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The Treasury Annual Report

2013/14

THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Government

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The Treasury Annual Report

2013/14

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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

Contents

Chief Executive's Introduction

Welcome to the Treasury's *Annual Report* for 2013/14.

The past year saw our economy continue to grow strongly, and we are forecasting solid growth at an average of 2.8% over the next four years. At the same time, the Crown's books are on the brink of returning to an operating surplus that will grow bigger in the years ahead.

This outlook for the New Zealand economy and the Government's finances stacks up very well against most of the countries to which we like to compare ourselves. We have good cause to be optimistic. Nevertheless, there is good cause to be cautious too. Growth in the global economy remains fragile, with the possibility of further economic and financial market turbulence. We also need to make prudent use of the Government's improved financial position to reduce debt and restore the buffer that helped New Zealand manage the double blow of the Canterbury earthquakes and the global financial crisis.

In this environment the Treasury's three overarching outcomes remain as relevant as ever: improved economic performance; a stable and sustainable macroeconomic environment; and a higher performing State sector that New Zealanders trust, delivering outstanding results and value for money. By working hard to achieve these outcomes, the Treasury can help ensure the country enjoys sustainable and inclusive growth for the long term and contribute towards higher living standards for New Zealanders.

A recent Performance Improvement Framework (PIF) review recognised the substantial amount of good work and progress by the Treasury in 2013/14, and you will see much evidence of that in this *Annual Report*. Some of the examples noted in the PIF include our work on housing and social welfare reform, our economic and financial advice to the Government, our leadership role in developing the Living Standards Framework and our engagement with Ministers. The *Annual Report* covers further highlights of the year too, such as our management of the Government Share Offer Programme (GSO), enhancements to our commercial analysis and advice, the publication of our first Investment Statement and a pilot joint venture with the Ministry of Business, Innovation and Employment (MBIE) and Te Puni Kōkiri on Māori economic development.

These achievements and many others are something of which the Treasury can be proud. They would not be possible without the dedication and expertise shown by Treasury staff throughout the year.

The PIF also indicated where the Treasury could lift its performance. In particular, there is scope for improvement in the areas of leadership and workforce development, management of our people and improving our effectiveness and efficiency. We are committed to doing better in these areas, and it is heartening that the PIF affirms the Treasury is already headed in the right direction to become an even more effective organisation.

On a personal note, I was asked recently by a young public servant what tips I would give to someone wanting to become Secretary to the Treasury. The gist of my response was to be ambitious for yourself, your community and your country; work hard; and do your job to the best of your ability. On reflection, this response applies just as much to the success of the Treasury. We are focused on our own continuous improvement, on lifting the performance and impact of our public sector "community" and on increasing the wellbeing of New Zealand and New Zealanders. This *Annual Report* shows the results of the hard work by Treasury staff in the past year, and we will draw on all of our capabilities to ensure the year ahead is even better.

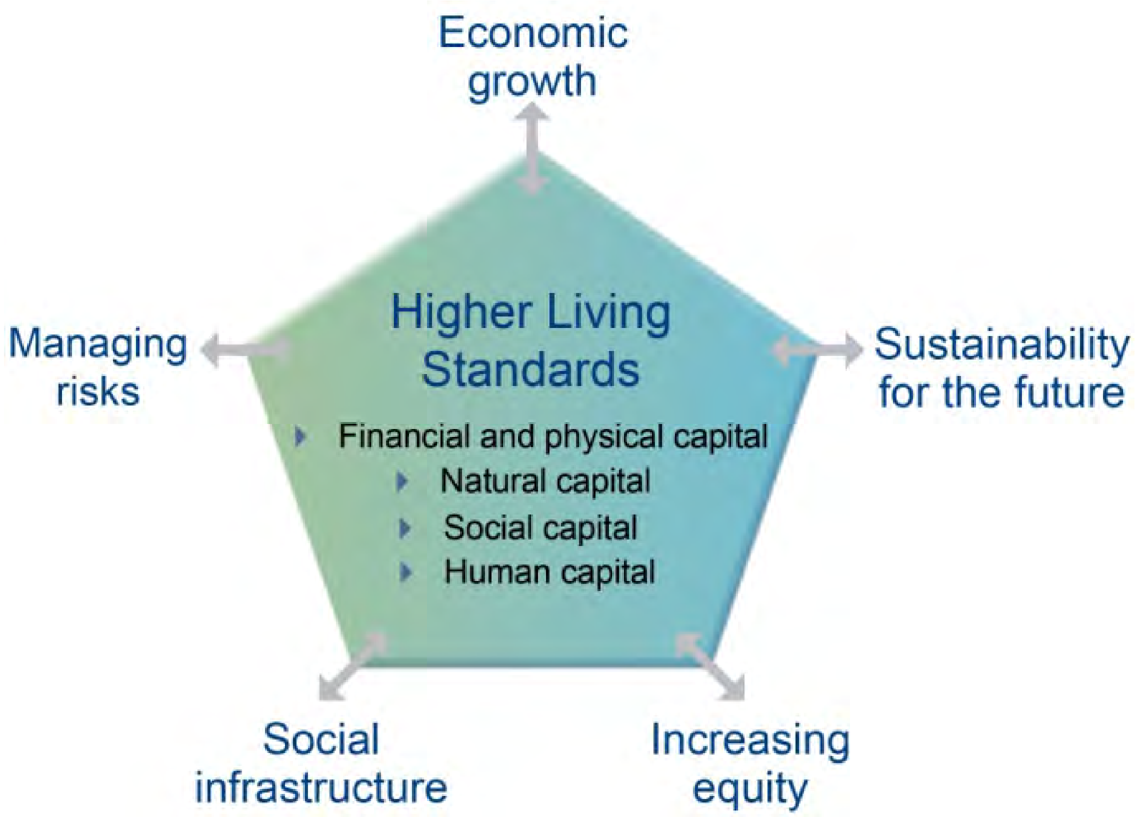
About Us

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 is the Government's lead economic and financial advisor. In fulfilling that role, the Treasury focuses on government policies that increase the opportunities, capabilities and incentives for people to participate productively in economic life. In our role as a Central Agency, 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 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.

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 policy advice

We are the lead advisor for Ministers on economic performance, concentrating on policy areas that have a significant impact on economic performance. This includes advice on measures to improve the quality of regulation, removing barriers to growth and enhancing productivity.

2 Financial management and advice

We manage the financial affairs of the Crown and provide advice on fiscal strategy, policy and performance. As the Government's chief accountant we also work to support awareness, professionalism and skills development in financial management across the State sector.

3 State sector leadership

With the Department of the Prime Minister and Cabinet (DPMC) and the State Services Commission (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 management and advice

We advise on the performance of departments and other entities the Crown owns. This includes working with them to improve performance as required. Our focus is delivering better services for less.

5 Commercial policy advice and operations

We provide commercial policy advice (for example, advice on financial markets and government-owned assets) and provide financial operational services through the Treasury's Debt Management Office (NZDMO) and New Zealand Export Credit Office (NZECO).

Some Highlights from the Year

More detail about our achievements in 2013/14 are presented on pages 35 to 56.

The Treasury delivered on an extensive and ambitious work programme during 2013/14. This required maintaining a sharp focus on establishing priorities and identifying efficiencies in order to balance competing pressures and to effectively sequencing complex programmes alongside the core services we provide on fiscal policy, State sector and balance sheet management. Some highlights were:

- Government Share Offer Programme (GSO) We managed public share offers for Meridian Energy and Genesis Energy and achieved the Government's objective of widespread New Zealand ownership (more than 62,000 shareholders in Meridian Energy and more than 68,000 in Genesis Energy); and raised $2.62 billion for the Crown's Future Investment Fund. We also reduced the government ownership of Air New Zealand through the sale of shares, returning a further $370 million.
- An investment approach for welfare policy We continued working with the Ministry of Social Development (MSD) to embed the investment approach to reducing the level of long-term welfare dependency. Work included external valuation and monitoring of the liability, establishing a new value-based Key Performance Indicators (KPI) framework, and putting in place an Multi-Category Appropriation (MCA) to allow for greater flexibility in investing resources. We also continued work with MSD on the use of outcome-based contracting in social services, and trials of integrated services. Since *Budget Economic and Fiscal Update* (BEFU) *2012*, $360.1 million in total gross savings have flowed through forecasts from reform policies.
- Social housing reform We worked with MBIE, MSD and Housing New Zealand Corporation (HNZC) on options for providing social housing, and gained Cabinet approval of the next phase of Social Housing Reforms. This included setting up the Social Housing Establishment Unit which will lead work on establishing an Independent Transactions Unit to develop the social housing market. Cabinet also approved a regulatory regime for social housing, and agreed the transfer of the social housing needs assessment from HNZC to MSD.
- International relationships We supported the advancement of regional economic integration and the Government's Business Growth Agenda through arrangements to allow the direct convertibility of the New Zealand Dollar and Chinese Renminbi.
- Education We worked with the Ministry of Education (MOE) on advice on Investing in Educational Success, a $359 million programme to lift student achievement. This programme creates communities of schools as a way of strengthening collaboration between principals, teachers and schools in order to raise student achievement. It introduces three new teacher and principal roles within schools, as well as an extra allowance to attract highly capable principals to schools with the greatest challenges.
- Enhancing commercial analysis and advice We reviewed our commercial operations functions to strengthen our monitoring of commercial assets owned by the Crown through a focus on incentives, governance and monitoring tools and procedures. This review led to the development of a new organisational structure and operating model for these functions, and the establishment of a Commercial Operations Advisory Board to support our focus on better commercial analysis and advice.
- Public Private Partnerships (PPPs) We worked closely with the New Zealand Transport Agency (NZTA) to achieve contractual and financial close for Transmission Gully providing for the delivery of a strategic link for Wellington and introducing an innovative and value for money contracting model for the procurement of roading infrastructure. We also worked with the Department of Corrections and MOE to gain Cabinet approval to establish PPPs for the procurement of a new maximum security facility at Auckland Prison and four new schools respectively.
- *Investment Statement* We published the Treasury's first *Investment Statement* in March 2014 in accordance with recent amendments to the Public Finance Act 1989. The *Investment Statement* assessed the state and composition of the Crown's major assets and liabilities, and discussed the principles that are important to the efficient and effective balance sheet management. It highlighted a number of areas of focus for further improving the management of the Crown balance sheet.

The Treasury's Performance Framework 2013/14

The Treasury's Vision, Outcomes and Intermediate Outcomes

Our outcomes and vision: The status of these indicators shows if our vision and outcomes are on track. They influence both the content of our advice and the topics we propose for our work programme.

Our intermediate outcomes: Whether these indicators are on track strongly influences whether our outcomes will be reached. Over time, the Treasury's work has some influence on these indicators.

