work swiftly and reallocate resources when required. We must all be clear about our contribution to our outcomes, deepen our capability to influence and improve our ability to assist other agencies to deliver the Government's economic and better public services agendas through effective, ongoing, two-way working relationships.

Over the year we have improved our guidance material on how to provide policy advice quality assurance and on our policy advice, financial management and performance management roles; developed a new graduate induction programme; updated our Workforce Strategy as part of our Four-year Plan; and improved our ability to prioritise across the organisation.

The Treasury undertook its fourth Gallup Q12 survey during September 2012. The participation rate was 92%. Employee engagement at the organisational level has been steady year-on-year with the Treasury sitting on or about the 44th percentile in Gallup's worldwide database in the last three years and the 67th percentile in the Worldwide Public Administration database. The percentage of engaged employees continues to improve, up from 34% in 2010 and 37% in 2011 to 42%. We will continue to focus on improving our employee engagement.

The Treasury places importance on diversity to ensure our thinking and actions are informed by a diverse range of views. We need to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence so an emphasis on diversity benefits the Treasury's reputation, credibility and performance.

The Treasury launched its Diversity Strategy in February 2012 with a focus on three key areas: diversity of thinking including new approaches to problem-solving and creativity; ethnic diversity to better reflect the views of the broader society that we serve; and the proportion of women in senior leadership roles. Actions over the past year have included the introduction of new tools and techniques, including training a number of staff to green belt standard in Lean Six Sigma, to promote diversity of thinking; a revamp of our cultural responsiveness programme; the launch of a new series of seminars for staff which invites key external people to talk to us about Māori economy, institutional arrangements and other issues; and the establishment of a mentoring programme.

The Treasury's headcount has increased over the last few years owing to us taking on a number of new roles including the absorption of the Crown Company Monitoring Advisory Unit into the organisation, the establishment of the National Infrastructure Unit and Central Agency Shared Services (CASS) unit, and the organisation managing the DGS and the Government's Share Offer programme. The last two programmes will not see ongoing increases in the Treasury's numbers. Alongside taking on these new functions we have been reviewing our efficiency which has led to some offsetting decreases not seen in the net figures in the tables.

Key people metrics for 2012/13						
As at 30 June	2013	2012	2011	2010	2009	2008
	<i>Staff numbers</i>					
Total full-time equivalent	389	372	363	341	343	324
Full-time staff	348	335	319	306	310	298
Part-time staff	56	52	59	47	46	35
Total headcount	404	387	378	353	356	333
	<i>Gender distribution – all staff</i>					
Women	45%	49%	50%	49%	52%	51%
Men	55%	51%	50%	51%	48%	49%
	<i>Ethnicity distribution (self-identified, multiple responses possible)</i>					
NZ European	71%	68%	70%	69%	72%	73%
NZ Māori	3%	4%	1%	4%	5%	6%
Pacific Islander	1%	1%	1%	2%	2%	2%
Asian	7%	5%	5%	6%	6%	5%
Other European	14%	12%	9%	14%	11%	10%
Other ethnic groups	1%	2%	8%	3%	1%	1%
Undeclared	2%	8%	6%	2%	3%	3%
	<i>Turnover and length of service</i>					
Turnover	14%	14%	17%	13%	11%	22%
Average length of service (yrs)	6.3	6.5	6.8	6.4	6.5	6.4

Note

The above data only includes permanent and fixed-term employees. It does not include anyone on secondment, leave without pay or current vacancies as at 30 June.

The increase in headcount at 30 June 2013 reflects the filling of vacancies at that time and the transfer of new functions to the Treasury.

A Well-managed Public Sector Organisation Focused on Continuous Improvement

The Treasury has a leadership role in lifting the performance of the State sector. Our objective is to be recognised by our peers and through independent review as an example of how a well-managed organisation operates. We will continue making improvements to our systems and processes to allow maximum resources to go to the priorities identified in our *Statement of Intent* (SOI).

This year has involved the bedding in of CASS which was established in March 2012. CASS has already delivered a number of system improvements (for example, implementing a single payroll system, monthly financial forecasting and making substantial progress on moving to a standard operating environment) with benefits including improved resiliency, security and risk reduction. It has achieved its planned efficiency savings (see below). In addition, all functions have maturity models and action plans to improve maturity.

We have also established a Continuous Improvement programme of work. This has seen three Lean Six Sigma reviews undertaken on Treasury processes which have resulted in efficiency savings being made for two of these processes with the third area still in the process of implementing the changes. We have continued to work on improving our planning, project management and risk management processes.

Our Corporate Services Performance

- ▶ The budgeted overall running costs for CASS have reduced from \$11.8 million (2012/13) to \$10.5 million (2013/14), an 11% reduction (compared to a target of 8%).
- ▶ CASS has a limited set of performance measures in its service catalogue, mostly in the Finance and the IT Service Desk areas. It is tracking to plan on these. A key focus for 2013/14 is defining and reporting on a wider range of performance measures.
- ▶ The costs of supplying administrative and support services as a proportion of the Treasury's running costs, as measured by BASS,⁸ decreased from 22.97% to 17.29% (excluding rental costs) by end of 2011/12.
- ▶ Overall, the Treasury's administrative and support services reduced in nominal terms by \$2.297 million or 14% between 2010/11 and 2011/12 but showed in property and HR costs that the Treasury was well below the median in its peer group.
- ▶ Some management practice indicator measures recorded in 2011/12 increased over 2010/11 from an average 68% to 72% owing to an improvement in property and ICT practices.
- ▶ The results of the Chartered Institute of Public Finance and Accountancy – Treasury Internal Controls Knowledge self-evaluation survey show that the Treasury's system of internal controls exceeds the minimum requirements and no follow-up action is required.

⁸ The BASS benchmarking exercise takes place in a timeframe that means we are unable to report on 2012/13 findings in this Annual Report.

Risk Management

The Treasury's risk management practice is based on an approach modelled on the Joint Australian/New Zealand International Risk Management Standard (ISO 31000:2009). The Treasury's ability to manage in an uncertain and changeable operating environment and to achieve our outcomes is enhanced by the quality of our risk management.⁹

Our enterprise risk management approach ensures there is systematic and regular assessment and monitoring of key strategic and operational risks facing the Treasury. Our senior leaders regularly identify and assess the Treasury's biggest strategic and emerging risks, and ensure that we take appropriate actions to manage them. Our overall set of risks is overseen by a Risk and Audit Committee (a committee of the Treasury Board), which comprises three experienced external members to provide independent perspectives.

Consistent with good practice, we intend to review our risk management approach during 2013/14.

Our internal audit function complements the risk management approach by providing assurance to the Board and senior management that key risks are being managed appropriately and that internal controls are operating effectively. The areas of focus are selected using a risk-based approach. During 2012/13 internal audit reviewed management activities in the following areas: CASS, NZDMO and the Crown Ownership Monitoring Unit (COMU).

⁹ NZ Risk Management Standard – AS/NZ ISO 31000:2009 defines risk as “the effect of uncertainty on objectives”.

Statement of Responsibility

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

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

In the opinion of the Secretary to the Treasury:

- ▶ the Department's financial statements and statements of service performance fairly reflect its financial position and operations for the financial year ended 30 June 2013, and
- ▶ the supplementary schedules fairly reflect the assets, liabilities, contingencies and commitments managed by the Treasury on behalf of the Crown as at 30 June 2013 and revenues and expenses managed by the Treasury on behalf of the Crown for the year ended on that date.



Gabriel Makhoul

Secretary to the Treasury

24 September 2013



Sara Brownlie

Acting Chief Financial Officer
(countersigned)

24 September 2013

Statement of Service Performance

Our Service Performance

This section describes the 11 groups of outputs that the Treasury was funded to deliver in 2012/13 and assesses our delivery against the performance measures set out in the *Information Supporting the Estimates 2012*.

Collectively these output expenses support the achievement of the outcomes set out on pages 20 to 32 of this *Annual Report*.

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

The diagram on pages 18 and 19 of this report illustrates the relationship between our output expenses, our intended impacts (also known as intermediate outcomes) and our outcomes.

Policy Advice – Finance

Scope of Appropriation

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

Significant Work Completed

During 2012/13, the Treasury provided advice on:

Social policy

- ▶ **Social housing reform**, including future options for HNZC, the growth of the third sector and Budget and legislative changes to enable Income Related Rent Subsidies to be paid to tenants of community housing providers, the introduction of reviewable tenancies and the transfer of social housing waiting list management to MSD. This will ultimately lead to better integration of welfare and housing assessments and a more diverse social housing sector. We provided advice on the Tamaki Transformation Programme and establishment of the Tamaki Redevelopment Company to catalyse regeneration and intensification of housing in an area of Auckland that is predominantly state-owned housing.
- ▶ The **affordability of housing**, including developing options for a whole-of-government response to the Productivity Commission report, and working with MBIE and other agencies to progress specific elements of the work programme. The Treasury helped to shape the content of the Housing Accords and Special Housing Areas legislation and assisted in meeting the tight legislative deadline. We have guided the development of other projects such as a market-level study into the construction sector, and a review of development contributions by the Department of Internal Affairs (DIA). Investigations by the team have increased the public sector's understanding of the link between infrastructure provision and housing development.
- ▶ The **health system** and its performance, including the Christchurch hospital rebuild and family caregiver arrangements and funding. Litigation involving family caregivers represented a significant fiscal risk to the Crown and we worked closely with MOH and Crown Law to develop policy and legislative options, as well as providing quality assurance for the Ministry's costing methodology.
- ▶ The options for addressing **child poverty**, following the release by the Children's Commission of the *Solutions to Child Poverty in New Zealand: Evidence for Action* report in December 2012. The Treasury's approach has been to take a broad view of child wellbeing and bring a dynamic perspective about how children's early years can affect life chances and policies to improve opportunities for children.
- ▶ The progress being made on a **variety of education issues** including Budget 2013, partnership schools, school property, a review of the New Zealand Teachers Council and proposals for capital business cases for Canterbury Tertiary Education Institutions. The Treasury worked closely with the Ministry of Education (MOE) and Central Agencies to support the Ministry's performance and work on specific issues.
- ▶ **Welfare policy** and on the design and implementation of an investment approach to welfare, with the aim of reducing the level of long-term welfare dependency. The investment approach shifts the focus of the benefit system to the long-term costs of welfare receipt with the aim of improving the employment prospects of clients who have the greatest risk of long-term benefit receipt. We also worked with MSD on the development of a model for managing resources and funding, the implementation of a multi-category appropriation and the establishment of key performance indicators.

- ▶ Proposals for the Christchurch **Justice sector** and Emergency Services precinct and options to enable the Justice sector to operate within baselines. The Treasury worked closely with the Ministry of Justice (MOJ), and the broader Justice sector, on these issues.

Resource management

- ▶ The options for **reforming resource management** through the Resource Management Bill 2012 and Resource Management Reform 2013. This included clarifying the national direction and tools; simplifying and reducing the requirements for resource consent, introducing a time limit for consents for medium-sized projects, considering Māori interests in resource management earlier in the planning process and streamlining the process for Auckland's first unitary plan.
- ▶ The options for **reforming management of water resources**. Key decisions were made on the collaborative planning model for freshwater and for Māori participation. The Treasury assisted MfE and the Ministry for Primary Industries' (MPI) joint work programme with regional councils that has provided economic analysis of limits in a number of water catchments.

Infrastructure

- ▶ A multi-agency work programme on the **Government's priority infrastructure projects**, including, for example, the Roads of National Significance, publication of the first annual infrastructure report *Infrastructure 2012: National State of Infrastructure* report, and prepared the infrastructure *Business Growth Agenda* report. Further updates will be undertaken in 2013/14 leading to the next National Infrastructure Plan in 2015.
- ▶ A range of **national infrastructure issues** including performance indicators, scenario modelling and demand management tools to help assess the ability of infrastructure sectors to meet New Zealand's infrastructure needs. This work will continue through 2013/14.
- ▶ Worked with central government agencies, the Auckland Policy Office and the Auckland City Council, to establish an investment principles framework for the **Auckland Unitary Plan** that is consistent with the National Infrastructure Plan. We also provided advice and support on implementing the Auckland Plan.
- ▶ The medium- to long-term issues regarding **transport funding**, which resulted in adjustments to Fuel Excise Duty and Road User Charges.

The effective recovery of the Canterbury region

- ▶ Advice covered a broad range, including the central city Blueprint for **Christchurch** and associated anchor projects, housing and insurance markets in Christchurch, cost-sharing options between the Crown and the Christchurch City Council, monitoring of the recovery, zoning in Christchurch, fiscal management of earthquake-related expenditures and policy regarding earthquake-prone buildings. More broadly, the Treasury also advised on the options for change to the Earthquake Commission Act 1993.

Better public services

- ▶ The Treasury partnered with SSC and DPMC on a programme that aims to deliver better public services at a lower cost. Advice included the further **development of specialist functional leadership within the public sector** in information technology, procurement and property; design and approvals for seed funding to support the programme with specific funding going to developing functional leadership in Finance, Human Resources and development of Analysis for Outcomes, which will analyse government datasets to support the Better Public Services programme.

- ▶ Changes to the **State Sector Act 1988, the Public Finance Act 1989 and the Crown Entities Act 2004** contained in the State Sector and Public Finance Reform Bill, and supported the passage of the Bill through the House. This legislation gets the system as a whole better at working together to deliver results, support more meaningful reporting, strengthen leadership across the system and provide greater flexibility in funding programmes that span multiple agencies.

Budgeting and financial management

- ▶ New Zealand's fiscal outlook and risks to support the fiscal decisions that were taken in Budget 2013 and the associated BPS and the FSR.
- ▶ The future funding options for the **New Zealand Defence Force** and the **Office of Treaty Settlements** to sustain their momentum with the Treaty Settlements programme.
- ▶ The **impact of tax settings**, along with IRD, culminating in the *Taxation of Savings and Investment Review*.

International relationships and external engagement

- ▶ The advancement of regional economic integration and the Government's Business Growth Agenda and the associated target to increase trade flows through the **Trans Pacific Partnership (TPP)** negotiations throughout the period: in particular, analysing proposals on SOEs and investment policy; leading negotiations and drafting of the regulatory coherence chapter of the proposed agreement; and developing a framework for assessing the overall costs and benefits of the resulting TPP package. The Treasury also chaired negotiations on **SOEs** at the Auckland round of negotiations on the TPP agreement.
- ▶ The **Minister of Finance's programme of international visits**, including to the IMF/World Bank annual meetings in Tokyo, represented New Zealand at the Asia-Pacific Economic Cooperation (APEC) Finance and Leaders' meetings, took part in the US/NZ Partnership Forum, held economic dialogues with the US and Australian Treasuries and the Indian Ministry of Finance and supported a range of other inward and outward visits including by the Secretary to China, and by the Finance and Expenditure Committee Chair to the annual meetings of the Asian Development Bank in New Delhi in order to advance New Zealand's interests abroad.
- ▶ Engaged with **OECD and IMF** on their Economic Survey and Article IV reports, and with rating agencies on their sovereign rating assessments so that New Zealand was accurately represented and New Zealand perspectives were considered.
- ▶ Jointly hosted, with RBNZ, an **Exchange Rate Policy Forum** for business people, business and labour organisations, domestic and international policy advisors and academics, and set up an inter-agency investigation into the impacts of **foreign direct investment** and overseas direct investment which is reporting to Capital Markets Ministers responsible for the Business Growth Agenda.

Our economy and fiscal position

- ▶ **Domestic and international economic developments** to support decision-making, including an initial assessment of the impact of drought and the ongoing Euro crisis. Analysis of these issues was documented in Monthly Economic Indicator reports.
- ▶ The risks to the Crown of the **implicit guarantee of the financial sector**, and worked with Trans-Tasman Banking Council agencies to enhance cross-border crisis resolution strategies.

- ▶ An MOU that was established with **RBNZ** regarding the purposes and processes for the use of **macro-prudential tools** with the aim of safeguarding the stability of our economy and financial markets. A new Policy Targets Agreement was also agreed with RBNZ to govern the future operation of monetary policy.
- ▶ The **Crown's long-term fiscal position**. This work published under the title *Affording our Future* provides 40-year projections on the fiscal position, and identifies challenges that will face future governments, such as those arising from society's ageing population, and provides members of the public with information on evidence-based options for meeting those challenges. The Treasury ran a collaborative public engagement process to test ideas with a broad range of external experts prior to publication. The Office of the Auditor-General (OAG) provided a positive assessment of this work in its review, *Commentary on Affording our Future: Statement on New Zealand's Long-term Fiscal Position*. OAG looked at the Statement, the process used to prepare it and the underlying financial model and assumptions used to support it as part of its own work programme. Their report can be viewed at: <http://www.oag.govt.nz/2013/long-term-fiscal-position>

Performance Dimensions for 2012/13	Target	Performance for 2012/13
Reports provided to the Minister will be subject to an internal quality assurance process and signed off by a person with delegated authority as meeting the Treasury's quality of policy advice standard.	100%	100%
Changes to the Public Finance Act 1989 are made that enable greater collaboration around results and system leadership.	Achieved	Achieved – the enactment received Assent on 17 July 2013.
Welfare reform is delivered on time and to budget, and achieves the desired result of a reduction in long-term benefit receipt.	Achieved	Partially achieved – substantial progress was made implementing key components of welfare reform. There has been some reduction in long-term benefit receipt, and this is expected to decrease further as welfare reform is embedded.
The operating and capital funding models used within the Schooling sector are sustainable and consistent with the Government's fiscal objectives.	Achieved	Partially achieved – current funding policy settings are sustainable from a purely fiscal perspective, but challenges remain in ensuring that funding models optimally support delivery of education outcomes.
The <i>Long-Term Fiscal Statement</i> (published in March 2013) is credible and robust.	Achieved	Partially achieved – the <i>Long-Term Fiscal Statement</i> was substantively completed in the 2012/13 year. Publication was delayed until July 2013 to enable an external review of the Statement and incorporation of the BEFU 2013 projections. Media reporting on the Statement was balanced and tended to reflect the Statement's key messages and OAG published a positive review of this work.