Our Vision: A World-class Treasury Working Towards Higher Living Standards for New Zealanders

See Living Standards Framework for indicators

Improved Economic Performance

- Trend growth lifts to materially narrow the income gap between New Zealand and the most advanced economies: 2% to 3% pa over 2013–2018, ultimately reaching 4% pa
- Tradable sector growth of 2.5% to 3.5% pa over 2013–2018 and ultimately reaching a rate consistent with achieving Gross Domestic Product (GDP) per capita growth of 4%

Improved Business Environment

- New Zealand improves its ranking in the Organisation for Economic Co-operation and Development (OECD) Product Market Regulation "Barriers to Entrepreneurship" indicator and retains a top 5 ranking in the World Bank's "Ease of Doing Business"
- New Zealand's tax system is considered to be internationally competitive while still achieving the Government's revenue-raising targets
- The perceived quality of New Zealand's infrastructure, as measured in its ranking from World Economic Forum Global Competitiveness report, increases

New Zealand has a More Internationally Competitive Economy

- Exports increase as a proportion of GDP
- GDP per hour worked grows substantially faster than the OECD average
- Business investment as a percentage of GDP increases substantially relative to OECD mean level

Enhanced Human Capital and Labour Supply

- 85% of 18-year-olds have a National Certificate of Educational Achievement (NCEA) Level 2 or equivalent qualification by 2017
- 55% of 25–34-year-olds will have a qualification at Level 4 or above in 2017
- Reduce the number of people continuously receiving working-age benefits for more than 12 months by 30%

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

- Further improvement in the community experience of the service quality of public services (as measured through Kiwis Count)
- Better Public Services Results are achieved

State Institutions Deliver Sustained Performance Improvement in Results and Capability

- New Zealand's public management system is world leading (as judged by international commentators)
- Robust performance and value measurement supports and demonstrates effectiveness and efficiency in resource use (as judged by the Office of the Auditor-General (OAG) reports, PIF, quality of Four-year Plans)
- The Treasury and other agencies demonstrate ongoing improvement in financial management capability (measured by direct assessments and by PIF against a rising expectations target)

The Crown Balance Sheet is Managed Efficiently and Effectively

- The overall level and performance of assets in the Crown's social, financial and commercial portfolios are consistent with the Government's medium-term directions
- The composition and shape of the Crown's assets and liabilities are aligned with Government's value, performance and risk objectives
- Agencies have the appropriate level of management capability

A Stable and Sustainable Macroeconomic Environment

- Reduced concerns about New Zealand's external vulnerabilities as reflected in New Zealand's sovereign credit rating
- Inflation and inflation expectations anchored within 1% to 3%
- A lift in both government and private sector saving rates contributes to higher national saving over time
- Indicators of long-term fiscal sustainability show improvement

Fiscal Position Returned to a Sustainable Footing

- By 2015/16 at the latest the operating balance has moved into surplus
- Net debt is reduced to no higher than 20% of GDP by 2020
- Government spending as a share of GDP is reduced to around 30% of GDP by 2015/16

A Stable Macroeconomic Environment

- Variability in GDP growth is minimised and absolute falls in annual real GDP are avoided
- Current account and net international investment position (NIIP) are sustainable
- Financial stability risks related to New Zealand are either generally falling or are within the normal range

The Treasury's Performance Framework 2013/14

The Treasury's Outputs and the Impact on our Intermediate Outcomes

Our intermediate outcomes: How we seek to have an impact on our intermediate outcomes through strong performance on our outputs.

Our outputs: What we deliver that contributes towards achieving our intermediate outcomes.

Improved Business Environment

- Significant Regulatory Impact Statements meet most or all of Regulatory Impact Analysis (RIA) -requirements: 90% by the end of 2013/14
- The tax policy work programme helps achieve the Government's Revenue Strategy, which is published as part of the Government's Fiscal Strategy
- The National Infrastructure Plan and annual Infrastructure State of the Nation report provide certainty to business/investors and the public over the performance of New Zealand's infrastructure

Outputs:

- 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

- OECD sector-specific regulatory restrictiveness indices
- Components of the World Bank Ease of Doing Business index
- Trade and investment flows with other countries that are priority markets
- Better international linkages and relationships

Outputs:

- 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

- The welfare system operates further in line with the investment approach, based on the external valuation
- The operating and capital funding models used within the schooling sector are sustainable and consistent with the Government's fiscal objectives

Outputs:

- 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

- Improvements in PIF dimensions of working with others, strategy and role, and results
- Health, education and income support spending is well targeted, shifting towards low-income households
- Improved cross- and within-sector prioritisation and risk management
- Four-year Plans submitted by agencies demonstrate credible intentions around the operating models, organisational capability and financial and workforce strategies required to deliver on government priorities and organisational strategy
- All new significant operating expenditure proposals are subject to cost benefit analysis
- Efficiency indicators (eg, Better Administrative and Support Services [BASS], policy advice measures) show improvements over time
- More effective Treasury contribution to improved financial capability of other agencies

Outputs:

- 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

- All significant capital expenditure decisions are based on rigorous analysis that meets Government's value, performance and risk objectives
- The Government's Mixed Ownership Model (MOM) objectives are met
- Financial performance of the Crown's companies is comparable to private sector benchmarks
- Long-term returns of Crown Financial Institutions (CFIs) meet or exceed their fund objectives
- New core borrowing is less than 25 basis points over the benchmark

Outputs:

- Policy advice on balance sheet management, Crown ownership, State-Owned Enterprise (SOE) governance and policy settings, 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

- Budget decisions are in line with short-term fiscal intentions in the *Budget Policy Statement* (BPS)
- Gross capital requirements are met from balance sheet over the next four years
- A majority of New Zealanders want action taken to address the long-term fiscal position within the next 10 years
- New core borrowing is less than 25 basis points over the benchmark

Outputs:

- 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

- Fiscal policy that is not excessively pro-cyclical, especially during the upswing in the business cycle, and does not contribute to build-up and continuation of imbalances
- New Zealand has a high-quality fiscal framework as recognised by informed commentators
- The financial stability regime (regulatory, supervisory and resolution) appropriately balances managing the risks of financial crisis and supporting economic growth

Outputs:

- 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

Developing our Outcome Performance Framework

The Treasury operates in a dynamic context, and this presents both challenges and opportunities.

To help us achieve our ambition to lifting living standards, we did some work this year to enhance the intervention logic that underpins our Outcome Performance Framework. In particular, we wanted to strengthen the linkages between our work programmes and how they contribute to the outcomes we seek: improved economic performance; a stable and sustainable macroeconomic environment; and a higher performing State sector.

These high-level outcomes provided a framework for understanding of the Treasury's core functions – economic, fiscal/financial, performance management, State sector leadership, commercial operations – but they were too distant to provide the clear line of sight we wanted between the programmes we are working on any given year, and the ultimate impact they will have.

To address this, we developed six intermediate outcomes that bridge the gap between our three outcomes and the outputs. Our intermediate outcomes are:

1 New Zealand has an internationally connected and competitive business environment

2 People have the skills and support to participate in the economy

3 Outcomes for Māori are improved

4 The State sector delivers results for New Zealanders

5 The Crown balance sheet is managed effectively and efficiently, and

6 The economic cycle is managed so that pressures on interest rates and the exchange rate are moderated.

We want our intermediate outcomes to help us to focus better on what really matters and on the work we could do that stands to make the greatest impact. The new intermediate outcomes make more transparent some of the things we've been focusing on: our increased investment in managing the balance sheet, providing advice on commercial operations, as well as some of our new functions that we have taken on such as Analytics and Insights and Portfolio Performance Management.

The increased granularity of the intermediate outcome framework will improve its use as a management tool, supporting our focus on the things that will have the greatest impact but also balancing the investment of resources we make across our high-priority projects and our core business-as-usual work.

Their greater synergy with our Living Standards Framework, an important shaper of our advice and what we focus on, makes it a better way of communicating what we are doing and why, to both internal and external audiences. It's easier to see the value of what we do.

We'll be using our intermediate outcomes as our performance framework for 2014/15 year. And while this *Annual Report* is still structured around the three high-level outcomes we used to drive our business during 2013/14, readers will already see the influence of the intermediate outcomes emerging; we have already begun the focus on what we need to do to achieve more inclusive economic growth and improve Māori outcomes and we are identifying innovative ways of improving State sector performance such as looking to extend the "investment approach", social bonds and improving the use of data and analytics.

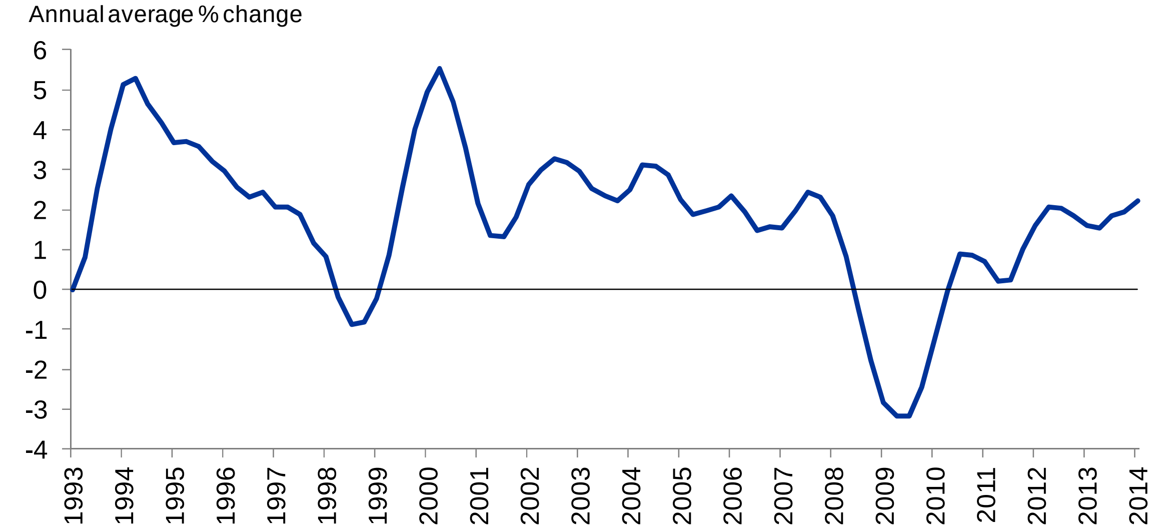
Readers should refer to the *Statement of Intent 2014–2019* for more information on the revised Intermediate Outcome Performance Framework. You can access it online at:
http://www.treasury.govt.nz/publications/abouttreasury/soi/2014-19/

Our Outcome Performance

Improved Economic Performance

On average New Zealand's GDP per capita growth for the past few decades has been lower than most other OECD countries and this contributes to our relatively lower incomes among developed countries. New Zealand's economic growth performance relative to other countries has improved more recently but more will be needed to bring our incomes closer to those in other developed economies.