Performance Dimensions for 2012/13	Target	Performance for 2012/13
Budget decisions are in line with short-term fiscal intentions in the BPS.	Achieved	Achieved
Tax revenue forecast error on one-year-ahead forecasts.	Less than +/- 3%	Achieved. Forecast error for 2012/13 from Budget 2012 was 0.6%.
Production of advice that provides options that allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, major models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved
<i>Infrastructure State of the Nation</i> report produced by 30 June 2013.	Achieved	Not achieved – owing to changes in the work programme, completion of the report was postponed and it was re-scheduled for publication in August/September 2013.

2012 Actual \$000	Policy Advice – Finance	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
43,274	Expenses	32,692	35,291	33,794
	<i>Funded by:</i>			
42,547	Revenue Crown	32,484	35,279	33,782
727	Other revenue	208	12	12

Expenditure is \$1.102 million under the Supplementary Estimates budget. Approval has been granted to transfer this under-expenditure to 2013/14 to complete a range of work programmes owing to delays in some corporate projects and work related to changes in the Public Finance Act 1989.

The output expense structure under Vote Finance was rationalised at the end of 2011/12 and this output now includes the former output class Infrastructure Advice and Coordination which spent \$3.99 million in 2011/12. Functions previously delivered under the Policy Advice – Finance output class were transferred to the output class Provision of Financial Operations Services and Operational Advice in 2012/13 to align with a government-wide common scope for policy advice.

Provision of Financial Operations Services and Operational Advice

Scope of Appropriation

This appropriation is limited to the provision of services that support the performance of the State sector, including fiscal reporting, forecasting and monitoring; provision of Export Credit; and the management, administration and monitoring of Crown Guarantee Schemes, Crown Lending, Crown Investments and Crown Bank Accounts.

Significant Work Completed

During the year the Treasury:

Performance improvement and capability building

- ▶ Worked with SSC and DPMC on **PIF** assessments and revisions to the assessment framework. Ten PIF reviews were completed and published during the 2012/13 year, with another two published shortly after year-end. We also contributed to discussion on six PIF follow-up reviews of agencies that were first reviewed in earlier years.
- ▶ Supported the Department of Corrections to negotiate and close the **Wiri Prison PPP contract** and continued work on future and potential PPP opportunities with a number of other agencies, including working with the New Zealand Transport Authority (NZTA) on Transmission Gully which is proceeding as a PPP contract.
- ▶ Delivered 74 **Better Business Case (BBC) training sessions**, which were attended by 1,200 people from across the wider public sector with growing attendance by representatives from SOEs, private sector and consultancy firms, investment banks and infrastructure businesses. We also conducted a national evaluation to determine the extent to which the objectives of BBC were being achieved, and the evaluation indicated that BBC had a positive impact on the quality of business case thinking and that it is generally fit for purpose.
- ▶ Continued to improve performance metrics for the **BASS** exercise to enhance its utility for decision-makers. This included introducing a more detailed breakdown of ICT expenditure, and enhancing measures of effectiveness in the BASS 2011/12 fiscal year report. We also commissioned an independent review of BASS, which found that the programme was perceived positively by agency managers and highlighted the need to improve performance management capability across the State sector.
- ▶ Established new measurement across a range of activities to improve our understanding of State sector performance and to assist better decision-making. Within the three main components of this work, we:
 - ▶ developed the **Policy Measurement programme**, including providing guidance to agencies and working with them in preparation for reporting against the 2012/13 fiscal year
 - ▶ developed and tested a repeatable approach to **measuring performance in front-office service** delivery across agencies. This will enable us to better monitor changes over time, and
 - ▶ developed and maintained a single data set on **State sector projects and programmes** (planned and underway) to enable increased visibility of core capital use; improved modelling, analysis and advice to decision-makers; and created a basis to support better investment decisions on the management of social assets in the long term.

- ▶ Commenced work on the **Optimise Finance** initiative, which is focused on ensuring the finance function is efficient and effective and helps to drive improvement in the performance of government agencies.

Fiscal reporting, forecasting and monitoring

- ▶ Delivered **Budget 2013**, consistent with the Government's fiscal strategy of returning to operating surplus in 2014/15 and funding all new capital requirements from the existing Crown balance sheet.
- ▶ Government **operating and capital spending** to enable Ministers to manage short- and longer-term spending pressures, reallocate government spending and reprioritise the balance sheet.
- ▶ Produced **tax and economic forecasts** of the outlook for the New Zealand economy to inform future fiscal policy advice and to inform the public about the basis of that advice, helping both government and business to make informed decisions about spending and investment. Analytical work examining historical and forecast estimates of potential growth was incorporated into the 2012 HYEFUs.
- ▶ Produced the **Financial Statements of Government**, which this year included a high-level summary "the fiscal overview" to serve as a useful roadmap for readers.
- ▶ Worked with the **External Reporting Board (XRB)** to establish a taskforce to deal with "mixed group" accounting issues identified by the Treasury. Implemented new SOE and Crown entity variance reporting for Budget 2013.

New Zealand Export Credit Office

- ▶ Issued **68 new policies with a total exposure value of \$65 million** and supporting exports of \$319 million. The number of formal applications for NZECO's support in 2012/13 was higher than last financial year resulting in a higher value of exports supported. New exposure was lower than our forecast targets for the year because the majority of policies were for lower guarantee amounts and shorter duration compared to previous years.
- ▶ Advised several export credit agencies about the **support for small and medium-sized enterprises (SME)**, including a presentation to the APEC SME Trade Finance conference in Manila. We also worked with other government agencies on the options for generating greater export growth, the internationalisation of New Zealand firms and the mechanisms for supporting New Zealand's Free Trade Agreements. In December 2012, Cabinet approved an increase of the maximum term for SME loan guarantees to 36 months and also enabled the Treasury to issue performance guarantees directly to foreign government and public agency buyers.
- ▶ Delivered **seminars on trade finance** to exporters, banks and external agencies to improve awareness of how NZECO guarantees mitigate risk and improve competitive advantage. Reflecting the emphasis on external engagement, 53% of businesses supported by NZECO during the year were new clients.

New Zealand Debt Management Office

- ▶ **Advanced \$1,114 million** distributed as follows: \$624 million to District Health Boards (DHBs); \$152 million to Housing New Zealand; \$120 million to NZTA; \$108 million to KiwiRail; and \$110 million to Auckland Council. The advance to the Auckland Council was made up of nine loans to enable it to develop the Auckland metro rail network through buying electric multiple units (EMUs) and building an EMU depot.
- ▶ Managed risk on \$224 million of **interest-rate swaps** transacted for Housing New Zealand.

- ▶ Engaged with banks, departments and MBIE on the inclusion of the **Crown's transactional banking arrangements** within a broader tender of all-of-government banking services. The tender is expected to occur in the 2013/14 year.

Regulatory reform

- ▶ Provided options for **reform of the regulatory management system**, leading to Cabinet agreement to high-level expectations for department regulatory stewardship responsibilities, and disclosure requirements for legislation and regulation produced by the Government.

Guarantee schemes

- ▶ **Transfer of the residual assets from receiverships** under the DGS was completed during the year. There have been no defaults of wholesale issuances under the wholesale funding guarantee facility so no work was required on this output over the year.

Managing the Crown's balance sheet

- ▶ The Treasury has undertaken a considerable amount of work in relation to **Solid Energy**, including ongoing discussions with its bankers over a capital restructure, an internal review of the Treasury's monitoring of Solid Energy and a large Official Information Act (OIA) release given the public interest in the company.

Performance Dimensions for 2012/13	Target	Performance for 2012/13
Management of liabilities and investigation of mechanisms to discharge the Crown's obligations in a timely manner ensuring any costs from the materialisation of liabilities are contained.	Achieved	Achieved
State sector performance		
PIF reviews show an increasing proportion of the agencies reviewed as "well placed" or "strong" in the critical areas of sector contribution; collaboration and partnerships with stakeholders. ¹⁰	The percentage of agencies that receive "strong" or "well-placed" PIF ratings is 40% for sector contribution and 60% for collaboration and partnerships with stakeholders.	Achieved: 60% of agencies reviewed in 2012/13 received "strong" or "well-placed" ratings for sector contribution; 70% received "strong" or "well-placed" ratings for collaboration and partnership with stakeholders.
Departments meet all their statutory requirements for the Public Finance Act 1989.	Achieved	Not achieved. The Treasury's influence on this performance dimension is indirect; it is achieved through a focus on quality and timely guidance and support to Departments to ensure they understand and meet their Public Finance Act requirements.
Agencies' Four-year Budget Plans outline a credible medium-term plan for living within baselines and delivering the Government's priorities.	100%	Not achieved: 56%. Four-year planning is a recent initiative. We expect to see an improvement in this result as the four-year planning process continues to develop and embed.

¹⁰ This performance dimension was published in the Policy Advice Finance – appropriation in the *Information Supporting the Estimates*. It has been moved to better align with where the measure fits within the Treasury's business.

Performance Dimensions for 2012/13	Target	Performance for 2012/13
All new significant operating expenditure proposals are subject to cost benefit analysis (CBA) (or similar).	100%	Not achieved: 60%. The 100% target for this output is a "stretch" target over which the Treasury has only indirect control and influence. However, we expect that the quality of operating expenditure proposals will increase over time, both with experience and as a consequence of the guidance and support the Treasury is providing to departments.
Improvement in BASS effectiveness and efficiency indicators.	Achieved	Achieved
Capital business cases requiring Cabinet consideration are prepared in accordance with the BBC standard.	100%	Not achieved: 88%. 29 of 33 capital proposals considered by Cabinet in 2012/13 had business cases prepared according to the BBC methodology. The variance relates to one major investment (<\$50 million), two very small investments (<\$500,000 each) and a service procured by a Crown entity company. The corresponding result for 2011/12 was 78%.
Asset performance indicators developed for key social assets.	Indicators agreed, collection automated, and low-compliance, analytical tools for use developed.	Initial indicators identified for social assets, and low compliance analytical tools for use developed.
Regulatory Impact Statements meet most or all of RIA requirements. ¹⁰	85%	Not achieved: 71% met most or all of the RIA requirements. Some departments continue to experience difficulty meeting the requirements and the Treasury continues to provide advice and support to help them address this.
Fiscal reporting, forecasting and monitoring		
Audit opinion issued by the Controller and Auditor-General on the Financial Statements of Government.	Unqualified	Unqualified
Two <i>Economic and Fiscal Updates</i> produced, clearly explained and with conclusions tested with external panels.	Achieved	Achieved
Monthly Financial Statements of Government produced in accordance with the Public Finance Act requirements and free from material errors.	Achieved	Achieved
The Treasury remains amongst the top two forecasters of the New Zealand economy in forecasting GDP and Consumer Price Index (CPI) over a rolling 10-year period.	Achieved	Achieved

Performance Dimensions for 2012/13		Target	Performance for 2012/13		
New Zealand Export Credit Office					
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts.		No breaches	No breaches		
New policies underwritten.		75	68		
New exports supported.		\$305 million	\$319 million		
New exposure.		\$165 million	\$65 million		
Operating expense/Earned premium plus Application fees ratio.		Maintained or declining	Maintained when compared to previous years		
Compliance with International Guidelines (OECD and World Trade Organisation (WTO)) and Delegated Mandate.		100%	100%		
Complaints received regarding delivery of services or complaints are owing to issues outside of NZECO's mandate.		None	None		
Claims and provisions are maintained within year-to-date profit.		Achieved	Achieved		
Claims and provisions/Total exposure and undrawn commitments ratio.		Lower than or comparable to other Export Credit Agency (ECA) long-run ratios of between 4% and 9%	Achieved		
Forecast total external engagements in 2011/12.		420	380		
2012 Actual \$000	Management and Administration of Financial Operations on Behalf of the Crown	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000	
6,893	Expenses	24,579	19,335	27,856	
	<i>Funded by:</i>				
4,840	Revenue Crown	21,730	19,334	25,113	
2,053	Other revenue	3,251	1	2,743	
-	Net surplus / (deficit)	402	-	-	

Expenditure is \$3.277 million under the Supplementary Estimates budget. Approval has been granted to transfer this under-expenditure to 2013/14 to complete a number of projects owing to timing delays associated with corporate projects, government banking tender, NZECO, policy improvement programme, development work on using advanced analytics across the State sector and financial functional leadership.

Functions previously delivered under Policy Advice – Finance were transferred into this output in 2012/13 where they did not meet the government-wide scope definition for Policy Advice.

Further explanation of this transfer is found in the document *Performance Information for Appropriations 2012/13 – Vote Finance – Part 1.4 Reconciliation of changes in appropriation structure*.

The surplus in this output class is attributable to a prior year rental rebate.

Permanent Legislative Authority Funding for New Zealand Debt Management Office

Scope of Appropriations

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

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

Significant Work Completed

NZDMO provides Treasury services, and administers loans, to other parts of the Crown according to government policy. These services provide net cost savings to the Crown, through centralised borrowing and lending activities. This results in a lower debt servicing expense for the Crown than individual entities borrowing separately. Central treasury management saves on transaction costs and provides risk management benefits to the Crown.

During the year, NZDMO:

Borrowing programme

- ▶ Issued \$14 billion of government bonds, achieving the targeted programme size. This compared to \$13.5 billion in 2011/12. The funding included the introduction of a 2025 inflation indexed bond, with an initial syndication offering raising \$2.5 billion from the market.
- ▶ Introduced a new April 2020 maturity nominal bond to the market, by syndication, raising \$2 billion.
- ▶ Repaid its largest ever bond maturity (\$9.982 billion) in April 2013. Risk and funding policies ensured that bond maturity obligations were met in full.
- ▶ Moved to announcing tender dates and volumes for debt issuance at the beginning of each quarter. This was done to provide market predictability and to encourage activity in the secondary market.

Marketing efforts and interactions with international stakeholders and credit rating agencies

- ▶ Promoted government bonds and New Zealand generally in local and international markets. This included accompanying the Minister of Finance on overseas investor missions, developing and strengthening intermediary and investor relations, providing information to the international credit rating agencies for their annual rating reviews, and engaging with sovereign peers.
- ▶ Accompanied the Minister of Finance on visits to London, Frankfurt, Tokyo, Hong Kong and New York to update investors on the New Zealand economy and the NZDMO issuance strategy.

- ▶ Participated in and presented at a number of investor and sovereign peers conferences and forums, including the Euromoney Global Borrowers and Investors Forum, CBA Capital Markets Conference, OECD Working Party on Debt Management, Australian and New Zealand Debt Capital Markets Forums and the Australian Central Financing Authorities Annual Conference.
- ▶ Provided background information and responded to international media interest in New Zealand capital markets, including interviews with Bloomberg and Kanga News.
- ▶ Hosted several visiting delegations from developing international debt management offices, including a study visit from representatives of the Bangladesh Ministry of Finance. Visiting investors, including sovereign wealth funds, Asian central banks and Japanese institutions, were briefed on the economy and debt issuance strategy.
- ▶ Engaged with the three rating agencies (Moody's, S&P and Fitch) to assist them in their assessments of New Zealand's creditworthiness. This included briefing them on the developments in the New Zealand economy, organising meetings with relevant officials, commentators and Ministers.

Derivatives programme

- ▶ Successfully managed risks associated with the changing market value of the NZDMO asset portfolio within the target average monthly Value at Risk (VaR).
- ▶ Investigated the implications and options involved in responding to international regulation designed to move over-the-counter derivatives towards being centrally cleared.

Investment programme

- ▶ Managed marketable securities valued at \$2.401 billion, deposits valued at \$99 million and a cash balance of \$4.585 billion. These assets were used to fund Crown operations, to provide short-term liquidity if required and to help repay debt maturities as they fell due.
- ▶ Assets were invested in a high credit quality portfolio, predominantly made up of AAA- and AA- rated securities.

Performance measurement

Performance targets have been specified as a total for activity across all three PLA output classes, as it is more meaningful to aggregate the quantitative targets across these output classes.

Performance Dimensions for 2012/13	Target	Performance for 2012/13
Cost of new core Crown borrowing is less than the long-term average cost of the New Zealand Government.	Cost of new borrowing is less than 5.5%	Cost of new borrowing was 3.1%.
Tender efficiency: Average domestic bond tender cover ratio.	Average tender cover ratio is greater than 2	Average tender cover ratio was 3.3.
Tender efficiency: Average range of successful bids in domestic bond tenders.	Average range of successful bids is less than 5 basis points	Average range of successful bids was 4 basis points.
Funding risk: The nearest bond maturity will be at least 50% funded from NZDMO's holdings of cash and short-term liquid assets within six months of maturity, and fully funded within three months.	Funding target met	The funding requirements for the period leading up to the April 2013 bond maturity were met.
Compliance with risk management policies and parameters for portfolio management and debt issuance.	No more than four breaches	No breaches were incurred.

Performance Dimensions for 2012/13		Target	Performance for 2012/13		
Losses incurred from the credit-related sale of securities, or from default by a counter-party.		No losses	No losses were incurred.		
Number of settlement errors, and financial value of losses arising from settlement errors.		No more than six errors; losses do not exceed \$10,000	No settlement errors.		
2012 Actual \$000	Appropriations	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000	
	Administration of Crown Borrowing PLA:				
3,746	Expenses	3,999	5,010	5,138	
	<i>Funded by:</i>				
3,685	Revenue Crown	3,999	5,009	5,137	
61	Other revenue	-	1	1	
	Administration of Derivative Transactions PLA:				
904	Expenses	1,030	1,126	1,126	
	<i>Funded by:</i>				
889	Revenue Crown	1,030	1,124	1,124	
15	Other revenue	-	2	2	
	Administration of Investment of Public Money PLA:				
564	Expenses	677	772	772	
	<i>Funded by:</i>				
555	Revenue Crown	677	772	772	
9	Other revenue	-	-	-	

Administration of Crown Borrowing PLA is \$1.139 million under the Supplementary Estimates budget. This is owing to lower costs associated with debt services, commissions and process management fees.

Note

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

Provision of Financial Services to the New Zealand Local Government Funding Agency (Revenue-dependent Appropriation)

Scope of Appropriation

This appropriation is limited to expenses incurred in connection with the provision of financial services on a commercial basis to the New Zealand Local Government Funding Agency (LGFA).

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Continued to provide services to LGFA. These services include bond tendering, processing on-lending to local councils, executing investment and derivative transactions, settling transactions and providing regular valuation, finance and risk reports.
- ▶ Managed risk on \$1,327 million of interest-rate swaps transacted for LGFA.

A service level agreement was in place and fees were charged to cover costs.

Performance Dimensions for 2012/13		Target	Performance for 2012/13		
Agreed service level standards are met.		Achieved	Achieved		
2012 Actual \$000	Provision of Financial Services to LGFA	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000	
271	Expenses	146	465	165	
	<i>Funded by:</i>				
-	Revenue Crown	-	-	-	
271	Other revenue	146	465	165	

In December 2011, Cabinet agreed that NZDMO would provide a standby liquidity facility and outsourced service to the New Zealand Local Government Funding Agency. A revenue-dependent appropriation (RDA) was established and an annual fee negotiated between the two parties to recover the cost of providing the service.

Implementation of Mixed Ownership Model

Scope of Appropriation

- ▶ This appropriation is limited to policy, operational and transactional work to implement the MOM.
- ▶ In December 2011, Cabinet approved a new Departmental Output Expenses Multi-year Appropriation (MYA) for costs incurred in implementing Government Share Offers. Policy work leading up to the establishment of this appropriation was undertaken under the Departmental Output Expense: Extending the Mixed Ownership Model appropriation and funding of \$2.802 million was transferred from that appropriation. Funding of \$14 million was also transferred from the Non-departmental Other Expense MYA: Direct Sale Costs for Implementing the Mixed Ownership Model.
- ▶ This MYA will expire on 30 June 2015

Appropriations, Adjustments and Use	\$000
Original appropriation	30,000
Adjustments to 2011/12	16,802
Adjusted appropriation	46,802
Actual for 2011/12	6,639
Actual for 2012/13	10,345
Estimated appropriation remaining	29,818

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Successfully defended legal challenges to the programme in both the High Court and Supreme Court.
- ▶ Completed the Mighty River Power Initial Public Offer (IPO) in accordance with the schedule and within budget. The IPO met the Government's objectives of widespread New Zealand ownership and raised \$1.7 billion for the Crown's Future Investment Fund. The proceeds from the 48% of shares sold were above book value, and over 110,000 New Zealanders subscribed for shares in the company representing a New Zealand ownership level of 86.5%.
- ▶ Commenced work on the preparation of Meridian for the next public offer, market conditions permitting.

Performance Dimensions for 2012/13	Target	Performance for 2012/13
Advice to government regarding the implementation of the MOM complies with the same quality standards agreed for Treasury policy advice.	Achieved	Achieved
Sufficient domestic demand is created that 85% to 90% of shares are held by New Zealanders.	Achieved	Achieved. At listing, 86.5% of the company was owned by New Zealanders.
The process for each IPO exceeds an agreed reserve value.	Achieved	Achieved
The costs of the sale programme do not exceed 2% of the sale proceeds.	Achieved	Not achieved. The cost of the Mighty River Power IPO was 2.05% of the proceeds.

2012 Actual \$000	Implementation of MOM MYA	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
6,639	Expenses	10,345	15,000	23,850
	<i>Funded by:</i>			
6,465	Revenue Crown	10,345	15,000	23,850
174	Other revenue	-	-	-

Expenditure is \$13.505 million under the Supplementary Estimates budget. This is an MYA and the result against budget reflects the uncertain timing of the work programme. The full amount underspent is transferred to 2013/14.

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

Scope of Appropriation

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

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Carried out a second opinion monitoring role in respect of the eight CRIs and reported on them in the Treasury's 2012 APR.
- ▶ Provided second opinion advice and guidance to MBIE on its monitoring of CRIs and Research and Education Advanced Network New Zealand (REANNZ).
- ▶ Provided advice on NZVIF business planning and risks and opportunities.
- ▶ Assisted Ministers with 20 board appointments for CRIs, New Zealand Venture Investment Fund Ltd (NZVIF) and REANNZ.

Performance Dimensions for 2012/13		Target	Performance for 2012/13	
Advice to government regarding ownership, performance monitoring and governance complies with the same quality standards agreed for Treasury policy advice (see Conditions of Use in the Policy Advice – Finance appropriation).		Achieved	Achieved	
Board appointments completed for CRIs and other entities.		23 directors	20 appointments made.	
2012 Actual \$000	Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
711	Expenses	384	757	436
	<i>Funded by:</i>			
700	Revenue Crown	384	757	436
11	Other revenue	-	-	-

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

Scope of Appropriation

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

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Provided Quarterly Reports on the performance of SOEs, Crown entities and other monitored entities. To achieve this, we engaged with monitored agencies, provided advice on strategy and planning documentation and ensured compliance with statutory requirements for SOIs, Statements of Corporate Intent (SCIs) and Purchase Agreements of monitored entities.
- ▶ Commenced a work programme to strengthen our monitoring of commercial assets owned by the Crown through a focus on structures and incentives, governance and monitoring tools and procedures.
- ▶ Analysed Post Investment Reviews of SOEs' major capital projects and business acquisitions and reported the results of these back to shareholding Ministers. The reviews showed that the majority of SOE investments have been successful.
- ▶ Engaged with companies on their dividend policies as part of the annual round of business planning and SCIs, because these impact on capital structures.
- ▶ Published the 2012 APR to increase the transparency of the performance of monitored entities, and revised the *Owners' Expectations Manual* for SOEs and other Treasury-monitored entities. This manual states the expectations that Ministers have of SOEs.
- ▶ Assisted Ministers with 68 appointments and reappointments, and the appointments to establish boards for the Crown Irrigation Investment Company Ltd and the restructured KiwiRail entities.
- ▶ Undertook work on the long-term strategy and capital needs of Kiwibank, and in respect of a divestment of Datacom by NZ Post.
- ▶ Provided advice regarding KiwiRail's Turnaround Plan progress and a proposed Balance Sheet Restructuring, which was implemented on 31 December 2012, and should assist in the reporting and monitoring of its commercial progress.
- ▶ Provided advice on the completion of a Strategic Review of the Kordia Group Ltd.
- ▶ Reinvigorated the tailored Crown director development programme to improve governance knowledge and capability.
- ▶ Assumed responsibility for appointing board members and monitoring the performance of ACC, Housing New Zealand, Network for Learning, Crown Irrigation Investments and the Tāmaki Redevelopment Company.

Performance Dimensions for 2012/13		Target	Performance for 2012/13		
Advice to government regarding ownership, performance monitoring and governance complies with the same quality standards agreed for Treasury policy advice (see Conditions of Use in the Policy Advice – Finance appropriation).		Achieved	Achieved		
2012 APR produced, which enables assessment of Crown company and CFI performance.		Achieved	Achieved		
Board appointments completed for SOEs' directors and directors for other entities.		41 SOEs' directors and 40 directors for other entities	53 SOEs' directors and 40 directors for other entities.		
2012 Actual \$000	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000	
3,712	Expenses	3,318	4,617	4,072	
	<i>Funded by:</i>				
3,660	Revenue Crown	3,318	4,617	4,072	
52	Other revenue	-	-	-	

Expenditure is \$754,000 under the Supplementary Estimates budget. Approval has been granted to transfer up to \$500,000 of this under-spend to 2013/14 to continue additional monitoring work that had been delayed.

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

Scope of Appropriation

- ▶ This appropriation is limited to expenses incurred in connection with administering of guarantees and indemnities given by the Crown, as authorised by section 65ZG of the Public Finance Act 1989.

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Completed the transfer of residual assets from receiverships under the DGS.
- ▶ Progressed resolution of outstanding litigation acquired by the Crown from receivers as part of the transfer of residual assets from receiverships under the DGS.
- ▶ Did not undertake any other work in respect of this output, as there were no defaults of wholesale issuances under the Wholesale Funding Guarantee Facility (WFGF).

2012 Actual \$000	Administration of Guarantees and Indemnities Given by the Crown PLA	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
1,594	Expenses	661	1,069	1,551
	<i>Funded by:</i>			
1,557	Revenue Crown	661	1,069	1,551
37	Other revenue	-	-	-

Administration of Guarantees and Indemnities is \$890,000 under the Supplementary Estimates budget. The under-expenditure reflects the winding down of claims and delays in progressing resolution of outstanding litigation owing to a rescheduling of hearing dates.

Shared Support Services

Scope of Appropriation

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

Significant Work Completed

During 2012/13, the Treasury:

- ▶ Delivered finance, human resources, information management and technology services to SSC and DPMC.
- ▶ Made substantial progress on moving the Central Agencies to a standard operating environment; the benefits of this include improved resiliency, security and risk reduction. In addition, the payroll systems of the three agencies were moved onto a more reliable and sustainable platform.
- ▶ Achieved the objectives for its first year of operation; which entailed reducing risk, building resilience and savings in running costs.

Performance Dimensions for 2012/13		Target	Performance for 2012/13		
Service level standards are met to the standards and timeframes agreed with the three Central Agencies.		Achieved	Achieved		
2012 Actual \$000	Shared Support Services	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000	
2,310	Expenses	6,381	8,000	8,000	
	<i>Funded by:</i>				
-	Revenue Crown	-	-	-	
2,310	Other revenue	6,381	8,000	8,000	

Expenditure is \$1.619 million under the Supplementary Estimates budget and this is also reflected in the lower departmental revenue for these services.

Ministerial Servicing Performance 2012/13

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

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

The Treasury implemented a new workflow management system in July 2012, to support efficient work practices.

During 2012/13 we reviewed our internal OIA processes using Lean Six Sigma methodology and principles. An important aim of that review was to look at ways of improving the timeliness of the Treasury's responses to OIA requests. At the close of this year, we are yet to see the full return on this investment, and we will be continuing to focus on improving our timeliness through 2013/14.

	PQ	MC	MOIA	TOIA
Total for all Votes (estimated volume for full year)	230	1200	160	220
Actual volume of replies completed to 30 June 2013	456	861	156	283
Target % answered by due date	100%	95%	100%	100%
Actual % answered by due date	76%	64%	79%	64%
Target % first draft accepted	100%	95%	95%	N/A
Actual % first draft accepted	100%	91%	89%	N/A

Agreed measures for ministerial servicing are set out on page 131.

The Quality of the Treasury's Policy Advice

The Treasury has a quality standard for policy advice that is applied to all appropriations. The Quality Standards for Policy Advice are published in full on pages 129 and 130 of this *Annual Report*.

Review of the Quality of the Treasury's Policy Advice 2013

This year we established an internal panel to review a sample of the Treasury's policy advice for the 2012/13 year. This is a process we established in 2012 and follows two previous external reviews conducted by Howard Fancy in 2009 and 2011.

The intent of the review was to:

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

This year the panel was run jointly with SSC and was led by experienced policy leaders within the Treasury and SSC. It looked at a representative sample of advice selected using a randomised methodology.

The review found that:

- ▶ the average grade for assessed reports was 7.2 out of 10, and
- ▶ 81% of assessed reports were graded 7 out of 10 or higher.

These results mean we have achieved our target of achieving at least an average of 70% and provide confidence that, overall, the Treasury achieves and maintains satisfactory levels of quality. The results are also broadly consistent with the findings from last year's review process, with the Treasury continuing to score well on the "analytical rigor" and "set in the wider strategic context" dimensions and less well on the "customer focus and persuasive" dimension.

A number of actions put in place following the previous review are at an early stage of implementation. The Treasury is still working through the findings of the current review and identifying what lessons can be learned and further actions taken to lift the quality of our policy advice.

Financial Statements – Departmental

for the year ended 30 June 2013

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Statement of Comprehensive Income

for the year ended 30 June 2013

The Statement of Comprehensive Income details the revenue and expenses relating to all outputs (goods and services) produced by the Treasury during the financial year ended 30 June 2013. Total expenses equals total departmental output classes expenditure and appropriations in the Statement of Departmental Expenses and Capital Expenditure Against Appropriations on page 67.

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Income				
72,319	Revenue Crown	2	74,628	82,961	95,837
5,786	Other revenue	3	9,986	8,481	10,923
78,105	Total income		84,614	91,442	106,760
	Expenditure				
44,629	Personnel costs	4	50,191	49,081	50,905
1,707	Depreciation and amortisation expense	8, 9	2,017	2,675	2,291
459	Capital charge	5	717	717	717
31,310	Other operating expenses	6	31,287	38,969	52,847
78,105	Total expenditure		84,212	91,442	106,760
-	Net surplus / (deficit) and comprehensive income		402	-	-

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

Statement of Changes in Equity

for the year ended 30 June 2013

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

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
5,742	Balance as at 1 July 2012	18	8,957	8,957	8,957
-	Comprehensive income / (expense)		402	-	-
-	Return of operating surplus to the Crown	12	(402)	-	-
3,315	Transfer from other agencies		-	-	-
(100)	Capital withdrawal repaid to the Crown		-	-	-
8,957	Balance as at 30 June 2013		8,957	8,957	8,957

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

Statement of Financial Position

as at 30 June 2013

The Statement of Financial Position reports the total assets and liabilities of the Treasury as at 30 June 2013. Taxpayers' funds are represented by the difference between the assets and liabilities.

2012 Actual \$000	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Assets			
	<i>Current assets</i>			
7,744	Cash and cash equivalents 17	4,926	4,877	7,203
3,248	Debtors and other receivables 7	1,700	414	1,004
397	Prepayments	910	468	468
3,839	Debtor Crown	8,485	6,696	3,839
15,228	Total current assets	16,021	12,455	12,514
	<i>Non-current assets</i>			
4,589	Property, plant and equipment 8	3,966	2,695	5,515
923	Intangible assets 9	1,315	3,419	2,360
5,512	Total non-current assets	5,281	6,114	7,875
20,740	Total assets	21,302	18,569	20,389
	Liabilities			
	<i>Current liabilities</i>			
5,798	Creditors and other payables 11	5,887	4,300	5,700
-	Repayment of surplus	402	-	-
5,041	Employee entitlements 13	5,156	4,442	4,862
10,839	Total current liabilities	11,445	8,742	10,562
	<i>Non-current liabilities</i>			
944	Employee entitlements 13	900	870	870
944	Total non-current liabilities	900	870	870
11,783	Total liabilities	12,345	9,612	11,432
8,957	Net assets	8,957	8,957	8,957
	Equity			
8,957	Taxpayers' funds	8,957	8,957	8,957
8,957	Total equity	8,957	8,957	8,957

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

Statement of Cash Flows

for the year ended 30 June 2013

The Statement of Cash Flows summarises the cash movements in and out of the Treasury during the financial year. It takes no account of money owed to the Treasury or owing by the Treasury and therefore differs from the Statement of Comprehensive Income on page 64.

2012 Actual \$000	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Cash flows from operating activities			
75,365	Receipts from Crown	69,982	82,961	96,087
4,164	Receipts from other revenue	10,607	8,491	12,562
(30,623)	Payments to suppliers	(31,161)	(40,938)	(57,221)
(44,571)	Payments to employees	(49,990)	(47,032)	(46,429)
(459)	Payments for capital charge	(717)	(717)	(717)
(106)	Goods and services tax (net)	126	(3)	(169)
3,770	Net cash flows from operating activities 14	(1,153)	2,762	4,113
	Cash flows from investing activities			
(1,724)	Purchase of property, plant and equipment	(891)	(912)	(2,608)
(112)	Purchase of intangible assets	(774)	(991)	(2,046)
(1,836)	Net cash flows from investing activities	(1,665)	(1,903)	(4,654)
	Cash flows from financing activities			
1,155	Capital contributions	-	-	-
(100)	Capital withdrawals	-	-	-
1,055	Net cash flows from financing activities	-	-	-
2,989	Net (decrease) / increase in cash	(2,818)	859	(541)
4,755	Cash at the beginning of the year	7,744	4,018	7,744
7,744	Cash at the end of the year	4,926	4,877	7,203

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

Statement of Departmental Expenses and Capital Expenditure Against Appropriations

for the year ended 30 June 2013

The Statement of Departmental Expenses and Capital Expenditure Against Appropriations details expenditure against appropriations. Total Departmental Output Classes Expenditure and Appropriations equals total expenses in the Statement of Comprehensive Income on page 64.

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Vote Finance: Departmental Output Classes			
3,746	Administration of Crown Borrowing PLA	3,999	5,010	5,138
904	Administration of Derivative Transactions PLA	1,030	1,126	1,126
1,594	Administration of Guarantees and Indemnities given by the Crown PLA	661	1,069	1,551
564	Administration of Investment of Public Money PLA	677	772	772
711	Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development	384	757	436
3,712	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	3,318	4,617	4,072
3,497	Extending the Mixed Ownership Model	-	-	-
6,639	Implementation of the Mixed Ownership Model MYA	10,345	15,000	23,850
3,990	Infrastructure Advice and Coordination	-	-	-
43,274	Policy Advice – Finance	32,692	35,291	33,794
6,893	Provision of Financial Operations Services and Operational Advice	24,579	19,335	27,856
271	Provision of Financial Services to the New Zealand Local Government Funding Agency RDA	146	465	165
2,310	Shared Support Services	6,381	8,000	8,000
78,105	Total Vote Finance: Departmental Output Classes	84,212	91,442	106,760
	Appropriations for capital expenses			
3,691	Total departmental capital expenditure	1,807	1,900	4,654

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

Statement of Commitments

2012 Actual \$000		2013 Actual \$000
	Non-cancellable operating lease commitments	
4,230	Not later than 1 year	5,641
12,105	Later than 1 year and not later than 5 years	10,298
-	Later than 5 years	-
16,335	Total non-cancellable operating lease commitments	15,939
	Other non-cancellable commitments	
407	Not later than 1 year	-
91	Later than 1 year and not later than 5 years	-
-	Later than 5 years	-
498	Total other non-cancellable commitments	-
16,833	Total commitments	15,939

Capital Commitments

There are no capital commitments for this year (30 June 2012: Nil).

Non-cancellable Operating Lease Commitments

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

Other Non-cancellable Commitments

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

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

Statement of Contingent Liabilities

Unquantifiable Contingent Liabilities

The Department has the following unquantifiable contingent liabilities:

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

Quantifiable Contingent Liabilities and Assets

As at 30 June 2013, the Department had no quantifiable departmental contingent assets and liabilities (30 June 2012: Nil).

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

Notes to the Departmental Financial Statements

for the year ended 30 June 2013

1 Statement of Accounting Policies

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

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

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

The Financial Statements of the Treasury are for the year ended 30 June 2013. The Financial Statements were authorised for issue by the Secretary to the Treasury on 24 September 2013.