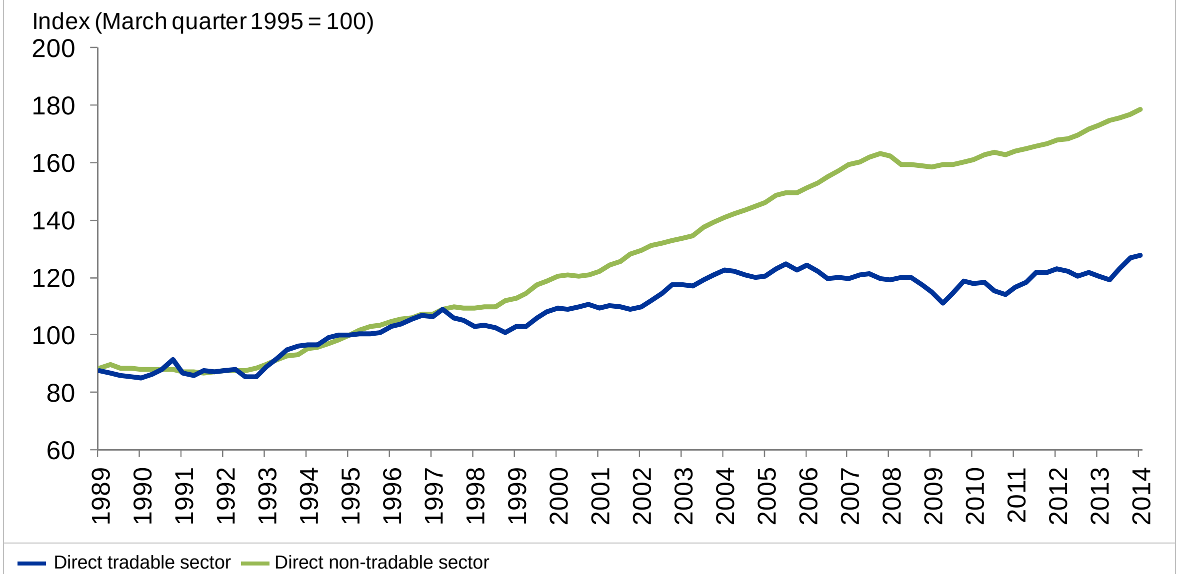
New Zealand real per capita GDP growth (production measure)



Source: Statistics New Zealand

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



Source: Statistics New Zealand

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. An International Monetary Fund (IMF) report this year concluded New Zealand's economic expansion is becoming increasingly embedded and broad-based.

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 2014 rankings. New Zealand was ranked within the top quarter for all the components of this index, including a top ranking for "starting a business" and "protecting investors" and second for "registering property".

New Zealand was eighth in 2013 on the OECD Product Market Regulation Barriers to Entrepreneurship indicator, compared to 26th in 2008. New Zealand's score for the regulation of airlines, telecommunications, postal services and the accounting and legal professions improved.

New Zealand has:

- the most comprehensive (least distorting) Goods and Services Tax (GST) or VAT in the OECD
- among the lowest tax burdens 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 improved its ranking from 47th to 27th place out of 148 countries in the 2013/14 World Economic Forum Global Competitiveness report's perceived infrastructure quality component.

Over the year we provided advice to Ministers, alongside the MBIE, on implementation, coordination and next steps in the Government's business growth agenda. We have been developing our thinking on the medium-term opportunities and challenges for the New Zealand economy, working with other public sector agencies along with the private sector and non-government sector to garner their perspectives.

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 second *National State of Infrastructure Report* which provides an update on progress and challenges in the infrastructure sector. It reported a continuation of large-scale investment programmes across central government, local government and the private sector. We also published the first *10-year Capital Intentions Plan*.

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 RIA requirements. We again set a target of 90% by 2014 and this year came closer to achieving it with a final outcome of 84%. In addition, we developed legislation to formalise the administrative disclosure requirements for legislation and regulation produced by the Government. This Bill was introduced in May. We provided input to the Productivity Commission's report on regulatory institutions and practices in New Zealand. Considering and taking forward their findings and recommendations will be a key focus over the next year.

We provided advice to ensure that policy settings maximise the value of New Zealand's significant natural resource endowment. This included close collaboration with the Ministry for the Environment (MfE) on a range of issues. We worked on a package of Resource Management Act 1991 (RMA) reforms that, if legislated and 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 freshwater reforms aimed to improve the effectiveness of water management, leading to a National Policy Statement underpinned by a National Objectives Framework; and on an assessment of the performance of the Emissions Trading Scheme (ETS), leading to the decision to transition to a domestic-only scheme which will have significant economic benefits and fiscal savings.

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.

The Treasury developed a framework for better understanding incentives on councils that affect the availability and affordability of housing, and produced the first of three planned reports on the availability and timeliness of infrastructure, particularly water, for new housing supply.

For more detail on our policy outputs in this area, see pages 35 and 38.

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 31.3% and 33.9% over the past 10 years, most recently around 33.4%.

GDP per hour worked increased by 0.9% per year in New Zealand between 2001 and 2013, compared to an OECD-wide increase of 1.1% per year over the period.

In 2013, New Zealand's business investment as a percentage of GDP (real) was 15.5% compared to an average of 12.7% for the OECD countries (excluding New Zealand) with available data.

The World Economic Forum ranked New Zealand as the 18th most competitive economy in 2013/14, an increase from 23rd place in 2012/13.

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 (TPP) negotiation activities. The Treasury also led a seven-agency working group on inward and outward foreign direct investment, and undertook 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 learn from and influence policy-making by other countries and international institutions, including through our participation in 2014 in the G20 process. In the past year we held dialogues with our counterparts in Australia, 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 Asia-Pacific Economic Cooperation (APEC) Finance Ministers meeting.

The Treasury also delivered NZECO products and services to enable exports that otherwise would not have occurred owing to constrained access to trade finance or appropriate risk mitigation techniques. NZECO supported $306 million of exports this year as well as hosting an international conference of export credit agencies. For more information on NZECO outputs, see page 40.

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 2014 the number had dropped from 75,366 in March 2013 to 68,932.

Boosting skills and employment

The Government's targets are:

- 85% of 18-year-olds will have achieved NCEA Level 2 or an equivalent qualification in 2017. In 2013, the latest data available, this was at 78.6%, an increase of 1.4 percentage points from 2012, and
- 55% of 25–34-year-olds will have a qualification at Level 4 or above in 2017. In 2013, the latest data available, this was at 53.85%, an increase of 1.25 percentage points from 2012.

Over 2013/14, the Treasury worked alongside MSD to complete 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 dependency. We also commissioned and published an in-depth review of the macroeconomic impacts of immigration. The report is available at:
http://www.treasury.govt.nz/publications/research-policy/wp/2014/14-10/

In addition, we advised on progress towards the Better Public Services skills and employment results outlined in the box above. The Treasury has worked closely with MOE to develop initiatives that aim to improve education system outcomes – such as Investing in Educational Success and the establishment of a new professional body for the teaching profession. We are working with MOE, MBIE and the Tertiary Education Commission (TEC) to continue improving the quality and relevance of tertiary education and research, support business and innovation through development of relevant skills and research and improve outcomes for all. We have also focused on the effectiveness of education system expenditure and resource management, including through our work on Budget 2014, undertaking a joint review of institutional arrangements for the management of school property and working with TEC to improve the quality of the capital business cases for the Canterbury Tertiary Education Institutions. The business case for expansion of the trade facilities at the Christchurch Polytechnic and Institute of Technology has been completed and construction is underway.

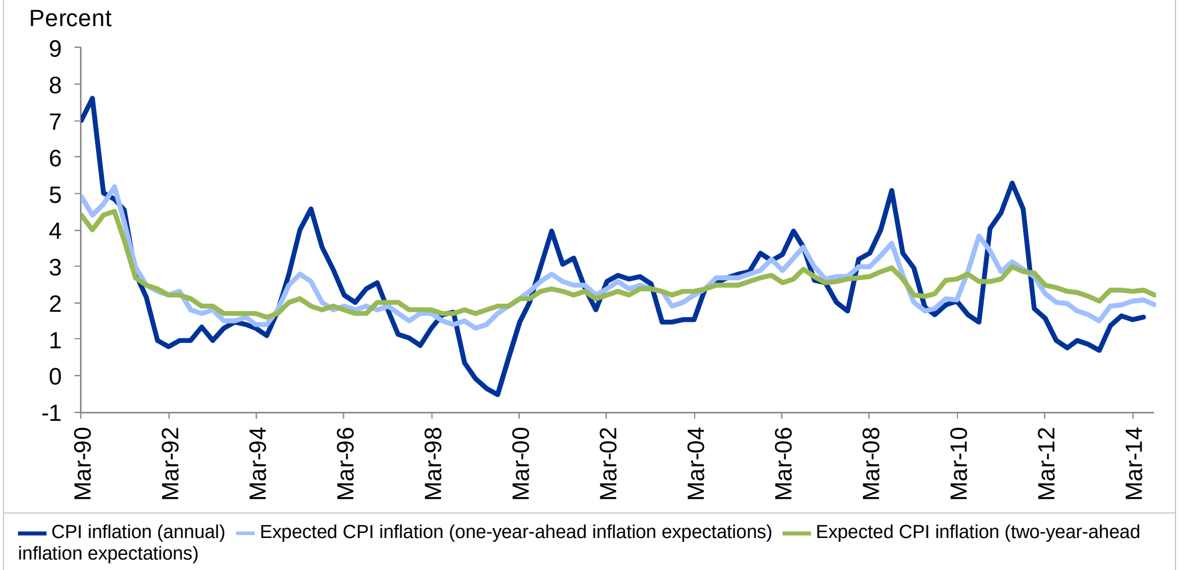
A Stable and Sustainable Macroeconomic Environment

A stable and sustainable macroeconomic environment is a fundamental platform for strong, sustained economic growth and higher living standards. Macroeconomic stability provides households and firms with the predictability and certainty they need to make good decisions about employment, saving, investing, innovating and pursuing opportunities.

The macroeconomic environment improved during 2013/14. Real GDP growth accelerated to 3.3% in the year to March 2014, the fastest annual growth since 2006, and the unemployment rate fell to 5.6% in June 2014 from 6.4% a year earlier. Annual Consumer Price Index (CPI) inflation moved back toward the mid-point of the 1% to 3% target range and inflation expectations remained well anchored (see graph below).

The current-account deficit remained low, assisted by the near-record high terms of trade (see graph on page 15), and net external liabilities declined. The fiscal deficit continued to fall from its earthquake peak in 2010/11 and the rise in government debt moderated.

Inflation and inflation expectations

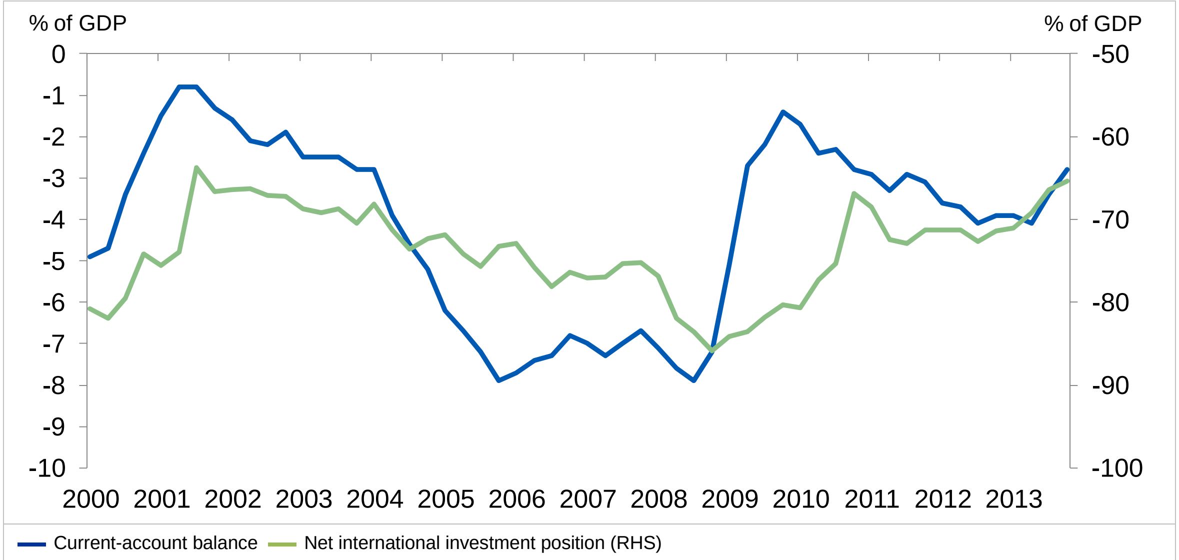


Sources: Statistics New Zealand, Reserve Bank of New Zealand (RBNZ)

The improving fiscal position, robust growth and low and relatively stable inflation contributed to the credit rating agency Fitch changing the outlook on its rating to positive indicating the possibility of an upgrade in its rating. Currently, Moody's has New Zealand's credit rating as AAA, while Standard and Poor's and Fitch rate us at AA. Government debt as a percent of GDP remains low by international standards notwithstanding the increase experienced over recent years.

Achievement of our desired outcomes in this area requires a further lift in economic and fiscal performance. Global economic and financial conditions, although improving during 2013/14, continue to be a negative risk. They are also continuing to have an influence on domestic economic and financial developments, including through their impact on the exchange rate.

Current-account balance and net international investment position



Source: Statistics New Zealand

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. Domestic financial stability risks have eased somewhat with house price growth and private debt levels stabilising, alongside the financial system remaining sound. Nevertheless, house prices, and household and agriculture debt levels, are high.

A Stable Macroeconomic Environment

Economic variability

The standard deviation of New Zealand's annual real GDP growth (a measure of economic variability) was around 1.8 percentage points in the 10 years to 2013 (9th out of 34 OECD economies), compared to 2.1 (13th out of 28) and 2.6 (22nd 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 2014 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 has fallen as a share of GDP since March 2009 partly owing to re-insurance inflows associated with the Canterbury earthquakes, although 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 helped 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 assisted the Government to make, and implement, amendments to the Public Finance Act 1989, which were passed in July. These amendments were 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 operation of the new macro-prudential framework agreed in 2012/13. We worked with Trans-Tasman Banking Council agencies to enhance cross-border financial crisis resolution strategies.

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

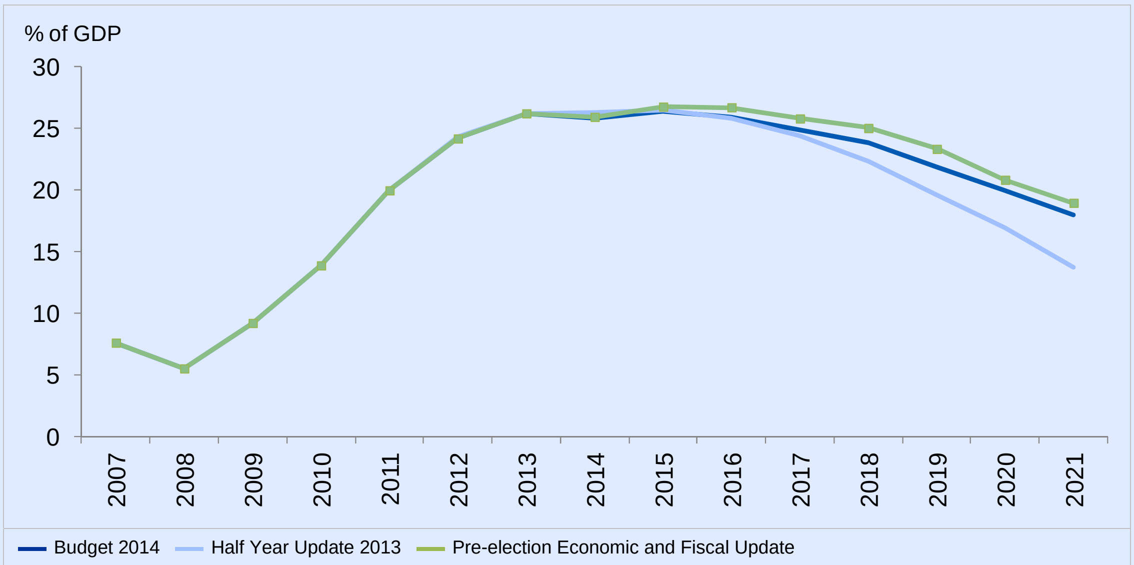
Intermediate Outcome: Fiscal Position Returned to a Sustainable Footing

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 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

The *Pre-election Update* forecasts show the operating balance (before gains and losses) (OBEGAL) returning to surplus in 2014/15 and net core Crown debt peaking in 2014/15 and then declining (see graph below). Core Crown expenses are forecast to reduce to 30% of GDP in 2016/17.

Net core Crown debt



Source: The Treasury

In addition, projections included in the *Pre-election Update* show net core Crown debt falling to 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.

In addition, the Treasury continued to provide quality fiscal reporting and forecasting (for more information on these outputs, see page 40).

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 living standards in New Zealand. 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 quality of New Zealand's State sector institutions and governance ranks consistently highly in international datasets. Currently, New Zealand is ranked in the top 5% of countries on the World Bank's Worldwide Governance Indicators (WGI) across all six of the dimensions of governance measured, and our ranking has been reasonably stable since 1996. Standard and Poor's stated that they consider New Zealand's policy-making and political institutions to be highly effective, stable and predictable and that "high-quality governance and transparency is a key attribute of the New Zealand government".[1]

New Zealand also enjoys a high reputation internationally as a leader in the field of reform. Our interactions with government agencies and think tanks in the UK and Australia confirm that this reputation still holds and there is international interest in current Better Public Services reforms, particularly the Better Public Services Results approach.

Assessments of New Zealand

Institutions and governance

- Second on public institutions in the World Economic Forum, Global Competitiveness Report 2013.
- Fifth in respect of governance in the Bertelsmann Stiftung Sustainable Governance Indicators.
- In the top 5% of countries on all six of the dimensions of governance in the WGI.

Integrity

- First equal (with Denmark) in the Transparency International Corruption Perceptions Index (2013).
- In the 99th percentile on control of corruption in the WGI.
- Third in respect of the absence of corruption.

Transparency rankings

- Second on open government in the World Justice Project Rule of Law Index (following Norway).
- First in the 2012 Open Budget Index; indicating that our Government provides the public with extensive information on the National Government's budget and financial activities.
- Fourth in "transparency of government policy-making" in the World Economic Forum Global Competitiveness Report.
- Fourth in the Global Open Data Barometer 2013 which takes into account readiness, implementation and impact of government open data initiatives.

[1] Standard and Poor's Report: *Supplementary Analysis: New Zealand*, published 29 August 2013. Subject to registration, this report is available at: http://www.standardandpoors.com

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

The Treasury has an important role in assisting the State sector to meet the expectations that the New Zealand public has of them; and ultimately to make a real difference in the results that matter most. This includes working with partners to strengthen the delivery of better public services and working to enhance fiscal, financial and performance management and capability of the State sector.

Better public services

The Treasury has a key leadership role in ensuring that the State sector delivers services with high levels of integrity and improved levels of trust. As part of our leadership role we have partnered with SSC over recent years on the development and implementation of programmes designed to lift the standard of leadership capability and organisational performance.

Government's Better Public Services Results

The State sector needs to have a clear focus on achieving outstanding results for New Zealanders, given the limited resources available. Currently, the State sector is focused on achieving a set of clearly defined Better Public Services Results. The Treasury works alongside other agencies to support the achievement of these goals.

In 2012, the Government announced 10 results in challenging areas that were to be achieved by 2017. The Better Public Services Results are designed to help Ministers drive better outcomes for New Zealanders and to drive progress on issues that require State services leaders to work across agency boundaries and in partnership with communities, non-government organisations (NGOs) and the private sector. The programme is on track to achieve eight of the 11 headline targets, with progress publicly reported every six months. On-track results include reducing crime (the overall rate is down 16% since 2011) and reoffending (down 12.2% since 2011); reductions in long-term welfare dependence; an increase in infant immunisation rates; and an increase in the proportion of 18-year-olds with NCEA Level 2.

More detail is available at: http://www.ssc.govt.nz/better-public-services

Legislative changes on which we worked with SSC have brought renewed focus in State sector management on planning and management for medium- to long-term interests; that is, stewardship of the State sector. Chief executives of departments are now expected to act in the collective interests of government, and should also ensure the medium- and long-term organisational health, capability and capacity of their department.

We provided advice on the design and operation of the public management system in partnership with SSC through the Performance Hub, a joint work programme designed to enable collaboration between the Central Agencies on the Better Public Services reforms. Over 2013/14 we invested in advice on funding options for common capability ICT services and cross-agency work, strengthening functional leadership within the public sector in information technology, procurement and property and through whole-of-government directions applying to key Crown entities. We also advised on governance models and options for reducing transaction costs in cross-agency collaboration.

The Treasury has worked with a range of departments on options for improving services by reforming the way services are delivered, such as our work with HNZC and MSD on social housing reforms and increasing the range of suppliers moving administration of income-related rents to MSD. We continued our support of work with MSD on an investment approach to welfare policy with the aim of reducing the level of long-term welfare dependency and worked with the Ministry of Defence and the Ministry of Justice (MOJ) on business cases for investment in new means of service delivery.

We have been expanding our efforts to address poverty and disadvantage in New Zealand, a programme that has involved collaborating with social sector agencies such as MSD and Te Puni Kōkiri on new ways of organising multiagency work programmes and contracting services.

In 2013 the Treasury established an Analysis and Insight Unit to help provide a broader range of citizen-focused information to assist with understanding State sector performance and the opportunities for improving results for New Zealanders.

Kiwis Count

Kiwis Count is a comprehensive survey that measures New Zealanders' satisfaction with 42 frequently used public services. It is an improvement and learning tool for those providing public services. Especially in a time of fiscal constraint, improvement in service quality scores speaks of agencies working hard to improve service and customer satisfaction.

The overall Service Quality Score (SQS) from 2012 to March 2014 has been relatively stable at 72. This is four points higher than when first measured in 2007.

Kiwis Count is based on the Canadian Citizens First survey. When this approach was first adopted, a key advantage was that service comparisons could eventually be made. The Kiwis Count SQS increased four points from 2007 to 2012 whereas over much the same period (2005 to 2012) the Canadian SQS improved by one point.

Kiwis Count also separately measures New Zealanders' trust in public services, based on their perceptions and experience. Although both measures have increased over time, trust in public services based on experience is consistently higher than trust based on perception. In March 2014, trust based on experience was 77% (compared to 67% in 2007) and trust based on perception was 44% (compared to 29% in 2007). More details are available at: http://www.ssc.govt.nz/kiwis-count

Enhancing fiscal, financial and performance management and capability

Alongside our work with agencies to improve their service delivery, the Treasury has been working with central partners like SSC on how to enhance the functions that underpin higher performance, such as the systems and capability that underpin their financial performance and management practices. This work also recognises the OAG finding that, while the standard of agency public performance reporting was improving, there remained ongoing need for an improvement.[2]

A review of the Four-year Plans completed by 22 departments confirmed that agency plans were improving and that agencies had managed well to work within the fixed nominal baselines of recent years. Through the planning process, agencies had identified $1.3 billion of future "efficiencies and reprioritisation" opportunities in departmental appropriations and $1.8 billion in non-departmental appropriations. However, the review found that financial information was the weakest aspect of the plans and provided limited insight into the value of spending or whether activities were cost effective or delivered efficiently. A number of funding gaps were found, and pointed to a reluctance to identify efficiency measures or low-value programmes.