Statement of compliance

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

Basis of preparation

Measurement base

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

Functional and presentation currency

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

Changes in accounting policies

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

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

- ▶ Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the Statement of Changes in Equity or the notes, for each component of equity, an analysis of Other Comprehensive Income by item. The Treasury has no other comprehensive income.
- ▶ Amendments to NZ IFRS 7 Financial Instruments: Disclosures – The amendment reduces the disclosure requirements relating to credit risk. Note 17 has been updated for the amendments.

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

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

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

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

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

*Significant accounting policies**Revenue*

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

Revenue Crown

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

*Revenue other**State Sector Retirement Superannuation and KiwiSaver Schemes revenue*

In 2012 revenue other included reimbursements by SSC for contributions made by the Treasury to the State Sector Retirement Superannuation Scheme and the KiwiSaver Scheme, and the tax credits for contributions to KiwiSaver received from IRD. From the 2013 year onwards, the Treasury has not been reimbursed.

Cost recoveries

The Treasury fully recovers costs it incurs on behalf of other agencies by invoicing for the service provided. The recorded revenue is the gross amount of the sale.

Capital charge

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

Operating leases

The Treasury leased office premises during the year ended 30 June 2013. Substantially all the risks and benefits of ownership were retained by the lessor, and therefore these leases were classified as operating leases. Operating lease costs are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Financial instruments

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

Cash and cash equivalents

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

Debtors and other receivables

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

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

Derivative financial instruments

The Treasury uses derivative financial instruments to hedge its exposure to foreign exchange movements. The Treasury does not hold or issue derivative financial instruments for trading purposes. The Treasury has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the surplus or deficit.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

Non-current assets held for sale

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

Any impairment losses for write-downs of non-current assets held for sale are recognised in the Statement of Comprehensive Income.

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

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

Property, plant and equipment

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

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

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

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

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

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

Intangible assets

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

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

Amortisation

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

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

Asset	Useful Life	Amortisation Rate
Acquired computer software	3 years	33.3%
Developed computer software	3 years	33.3%

Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

Creditors and other payables

Creditors and other payables are measured at cost.

Employee entitlements

Short-term employee entitlements

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

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

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

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

Long-term employee entitlements

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

The calculations are based on:

- ▶ likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual-entitlements information, and
- ▶ the present value of the estimated future cash flows. (The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.)

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

Superannuation schemes

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

Provisions

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

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

Equity

Equity is the Crown's investment in the Treasury and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds and Memorandum Accounts.

Commitments

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

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

Goods and services tax (GST)

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

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

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

Commitment and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are those included in the Department's Budget Estimates for the year ended 30 June 2013, which are consistent with the financial information in the Main Estimates. In addition, the Financial Statements also present the updated budget information from the Supplementary Estimates.

Statement of cost allocation policies

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

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

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

Central Agency Support Services (CASS) cost allocations

A cost allocation model relating to CASS-specific costs has been added from 7 March 2012 with the creation of the shared services model incorporating the Treasury, SSC and DPMC.

Critical accounting estimates and assumptions

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

Retirement and long service leave

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

2 Revenue Crown

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

3 Other Revenue

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
1,164	State Sector Retirement Savings Scheme and KiwiSaver funding from Crown	-	-	-
2,310	Cost recoveries from SSC and DPMC for CASS	6,381	8,000	8,000
1,942	Cost recoveries from AMI Insurance	-	-	-
-	Cost recoveries for State Sector Productivity	1,079	-	895
-	Cost recoveries for Secondments	1,535	-	1,419
370	Other	991	481	609
5,786	Total other and departmental revenue	9,986	8,481	10,923

4 Personnel Costs

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
41,505	Salaries and wages	46,542	45,693	46,430
1,415	Superannuation contributions to defined contribution plans	1,432	1,425	1,521
232	Increase / (decrease) in employee entitlements	(9)	100	466
776	Training and development	991	1,337	1,396
701	Other	1,235	526	1,092
44,629	Total personnel costs	50,191	49,081	50,905

2013 Salaries and wages costs have increased by \$5.037 million from 2012. The main reason for the increase is owing to a full 12 months of CASS and recovery of costs for personnel on secondment is treated as revenue rather than offset against salaries.

5 Capital Charge

The Treasury pays a capital charge to the Crown based on taxpayers' funds at 30 June and 31 December each year. The capital charge rate for the 2013 year was 8% (2012: 8%).

6 Other Operating Expenses

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
3,037	Lease of premises	2,933	3,115	3,073
1,167	Occupancy costs	1,111	1,406	1,406
954	Bank fees, commissions and service charges	964	1,103	903
	<i>Fees to Auditor:</i>			
330	▶ fees to KPMG for audit of the Department and NZDMO	334	329	330
210	▶ fees to KPMG for other services	-	-	194
491	▶ fees to other auditors for Departmental Internal Control Evaluation (DICE) and audit of Crown Financial Statements	502	500	500

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	<i>Consultants:</i>			
6,928	▶ Government share offers	6,609	842	9,299
930	▶ CASS transition	-	-	-
6,587	▶ Other consultants	8,146	5,033	11,831
	<i>Legal fees:</i>			
373	▶ Mixed Ownership Model	1,270	3,800	3,800
1,427	▶ AMI Insurance Limited	-	-	-
2,304	▶ Other legal fees	1,361	2,974	2,948
1,040	<i>Process management services:</i>			
	▶ Mixed Ownership Model	6	7,637	7,637
	▶ Other process management services	1,531	2,403	2,844
1,646	Transport and travel	1,696	2,480	2,297
	<i>Information and communication costs:</i>			
1,414	Other information and communication costs	1,732	1,911	1,937
1,038	Data processing costs	1,501	1,691	1,691
715	Office administration costs	563	860	535
248	Restructuring costs	167	-	-
471	Other operating costs	861	2,885	1,622
31,310	Total operating expenses	31,287	38,969	52,847

7 Debtors and Other Receivables

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
138	Trade debtors	397	10	100
3,113	Accrued revenue and other receivables	1,306	404	904
(3)	Less: provision for doubtful debts	(3)	-	-
3,110	Net accrued revenue and other receivables	1,303	404	904
3,248	Total debtors and other receivables	1,700	414	1,004

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

	Gross \$000	2013 Impairment \$000	Net \$000	Gross \$000	2012 Impairment \$000	Net \$000
Cost						
Current	1,506		1,506	3,207	-	3,207
Past due 31–60 days	177		177	26	-	26
Past due 61–90 days	1		1	9	-	9
Past due > 91 days	19	(3)	16	9	(3)	6
Total	1,703	(3)	1,700	3,251	(3)	3,248

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

8 Property, Plant and Equipment

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

	Leasehold Improvements \$000	Office Machinery and Electrical Equipment \$000	Furniture and Fittings \$000	Computer Hardware \$000	Total \$000
Cost					
Balance at 1 July 2011	4,985	626	1,135	5,331	12,077
Additions	125	54	296	2,194	2,669
Disposals	(375)	(18)	(22)	(705)	(1,120)
Balance at 30 June 2012	4,735	662	1,409	6,820	13,626
Balance at 1 July 2012	4,735	662	1,409	6,820	13,626
Additions	14	20	4	995	1,033
Disposals	-	(62)	(22)	(2,626)	(2,710)
Balance at 30 June 2013	4,749	620	1,391	5,189	11,949
Accumulated depreciation and impairment losses					
Balance at 1 July 2011	2,687	600	1,067	4,395	8,749
Depreciation expense	563	8	49	785	1,405
Disposals	(376)	(9)	(21)	(711)	(1,117)
Impairment losses	-	-	-	-	-
Balance at 30 June 2012	2,874	599	1,095	4,469	9,037
Balance at 1 July 2012	2,874	599	1,095	4,469	9,037
Depreciation expense	446	18	81	1,094	1,639
Disposals	-	(62)	(22)	(2,609)	(2,693)
Impairment losses	-	-	-	-	-
Balance at 30 June 2013	3,320	555	1,154	2,954	7,983
Carrying amounts					
At 1 July 2011	2,298	26	68	936	3,328
At 30 June/1 July 2012	1,861	63	314	2,351	4,589
At 30 June 2013	1,429	65	237	2,235	3,966

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

9 Intangible Assets

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

	Acquired Software \$000	Internally Generated Software \$000	Total \$000
Cost			
Balance at 1 July 2011	1,765	713	2,478
Additions	459	563	1,022
Disposals	-	-	-
Balance at 30 June 2012	2,224	1,276	3,500
Balance at 1 July 2012	2,224	1,276	3,500
Additions/transfers	-	774	774
Disposals	(1,005)	(330)	(1,335)
Balance at 30 June 2013	1,219	1,720	2,939
Accumulated amortisation and impairment losses			
Balance at 1 July 2011	1,574	701	2,275
Amortisation expense	239	63	302
Disposals	-	-	-
Balance at 30 June 2012	1,813	764	2,577
Balance at 1 July 2012	1,813	764	2,577
Amortisation expense	205	173	378
Disposals	(1,005)	(326)	(1,331)
Balance at 30 June 2013	1,013	611	1,624
Carrying amounts			
At 1 July 2011	191	12	203
At 30 June 2012/1 July 2012	411	512	923
At 30 June 2013	206	1,109	1,315

Additions for the 2011/12 year included \$910,000 transferred from SSC and DPMC with the set up of CASS.

There are no restrictions over the title of the Treasury's intangible assets. No intangible assets are pledged as security for liabilities.

10 Departmental Capital Expenditure

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
296	Furniture and fittings	4	-	-
125	Leasehold improvements	14	530	530
2,194	Computer hardware	995	97	963
54	Office machinery	20	611	611
2,669	Total property, plant and equipment	1,033	1,238	2,104
563	Internally generated software	774	450	1,735
459	Other software	-	212	815
1,022	Total intangibles	774	662	2,550
3,691	Total capital expenditure	1,807	1,900	4,654

11 Creditors and Other Payables

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
1,589	Sundry creditors	1,862	1,500	1,500
58	Receipts in advance	-	-	-
3,582	Accrued expenses	3,288	2,400	3,800
569	GST and other taxes payable	737	400	400
5,798	Total creditors and other payables	5,887	4,300	5,700

12 Return of Surplus to Crown

The return of operating surplus to the Crown is required to be paid by 31 October each year. The Treasury has a surplus of \$402,000 to return to the Crown for the period ending 30 June 2013 (30 June 2012: Nil).

13 Provision for Employee Entitlements

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Current liabilities			
1,115	Accrued salaries	1,476	760	760
390	Accrued performance payments	439	264	264
2,753	Annual leave	2,790	2,362	2,782
139	Sick leave	96	130	130
314	Retirement, resigning and long service leave	355	430	430
330	Other employee entitlements	-	496	496
5,041	Total current portion	5,156	4,442	4,862
	Non-current liabilities			
944	Retirement, resigning and long service leave	900	870	870
944	Total non-current portion	900	870	870
5,985	Total employee entitlements	6,056	5,312	5,732

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

In determining the appropriate discount rate the Department adopts the central table of risk-free discount rates and CPI assumptions provided by the Treasury to all departments.

14 Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
-	Net surplus (deficit)	402	-	-
	Non-cash items:			
1,707	Depreciation, amortisation and impairment expenses	2,017	2,675	2,291
1,707	Total non-cash items	2,017	2,675	2,291
	<i>Add/(less) items classified as investing or financing activities:</i>			
-	Net (Gains)/losses on disposal of property, plant and equipment	20	-	-
	<i>Add/(less) movements in deferrals and accruals:</i>			
2,912	(Increase)/Decrease in debtor – Crown	(4,646)	-	-
(2,265)	(Increase)/Decrease in debtors and other receivables	1,568	9	2,173
(52)	(Increase)/Decrease in prepayments	(535)	-	-
1,301	Increase/(Decrease) in creditors and other payables	(177)	-	71
(106)	Increase/(Decrease) in GST	126	(3)	(169)
-	Increase/(Decrease) in provisions	1	(116)	(870)
273	Increase/(Decrease) in employee entitlements	71	197	617
2,063	Net movement in working capital items	(3,592)	87	1,822
3,770	Net cash flow from operating activities	(1,153)	2,762	4,113

15 Related Party Transactions

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

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

The Treasury has received funding from the Crown of \$74.628 million to provide services to the public for the year ended 30 June 2013 (2012: \$72.319 million).

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

The Treasury also purchased and sold goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled \$5.401 million (2012: \$3.126 million). These purchases exclude capital charge and include air travel from Air New Zealand, ACC levies, legal advice from the Crown Law Office and service provided by other government departments primarily being Audit NZ, Department of Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, State Services Commission, Department of Internal Affairs, Ministry of Economic Development and Statistics NZ.

2012 Actual \$000		2013 Actual \$000
2,678	Salaries and other short-term employee benefits	3,481
76	Post-employment benefits	86
4	Other-long term employee benefits	4
137	Board member fees	137
2,895	Total key management personnel compensation	3,708

Key management personnel of the Treasury at 30 June 2013 included the ELT (Chief Executive, one Deputy Chief Executive and nine Deputy Secretaries) plus the Director CASS and the Treasury Board fees.

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

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

There were no related party transactions involving key management personnel or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2012: Nil).

16 Events After Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2012: Nil).

17 Financial Instruments

17A Financial Instruments

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

2012 Actual \$000		2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Loans and receivables			
7,744	Cash and cash equivalents	4,926	4,877	7,203
3,645	Debtors and other receivables	2,610	882	1,472
11,389	Total loans and receivables	7,536	5,759	8,675
	Financial liabilities			
5,798	Creditors and other payables	5,887	4,300	5,700

17B Financial Instrument Risks

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

Currency risk

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

Interest rate risk

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses the Treasury's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Contractual Cash Flows \$000	Less Than 6 Months \$000	More Than 6 Months \$000
2013			
Creditors and other provisions	5,887	5,887	-
2012			
Creditors and other provisions	5,798	5,798	-

18 Capital Management

The Treasury's capital is its equity, which comprises taxpayers' funds and memorandum accounts. Equity is represented by net assets.

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

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

19 Explanation of Major Variances Against Budget

Statement of Comprehensive Income

The following major variations occurred between the 2012/13 and the 2011/12 Actuals:

- ▶ The implementation of the government share offers work programme increased costs in 2012/13 by just over \$3.7 million compared to 2011/12.
- ▶ The provision of shared support services to Central Agencies began in March 2012. 2012/13 is the first full year of operation and both revenue and expenditure increased by \$4 million compared to 2011/12.

The following major budget variations occurred between the 2012/13 Actuals and the 2012/13 Supplementary Estimates budgets:

- ▶ The majority of the current-year variance in expenditure and revenue relates to the multi-year funding provided for the government share offers (\$13.505 million). The uncertain timing of this work programme means that this funding will be transferred to future periods.
- ▶ In addition, approval has been given to transfer up to \$5.240 million of operational funding into 2012/13. These approvals are detailed under each output in the Statement of Objectives and Service Performance section of this report.

Statement of Financial Position

The following major variations occurred between the 2012/13 and the 2011/12 Actuals:

- ▶ The decrease in debtors and receivables reflects better CASS charges between agencies in 2012/13, now that billing details are clearer.
- ▶ The debtor Crown reflects costs in June, as cash is received in arrears. The increase for 2012/13 reflects the higher expenditure.

The following major budget variations occurred between the 2012/13 Actuals and the 2012/13 Supplementary Estimates budgets:

- ▶ Supplementary Estimates capital expenditure on IT assets was expected to be higher following the integration of CASS. More of this work will now be completed in 2013/14.

Supplementary Financial Schedules – Non-departmental

for the year ended 30 June 2013

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Schedule of Expenses

for the year ended 30 June 2013

The Schedule of Expenses summarises expenses that the Department administers on behalf of the Crown. Details of non-departmental expenditure and appropriations are provided in the Explanatory Notes to Supplementary Statements and Schedules – Non-departmental on pages 99 to 106.

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Vote Finance				
5,504	Non-departmental output classes				
3,441,282	Borrowing expenses				
703,691	Other expenses incurred by the Crown				
	<i>Remeasurements:</i>				
3,895,593	Change in Government Superannuation Fund (GSF) unfunded liability – actuarial losses				
139,000	Change in National Provident Fund Defined Benefit Plan (Annuitants) (NPF DBP (A)) provision under Crown Guarantee – actuarial losses				
474	Change in DGS receivable revaluation				
385	Derivatives in loss				
76,297	Change in Southern Response Earthquake Services Ltd (SRESL) provision				
-	Investment in Associates impairment				
6,767	FX losses incurred by the Treasury				
29,000	Fair value losses incurred by NZDMO				
8,298,372	Total non-departmental expenses				

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Expenditure and Appropriations

for the year ended 30 June 2013

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

2012 Actual \$000	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Vote Finance			
	<i>Non-departmental output classes</i>			
447	Management of New Zealand House, London 17	35	1,000	1,000
100	Management of Crown's Obligations for Geothermal Wells	323	467	467
266	Management of the New Zealand Superannuation Fund	318	528	528
4,691	Inquiries and Research into Productivity-Related Matters MCOA	5,028	5,028	5,028
4,222	▶ <i>Inquiries into Productivity-Related Matters</i>	4,525	4,525	4,525
469	▶ <i>Research into and Promotion of Productivity-Related Matters</i>	503	503	503
5,504		5,704	7,023	7,023
	<i>Borrowing expenses</i>			
3,441,282	Debt servicing ¹¹ 19(c)	3,662,183	3,614,299	3,614,299
3,441,282		3,662,183	3,614,299	3,614,299
	<i>Other expenses incurred by the Crown</i>			
11,280	New Zealand House, London 17	10,258	13,000	13,000
40	Crown Residual Liabilities	5	230	230
-	EQC Apportioned and Unclaimed Damage Expense 5	-	-	16,600
90	Geothermal Wells Fund	-	-	300
11	Government Superannuation Appeals Board	2	50	50
22,581	Government Superannuation Fund Authority – Crown's Share of Expenses ¹¹ 8	24,767	24,599	24,599
501,840	Government Superannuation Fund Unfunded Liability ¹¹ 7	610,150	639,505	639,505
379	Impairment of Loans to Taitokerau Forests Limited 24	-	800	800
-	Landcorp Protected Land Agreement – Operating 12	17,607	17,528	20,464
-	Loyalty Bonus Scheme Related to Initial Public Offers ^{MYA} 13	24,677	40,000	40,000
-	Direct Sale costs for Implementing the Mixed Ownership Model ^{MYA} 13	21,511	18,150	18,150
29,004	National Provident Fund Schemes – Liability Under Crown Guarantee ¹¹ 14	27,078	24,000	24,000

¹¹ These expenses or capital expenditures have permanent legislative authority.

^{MYA} Multi-year Appropriation.

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
94	National Provident Fund – Crown Liability for Scheme Deficiency ¹¹	15	-	-	-
29,705	Payments in respect of NZECO Guarantees and Indemnities ¹¹	16	-	-	-
318	Payments in respect of Guarantees and Indemnities ¹¹	2(a)	4	4	4
108,120	Rugby World Cup 2011 – Crown share ¹¹		-	-	-
172	Taitokerau Forests Limited Grant		156	200	200
57	Unclaimed Money ¹¹		1	250	250
-	Unclaimed Trust Money ¹¹		-	250	250
-	Unwind of Discount Rate used in the Present Value Calculation of Payment under Crown Deed of Support with AMI	22	9,702	13,678	13,678
703,691			745,918	792,244	812,080
	<i>Capital expenditure</i>				
102,095	Crown Asset Management Limited (CAML) Equity Injection	2(b)	54,809	58,809	397,941
156,595	International Financial Institutions ¹¹	10	35,164	47,433	47,433
1,718	Landcorp Protected Land Agreement	12	-	-	-
-	Landcorp Protected Land Agreement – Capital	12	5,591	5,544	8,000
-	New Zealand House, London – capital	17	-	-	750
-	Solid Energy New Zealand Limited Funding	23	-	15,000	50,000
750	Taitokerau Forests	24	1,359	700	1,550
261,158			96,923	127,486	505,674
4,411,635	Total non-departmental expenditure and appropriations		4,510,728	4,541,052	4,939,076

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Statement of Unappropriated Expenditure

for the year ended 30 June 2013

There was one item of unappropriated expenditure in Vote Finance in the year ended 30 June 2013.

Appropriation Type	Appropriation Name	Appropriated Expenditure in 2012/13 \$000	Total Expenditure, Expenses or Liabilities Incurred \$000	Unapproved Unappropriated Expenses \$000	Appropriated Expenditure in 2013/14 \$000
Non-departmental Capital Expenditure	Crown Asset Management Limited (CAML) Equity Injection	-	30,167	30,167	-

A technical breach of the appropriation resulting from transfers of Deposit Guarantee Assets into CAML before joint Ministers confirmed the in-principle transfer request, (note 2(b)).

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Revenue

for the year ended 30 June 2013

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Vote Finance				
1,784,933	Capital charge	1	1,840,769	1,835,345	1,835,345
-	Change in GSF Unfunded Liability	7	1,251,351	917,990	917,990
-	Change in NPF Unfunded Liability	14	52,461	-	-
91,198	Change in Crown DGS Assets	2(a)	22,979	14,149	14,149
-	Change in Crown DGS Liabilities		1,514	-	-
-	Change in International Financial Institutions investment	10	8,785	-	-
-	Change in Southern Response Crown Support Deed	22	13,259	32,658	32,658
-	Change in Loyalty Bonus Scheme provision	13	3,230	-	-
2,905	Crown Deposit Guarantee Scheme	2(a)	-	-	-
68,044	Crown Wholesale Guarantee Facility	2(c)	29,341	29,341	29,341
13,828	Dividends from Crown Entities	3	11,287	11,285	11,285
483,432	Dividends from SOEs	3	727,337	704,793	704,793
4,492	Dividends – other	3	2,705	2,668	2,505
10,000	Earthquake Commission guarantee fee	4(c)	10,000	10,000	10,000
46,600	Employers' superannuation contributions	9	42,089	42,362	42,362
-	Mighty River Power IPO net proceeds over historical cost	13	1,498,646	-	-
12,734	NZECO	16	1,907	2,158	2,158
312,944	Interest from investments	19(a)	254,694	275,533	275,533
4,868	Interest income – other		3,453	3,448	3,448
182,188	Other income – NZDMO	19(a)	173,853	243,019	173,019
283,282	Other revenue – NZDMO (gains on derivatives)	19(b)	294,183	141,299	287,299
9,659	Rentals from Crown overseas properties	17	9,710	9,500	9,500
210,000	RBNZ notional surplus	21	160,000	160,000	160,000
(1,000)	FX (losses)/gains incurred by NZDMO		2,000	-	-
589,514	Other current revenue	20	224,162	221,762	221,762
3,885	Other fees		3,796	3,762	3,762
1,781	Unclaimed money		1,427	855	855
1,878	Dividends from CRIs		250	-	-
4,117,165	Total non-departmental revenue		6,645,188	4,661,927	4,737,764

Comparatives have been restated to reflect current year's gain or loss in the correct statement.

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Capital Receipts

for the year ended 30 June 2013

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

2012 Actual \$000		Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Vote Finance				
-	Capital withdrawal from Crown entities	2(b)	116,822	112,763	112,763
947	Loan repayments from other parties	24	1,263	1,263	1,263
-	Return of capital by the IMF	10	5,082	1,122	1,122
-	Unwind of prior year capital expenditure for Landcorp Protected Land Agreement	12	7,774	7,774	7,774
947	Total capital receipts		130,941	122,922	122,922

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Assets

as at 30 June 2013

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

2012 Actual \$000	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
	Current assets			
10,120,787	Cash and cash equivalents	5,461,768	7,932,101	10,850,101
507,241	Accounts receivable 2(a)	51,733	38,555	41,011
1,651,544	Advances	733,769	398,770	410,770
6,975,000	Marketable securities, deposits and derivatives in gain 19(e)	3,907,000	(2,096,000)	(4,715,000)
481	Prepayments – employer contributions (GSF)	1,221	481	481
19,255,053	Total current assets	10,155,491	6,273,907	6,587,363
	Non-current assets			
5,467,000	Advances	5,829,000	6,396,000	6,151,000
257,950	Intangibles and goodwill 6	257,950	257,950	257,950
1,794,000	Marketable securities, deposits and derivatives in gain	2,068,000	2,349,000	4,804,000
228,193	Other share investments	229,542	220,757	220,757
171,797	Other equity-accounted investments	185,457	168,690	168,690
76,964	Property, plant and equipment	69,825	67,187	67,187
7,995,904	Total non-current assets	8,639,774	9,459,584	11,669,584
27,250,957	Total non-departmental assets	18,795,265	15,733,491	18,256,947

In addition, the Treasury monitors 15 SOEs and 17 Crown entities. The investment in these entities is consolidated in the Crown Financial Statements on a line-by-line basis. The investment in these entities is not included in this schedule.

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Liabilities

as at 30 June 2013

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

2012 Actual \$000	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates Voted \$000
	Current liabilities			
4,418,000	Crown balances with Westpac	5,086,000	3,525,000	5,046,000
326,664	Payables and accrued expenses	141,435	29,561	34,953
24,025,000	Borrowings 19(c)	6,290,000	7,142,000	6,717,000
28,556	Deferred revenue 2(c)	26,363	26,364	26,364
705,000	GSF unfunded liability 7	750,000	705,000	705,000
1,801	Guarantee scheme payable 2(a)	95	-	-
1,379	Insurance premiums received in advance 16	1,173	770	770
34	Derivatives in loss	186	34	34
393,865	Other provisions 16,22	394,254	345,178	345,178
29,900,299	Total current liabilities	12,689,506	11,773,907	12,875,299
	Non-current liabilities			
60,425,000	Borrowings 19(c)	72,980,000	70,866,000	70,516,000
29,341	Deferred revenue 2(c)	2,193	2,193	2,193
1,193	Insurance premiums received in advance 16	675	570	570
12,835,826	GSF unfunded liability 7	11,158,675	11,522,961	11,522,961
-	Loyalty Bonus Scheme liability related to initial public offers 13	21,447	40,000	40,000
1,075,707	NPF DBP(A) Scheme unfunded provision 14	977,224	1,032,707	1,032,707
74,367,067	Total non-current liabilities	85,140,214	83,464,431	83,114,431
104,267,366	Total non-departmental liabilities	97,829,720	95,238,338	95,989,730

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Commitments

as at 30 June 2013

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

2012 \$000		2013 \$000
	Operating commitments	
	<i>By type:</i>	
1,132	Non-cancellable property lease	1,091
357	Other non-cancellable operating commitments	471
1,489		1,562
	<i>By term:</i>	
151	Less than one year	149
151	One to two years	149
214	Two to five years	329
973	More than five years	935
1,489	Total commitments	1,562

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Schedule of Contingent Liabilities

as at 30 June 2013

2012 \$000		2013 \$000
	Quantifiable contingent liabilities	
18,680	Guarantees and indemnities	89,540
6,380,826	Uncalled capital and promissory notes	6,268,879
132	Legal proceedings and disputes	50
-	Other contingent liabilities	15,960
6,399,638	Total contingent liabilities	6,374,429

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

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

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

Decrease in contingent liabilities is owing to exchange rate fluctuations and contributions made to IMF as part of IMF's response to the financial crisis.

Unquantifiable Contingent Liabilities

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

Contingent Assets

The Department, on behalf of the Crown, has no contingent assets (2012: Nil).

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Statement of Trust Monies

as at 30 June 2013

(a) Unclaimed Money

2012 \$000		2013 \$000
2,037	Balance at the beginning of the year	2,671
660	Contribution	312
(95)	Distribution	(89)
69	Interest earned on trust money	68
2,671	Balance at the end of the year	2,962

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

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

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

(b) Mighty River Power Initial Public Offer Trust Account

During the year, the Crown opened a Mighty River Power Initial Public Offer Trust Account to facilitate the partial sale of Mighty River Power. The sources of funds relate to proceeds from the sale of shares and distributions relate to refunds paid to investors. The funds are transferred to the Crown upon completion of the IPO.

2012 \$000		2013 \$000
-	Balance at the beginning of the year	-
-	Contribution	997,318
-	Distribution	(997,245)
-	Interest earned on trust money	952
-	Balance at the end of the year	1,025

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

For a full understanding of the Crown's financial position and the result of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2013.

Statement of Accounting Policies

for the year ended 30 June 2013

Reporting Entity

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

The financial information reported in these schedules is consolidated into the Financial Statements of the Government, and therefore readers of these schedules should also refer to the Financial Statements of the Government for the year ended 30 June 2013.

Basis of Preparation

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

Measurement and recognition rules applied in the preparation of these non-departmental supplementary financial schedules are consistent with NZ GAAP and Crown accounting policies and are detailed in the Financial Statements of the Government. Recognition and measurement rules comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

Significant Accounting Policies

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

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

Public Benefit Entities new accounting standards framework – NZ PBE standards

The Government will transition to the new Public Benefit Entities suite of standards for the next year. The Treasury will issue new accounting policies based on the new standards. If there are adjustments on transition to the new suite of NZ PBE standards, the comparatives for 2013/14 will need to be restated.

Foreign exchange

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

Goods and services tax

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

Commitments

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

Explanatory Notes to Supplementary Statements and Schedules – Non-departmental

Explanatory notes provide details of significant expenditure and revenue variances between actual results in 2011/12 and 2012/13 and between 2012/13 actual results and 2012/13 Supplementary Estimates.

1 Capital Charge

Capital charge revenue increased by \$55.836 million from 2011/12 year predominantly owing to new capital charge rules, which commenced on 1 July 2011 where departmental memorandum account deficits are now being included in the capital charge calculation. For the current year, the new rules were applied to entities' June 2012 and December 2012 net assets and memorandum account balances. In the prior year the impact of memorandum accounts was only applied on entities' December 2011 balances.

2 Crown Guarantee Schemes: The Retail Deposit Guarantee Scheme (DGS) and Crown Wholesale Funding Guarantee Facility (WFGF)

The Government provided two guarantee schemes in relation to financial institution deposits: DGS and WFGF.

2(a) Retail Deposit Guarantee Scheme

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

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

2012 Actual \$000	Summary of Crown Deposit Guarantee Scheme Disclosures in the Supplementary Schedules – Non-departmental	Note	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
474	Schedule of Expenses – Receivable revaluation		118	-	-
-	Statement of Expenditure and Appropriations – Payments in Respect of Guarantees and Indemnities		4	4	4
474			122	4	4
2,905	Schedule of Revenue – Crown Deposit Guarantee Scheme (fees)		-	-	-
467,083	Schedule of Revenue – Other current revenue (recoveries)	20	215,761	221,762	221,762
270,940	Schedule of Assets – Accounts receivable (expected recoveries)		39,073	29,447	29,447
1,801	Schedule of Liabilities – Guarantee Scheme payables (gross) – Defaulted entities		95	-	-

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

Analysis of recoveries and payments from receiverships

30 June 2012 \$000		Note	30 June 2013 \$000
739,394	Opening balance of recoveries expected from receiverships		270,940
90,724	Revision of expected recoveries (net)		8,464
(92,095)	Transfer of assets from receiverships into CAML	2(b)	(38,963)
-	Revaluation gains on transferred assets in CAML		14,393
(467,073)	Payments received from receivers	20	(215,761)
270,940	Closing balance of recoveries expected from receiverships		39,073
33,700	Total payments to depositors under the Guarantee Scheme		196

2(b) Crown Asset Management Limited

CAML was established to manage recoveries from the remaining assets of receiverships which defaulted under the Retail Deposit Guarantee Scheme where the Crown was the sole creditor. In Budget 2012, \$500 million was allocated for equity injections into CAML under a capital appropriation. The transfer of assets to CAML was only partially completed as at 30 June 2012 and therefore a transfer of the remaining capital appropriation was approved for completion of the acquisition of the residual assets of the other receiverships. During the year the Crown injected \$54.809 million, a combination of cash and non-cash equity injections into CAML to fund the transfer of Deposit Guarantee Scheme assets into CAML and to provide funding to acquire the property portfolio of SRESL. During the year, the Crown received capital distributions of \$116.822 million from CAML.

2(c) Crown Wholesale Funding Guarantee Facility

In addition to DGS, the Government operated an opt-in WFGF from November 2008 to April 2010. As at 30 June 2013, 13 guarantee certificates remained in place, and the remaining value of wholesale securities guaranteed was \$3.470 billion. No provision is made for losses under this scheme as the probability of loss is considered remote.

2012 Actual \$000	Summary of Crown Wholesale Funding Guarantee Facility Disclosures in the Supplementary Schedules – Non- departmental	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
68,044	Schedule of Revenue – Crown Wholesale Guarantee Facility (fees)	29,341	29,341	29,341
28,556	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Current	26,363	26,364	26,364
29,341	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Non-current	2,193	2,193	2,193

3 Dividends

Total SOE dividends received this year have increased by \$243.905 million from 2011/12. Particular items to note are that Transpower paid a higher dividend by \$252.700 million compared to prior year as a result of the company opting to use more debt to fund the upgrade of its network and posting an increase in annual profit.

Air New Zealand dividends increased by \$16.084 million; this is mainly owing to increased profits during the half year ended 31 December 2012 compared to prior year.

Dividends from Crown Entities includes \$11.287 million paid by TVNZ compared to prior year of \$13.828 million.

Other dividends received are from the Crown's share in Christchurch, Dunedin and Hawkes Bay Airports which are \$1.787 million lower than those received in 2011/12. This is mainly owing to Christchurch

International Airport's interim dividend for the year ended 30 June 2011 having been paid during the 2011/12 financial year, making the prior-year dividend streams particularly high.

4 Earthquake Commission

4(a) Land remediation

During the year, full settlement for the amount of \$4.433 million has been made to the Earthquake Commission (EQC) for the outstanding claim for the remediation to residential land affected by the September 2010 earthquake over and above the standard required by EQC.

4(b) Land insurance payments

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

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

4(c) Earthquake Commission Underwriting Fee

Each year since 1986 EQC has paid the Crown an "underwriting fee". This fee represents a premium-like charge on EQC for the Crown's role as an insurer of last resort. For the current year the Crown received \$10 million (2012: \$10 million).

5 EQC Apportioned and Unclaimed Damage Expense

A new appropriation was set up for funding (if required) to resolve the issue of EQC not being able to pay for damage to insured property where no claim has been made for the specific earthquake event that the EQC apportionment process indicates was a cause of damage. For the year ended 30 June 2013, no payment was made against this appropriation.

6 Goodwill

Goodwill in relation to Air New Zealand of \$258 million (2012: \$258 million) has been tested for impairment under NZIAS 36. As a result of the impairment testing, no impairment was identified.

7 Government Superannuation Fund Unfunded Liabilities

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

The GSF obligation has been calculated by the Government Actuary as at 30 June 2013. A Projected Unit Credit Method, based on balance-date membership data, is used for the valuation. This method requires the benefits payable from GSF in respect of past service to be estimated and then discounted back to the valuation date.

GSF unfunded liability as at 30 June 2013 was \$11,908 million, a decrease of \$1,633 million compared with 30 June 2012.

This is primarily attributed to an actuarial gain recognised in the year of \$1,251 million (2012: \$3,896 million loss) mainly owing to the increase in short- and medium-term discount rates over the year, the strong investment returns achieved by the Fund and the Crown contributions made. Contributions made by the Crown against the liability during 2012/13 were \$658 million (2012: \$699 million).

An increase was offset owing to the current service costs and interest expenses (appropriated under Other Expenses Incurred by the Crown – GSF Unfunded Liability) of \$276 million (2012: \$192 million).

The Government expects to make a contribution of \$750 million to GSF in the year ended 30 June 2014.

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

8 Government Superannuation Fund Authority – Crown’s Share of Expenses

These are expenses of the Government Superannuation Fund Authority relating to the management and administration of GSF. The Crown’s share for 2012/13 was \$24.767 million, \$2.186 million higher than that in 2011/12. The investment manager expenses are dependent upon the portfolio valuations. For some active investment managers, their performance, and accordingly their fees, exceeded the forecast. The fund portfolio grew faster during the year compared to prior year.

9 Government Superannuation Fund – Employers’ Contribution

The employers’ contribution to GSF has decreased from \$46.600 million in 2011/12 to \$42.089 million in 2012/13. This is because of reduced memberships and lower average employee salaries which attracted lower employer contributions.