To help agencies better understand their efficiency performance we ran the fourth year of the Benchmarking Administrative and Support Services (BASS) exercise,[3] and we worked with 14 agencies to provide an all-of-government view of the efficiency and effectiveness of the policy advice function.

2 http://www.oag.govt.nz/2014/central-government

3 http://www.treasury.govt.nz/statesector/performance/bass/benchmarking/2012-13

As the Government's lead financial advisor and the financial manager of the Crown's accounts, the Treasury has a particular focus on improving the performance and financial management capability of the State sector. Over this year we have led a cross-agency finance improvement programme intended to improve processes and enhance people capability. Our work here has led to establishing an Office of the Government Accountant (OGA), with a new head of the Government Finance Profession and Chief Government Accountant, who will lead our future work developing and implementing strategies to lift financial management across the State sector.

Similarly, we know that leadership is key to achieving a higher performing State sector, and our ongoing commitment to the PIF results helps provide insight into the quality of leadership performance and resource prioritisation. The system-level findings of the PIF reviews have shown us that agencies:

- are better at managing issues and satisfying Ministers than they are at building core institutional capability
- have scope to improve in defining their purpose and vision, as well as in developing and communicating their strategy
- can find leading and contributing to cross-agency sector work challenging, and tend not to be proactive and systematic about working with others, and
- are often weaker on improving efficiency or value for money, and need to pay more attention to strategic financial management. It is noteworthy that no agencies reviewed in 2013/14 were judged as strong or well placed in their financial management capability. This may reflect the strategic financial management upgrade that was implemented in 2012/13 which raised the expectations against which agencies are measured.[4]

	Percentage of agencies rated "strong or well placed"	
Dimensions assessed as part of PIF reviews	32 reviews as at 30 June 2014	6 reviews in 2013/14
Results	58%	41%
Strategy and Role	50%	56%
Internal Leadership	35%	27%
Working with Others	51%	39%
Improving Delivery	32%	13%
Finance and Resources	42%	25%

[4] By contrast, 53% of the 32 agencies reviewed up to 30 June 2014 were judged as strong or well placed on the financial management capability element of PIF (a subsidiary element of the Finance and Resources dimension).

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

The New Zealand State sector manages over $240 billion of assets, and $170 billion of liabilities, across the social (such as roads and schools), commercial and financial portfolios.

The *2014 Investment Statement: Managing the Crown's Balance Sheet* examined the importance of efficient and effective balance sheet management, principles for its management and current management practices against these principles. It found that there was considerable potential for improvement.

Improving efficiency and effectiveness of the Crown balance sheet requires that all parts of government actively manage their portion of the Crown's balance sheet. Government and Crown agencies need to have explicit strategies, and performance metrics and targets, for the management of assets, liabilities and risks. In the *2014 Fiscal Strategy Report* (FSR) the Government confirmed its intention to develop performance targets to better support the management of the Crown's balance sheet. To achieve this, better information systems will be needed to supply timely and quality management information.

Financial assets and liabilities

We provided advice on the performance of CFIs. CFIs on the balance sheet include the New Zealand Superannuation Fund (NZSF), Accident Compensation Corporation (ACC), Government Superannuation Fund (GSF) and Earthquake Commission (EQC). The overall CFI portfolio produced solid returns for the fiscal year ending 30 June 2014. The two largest CFIs, NZSF and ACC, combined manage around 90% of the Crown's investment assets as at year-end. Returns over the past five years have been strong and all CFIs outperformed their respective passive benchmarks over this period with the exception of GSF, which fell short slightly.

NZDMO issued $8 billion of government bonds in 2013/14 with the cost of new borrowing being 20 basis points better than the performance benchmark. The issuance included the introduction of a 2030 maturity inflation-indexed bond that successfully raised $2.5 billion through a syndication process. NZDMO has also continued to lengthen the average maturity profile of bonds on issue, thereby reducing refinancing risk. For more information on NZDMO outputs, see pages 45 to 48.

Social assets

We continue to play a lead role in influencing the performance and accountability of the portfolio of the Crown's assets. In March 2014 we published an *Investment Statement* which examines the performance of social assets employed in the delivery of key government services.

The *Investment Statement's* findings culminated in a series of areas of focus that set out Crown balance sheet management challenges for future implementation work in 2014/15 and beyond. They reflect an integrated series of work streams for the Treasury to progress. While some reflect operational activities that the Treasury can develop alone, many relate to policy and operational issues that will have implications across government and will require co-operation to progress successfully. The document is available at:
http://www.treasury.govt.nz/government/investmentstatements/2014

We managed the successful public listing of Meridian and Genesis and completed a sale of 20% of the shares in Air New Zealand. For more detail on our outputs in this area, see pages 53 and 54. We have also focused on enhancing capital decision-making processes, using a Capital Investment Panel to inform our advice on investment priorities for the Future Investment Fund, and have sought to improve the alignment of advice on individual investments and the Government's longer-term priorities. This should enable more robust monitoring of returns, whole-of-government investment decision-making and improved asset management practices and performance.

The Treasury's fullest analysis of asset performance in key sectors is presented in the *2014 Investment Statement*. Time series performance charts cover the period 2011 to present.
http://www.treasury.govt.nz/government/investmentstatements/2014

We established a new unit, Investment Management and Asset Performance (IMAP), to take a more integrated perspective on government investment management, which will combine monitoring functions moved to the Treasury from SSC and Treasury functions managing investment projects as part of an overall government investment portfolio.

Commercial assets

We provided advice on the performance of SOEs and significant entity-specific issues, including undertaking strategic reviews of the New Zealand Post Group, Quotable Value, Landcorp Farming, KiwiRail and Public Trust. We analysed the performance of the Crown's financial and commercial assets, publishing the results in the Treasury's *2013 Annual Portfolio Report* (APR). As reported in the APR, overall returns from commercial companies (excluding returns from listed companies) were not satisfactory in an environment where stock market indices performed strongly.

The Treasury also completed a review of our commercial operations functions with the aim of developing best-practice arrangements to manage the Crown's portfolio of commercial entities for the medium term. The changes we have implemented have strengthened our monitoring of these assets, including the increased use of specialist external expertise to supplement in-house capability when advising Ministers.

Improving Organisational Performance

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. It also requires management and governance arrangements that help us to aim high and then to hold us to account.

Leading Organisational Performance

The Treasury has a number of committees and sub-committees that are designed to support effective decision-making and ensure that we maintain our focus on making a difference on the things that matter most. These are:

The Executive Leadership Team

Sets and is accountable for the organisational strategy.

Our Executive Leadership Team (ELT) is made up of the Chief Executive, Deputy Chief Executive and five Deputy Secretaries. ELT is responsible and accountable for strategic leadership of the organisation, driving its performance and steering the health of the organisation. It takes decisions that have a material impact on the outcomes, functions or reputation of the Treasury as a whole. For more information on ELT, see pages 124 and 125.

The Chief Executive is supported by the following advisory committees:

Outcome Leaders Action Group

Responsible for implementing and monitoring progress against our organisational strategy delivery, including the Four-year Plan.

The Outcome Leaders Action Group (OLAG) is the management subcommittee of ELT and is responsible for the performance and delivery of the Treasury's core business and change programmes. OLAG is responsible for overall delivery of the Four-year Plan.

People and Resources Committee

Responsible for implementing specific, delegated aspects of the Four-year Plan.

The People and Resources Committee (PRC) is responsible for monitoring the Treasury's performance against specific aspects of the Four-year Plan. Its focus is how to implement these to maximise the business benefits. PRC reports progress to OLAG. In practice, PRC focuses on four to five priority initiatives that are central to achieving the Treasury's Four-year Plan. PRC may recommend changes to the workforce strategy and efficiency and effectiveness initiatives to OLAG. Where appropriate these are referred to ELT for approval. This team comprises a number of managers from each portfolio.

Independent Advisory Committees

The Chief Executive is supported by the following advisory committees. Their primary purpose is to ensure integrity and accountability.

Treasury Board

Provides independent external perspectives on the Treasury's performance.

The Treasury Board is a governance body that supports the Secretary to the Treasury to meet our strategic goals and ambitions. The Board does this by testing key strategic decisions, offering external expertise and perspectives and providing a strong advisory function. For more information on the Board, see pages 126 and 127.

The Risk and Audit Committee

Provides independent external perspectives on internal controls and management systems.

The Risk and Audit Committee (RAC) 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. For more information on RAC, see page 128.

Specialised Committees and Boards

Some aspects of the Treasury's work programme are supported by specialised advisory committees or boards. These include:

- The Commercial Operations Advisory Board provides guidance and advice to support and enhance the Treasury's commercial analysis and advice to Ministers. It also provides an independent, private sector perspective to help them make well-informed decisions regarding the commercial portfolio.
- The Export Credit Office Technical Advisory Committee provides independent technical expertise, advice and assurance to the Treasury on the Export Credit Office's strategy, assessment of its transactions and management of its risks.

Performance Improvement Framework Review

In 2013/14, we participated in a review of the Treasury's performance under the PIF. These reviews are undertaken periodically to assess how well government agencies are placed to deliver on their mandates. The lead reviewers of the review were Patsy Reddy and David Butler, to whom we owe special thanks for their thorough analysis and insightful feedback.

The review provided us with an opportunity to stand back and reflect on our performance and to consider how we can do things better and whether the changes we have been making in what we do and how we do it are actually helping us to become a better Treasury.

The review recognised the good work we have done to help deliver some of the Government's priorities, such as housing and social welfare reform, and it indicated that we have delivered our core functions effectively; for example, advising the Government on creating a stable macroeconomic environment and improving economic performance, as well as supporting the Minister of Finance to develop and deliver his fiscal strategy. The review also recognised the Treasury's leadership role in developing the Living Standards Framework.

The ratings show we have made good progress towards our goal of lifting our performance. In respect of our core business, reviewers rated the effectiveness of our stable and sustainable macroeconomic environment outcome as “strong” (rated “well placed” in 2010), and our improved economic performance outcome was rated “well placed” (rated “needs development” in 2010). While the rating for our higher performing State sector outcome remained “needs development”, we will be looking to drive similar improvements in this area.

In our organisational management, eight of the 17 dimensions were rated “well placed” and one was rated “strong”. This contrasts with four of the 17 dimensions rated “well placed”, and none rated “strong”, in the 2010 review. No ratings were rated “weak” in either review.

The “strong” rating for 2013/14 pertained to our primary role of advising the Government and engaging with Ministers. Success for the Treasury means being best-placed to support Ministers, both now and in the future. We see this as being at the heart of our stewardship responsibilities and we will be working to maintain this standard.

Four dimensions moved from “needs development” to “well placed” between 2010 and 2014. These related to characteristics such as leadership, strategy, culture and engagement; all areas that have been the focus of specific attention and investment in recent years.

Of course, there are other areas that were rated “needs development”; and in which there is room for us to improve. These included *Leadership and Workforce Development, Management of our People* and *Improving our Effectiveness and Efficiency*. We agree with the reviewers that we can and should do more if we are to perform to the best of our ability and to achieve our vision to raise living standards for all New Zealanders.

On balance, the PIF findings were positive for us; while clearly identifying the reality of the performance challenges we face, the review also affirmed that we were already headed in the right direction to resolve them. We remain committed to lifting these dimensions over forthcoming years and our ambition is high. In the remainder of this section, we outline the work we are doing to address the gaps.

It is early days, but we have already begun to embark on a number of actions that will address the issues that this review, and a number of others reviews we commissioned during the year, have shed light on. Many of these actions sit within our change programme. Broadly speaking they concern how we retain, attract and grow our staff; work together, how we collaborate with others; and how well we engage with our stakeholders.

Workforce Capability

Retaining, attracting and growing our people

The Treasury has over 400 employees working across a diverse array of functions working towards higher living standards for New Zealanders.

To help the Government meet the challenges facing New Zealand in a demanding and fluid environment and within finite resources, we need a diverse range of specialist skills and experiences, with expertise in leadership, engagement and influencing skills backed with high strategic agility to join the dots, and practical ability to get the job done. And to perform effectively and to sustain that effort in the long run, we need to ensure that our staff feel valued for, and passionate about, the work they do.

Our workforce strategy guides the way we attract, grow and retain our people. Doing this successfully means a mix of attracting new staff and continuing to grow the capability in-house of existing staff.

Growing or building the skills we need now involves a more systematic approach to staff development to ensure we are well placed to deliver our vision and target outcomes. Examples of our investment during this year included implementing:

- a technical skills training programme designed to increase the skills for a high-performing finance ministry
- a revised graduate programme to provide new graduates with a systematic training programme comprising induction, coaching, 90-day plans and 20 different training programmes covering both technical and behavioural skills, and
- career planning and retirement planning courses.

We also continued to focus on lifting the level of staff engagement. This is a strong indicator of success for our change programme. We ran our first Kenexa employee engagement survey in November 2013. The survey had a participation rate of 93% and the results show an overall engagement index of 70%, with 22% of Treasury staff being fully engaged.

Direct comparison with previous years' results using the Gallup Q12 survey is not possible owing to differences in the measures, but the Treasury's results compare well relative to Kenexa's client set of State sector organisations. The Treasury was above the State sector benchmark in 33 of the standard survey questions, on par with the benchmark for another 22 and below the benchmark in five.

We scored well in the questions that most strongly correlate with overall engagement, with empowerment, having a genuine opportunity to contribute and being able to challenge the status quo.

Developing our leaders

The need for strategic thinking, external engagement and effective performance management is increasingly important. As an organisation we need to be investing in new ideas that can enhance the degree of impact and influence we have. Our leaders have a central role in ensuring our strategic advice has sufficient:

- breadth – adopting a systemic rather than partial focus, integrating advice across the economic and public sector outcomes
- depth – looking beneath immediate events and preoccupations to underlying drivers and trends
- reach – anticipating medium-term risks and opportunities and getting results by influencing others, and
- diversity – bringing in others' viewpoints, brokering solutions that are going to work for New Zealanders to lift their living standards.

The Treasury (along with DPMC and SSC) needs to be more active in its leadership role across the wider State sector, acting as a catalyst for change across the system. Our leaders need to ensure we are at the forefront on formulating, promoting and implementing ideas that will make the most impact on raising public sector performance, particularly in the areas where we have competitive advantage as an organisation.

Leadership is therefore critical to our success; we know that how our leaders behave strongly influences our overall culture and therefore our performance. We have a number of initiatives designed to support strong leadership and its demonstration through the actions our leaders take every day.

With respect to our change intentions, leadership development in the past year has been focused on becoming more strategic and effective leaders, and in supporting our leaders to drive change.

We also consider that strong leadership is a critical role in the development of a more inclusive culture that helps to leverage everyone's strengths; creating an environment where different perspectives are encouraged and can actually be heard.

To encourage and cultivate the leadership skills, we have been working on a new manager development programme, which we will implement in 2014/15. The programme will focus on building their understanding and practices for effective senior team leadership. To support the programme we plan to introduce a new diagnostic tool early in 2014/15, which will replace the bi-annual leadership assessment we have used previously.

Diversity and inclusiveness

As noted elsewhere, the Treasury continues to focus on lifting performance. At the outset this was focused primarily on aligning our behaviour with our values: bold and innovative; collaborative and challenging; adaptable and focused; passionate and ambitious.

In 2012 we launched a diversity strategy with a focus on three key areas: diversity of thinking including new approaches to problem-solving and creativity; cultural diversity to better reflect the views of the broader society that we serve; and the proportion of women in senior leadership roles.

During 2013/14, the programme focused on two main areas: firstly, lifting the level of ownership that teams and individuals have in the change initiatives, and to be more specific about how they could change, and create change in how we do business. Sharing stories of successful change in action assists in identifying actions that will embed our values. And secondly, we began to look further into how we would support the diversity of thought and experience by employing people with a diverse range of backgrounds. These include people from different ethnic backgrounds, with experience in different community groups, as well as different types of work experience, such as international and commercial markets and programme management.

Our focus now is on creating a culture in which differences and people can thrive; one that supports fresh thinking and innovation in our work. We see the pursuit of diversity and inclusiveness as a key way of lifting our performance, and this is supported by research that shows that diversity of thinking is a key driver of performance in successful teams and organisations.

We see diversity as a performance *advantage*; it makes teams stronger. In order to perform our role and advance ideas to solve policy problems, we stand to benefit from a diversity of skills and perspectives. That same diversity will also help us to make sure those ideas are practical and that we can see them through to implementation. A more diverse and inclusive culture will accelerate progress in all of the areas that we have identified as priorities to make it more influential: it will help the organisation to be more collaborative and outward facing (through new connections to stakeholders and society), better at its core business and more productive (through new perspectives and ideas).

To achieve this we have begun to focus more directly on the factors that impact on diversity and inclusion, and factors that contribute to success and career progression and influence our demographic profile. During the 2013/14 year we focused on being more aware of our unconscious biases and characteristics that would support an inclusive workplace culture. An awareness of this will help us to attract, retain and harness the depth and breadth of technical, management and leadership capabilities of a diverse culture. In particular, we have been working to incorporate Māori perspectives into our work; not only our work on outcomes for Māori, but to all of our advice.

Our people

Our headcount has increased over the past few years owing to the Treasury taking on some new functions predominantly from other agencies. In particular, additional staff in Central Agencies Shared Services (CASS) to meet the support demands of the Ministry of Civil Defence and Emergency Management (MCDEM) function which was transferred from Department of Internal Affairs (DIA) to DPMC in April 2014 and to support monitoring of significant projects (which was transferred from SSC to the Treasury in December).

Key People Metrics for 2013/14					
As at 30 June	2014	2013	2012	2011	2010
	Staff numbers				
Total full-time equivalent	412	389	372	363	341
Full-time staff	375	348	335	319	306
Part-time staff	51	56	52	59	47
Total headcount	426	404	387	378	353
	Gender distribution – all staff				
Women	47%	45%	49%	50%	49%
Men	53%	55%	51%	50%	51%
	Percentage of women in management roles				
Women in management	44%	42%	47%	40%	35%
	Ethnicity distribution (self-identified, multiple responses possible)				
NZ European	67%	71%	68%	70%	69%
NZ Māori	4%	3%	4%	1%	4%
Pacific Islander	1%	1%	1%	1%	2%
Asian	7%	7%	5%	5%	6%
Other European	12%	14%	12%	9%	14%
Other ethnic groups	1%	1%	2%	8%	3%
Undeclared	8%	2%	8%	6%	2%
	Turnover and length of service				
Turnover	16.5%	14%	14%	17%	13%
Average length of service (yrs)	5.9	6.3	6.5	6.8	6.4

Key notes

The above data only include permanent and fixed-term employees. They do not include staff on secondment, leave without pay or current vacancies as at 30 June.

The proportion of management roles includes all women at 30 June who have staff reporting to them. This includes team leader roles. The Treasury introduced team leader roles in 2012.

Working with Others; Being More Effective

Our strength lies in our ability to take a whole-of-economy and whole-of-government perspective; to connect the dots for Ministers and work in partnership with others to provide the best possible advice and real-world solutions that will improve living standards for New Zealanders. And we can't do this in isolation. Delivering high-quality advice and implementing effective and durable solutions relies on our advice being informed by an understanding of what is happening in the real world.

We have been working to improve our engagement with stakeholders and looking for opportunities to collaborate with agencies (and learning how to do this better). Acknowledging and drawing on the skills and knowledge of others is critical to success. Aligned with the diversity and inclusiveness, we have made a point of seeking out wider perspectives from different parts of New Zealand throughout the year; both to hear the views of others and to share our own thinking. There are many examples of our engagement approach in action throughout this report.

In late 2013, we commissioned an online survey of stakeholders to assess how well we were engaging with them and to identify the focus of future improvement efforts.[5,6] We aimed to survey a more diverse group including more businesses, NGOs and iwi than we had in our 2011 stakeholders survey. Business/industry respondents increased from 18% to 59%. One in three respondents was from iwi, social services, media or education. Public sector respondents dropped from 55% to 29%.

The feedback indicated that we had improved in the way we were engaging with State sector agencies and others to achieve results. Fifty-five percent of respondents had noticed changes in the way we expressed ourselves and our openness to new ideas and ways of thinking. Forty percent of respondents had noticed we were behaving differently. Those who noticed the biggest change were social service providers/NGOs/iwi (73%) and media and economists (66%).

It was rewarding to see that people noticed we have started to operate differently, and a positive sign of the change we were realising through our focus on the Treasury's culture. A greater sense that we're open to listen will also help to support wider engagement in the course of our future work.

The 2014 stakeholder survey indicated that:

- 16% more stakeholders agreed the Treasury took a lead role in State sector performance improvement
- 16% more agreed that the Treasury modelled the behaviour it expects of other public service agencies, and
- 10% more felt that the Treasury clearly communicated what is needed to improve State sector performance.

Statistically significant areas of improvement since our last survey in 2011 were that people agreed we were looking to improve our own performance, modelling expected behaviour in public service, taking the lead in State sector performance improvement, communicating what's needed to improve sector performance and our willingness to learn from others.

While we have a way to go to reach the level of engagement and collaboration we want, it is rewarding to see evidence that our strategies for change are already delivering the results we want; so we know we are on the right track.

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5 http://www.treasury.govt.nz/publications/informationreleases/stakeholders

6 Responses were received from 32% of 732 stakeholders invited to participate.

We are establishing in-house capability to enable us to continuously improve our activities, processes and functions. Getting out and engaging with our stakeholders is also critical to success; both to hear what they have to say and to share some of our own thinking. Delivering high-quality advice, and implementing effective and durable solutions relies on our advice being informed by an understanding of what is happening in the real world. There are many examples of our values in action in this report; in particular, examples of how we collaborate with other agencies and engage with our stakeholders, and we intend to do this even more.

Improving our Efficiency

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 are committed to making improvements to our systems and processes that will ensure our resources are directed to go to our outcomes.

During 2013/14 we continued to focus on a programme of continuous improvement and rolling reviews to improve efficiency and effectiveness across our functions, and ensure our organisation is financially sustainable. We remain committed to CASS and to monitoring our improvements through the BASS programme.