10 International Financial Institutions (IFIs)

Contributions of \$35.164 million were made to the IMF lending programme in 2012/13 compared to forecast of \$47.433 million. Payments have been made to several countries during 2012/13 reflecting the response by IMF to the current international financial crisis. Capital withdrawals of \$5.082 million (2012: Nil) were made by IMF representing a repayment of advances to IMF to supporting countries in financial difficulties. During the year, a net gain of \$1.349 million on revaluation of IFIs’ investment was recorded as a result of New Zealand dollar FX rate movement (2012: \$6.767 million loss).

11 Invercargill Airport Limited

During the year, the Crown impaired its investment in Invercargill Airport Limited for the full value of the investment held of \$3.106 million. The Crown has reduced its stake from 45% to 2.82% of the company owing to additional capital raising by other shareholders.

12 Landcorp Protected Land Agreement

This year, the current Protected Land Agreement has been amended to require annual settlement of accumulated costs instead of when one of the properties held under Protected Land Agreement is transferred. As a result, current year provision of \$18.870 million includes amounts for the accumulated operating and capital expenditure from 1 July 2007 to 30 June 2013 for all protected land. During the year, the Landcorp Protected Land Agreement appropriation has been disestablished and replaced with two new appropriations namely, the Landcorp Protected Land Agreement – Operating, and the Landcorp Protected Land Agreement – Capital. The operating expenditure appropriation was set up to cover the operating costs in managing protected land, which were \$17.607 million cumulatively over the five-year period. The capital appropriation was set up to cover the costs of capital expenditure associated in managing protected land of \$5.591 million over the past five years. Farming profits and forestry revenue came to \$4.328 million and this was recorded in Other Current Revenue. Prior year’s capital expenditure of \$7.774 million against Landcorp Protected Land Agreement appropriation has been subsequently reversed in the current year by way of technical adjustment.

13 Mighty River Power Initial Public Offer

On 14 May 2013 the Crown sold 48.2% of its investment in Mighty River Power. The Crown received gross cash proceeds of \$1.69 billion from the Mighty River Power offer. Direct costs of sale of \$21.511 million have been netted off from gross proceeds giving a gain of \$1.5 billion over the historical carrying value of the investment in Mighty River Power.

New Zealand retail investors in the Mighty River Power share offer receive one loyalty bonus share for every 25 shares they hold for two years from the allotment date, 14 May 2013, up to a maximum of 200 bonus shares. This loyalty scheme has been recognised in the Schedule of Expenses on page 87 as an expense and in the Schedule of Liabilities on page 94 as a corresponding liability reflecting the value of the maximum allocation of bonus shares. The total maximum cost of the loyalty bonus scheme to the Crown was estimated to be \$24.677 million at the allotment date. As at 30 June 2013, the loyalty bonus share scheme liability has been revalued although no estimate has been made for future sale of shares by investors. The liability was reduced partly owing to a decline in the Mighty River Power share price, attributed amount of \$2.764 million and the fact that a number of investors have sold their shares and the shares sold are no longer eligible for the loyalty bonus shares. The sale of shares has therefore reduced the liability by \$466,000. In total, the liability reduced by \$3.229 million and a consequential gain recognised.

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

The Government has guaranteed superannuation schemes managed by National Provident Fund (NPF). As at 30 June 2013, NPF's DBP Scheme was in a net deficit position of \$977 million (2012: \$1,076 million), represented by a gross estimated pension obligation of \$1,011 million (2012: \$1,114 million) with net investment assets valued at \$34 million (2012: \$39 million). No additional provision was required in the year for other pension schemes managed by NPF under the Government's guarantee under section 60 of the National Provident Fund Restructuring Act 1990.

The decrease of \$99 million in the Crown's liability for the NPF DBP(A) Scheme under Crown guarantee as at 30 June 2013 was primarily owing to:

- ▶ payments made against the liability by the Crown during the year of \$74 million, and
- ▶ the actuarial gain recognised for the year of \$52 million resulting from movements in the economic assumptions used in calculating the provision, and

offset by:

- ▶ the unwinding of the interest expense (appropriated under Other Expenses Incurred by the Crown – NPF Schemes – Liability under Crown Guarantee) of \$27 million.

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

15 National Provident Fund – Crown Liability for Scheme Deficiency

The Crown is liable for the deficiency in the accounts of NPF schemes established pursuant to section 38A(6) of the National Provident Fund Act 1950, authorised by section 72 of the National Provident Fund Restructuring Act 1990. There were no calls against this appropriation for 2011/12 to 31 March 2013 (2012: \$94,000) and a nil provision for the three months to 30 June 2013 (2012: Nil).

16 New Zealand Export Credit Office

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

2012 Actual \$000	Summary of NZECO Disclosures in the Supplementary Schedules – Non-departmental	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
12,734	Schedule of Revenue – NZECO	1,907	2,158	2,158
1,379	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Current	1,173	770	770
1,193	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Non-current	675	570	570
29,705	Schedule of Liabilities – Other provision	29,705	-	-

Revenue has decreased by \$10.827 million in 2012/13 as a result of a reduction in premium amortisation owing to expiry of a large policy. In addition, the prior year revenue included early recognition of a \$7 million unamortised premium on an export credit policy provided for where NZECO was not required to pay back.

17 New Zealand House – London

2012 Actual \$000	Summary of New Zealand House – London Disclosures in the Supplementary Schedules – Non-departmental	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
9,659	Schedule of Revenue – Rentals from Crown Overseas Properties	9,710	9,500	9,500
447	Statement of Expenditure and Appropriations – Non- departmental Output Class – Management of New Zealand House, London	35	1,000	1,000
11,280	Statement of Expenditure and Appropriations – Other Expenses Incurred by the Crown – New Zealand House, London	10,258	13,000	13,000
-	Statement of Expenditure and Appropriations – New Zealand House, London, Capital	-	-	750

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

18 New Zealand Superannuation Fund

No contributions were made to the New Zealand Superannuation Fund in 2012/13 as a result of the Government's decision in May 2009 to suspend contributions until there are budget surpluses sufficient to fund contributions.

19 New Zealand Debt Management Office

19(a) Interest from investments and other income

NZDMO's interest from investments decreased by \$58.250 million owing to lower average funds available for investment during 2012/13.

NZDMO's other income decreased by \$8.335 million mainly owing to lower funding provided to New Zealand Railways Corporation.

19(b) Other revenue – NZDMO

Other revenue – NZDMO comprises net gains on NZDMO derivatives (excluding fair value and FX gains/losses). Current year increase of \$10.901 million is attributable to both interest rate changes and transactional activity.

19(c) Borrowing costs

Borrowing costs have increased by \$220.901 million owing to higher average outstanding volumes of New Zealand government stock issued to third parties during 2012/13.

19(d) Fair value losses incurred by NZDMO

Fair value losses incurred are higher in the current year by \$187 million owing to a combination of funding situations incurred by NZDMO where the resulting financial instruments are accounted for on different bases.

19(e) Marketable securities, deposits and derivatives in gain

Deficits recorded in the Supplementary Estimates and Main Estimates are owing to forecast assumptions used at the time of Budget 2013 in respect of the Crown Settlement Account and Marketable Securities.

20 Other Current Revenue

Other current revenue has decreased by \$365.352 million in 2012/13. This primarily relates to a decrease in the recovery of government guarantee payments during 2012/13 as five of the DGSs have been transferred into CAML and the majority of the assets have been recovered over the past years. In addition, last year's revenue included a one-off Crown Assistance Fee of \$108 million from New Zealand Rugby and a release of Rugby World Cup provision of \$6.437 million, a provision which was no longer required. During the current year, the Crown received profits from farms and forestry revenue of \$4.328 million from Protected Land managed by Landcorp Farming Limited.

21 Reserve Bank Surplus

Dividends received by the Crown from RBNZ decreased from \$210 million in 2011/12 to \$160 million in 2012/13 owing to reduction in RBNZ's surplus. The principal reason for the reduction is mainly owing to lower net interest income earned, FX losses and changes in the market value of financial instruments.

22 Southern Response Earthquake Services Limited

The Crown Support Deed (CSD) with SRESL has been revalued to its net present value in June 2013 to recognise the likely profile of cash drawdowns over the 10-year life of the Deed including the balance that will be payable in 2021. This valuation is purely driven by SRESL's expected cash draw down profile and the associated unwinding of the discounting over the life of the agreement.

2012 Actual \$000	Summary of SRESL Disclosures in the Supplementary Schedules – Non-departmental	2013 Actual \$000	2013 Main Estimates \$000	2013 Supp. Estimates \$000
-	Schedule of Expenses – Unwind of Discount Rate used in the Present Value Calculation of Payment under Crown Deed of Support with AMI	9,702	13,678	13,678
364,160	Schedule of Liabilities – Other provision (SRESL)	364,549	345,178	345,178

23 Solid Energy New Zealand Limited

During the year, the Crown initiated a new capital appropriation of \$50 million for Solid Energy New Zealand Limited. This appropriation is for the funding of any urgent liquidity issues the company faces. For the year ended 30 June 2013, there has been nil amount paid to the company.

24 Taitokerau Forests Limited

Loans to Taitokerau Forests Limited of \$1.359 million were advanced as per the Loan Agreement during 2012/13. For the current year, impairment in Taitokerau loans was not necessary as the valuation of the Taitokerau Forests Limited assets was higher than the valuation of the loan liability to the Crown as at 30 June 2013 (2012: \$379,000 impairment). In the current year, the Crown received \$1.263 million (2012: \$947,000) repayment of the Taitokerau Forests Advance.

New Zealand Debt Management Office

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

NZDMO's major responsibilities involve:

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

NZDMO managed \$17.797 billion of assets, \$81.671 billion of liabilities, \$432 million of revenue and \$3.368 billion of expenses on behalf of the Crown for the year ended 30 June 2013. Further information on NZDMO's performance in managing the Crown's sovereign-issued debt and related financial assets is provided on pages 46 and 47 and pages 50 to 52.

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

Schedule of Assets and Liabilities

as at 30 June 2013

2012 Carrying Value \$m	2012 Fair Value \$m		2013 Carrying Value \$m	2013 Fair Value \$m
		Assets		
		<i>Cash, cash equivalents and receivables</i>		
9,060	9,060	Crown settlement account	4,585	4,585
33	33	Crown trust account	80	80
977	977	Foreign cash and cash equivalents	714	714
233	233	Debtors and receivables	-	-
		<i>Advances</i>		
2,158	2,158	RBNZ	1,859	1,859
2,202	2,202	Ministry of Health ¹²	2,216	2,216
1,861	1,861	Housing New Zealand	1,861	1,861
510	510	New Zealand Railways Corporation	182	182
130	130	New Zealand Transport Agency	100	100
4	4	Other Crown	3	3
125	128	Non-Crown	222	224
		<i>Financial assets</i>		
4,708	4,708	Marketable securities	2,401	2,401
130	130	External deposits	99	99
1,682	1,682	Derivatives in gain	1,184	1,184
2,249	2,249	IMF financial assets	2,291	2,291
26,062	26,065	Total assets	17,797	17,799
		Liabilities		
		<i>Overdrafts and payables</i>		
4,418	4,418	Crown disbursement account ¹³	5,086	5,086
283	283	Creditors and payables	107	107
		<i>Financial liabilities</i>		
9,516	9,520	Treasury bills – market	4,118	4,119
479	479	Treasury bills – non-market	579	579
57,925	63,088	Government bonds – market ¹⁴	58,963	61,403
4,424	4,917	Government bonds – non-market	3,384	3,655
1,631	1,941	Inflation-indexed bonds – market	5,308	5,376
316	375	Inflation-indexed bonds – non-market	650	662
229	231	Kiwi bonds	199	199
-	-	Euro-commercial paper	-	-

¹² Counterparty was Crown Health Financing Agency at 30 June 2012.

¹³ During each banking day, the net balance of all departmental and Crown bank accounts held at Westpac is swept between the Westpac Crown Disbursement account and the RBNZ Crown Settlement account. This daily sweep process ensures that there are no end-of-day net exposures between the Crown and Westpac. Therefore, the Disbursement account balance effectively offsets the balances of departmental and Crown accounts at Westpac.

¹⁴ Government bonds – market includes \$395 million of infrastructure bonds at June 2013 (June 2012: \$395 million).

2012 Carrying Value \$m	2012 Fair Value \$m		2013 Carrying Value \$m	2013 Fair Value \$m
307	307	Foreign currency debt	130	130
1,067	1,067	Collateral	702	702
638	638	Derivatives in loss	672	672
155	155	Departmental deposits	85	85
1,638	1,638	IMF allocation	1,651	1,651
52	52	Immigration investor policy bonds	7	7
42	42	Other	30	30
83,120	89,151	Total liabilities	81,671	84,463
(57,058)	(63,086)	Net assets/(liabilities)	(63,874)	(66,664)

Schedule of Revenues and Expenses

for the year ended 30 June 2013

2012 \$m		2013 \$m
	Revenue	
	<i>Cash, cash equivalents and receivables</i>	
183	Crown settlement account	144
1	Crown trust account	1
2	Foreign cash and cash equivalents	2
	<i>Advances</i>	
4	RBNZ	(6)
96	Ministry of Health	102
51	Housing New Zealand	49
21	New Zealand Railways Corporation	10
5	New Zealand Transport Agency	4
-	Other Crown	-
9	Non-Crown	12
	<i>Financial assets</i>	
115	Marketable securities	104
8	External deposits	8
5	IMF financial assets	2
500	Total revenue	432
	Expenses	
230	Treasury bills – market	152
3	Treasury bills – non-market	12
2,734	Government bonds – market	2,954
297	Government bonds – non-market	243
74	Inflation-indexed bonds – market	199
19	Inflation-indexed bonds – non-market	34
8	Kiwi bonds	5
-	Euro-commercial paper	1
26	Foreign currency debt	13
1	Collateral	2
(323)	Derivatives ¹⁵	(293)
4	IMF allocation	1
2	Immigration investor policy bonds	-
83	Other	45
3,158	Total expenses	3,368
(1)	Net FX gains/(losses)	2
(29)	Net fair value (FV) gains/(losses) ¹⁶	(216)
(2,688)	Net revenue/(expenses)	(3,150)

¹⁵ Net derivatives include interest (receipts and payments only) on all derivatives, both derivatives in gain and derivatives in loss. Net derivatives may be a net revenue or net expense result for a reporting period. The net result is reported under expenses for reasons of consistency. FX gains/losses on derivatives are reported as part of the overall Net FX gains/(losses) line while fair value gains/losses are part of the overall Net FV gains/(losses) line.

¹⁶ Net FV gains/(losses) on all instruments measured at fair value are separately reported as part of the overall Net FV gains/(losses) line.

Classes and Categories of Financial Instruments

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

2012 Amortised Cost ¹⁷ \$m	2012 Fair Value Through Profit or Loss ¹⁸ \$m	2012 Available for Sale \$m	2012 Carrying Value \$m		2013 Amortised Cost ¹⁷ \$m	2013 Fair Value Through Profit or Loss ¹⁸ \$m	2013 Available for Sale \$m	2013 Carrying Value \$m
				Financial assets				
				<i>Cash, cash equivalents and receivables</i>				
9,060	-	-	9,060	Crown settlement account	4,585	-	-	4,585
33	-	-	33	Crown trust account	80	-	-	80
79	898	-	977	Foreign cash and cash equivalents	90	624	-	714
233	-	-	233	Debtors and receivables	-	-	-	-
				<i>Advances</i>				
-	2,158	-	2,158	RBNZ	-	1,859	-	1,859
22	2,180	-	2,202	Ministry of Health	-	2,216	-	2,216
527	1,334	-	1,861	Housing New Zealand	388	1,473	-	1,861
-	510	-	510	New Zealand Railways Corporation	-	182	-	182
-	130	-	130	New Zealand Transport Agency	-	100	-	100
-	4	-	4	Other Crown	-	3	-	3
18	58	49	125	Non-Crown	19	150	53	222
				<i>Financial assets</i>				
-	4,708	-	4,708	Marketable securities	-	2,401	-	2,401
-	130	-	130	External deposits	-	99	-	99
-	1,682	-	1,682	Derivatives in gain	-	1,184	-	1,184
2,249	-	-	2,249	IMF financial assets	2,291	-	-	2,291
12,221	13,792	49	26,062	Total financial assets by designation	7,453	10,291	53	17,797
				Financial liabilities				
4,418	-	-	4,418	Crown disbursement account	5,086	-	-	5,086
283	-	-	283	Creditors and payables	107	-	-	107
9,119	397	-	9,516	Treasury bills – market	4,118	-	-	4,118
479	-	-	479	Treasury bills – non-market	579	-	-	579
54,715	3,210	-	57,925	Government bonds – market	56,052	2,911	-	58,963
4,424	-	-	4,424	Government bonds – non-market	3,384	-	-	3,384
1,631	-	-	1,631	Inflation-indexed bonds – market	5,308	-	-	5,308
316	-	-	316	Inflation-indexed bonds – non-market	650	-	-	650
229	-	-	229	Kiwi bonds	199	-	-	199
-	-	-	-	Euro-commercial paper	-	-	-	-
-	307	-	307	Foreign currency debt	-	130	-	130
-	1,067	-	1,067	Collateral	-	702	-	702

¹⁷ NZDMO's amortised cost assets are designated as loans and receivables.

¹⁸ All "fair value through profit or loss" (FVPL) instruments are designated by management as FVPL, with the exception of derivatives which are classified as "held for trading" and are automatically included in the FVPL category of financial instruments.

2012 Amortised Cost ¹⁷ \$m	2012 Fair Value Through Profit or Loss ¹⁸ \$m	2012 Available for Sale \$m	2012 Carrying Value \$m		2013 Amortised Cost ¹⁷ \$m	2013 Fair Value Through Profit or Loss ¹⁸ \$m	2013 Available for Sale \$m	2013 Carrying Value \$m
-	638	-	638	Derivatives in loss	-	672	-	672
-	155	-	155	Departmental deposits	-	85	-	85
1,638	-	-	1,638	IMF allocation	1,651	-	-	1,651
52	-	-	52	Immigration investor policy bonds	7	-	-	7
1	41	-	42	Other	1	29	-	30
77,305	5,815	-	83,120	Total financial liabilities by designation	77,142	4,529	-	81,671

Derivatives

As at 30 June 2013, the value of derivatives was as follows:

2012 Carrying Value in Gain \$m	2012 Carrying Value in Loss \$m	2012 Net Carrying Value \$m	2012 Notional Value \$m		2013 Carrying Value in Gain \$m	2013 Carrying Value in Loss \$m	2013 Net Carrying Value \$m	2013 Notional Value \$m
				Derivatives				
75	(28)	47	4,115	FX contracts	51	(67)	(16)	3,362
-	(1)	(1)	17	FX options	-	-	-	-
904	(399)	505	8,583	Cross-currency swaps	672	(353)	319	7,754
703	(210)	493	7,382	Interest-rate swaps	461	(252)	209	12,115
1,682	(638)	1,044	20,097	Total derivatives	1,184	(672)	512	23,231

Risk Management

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

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

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

Funding Risk

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

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

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

Liquidity Risk

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

Liquidity Requirements

As at 30 June 2013	Contractual Cash Flows \$m	0-12 Months \$m	1-2 Years \$m	2-5 Years \$m	5-10 Years \$m	> 10 Years \$m
Overdrafts and payables						
Crown disbursement account	5,086	5,086	-	-	-	-
Creditors and payables	107	107	-	-	-	-
Financial liabilities						
Treasury bills – market	4,155	4,155	-	-	-	-
Treasury bills – non-market	580	580	-	-	-	-
Government bonds – market	74,301	3,122	13,927	18,395	38,857	-
Government bonds – non-market	4,367	190	991	1,224	1,962	-
Inflation-indexed bonds – market	6,345	149	149	2,004	353	3,690
Inflation-indexed bonds – non-market	752	21	21	364	30	316
Kiwi bonds	203	135	27	41	-	-
Euro-commercial paper	-	-	-	-	-	-
Foreign currency debt	133	10	18	105	-	-
Collateral	702	702	-	-	-	-
Departmental deposits	85	85	-	-	-	-
IMF allocation	1,651	1,651	-	-	-	-
Immigration investor policy bonds	7	7	-	-	-	-
Other	-	-	-	-	-	-
Total non-derivative liabilities	98,474	16,000	15,133	22,133	41,202	4,006
Derivative inflows¹⁹						
FX contracts	3,363	3,055	180	128	-	-
Cross-currency swaps	8,356	1,887	2,532	3,937	-	-
Interest-rate swaps	2,171	482	491	956	242	-
Total derivative inflows	13,890	5,424	3,203	5,021	242	-
Derivative outflows¹⁹						
FX contracts	3,369	3,063	178	128	-	-
Cross-currency swaps	7,813	1,764	2,355	3,694	-	-
Interest-rate swaps	1,956	386	419	884	267	-
Total derivative outflows	13,138	5,213	2,952	4,706	267	-

¹⁹ Derivative flows include both derivatives in gain and derivatives in loss.

Credit Risk

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

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

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

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

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

2012 \$m	Credit Risk Management	2013 \$m
26,062	Total NZDMO financial assets	17,797
	<i>Less:</i>	
16,295	Crown-related balances	11,126
9,767	Total credit exposure for financial assets	6,671

Concentration of Credit Exposure as at 30 June 2013

By Credit Rating	AAA \$m	AA \$m	A \$m	Other \$m	Non-rated \$m	Credit Exposure \$m
Foreign cash and cash equivalents	-	711	3	-	-	714
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	169	-	-	53	222
Marketable securities	565	1,719	-	-	-	2,284
External deposits	-	99	-	-	-	99
Derivatives in gain	-	537	524	-	-	1,061
IMF financial assets	-	-	-	-	2,291	2,291
Total credit exposure by credit rating	565	3,235	527	-	2,344	6,671

By Industry	Sovereign Issuers \$m	Supra- National \$m	NZ Banking Sector \$m	Foreign Banking Sector \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	625	-	86	3	-	714
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	222	222
Marketable securities	53	274	1,190	479	288	2,284
External deposits	-	-	99	-	-	99
Derivatives in gain	-	-	536	480	45	1,061
IMF financial assets	-	2,291	-	-	-	2,291
Total credit exposure by industry	678	2,565	1,911	962	555	6,671

By Geographical Area	United States of America \$m	Europe \$m	Japan \$m	Australia \$m	NZ \$m	Supra- National \$m	Other \$m	Credit Exposure \$m
Foreign cash and cash equivalents	619	-	6	2	86	-	1	714
Debtors and receivables	-	-	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	222	-	-	222
Marketable securities	-	590	9	179	1,232	274	-	2,284
External deposits	-	-	-	-	99	-	-	99
Derivatives in gain	184	340	-	1	536	-	-	1,061
IMF financial assets	-	-	-	-	-	2,291	-	2,291
Total credit exposure by geographical area	803	930	15	182	2,175	2,565	1	6,671

The Crown has agreed to make available to the Auckland Council, a loan facility to enable the Council to develop the Auckland metro rail network. The loan facility amount is \$500 million of which \$330 million is undrawn as at 30 June 2013. The loans drawn are included in Advances to non-Crown above.

The Crown has also agreed to make available to LGFA a New Zealand-dollar revolving credit facility to meet exceptional and temporary liquidity shortfalls affecting LGFA. The 10-year facility (to February 2022) is for \$400 million at June 2013 with the potential for this to be increased to a maximum \$1,000 million by February 2015. As at 30 June 2013 the facility has not been utilised.

Concentration of Credit Exposure as at 30 June 2012

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

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

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

Operational Risk

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

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

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

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

Market Risk

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

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

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

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

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

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

Foreign Currency Risk Management

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

As at 30 June 2013	NZD \$m	USD \$m	Yen \$m	Euro \$m	AUD \$m	Other \$m	Carrying Value \$m
Cash, cash equivalents and receivables							
Crown settlement account	4,585	-	-	-	-	-	4,585
Crown trust account	80	-	-	-	-	-	80
Foreign cash and cash equivalents	-	619	6	33	33	23	714
Debtors and receivables	-	-	-	-	-	-	-
Advances							
RBNZ	-	1,230	-	629	-	-	1,859
Ministry of Health	2,216	-	-	-	-	-	2,216
Housing New Zealand	1,861	-	-	-	-	-	1,861
New Zealand Railways Corporation	182	-	-	-	-	-	182
New Zealand Transport Agency	100	-	-	-	-	-	100
Other Crown	3	-	-	-	-	-	3
Non-Crown	222	-	-	-	-	-	222
Financial assets							
Marketable securities	1,634	417	9	-	341	-	2,401
External deposits	27	-	-	42	-	30	99
Derivatives in gain	5,198	(1,847)	(270)	(1,258)	(297)	(342)	1,184
IMF financial assets	7	957	215	854	-	258	2,291
Total financial assets	16,115	1,376	(40)	300	77	(31)	17,797
Overdrafts and payables							
Crown disbursement account	5,086	-	-	-	-	-	5,086
Creditors and payables	107	-	-	-	-	-	107
Financial liabilities							
NZ-dollar government securities	73,201	-	-	-	-	-	73,201
Euro-commercial paper	-	-	-	-	-	-	-
Foreign currency debt	-	119	-	-	-	11	130
Collateral	-	702	-	-	-	-	702
Derivatives in loss	1,578	(192)	(201)	(389)	89	(213)	672
Departmental deposits	-	39	-	43	-	3	85
IMF allocation	-	692	155	617	-	187	1,651
Immigration investor policy bonds	7	-	-	-	-	-	7
Other	30	-	-	-	-	-	30
Total financial liabilities	80,009	1,360	(46)	271	89	(12)	81,671
Net currency holdings	(63,894)	16	6	29	(12)	(19)	(63,874)

Financial Instruments: Fair Value Hierarchy

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

As at 30 June 2013	Carrying Value \$m	Fair Value Measurement \$m	Hierarchy		
			Level 1 \$m	Level 2 \$m	Level 3 ²⁰ \$m
Cash, cash equivalents and receivables					
Crown settlement account	4,585	-	-	-	-
Crown trust account	80	-	-	-	-
Foreign cash and cash equivalents	714	624	-	624	-
Debtors and receivables	-	-	-	-	-
Advances					
RBNZ	1,859	1,859	-	1,859	-
Ministry of Health	2,216	2,216	-	2,216	-
Housing New Zealand	1,861	1,473	-	1,473	-
New Zealand Railways Corporation	182	182	-	182	-
New Zealand Transport Agency	100	100	-	100	-
Other Crown	3	3	-	3	-
Non-Crown	222	203	-	-	203
Financial assets					
Marketable securities	2,401	2,401	2,317	84	-
External deposits	99	99	-	99	-
Derivatives in gain	1,184	1,184	-	1,184	-
IMF financial assets	2,291	-	-	-	-
Total financial assets	17,797	10,344	2,317	7,824	203
Overdrafts and payables					
Crown disbursement account	5,086	-	-	-	-
Creditors and payables	107	-	-	-	-
Financial liabilities					
Treasury bills – market	4,118	-	-	-	-
Treasury bills – non-market	579	-	-	-	-
Government bonds – market	58,963	2,911	2,911	-	-
Government bonds – non-market	3,384	-	-	-	-
Inflation-indexed bonds – market	5,308	-	-	-	-
Inflation-indexed bonds – non-market	650	-	-	-	-
Kiwi bonds	199	-	-	-	-
Euro-commercial paper	-	-	-	-	-
Foreign currency debt	130	130	-	130	-
Collateral	702	702	-	702	-

²⁰ For reasons of materiality, NZDMO has not completed the reconciliation from beginning to ending balances for Level 3 instruments.

As at 30 June 2013	Carrying Value \$m	Fair Value Measurement \$m	Hierarchy		
			Level 1 \$m	Level 2 \$m	Level 3 ²⁰ \$m
Derivatives in loss	672	672	-	672	-
Departmental deposits	85	85	-	85	-
IMF allocation	1,651	-	-	-	-
Immigration investor policy bonds	7	-	-	-	-
Other	30	29	-	29	-
Total financial liabilities	81,671	4,529	2,911	1,618	-

Independent Auditor's Report



To the Readers of the Treasury's Financial Statements, Non-Financial Performance Information and Schedules of Non-departmental Activities for the Year Ended 30 June 2013

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

We have audited:

- ▶ the financial statements of the Department on pages 64 to 85, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, the statement of comprehensive income, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- ▶ the non-financial performance information of the Department that comprises the statement of service performance on pages 39 to 60 and the report about outcomes on pages 20 to 32; and
- ▶ the schedules of non-departmental activities of the Department on pages 87 to 98 and 108 to 121 that comprise the schedule of assets, schedule of liabilities, schedule of commitments and schedule of contingent liabilities and contingent assets as at 30 June 2013, the schedule of expenses, schedule of expenditure and capital expenditure against appropriations, schedule of unappropriated expenditure and capital expenditure, schedule of income and statement of trust monies, for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- ▶ the financial statements of the Department on pages 64 to 85:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Department's:
 - financial position as at 30 June 2013;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2013; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2013; and
- ▶ the non-financial performance information of the Department on pages 39 to 60 and 20 to 32:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and

- its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
- ▶ the schedules of non-departmental activities of the Department on pages 87 to 98 and 108 to 121 fairly reflect, in accordance with the Treasury Instructions:
 - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2013 managed by the Department on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

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

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

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

Responsibilities of the Secretary to the Treasury

The Secretary to the Treasury is responsible for preparing:

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

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

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

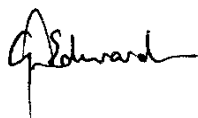
Responsibilities of the Auditor

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

Independence

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

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



Graeme Edwards

KPMG

On behalf of the Auditor-General

Wellington, New Zealand

Policy Assessments by IMF and OECD

IMF 2013 Article IV Consultation: Summary of policy recommendations

Monetary policy

The current accommodative monetary policy stance is appropriate, but may need to change if house price and credit expansion begin to fuel excessive consumption spending and inflationary pressures. RBNZ's credibility and the effective monetary transmission mechanism in New Zealand should allow for a nimble response should circumstances change.

Fiscal policy

The planned pace of deficit reduction strikes the right balance between sustaining aggregate demand and limiting public debt growth. It withdraws fiscal stimulus at the right time by making room for the expected increases in private sector and earthquake-related reconstruction spending, it has improved the macroeconomic policy mix by reducing pressure on monetary policy, it creates fiscal space to help deal with future spending pressures and cope with any negative shocks, and could help raise national savings. New Zealand's relatively modest public debt gives the authorities some scope to delay their planned deficit reduction path in the event of a sharp deterioration in the economic outlook.

External vulnerabilities and the exchange rate

Increasing national saving, including through the planned fiscal deficit reduction, would help to reduce external vulnerability. However, given the structural nature of the savings-investment imbalance, reducing pressure on the exchange rate and limiting current-account deficits in a lasting way will require addressing the reasons for low savings, rather than being the task of short-term macroeconomic management.

Financial sector issues

To limit the risks in the housing market, the new macro-prudential tools under consideration could improve RBNZ's ability to guard against a loosening of bank lending standards that would contribute to an unsustainable acceleration in house price inflation. These tools should be viewed as a complement to macroeconomic and micro-prudential measures. They should be used infrequently, and as experience with such instruments is limited, with caution, with the primary objective of limiting the periodic build-up of system-wide risk.

Summarised from: IMF Executive Board Conclusion of 2013 Article IV Consultation with New Zealand, Public Information Notice (PIN) No.13/51

OECD Economic Survey of New Zealand 2013: Summary of policy recommendations

Reducing imbalances

- ▶ Deliver on the fiscal consolidation targets. If the economy picks up more strongly than expected, accelerate structural fiscal consolidation in light of external vulnerabilities.
- ▶ Contain risks to financial system stability with tighter prudential policy setting, including the deployment of new macro-prudential policy instruments.
- ▶ Consider implementing bank leverage ratios, permanent deposit insurance and higher capital requirements for too-big-to-fail banks.
- ▶ Take early steps to address long-term cost pressures associated with an ageing population.
- ▶ Raise the pension eligibility age in line with longevity. Consider increasing further the KiwiSaver minimum contribution rates and indexing NZ Superannuation benefits wholly or partly to the CPI.

Spending and tax reform

- ▶ Target Working for Families more tightly on the working poor by lowering upper income thresholds and increasing abatement rates. Likewise, vary ECE subsidies with the level of income.
- ▶ Focus on engaging private partners in productivity-enhancing investments and practices, especially in health care and education, with careful cost-benefit analysis to ensure that this leads to greater efficiencies.
- ▶ Consider limiting the KiwiSaver tax credits to low-income members, and extend automatic enrolments to all existing employees. Change the investment strategy for default funds to a life-cycle approach.
- ▶ Implement a capital gains tax and boost environmental and property or land taxes to facilitate a more efficient and equitable tax structure.
- ▶ Review the tax treatment of patent sales to ensure consistency with international best practice and consider allowing accelerated depreciation of patent.

Supporting long-term growth

- ▶ Clarify the competition policy framework for the broadband market, and adjust regulations to ensure clear and consistent pricing strategies for copper and fibre networks.
- ▶ Improve the transparency of the Foreign Direct Investment (FDI) screening regime, and streamline approval processes within the Resource Management Act 1991.
- ▶ Redesign the Technology Development Grants to clarify and simplify the approval criteria and ensure access for small start-ups.
- ▶ Consider boosting practical training components of engineering degrees through support for student internship opportunities, especially with tertiary providers located near engineering clusters.
- ▶ Strengthen price signals in the Emissions Trading Scheme (ETS) by phasing out transition provisions. In the meantime, cap and auction domestic allocations.
- ▶ Remove tax concessions for petroleum exploration. Move to a profit-based royalty system and designate proceeds for debt repayment or, if significant discoveries are made, sovereign wealth fund contributions.

Improving the school-to-work transition

- ▶ Consider reinstating youth minimum wage for 16–19-year-olds and extending 90-day trial period.
- ▶ Evaluate the impact of the new Youth Service.
- ▶ Seek community-based initiatives to reduce the number of youths who are not in employment, education and training (NEET), and expand funding for training and apprenticeships in high-unemployment areas.
- ▶ Use targeted demand and supply-side measures to improve ECE participation by disadvantaged children.
- ▶ Foster quality teaching via improved leadership capability, teacher training, professional development and by tying salary and career progression to performance.
- ▶ Provide incentives and opportunities for schools to cluster and amalgamate.
- ▶ Devolve a greater share of school resourcing, including for staffing; review way in which resources are allocated to low socio-economic status students.

Improving the school-to-work transition

- ▶ Carefully promote school competition and innovation.
- ▶ Raise learning obligations to age 18.
- ▶ Formalise and encourage links between tertiary providers and employers; direct funding to projected areas of skills shortage.
- ▶ Improve careers education and provide better information to students about tertiary programme quality/outcomes, and labour market outcomes.
- ▶ Continue to improve quality and completions of apprenticeships, and facilitate participation by disadvantaged youth.
- ▶ Further strengthen Industry Training Organisations (ITOs); consider expanding “group training schemes” and introducing sector levies as mechanism for employer contribution to industry training.

Executive Leadership Team

Gabriel Makhoulf – Secretary to the Treasury, Chief Executive

Gabriel (Gabs) Makhoulf is the Government's chief economic and financial advisor. He joined the Treasury in March 2010 following a career in the UK civil service, where his responsibilities ranged from policy development on domestic and international tax and welfare policy issues through to large-scale, customer-focused, operational delivery. Mr Makhoulf has chaired the world's main tax-ruling body – the Committee on Fiscal Affairs – at the OECD and was Principal Private Secretary to the UK Chancellor of the Exchequer, Gordon Brown. He has a BA (Honours) degree in Economics, an MSc in Industrial Relations and is an alumni of INSEAD's Advanced Management Programme.

Vicky Robertson – Deputy Chief Executive

Vicky Robertson was appointed Deputy Chief Executive in August 2012. She had previously been Deputy Secretary Growth and Public Services. Her role is to support the Chief Executive in driving the Treasury to achieve its vision, and has responsibility for the Commercial and Operational areas of the Treasury's business. During her 15-year Treasury career, Ms Robertson has worked in roles spanning a wide range of policy areas and has led corporate strategy and change. Ms Robertson has a law degree and played hockey at NZ Representative level as a member of the Black Sticks in 1991 and 1993/94.