Continuous improvement

The Continuous Improvement Programme undertakes Lean Six Sigma process reviews on various aspects of our business processes. This year we completed process reviews in tax and economic forecasting, fiscal forecasting and simplifying and increasing compliance with maintaining our Gift and Hospitality policies and procedures. In addition to the specific review programme, by year-end we had trained 200 of our staff in the use of introductory Lean Six Sigma techniques, and the use of visual management boards as a way of tracking progress had become a feature of team management tools which are an effective and efficient way for teams to track progress quickly and identify issues before they become problems.

Central Agency Shared Services

We established CASS in March 2012. During the first year, the primary focus was on improving our core systems, including migrating to a single payroll system and monthly financial forecasting and acquiring the skills required to deliver within the new service model. In 2013/14 we have continued to build on to and strengthen that platform.

This year focused on four primary objectives. In particular:

- increasing our efficiency to absorb cost increases; by stabilising our workforce and upskilling staff, automating processes such as recruitment and finance workflow and using Lean Six Sigma continuous improvement project on staff On-Boarding
- managing the smooth expansion in the scope of our services to include MCDEM; which transitioned from DIA to DPMC
- building stronger customer relationships through the adoption of a business partner approach, which included hot desking within the agencies, leadership engagement and developing service promises, and
- developing a plan of our future vision for CASS as a small agency shared service hub, drafted an Information Services Strategic Plan and are in the process of reviewing the makeup of the HR team to be able to cater for the future needs of the Central Agencies.

During 2013/14, OAG conducted a performance audit of CASS. The audit assessed how well CASS was set up, how effectively and efficiently it was performing and whether it had proved to be a good model for others to follow. While noting that improvements have been made and it was too early to conclude whether CASS provided a good model for others to follow, the report raised concerns about how CASS was set up. OAG's findings, which were presented to the House of Representatives in June 2014, are available on the OAG website: http://www.oag.govt.nz/2014/cass. The report findings and recommendations have been considered by the three Central Agencies. While acknowledging the historical concerns on the set up of CASS, the agencies are confident that the strategies in place now will address OAG's recommendations.

Administration and Support Corporate Services Performance

The emergency management functions transferred into DPMC in April 2014 which increased the CASS running cost budget from $10.5 million in 2013/14 to $11.9 million for 2014/15. Once the additional DPMC support is excluded, the running cost budget is equivalent to 2013/14 as CASS continues to realise service efficiencies whilst absorbing remuneration and inflationary cost pressures.

CASS has endeavoured to comply with the pre-determined metrics during a period of ongoing legacy consolidation and the introduction of new services and processes. Stakeholder satisfaction validates that pre-determined levels are being met and further refinement of our Service Level Agreements (SLAs) and associated KPIs will be a focus as part of continuous improvement in the upcoming year.

Benchmarking Administrative and Support Services measurement

Overall, the cost of Treasury administrative and support services increased in nominal terms by $365,000 between 2011/12 and 2012/13 (the latest data available at the time of publishing). The Treasury performed better than its peer group in Finance, ICT and Procurement, with the cost of HR recruitment being the only outlier.

The percentage of administrative and support services cost to total running costs has reduced from 11.76% to 9.89% by end of 2012/13. This places the Treasury in the top three of its cohort.[7]

In 2012/13, the latest data available, the Treasury performed above the median for its cohort in Finance and Legal functions, but was below the cohort median for Human Resources and Procurement. This measure is expected to improve in the 2013/14 results.

[7] Readers should note that the 2012/13 BASS figures did not include the Property Management function, and the 2011/12 figures have been adjusted accordingly.

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.[8]

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 core organisational risks and ensure that we take appropriate actions to manage them. Our overall set of risks is overseen by executive management and a Risk and Audit Committee (RAC)(a committee of the Treasury Board), which comprises three experienced external members to provide independent perspectives.

Consistent with good practice, we reviewed and modified our risk management approach during 2013/14. This is being tested and will be rolled out across the organisation during 2014/15.

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 2013/14, audits were conducted in the following areas: aspects of performance reporting; the adequacy of the application control environment for Treasury models (for example, the Treasury's forecasting model); and NZECO.

[8] NZ Risk Management Standard – AS/NZ ISO 31000:2009 defines risk as "the effect of uncertainty on objectives".

Statement of Responsibility

Pursuant to section 45C of the Public Finance Act 1989, the Secretary to the Treasury is responsible for the preparation of the Department's financial statements and statement of service performance and for the judgements made in them. Under this section the Secretary is also responsible for having in place a system of internal control procedures that provides reasonable assurance as to the integrity and reliability of the Treasury's financial reporting.

In the opinion of the Secretary to the Treasury:

- the Department's financial statements and statement of service performance fairly reflect its financial position and operations for the financial year ended 30 June 2014
- the supplementary schedules fairly reflect the assets, liabilities, contingencies and commitments managed by the Treasury on behalf of the Crown as at 30 June 2014 and revenues and expenses managed by the Treasury on behalf of the Crown for the year ended on that date, and
- the forecast financial statements fairly reflect the forecast financial position and operations of the Department for the financial year to which they relate, based on information and decisions as at 29 April 2014.

Gabriel Makhlouf
Secretary to the Treasury

30 September 2014

Fergus Welsh
Chief Financial Officer
(countersigned)

30 September 2014

Statement of Service Performance

Our Service Performance

This section describes the 11 groups of outputs that the Treasury was funded to deliver in 2013/14 and assesses our delivery against the performance measures set out in the *Information Supporting the Estimates 2013*.

Collectively these output expenses support the achievement of the outcomes set out on pages 9 to 22 of this *Annual Report*.

For each output expense, summary information has been provided on the nature of the work it covered, along with 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 2013*.

We have also included forecast performance information for the 2014/15 year. We have not provided performance information where measures are being introduced for the first time for 2014/15 and were not applicable to 2013/14.

Where a current year measure has, or is being, expired and replaced with a replacement we have labelled them accordingly and provided performance information against them for the year in which they apply.

The diagram on pages 6 and 7 of this report illustrates the relationship between our output expenses, our intermediate outcomes and outcomes.

Policy Advice – Finance

What is Intended to be Achieved with this Appropriation

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

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 2013/14, the Treasury provided advice on:

Social policy

- **Social housing reform**, including securing Cabinet approval to set up the Social Housing Establishment Unit to lead work on commercial options, fiscal implications, policy issues and implications for HNZC of making HNZC assets and capital investment contestable. We worked closely with MSD to develop a work programme for social housing purchasing which includes reform of financial assistance and a contestable trial. We also supported the smooth and successful transfer of functions, including the administration of Income Related Rents, from HNZC to MSD in April 2014.

- The **affordability and supply of housing**, including delivering the first report of three planned into availability and timeliness of infrastructure for freeing up land for housing. We developed a framework to think about the incentives on councils and are embedding this into other parts of our work. We continued to support MBIE in implementing/developing other parts of the formal work programme and associated advice. We also supported a successful project post-Budget with DPMC and MBIE stocktaking progress and assessing policy options, and had input into RBNZ's amendments to Loan Value Ratio (LVR) policy.

- The implementation of the investment approach for **welfare policy**, with the aim of reducing the level of long-term welfare dependency. The formal components are now largely in place; we have base information for future monitoring of Work and Income's performance and have been working with MSD on the 2014/15 targets and on the proposed focus of 2014/15 investments. The Multi-category Appropriation is now in place and operational.

- The financial sustainability of the **Justice** s**ector** and the options to manage both and short- and long-term cost pressures whilst delivering better services. The Treasury has worked with the Justice sector to advise Ministers on the delivery options for the Justice and Emergency Services Precinct in Christchurch.

- The **health system and its performance**, including working on health papers associated with *Affording Our Future* and the Treasury's *2013 Statement on the Long-term Fiscal Position*.

- A government policy direction for ACC funding policy in collaboration with ACC and MBIE.

- **Improving education system outcomes**; for example, by working closely with MOE on advice to establish a new professional body for the teaching profession and Investing in Educational Success. We also focused on the **effectiveness of education system expenditure and resource management**, including undertaking a joint review of institutional arrangements for the management of school property, and working with TEC to improve the quality of capital business cases for Canterbury Tertiary Education Institutions. The business case for expansion of the trade facilities at the Christchurch Polytechnic and Institute of Technology has been completed and construction is underway.

Christchurch development

- Implementing **whole-of-government procurement arrangements for Christchurch** based on joint advice from Canterbury Earthquake Recovery Authority (CERA), MBIE and the Treasury. The Treasury also provided advice, jointly with other agencies, on a delivery vehicle for central city capital projects in Christchurch, the implementation of the Cost Sharing Agreement and the finances of the Christchurch City Council. We have also supported CERA and other agencies in the development of business cases for major capital projects in Christchurch.

Resource management

- Cross-agency work on resource management including building the evidence base and developing **policy options on freshwater**, which led to a National Policy Statement underpinned by a National Objectives Framework.

- Proposed Resource Management Act 1991 reforms, including sections 6 and 7 and a tool for greater direction from central Government. The decision to transition to a domestic only ETS from 2015, which will yield significant savings.

- The options for **reforming resource management** through the Resource Management Bill 2012 and Resource Management Reform Act 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.

Infrastructure

- The **infrastructure** evidence base, including the 10-year Capital Intentions Plan, which are important steps in laying down the foundations for achieving the country's infrastructure objectives. We had a strong focus on supporting and briefing on key government engagements with local government, specifically the Central Government/Local Government annual forum and the Central Government/Auckland annual forum. We also provided advice on transport policy issues including the Auckland Transport package.

Budgeting and financial management

- **New Zealand's fiscal outlook and risks** to support the fiscal decisions that were taken in Budget 2014 and the associated BPS and FSR. This included advice on Budget and fiscal strategy incorporating macroeconomic, growth, State sector and balance sheet perspectives.

- **Capital allocation via the use of a Capital Investment Panel**. The Panel assessed the relative attractiveness of capital proposals considered in Budget 2014 from an all-of-government perspective, identifying a portfolio of capital investments that appeared most likely to provide best value to Government over the near to medium term, taking account of their potential impact on living standards, and recognising the constraints of the Future Investment Fund.

Regulatory reform

- Provided advice on changes to the **statutory disclosure regime for government-initiated legislation**. The Legislation Amendment Bill was introduced into the House of Representatives in May and now awaits its first reading debate.

International relationships and external engagement

- Advancing regional economic integration and the Government's Business Growth Agendas through the **TPP** negotiations, and arrangements to allow the direct conversion of the New Zealand Dollar and Chinese Renminbi.

Our economy and fiscal position

- **Domestic and international economic developments** in Monthly Economic Indicator reports and other reports.
- The impact of **fiscal policy settings** on monetary policy and macroeconomic stability, and options for dealing with revenue surprises and long-term fiscal objectives to support fiscal decisions in Budget 2014.
- The risks to the Crown of the **implicit guarantee of the financial sector** and options to support the operation and implementation of the Open Bank Resolution, contributed to the Australian Financial Sector Inquiry and worked with Trans-Tasman Banking Council agencies to enhance crisis preparedness, and supported the preparation of the capital markets chapter of the *Business Growth Agenda Future Direction* report.
- RBNZ's implementation of **macro-prudential tools** under the Memorandum of Understanding (MOU) established last year, with the aim of safeguarding the stability of our economy and financial markets.