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

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

Richard Forgan – Deputy Secretary, Budget and Public Services

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

Catherine Atkins – Deputy Secretary, Growth and Public Services

Catherine Atkins has held a range of senior leadership positions since joining the Treasury in 1999, including Deputy Secretary of Strategy, Change and Performance. With a background in economics and international trade, her work has spanned policy areas ranging from market intervention, growth, competition policy and regulation to labour markets, welfare and State sector performance. She was also responsible for setting up the New Zealand Productivity Commission.

John Crawford – Deputy Secretary, Commercial Transactions

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

Bill Moran – Deputy Secretary, Strategy, Change and Performance

Bill Moran has responsibility for the Treasury's overarching economic strategy and corporate functions. He joined the Treasury in 1985 and has led work across macroeconomic and fiscal policy, tax strategy and State sector management, most recently as Acting Deputy Secretary, Macroeconomics, International and Economic Research. Mr Moran is involved in a variety of community and voluntary sector initiatives. He is Deputy Chair of New Zealand Football and Founding Chair of the Play It Strange Trust.

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

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

Andrew Turner – Deputy Secretary, Crown Ownership Monitoring Unit

Andrew Turner has been Deputy Secretary of COMU since August 2011. His teams monitor the performance of more than 100 businesses and entities that make profits for the Crown or deliver services the Government requires. Mr Turner previously worked as Head of Portfolio Management at NZDMO. He has a Bachelor of Commerce and Administration degree from Victoria University and is a member of the New Zealand Institute of Chartered Accountants.

Brendon Doyle – Deputy Secretary, Financial Operations

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

Note: Positions are as at date of publication.

Quality Standards for Policy Advice

A number of reviews into the standard of the Treasury's policy advice have been conducted over recent years. In light of these, the Treasury updated its Quality Standards for Policy Advice during the 2012/13 year. The revised standards are published in full below.

Key changes made to the standard include the now explicit reference to the importance of accurate information and data, and direct reference to important policy frameworks that have been developed since the standard was first developed, in particular, the Living Standards Framework and the current Outcome Framework. Such frameworks provide the broader context for the advice we provide and are an important means by which advice is evaluated.

Quality policy advice is fit for purpose

These Quality Standards for Policy Advice set out the characteristics or dimensions of policy advice that will best enable it to promote well-informed high-quality decision-making by Ministers. However, the quality dimensions below are **not a checklist and not all dimensions will be equally important in every case** – judgements are required at the outset about how to apply and balance the quality dimensions to ensure a particular piece of advice is fit for purpose in achieving the result sought.

When undertaking a piece of work, explicit consideration needs to be given to the following:

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

Dimensions of quality policy advice

Analytically Rigorous (Analysis)	Set in a Wider Strategic Context (Applied Analysis)	Customer-focused and Persuasive (Advice)
<p>Relevant frameworks</p> <ul style="list-style-type: none"> ▶ Appropriate analytical frameworks are used. ▶ Appropriate microeconomic, macroeconomic, mathematical and econometric tools are used. ▶ Knowledge is up-to-date and informed by recent thinking and literature in the field. ▶ Assumptions behind the frameworks used are explicit and consideration has been given to how they will be expected to play out in the real world (a world which includes information and transaction costs, bounded rationality, market failure, government failure, etc). ▶ Consideration has been given to less traditional frameworks and whether they would add innovative or useful perspectives. <p>Robust reasoning and logic</p> <ul style="list-style-type: none"> ▶ Advice has a clear purpose, problem definition, evaluation of options against criteria and assessment of risks and opportunities. We come to a conclusion and give action-oriented recommendations. 	<p>Strategic</p> <ul style="list-style-type: none"> ▶ Advice is set in the context of the Living Standards Framework, the Treasury's outcomes and the Government's broader objectives. ▶ We are explicit about the relative importance and materiality of the issue, in fiscal, economic and strategic terms. ▶ Connections across policy issues are made, ensuring that Ministers receive a whole-of-government perspective. ▶ Advice includes consideration of the long-term implications of decisions. ▶ We frame issues and help set the agenda. <p>Practical</p> <ul style="list-style-type: none"> ▶ Advice is strongly focused on achieving results. The results associated with achieving success are clearly articulated. A good understanding is conveyed of what will be required for policy success. ▶ Advice considers opportunities, risks and management of uncertainty and change. ▶ Issues of implementation, technical feasibility, practicality and timing are considered. 	<p>Clear and well-written</p> <p>Advice is compellingly presented. It is:</p> <ul style="list-style-type: none"> ▶ brief and concise – key messages should be readily apparent to the reader ▶ easy to read – has a clear and logical structure, avoids technical jargon and uses visual devices such as charts and tables where possible ▶ pitched to suit the audience – uses appropriate language, style and level of detail ▶ framed in terms of how it fits with previous advice and communications with the "customer" (often this is the Minister), and ▶ free from errors (including data errors). <p>Timely</p> <ul style="list-style-type: none"> ▶ Advice is timed for when it can have the greatest influence and for when it best helps in the decision-making process (even if it means, at times, that advice is not fully developed). It should indicate when a decision is required (unless there is no deadline).

Dimensions of quality policy advice		
Analytically Rigorous (Analysis)	Set in a Wider Strategic Context (Applied Analysis)	Customer-focused and Persuasive (Advice)
<p>Evidence-based Analysis is supported by relevant evidence:</p> <ul style="list-style-type: none"> ▶ empirical methods are sound, data gaps are identified and the level of confidence/certainty in our empirical base is explicit ▶ we draw on New Zealand's experience of current and past policy interventions and, where relevant, the experience of other countries, and ▶ we give our best judgement despite data imperfections; we acknowledge information limitations and advise within them. <p>Free and frank</p> <ul style="list-style-type: none"> ▶ Our advice is honest, impartial and politically neutral – we have a duty to alert Ministers to the possible consequences of following particular policies, whether or not such advice accords with Ministers' views. Good free and frank advice is offered with an understanding of its political context and the constraints within which the Minister is operating. 	<p>Practical (continued)</p> <ul style="list-style-type: none"> ▶ Advice accurately identifies compliance, transitional, legislative, revenue and administrative implications and costs. ▶ Advice identifies measurable indicators of success and sets out a plan for monitoring and evaluation where appropriate. <p>Public sector engagement Ministers receive advice that enables them to engage with their colleagues on a fully informed basis because:</p> <ul style="list-style-type: none"> ▶ thorough and timely consultation with other government departments has occurred and points of difference, and the reasons for these, are set out, and ▶ where possible, advice is developed in conjunction with relevant government agencies. <p>Perspectives of wider stakeholders</p> <ul style="list-style-type: none"> ▶ Where possible, policy advice should be informed by the practical experiences of key stakeholders and by understandings of sector performance. ▶ We understand and advise Ministers on the perspective of groups outside the public sector, consult with key stakeholders and provide advice on communications where appropriate. 	<p>Politically aware Advice:</p> <ul style="list-style-type: none"> ▶ demonstrates awareness of the wider environment and political situation ▶ relates to the perspectives of Ministers, even if suggesting something that tests those perspectives, and ▶ recognises choices and constraints Ministers face, and includes a range of options to address these. <p>Solution-focused</p> <ul style="list-style-type: none"> ▶ We are proactive, anticipating, as well as responding to, Ministers' needs. Advice is action-oriented and suggests a clear way forward ("Here is what you can do" as well as "Here is a problem") and includes a range of practical options (first best advice, but also second and third). <p>Effective communication We communicate our advice based on how to most effectively engage with the customer, including:</p> <ul style="list-style-type: none"> ▶ the mode of communication (ie, verbal or written), and ▶ the form of advice (eg, written paper or A3).
<p>Quality involves continuous improvement</p> <p>In order to be a learning organisation we need to continually assess:</p> <ul style="list-style-type: none"> ▶ Did our advice have an impact? Did it effectively support decision-making? ▶ Did we achieve the result we were seeking? Did we make sound judgements about what would be fit for purpose? ▶ Would we do anything differently next time? How can we capture and share this learning? 		

Ministerial Servicing – Service Standards

Agreed Measures and Standards		
<i>Description</i>	<i>Timeframe</i>	<i>Quality Indicator</i>
Ministerial Correspondence	<p>Unless otherwise agreed with the Minister's Office, submit a reply to:</p> <ul style="list-style-type: none"> ▶ correspondence marked "Urgent" by the Minister's Office within 5 working days of referral ▶ correspondence specified by the Minister's Office as requiring "Priority" within 10 working days of referral, and ▶ all other correspondence within 15 working days of referral. 	At least 95% of replies will be acceptable to the Minister and will not require amendment.
Parliamentary Questions	<p>Replies to written PQs will be submitted to the Minister's Office by 12.00pm on the due date specified by the Office.</p> <p>Replies to oral PQs will be due at the Minister's Office by 12.30pm on the due date specified by the Office.</p>	Replies will be consistent with Standing Order 377.
Replies to Official Information Act requests made to the Minister	<p>All MOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act.</p> <p>Replies will be delivered to the Minister at least 5 working days before the relevant statutory time limit, unless otherwise agreed with the Minister's Office.</p>	<p>All replies will be complete and accurate in the information they convey and will be prepared with appropriate consultation of relevant parties.</p> <p>Advice on, handling of and replies to MOIA requests will accord with the provisions of the Official Information Act.</p> <p>At least 95% of MOIA replies will be acceptable to the Minister and will not require amendment.</p>
Replies to Official Information Act requests made to the Treasury	<p>All TOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act.</p> <p>The Treasury will consult and inform the Minister, and/or other Ministers, on replies to TOIAs, as appropriate and within agreed timeframes.</p>	<p>All replies will be complete and accurate in the information they convey.</p> <p>Advice on, handling of and replies to TOIA requests will accord with the provisions of the Official Information Act.</p> <p>Consultation on proposed replies will be appropriate and acceptable to the Minister.</p>

Ministerial Servicing will not exceed budgeted costs.

Monitoring of Statutory Agencies and Shareholdings

The Treasury has ongoing monitoring responsibility for the following Statutory Agencies and Shareholdings:

State-Owned Enterprises:

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

Other Crown Companies:

- ▶ Crown Asset Management Ltd (CAML)
- ▶ Crown Fibre Holdings Ltd (CFH)
- ▶ Health Benefits Ltd (supporting the Ministry of Health in monitoring this company)
- ▶ Radio New Zealand Ltd (RNZ)
- ▶ Southern Response Earthquake Services Ltd (SRES)
- ▶ Television New Zealand Ltd (TVNZ)
- ▶ Crown Irrigation Investments Ltd (Crown Irrigation)
- ▶ The Network for Learning Ltd (N4L)

Entities for which we undertake a secondary monitoring role with the Ministry of Business, Innovation and Employment:

- ▶ AgResearch Ltd (AgResearch)
- ▶ Institute of Environmental Science & Research Ltd (ESR)
- ▶ Institute of Geological & Nuclear Sciences Ltd (GNS Science)
- ▶ Landcare Research New Zealand Ltd (Landcare Research)
- ▶ National Institute of Water & Atmospheric Research Ltd (NIWA)
- ▶ New Zealand Forest Research Institute Ltd (Scion)
- ▶ The New Zealand Institute for Plant & Food Research Ltd (Plant & Food Research)
- ▶ Research & Education Advanced Network NZ Ltd
- ▶ New Zealand Venture Investment Fund Ltd (NZVIF)
- ▶ Dispute Resolution Services Ltd (DRSL)

Other:

- ▶ Accident Compensation Corporation (ACC)
- ▶ Housing New Zealand Corporation (HNZC)
- ▶ New Zealand Lotteries Commission (Lotteries)
- ▶ Public Trust
- ▶ Earthquake Commission
- ▶ Government Superannuation Fund Authority (GSF)
- ▶ New Zealand Superannuation Fund (NZSF)

Entities the Crown has a partial interest in:

- ▶ Mighty River Power Ltd
- ▶ Air New Zealand Ltd
- ▶ Tāmaki Redevelopment Company Ltd (TRC)
- ▶ National Provident Fund (NPF)
- ▶ Christchurch International Airport Ltd (CIAL)
- ▶ Dunedin International Airport Ltd (DIAL)
- ▶ Hawkes Bay Airport Ltd (HBAL)
- ▶ Invercargill Airport Ltd (IAL)
- ▶ NZ Local Government Funding Agency (supporting the Department of Internal Affairs in monitoring this entity)

The Treasury administers the board appointment processes for all of the above companies/entities, except Pacific Forum Line (PFL) and TRC. Also, in addition, COMU administers the board appointment processes for the following entities: New Zealand Productivity Commission, Crown Forestry Rental Trust, Government Superannuation Appeals Board, National Infrastructure Advisory Board, and Nominating Committee for the Guardians of New Zealand Superannuation, Genesis Power Ltd, Meridian Energy Ltd and the Reserve Bank. The Treasury also serves the secretariat function for the Government Superannuation Appeals Board.

Research and Policy Publications

for the year ended 30 June 2013

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

Papers published during 2012/13 include:

Working Papers 2012/13	Publishing Date and Paper Number
The Elasticity of Taxable Income in New Zealand	August 2012 – WP 12/03
Average Marginal Income Tax Rates for New Zealand, 1907-2009	September 2012 – WP 12/04
Economy-Wide Impacts of Industry Policy	September 2012 – WP 12/05
An Analysis of Benefit Flows in New Zealand using a Social Accounting Framework	January 2013 – WP 13/01
The Effects of Fiscal Policy in New Zealand: Evidence from a VAR Model with Debt Constraints	January 2013 – WP 13/02
Export Performance, Invoice Currency, and Heterogeneous Exchange Rate Pass-through	February 2013 – WP 13/03
Measuring Savings Rates in New Zealand: An Update	March 2013 – WP 13/04
New Zealand Households and the 2008/09 Recession	March 2013 – WP 13/05
Social Expenditure in New Zealand: Stochastic Projections	March 2013 – WP 13/06
Tax Policy with Uncertain Future Costs: Some Simple Models	April 2013 – WP 13/07
Regression Estimates of the Elasticity of Taxable Income and the Choice of Instrument	April 2013 – WP 13/08

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

Legislation

as at 30 June 2013

Budget legislation administered by the Treasury during the year:

Appropriation Act(s)
Imprest Supply Act(s)

Delegated legislation administered by the Treasury:

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

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

Other legislation administered by the Treasury:

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

List of Acronyms

ACC	Accident Compensation Corporation
ALM	Asset and Liability Matching
AMI	AMI Insurance Ltd
APEC	Asia-Pacific Economic Cooperation
APR	Annual Portfolio Report
BASS	Better Administrative and Support Services
BBC	Better Business Cases
BEFU	Budget Economic and Fiscal Update
BPS	Budget Policy Statement
CAM	Capital Asset Management
CAML	Crown Asset Management Ltd
CASS	Central Agencies Shared Services
CBA	Cost Benefit Analysis
CFI	Crown Financial Institution
COMU	Crown Ownership Monitoring Unit
CPI	Consumer Price Index
CRI	Crown Research Institute
CSD	Crown Support Deed
DBP(A)	Defined Benefit Plan (Annuitants)
DGS	Deposit Guarantee Scheme
DHB	District Health Board
DIA	Department of Internal Affairs
DICE	Departmental Internal Control Evaluation
DPMC	Department of the Prime Minister and Cabinet
ECA	Export Credit Agency
ECE	Early Childhood Education
ELT	Executive Leadership Team
EMUs	Electric Multiple Units
EQC	Earthquake Commission
FBT	Fringe Benefit Tax
FSR	Fiscal Strategy Report
FVPL	Fair Value through Profit and Loss
FX	Foreign Exchange
GDP	Gross Domestic Product
GSF	Government Superannuation Fund
GSO	Government Share Offer Programme
GST	Goods and Services Tax
HNZC	Housing New Zealand Corporation
HYEFU	Half-year Economic and Fiscal Update
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPO	Initial Public Offer
IRD	Inland Revenue Department
LGFA	Local Government Funding Agency
MBIE	Ministry of Business, Innovation and Employment
MC	Ministerial Correspondence
MED	Ministry of Economic Development
MFAT	Ministry of Foreign Affairs and Trade
MfE	Ministry for the Environment
MOE	Ministry of Education

MOH	Ministry of Health
MOIAs	Ministry Official Information Act requests
MOJ	Ministry of Justice
MOM	Mixed Ownership Model
MOU	Memorandum of Understanding
MPI	Ministry for Primary Industries
MSD	Ministry of Social Development
MYA	Multi-year Appropriation
NCEA	National Certificate of Educational Achievement
NEET	Not in Education, Employment or Training
NPF	National Provident Fund
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZDMO	New Zealand Debt Management Office
NZECO	New Zealand Export Credit Office
NZICA	New Zealand Institute of Chartered Accountants
NZIER	New Zealand Institute of Economic Research
NZSF	New Zealand Superannuation Fund
NZTA	New Zealand Transport Agency
NZTE	New Zealand Trade and Enterprise
NZVIF	New Zealand Venture Investment Fund Ltd
OAG	Office of the Auditor-General
OBEGAL	Government's Operating Balance Before Gains and Losses
OECD	Organisation for Economic Co-operation and Development
OIAs	Official Information Act requests
PAS	Public Benefit Entity Accounting Standards
PAYE	Pay-As-You-Earn
PIF	Performance Improvement Framework
PLAs	Permanent Legislative Authorities
PPPs	Public Private Partnerships
PQs	Parliamentary Questions
RAC	Risk and Audit Committee
RBNZ	Reserve Bank of New Zealand
RDA	Revenue-Dependent Appropriation
REANNZ	Research and Education Advanced Network New Zealand
RIA	Regulatory Impact Analysis
SCI	Statement of Corporate Intent
RMA	Resource Management Act 1991
SCI	Statement of Corporate Intent
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
SOI	Statement of Intent
SRESL	Southern Response Earthquake Services Ltd
SSC	State Services Commission
TOIAs	Treasury Official Information Act requests
TPP	Trans Pacific Partnership
TVNZ	Television New Zealand Ltd
VaR	Value at Risk
WFGF	Wholesale Funding Guarantee Facility
WTO	World Trade Organisation
XRB	External Reporting Board