During 2013/14, the Treasury also:

- engaged with **the IMF** on their Article IV report, and with rating agencies on their sovereign rating assessments so that New Zealand was accurately represented and New Zealand perspectives were considered, and
- supported the **Minister of Finance's programme of international visits** to advance New Zealand's interests abroad. These included **meetings with** G20, APEC, Asian Development Bank, IMF and the World Bank.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90%. NB: The higher the robustness score, the stronger the methodological quality of the completed assessment.	At least an average of 70%	Achieved – Average of 70% Not achieved: The survey had a methodical robustness of 87.5%	At least an average of 70%
The satisfaction of the Minister of Finance with the policy advice service, as per the common satisfaction survey.	At least 70%	75%	At least 70%
The total cost per hour of producing outputs. *Revised figures: Adjusted calculation excluding non-policy hours.*[9]	$159 *$220*	$170 *$203*	$159 *N/A*

9 The formula used to set the Total Cost Per Output Hour (TCPOH) standard/target for 2013/14 and 2014/15 was incorrectly set to include non-policy advice hours. The Treasury has now updated the TCPOH formula to exclude non-policy advice costs. The revised figures presented in the table show the targets and actual performance for 2013/14 using the revised formula.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
The welfare system operates further in line with the investment approach, based on the external valuation.	Achieved	Achieved	Achieved
Budget decisions are in line with short-term fiscal intentions in the BPS.	Achieved	Achieved	Achieved
Significant Regulatory Impact Statements meet most or all of RIA requirements.	90%	84% – Tight timeframes and shortcomings in data availability have affected the quality of some RIA and hence the achievement of this standard	90%
Tax revenue forecast error on one-year-ahead forecasts.	Less than +/- 3%	Achieved: -1.4% variance	Less than +/- 3%
Production of advice that provides options which allow the Government to deliver a credible fiscal strategy consistent with the fiscal prudence provisions of the Public Finance Act 1989. Where this advice is underpinned by modelling, major models are externally quality assured and, where appropriate, assumptions are tested with suitably qualified external experts.	Achieved	Achieved	Achieved
Expiring measure: The percentage of agencies that receive “strong” or “well placed” PIF ratings for Working for Others.	55%	51% of all reviewed agencies in the consolidated report	N/A
Expiring measure: The long-term fiscal statement (published in July 2013) is credible and robust.	Achieved	Achieved	N/A
Expiring measure: The Treasury remains amongst the top two forecasters of the New Zealand economy in forecasting GDP and CPI over a rolling 10-year period.	Achieved	Achieved	N/A

2013 Actual $000	Policy Advice – Finance	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
32,692	Expenses	31,892	34,933	34,898	34,704
	Funded by:				
32,484	Revenue Crown	31,811	34,921	34,866	34,692
208	Other revenue	81	12	32	12

Expenditure is $3.006 million under the Supplementary Estimates budget.

The majority of the expenditure variance relates to additional funding approved late in the financial year for Social Housing work that was not used as priority areas were still being determined ($1.865 million).

Provision of Financial Operations Services and Operational Advice

What is Intended to be Achieved with this Appropriation

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

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 13 full PIF reviews and eight follow-up PIF reviews. Led the upgrade to the regulatory lead question in the PIF Agency model; provided input into the remaining six upgrades; and participated in the reset and redesign of the PIF programme itself.

- Changes we are implementing to the **State Sector Act 1988, the Public Finance Act 1989 and the Crown Entities Act 2004** which were contained in the State Sector and Public Finance Reform Bill. In particular, we redesigned the Estimates and reporting requirements, and produced guidance to support more meaningful reporting against strategic intentions. The changes also provide for greater flexibility in allocating resources through multi-category appropriations.

- Advanced the reform programme to deliver better public services. Advice included further **strengthening of the mandate of specialist functional leadership within the public sector** in information technology, procurement and property through whole-of-government directions applying to key Crown entities; and a comprehensive revision of Crown entities guidance for Ministers, entities and monitors.

- We continued our focus on building the capability of priority public sector organisations by delivering global good practice products, training courses, communities of practice and executive sessions on developing Better Business Cases (BBC), and arranged for the endorsement of 13 Better Business Case Experts. We worked with NZTA to adapt BBC across the entire National Land Transport Programme, with growing wider interest from across local government.

- Continued to improve performance metrics for the **BASS** exercise to enhance its utility for decision-makers. This included all agencies moving to report a more detailed breakdown of ICT expenditure, and enhanced effectiveness indicators via new capability maturity models for HR, Communications and Legal. Reported on BASS results for 2012/13 in March 2014.

- Worked with agencies on identifying opportunities to strengthen the efficiency and effectiveness of the finance function and drive improvement in the performance of government agencies.

Budgeting, fiscal reporting and forecasting

- Delivered the **Budget 2014** 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. This included advising the Government on **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.
- Produced unqualified audited **Financial Statements of Government for 2012/13**, including a high-level summary "fiscal overview" to serve as a useful roadmap for readers, and interim months financial statements of government.
- Successfully identified and managed the impact on government reporting entities transitioning to **new Public Benefit Entity accounting standards**, including assisting entities to manage upcoming changes to their financial reporting framework.
- Worked with agencies on the **Optimise Finance Initiative**, which focused on identifying opportunities to strengthen the efficiency and effectiveness of the finance function and help to drive improvement in the performance of government agencies.

New Zealand Export Credit Office

- Issued **59 new policies with a total exposure value of $86 million** and supported exports of $306 million into 27 countries. While the number of total policies and exposure did not meet our forecast targets, in part it was owing to several examples of private insurers and banks stepping in to support the exporting firm, after NZECO's initial support helped increase their export turnover and profitability.
- Hosted a four-day conference of international export credit agencies, with 47 delegates from 22 countries. These enable NZECO to improve its information gathering particularly in emerging markets that New Zealand firms are exporting to.
- 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, 54% of businesses supported by NZECO during the year were new clients.

New Zealand Debt Management Office

- **Advanced $225 million** to support the work of government entities. Advances were made to Auckland Council ($138 million) through eight loans to develop the Auckland rail network by purchasing Electric Multiple Units (EMU) and building an EMU depot. Other advances were made to District Health Boards (DHBs) ($62 million) and HNZC ($25 million).
- Managed risk on $449 million of **interest-rate swaps** transacted for HNZC.
- Collaborated with MBIE on the preparation of the scoping and requirements to be included in the Request For Proposals document for the all-of-government **banking services tender**, with particular focus on the Crown's transactional banking arrangements.

Guarantee schemes

- Resolved outstanding litigation acquired by the Crown from receivers as part of the transfer of residual assets from receiverships under the DGS.

Public Private Partnerships

- Published a substantially revised Standard Form for PPP Project Agreements. The revisions enable future projects to benefit from developments during the first two pathfinder PPP transactions, whilst ensuring that the Crown preserves the contractual positions negotiated.
- Worked closely with NZTA to achieve contractual and financial close for Transmission Gully, providing for the delivery of a strategic link for Wellington and introducing an innovative and value for money contracting model for the procurement of roading infrastructure.
- Worked with the Department of Corrections to gain Cabinet approval for the procurement of a **new maximum security facility at Auckland Prison as a PPP** and with MOE to gain Cabinet approval for the procurement of a **new bundle of four schools as a PPP**.

Managing the Crown's balance sheet

- The Treasury produced the **Investment Statement** as required under recent amendments to the Public Finance Act 1989. The Investment Statement assessed the state and composition of the Crown's major assets and liabilities. It also discussed the importance of balance sheet management and the principles of efficient and effective balance sheet management. While the Crown balance sheet is relatively well managed, there are opportunities to improve performance in some areas.

Project monitoring assurance

- Provided project monitoring assurance over 50 high-risk government projects and independent reports to Ministers on the status and risk of these projects.
- Completed 17 Gateway Reviews since December 2013 on high-risk government projects.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
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. The output class covers the management and resolution of contingent or actual liabilities associated with various Crown commitments and assets – for instance, gas and geothermal reserves, Treaty settlements and New Zealand House. In some cases, the Treasury is a provider of second opinion advice rather than a lead agency on these matters.	Achieved	Achieved	Achieved

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Agencies comply with Cabinet's capital approval requirements and BBC standard.	100%	Not achieved – 75% Cabinet considered nearly twice as many capital investment proposals in 2013/14 as the previous year (64 by contrast to 33). However, the level of conformance with Cabinet's expectations fell from 88% to 75%. In some cases, Cabinet made more substantive policy or funding decisions before fit-for-purpose business cases were available.	100%
All new significant operating expenditure proposals received during the Budget process are subject to cost benefit analysis (or similar). The analysis should include: problem definition, intervention logic, options analysis, evaluation of the initiative's contribution to your agency's/sector's outcomes and result areas, how the new initiative will be implemented and evaluated, and options for scaling the initiative.	100%	Not achieved – 45% The Treasury analysed and provided advice to Budget Ministers on all operating initiatives. However, cost benefit analysis was not completed by departments in all cases owing to initiatives for new funding being developed late or outside the planned Budget process. We are reviewing these processes for opportunities to improve future performance.	100%
Improvement in Benchmarking Administrative and Support Services effectiveness and efficiency indicators.	Achieved	Achieved	Achieved
Audit opinion issued by the Controller and Auditor-General on the Financial Statements of Government.	Unqualified	Unqualified	Unqualified
Two *Economic and Fiscal Updates* produced, clearly explained and with conclusions tested with external panels.	Achieved	Achieved	Achieved
Monthly Financial Statements of Government produced in accordance with the Public Finance Act 1989 requirements and free from material errors.	Achieved	Achieved	Achieved
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts.	No breaches	No breaches	No breaches
Provide advice to Ministers on the risk status of major monitored projects and options for mitigation of those risks, through the tri-annual reporting process for all monitored projects and through interim briefings as required.	100% of advice and reports are provided	Achieved	100% of advice and reports are provided

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Maintain Gateway as the essential assurance methodology for major capital investments in the system. NB: the Gateway function was transferred to the Treasury from SSC from 1 December 2013. 2013/14 numbers represent performance from that date. Performance for the period July to November will appear in the *Annual Report* for SSC.	Complete at least 13 Gateway reviews in 2013/14, and 85% of Senior Responsible Owners (SROs) agree "Review was beneficial and will impact positively on the outcome of the programme/project" and "Report's recommendations will enable me to achieve improvements in the project's outcomes."	17 reviews completed between December 2013 and June 2014. 94% of SROs agreed the "Review was beneficial and will impact positively on the outcome of the programme/project." 100% of SROs agreed "Report's recommendations will enable me to achieve improvements in the project's outcomes."	Complete at least 24 reviews and 85% of SROs agree "Review was beneficial and will impact positively on the outcome of the programme/project" and "Report's recommendations will enable me to achieve improvements in the project's outcomes."
Expiring measure: Agencies' or Sectors' Four-year Plans outline a credible medium-term plan for living within baselines and delivering the Government's priorities.	100%	Not achieved – 44% In their second year of development, Four-year Plans are providing a more integrated, medium-term view of agencies' strategies and the challenges to be addressed. However, improvement is primarily needed in agencies identifying the activities and choices for realising their strategies within baselines.	N/A
Replacement measure: Percentage of Four-year Plans submitted by agencies that meet the criteria expected of a credible medium-term strategic plan.	N/A	N/A	60% target
Expiring measure: Asset performance indicators developed for key social assets.	Key indicators agreed, collected and used in analysis	Achieved – Asset performance, including utilisation, condition and fitness for purpose was closely examined in the *2014 Investment Statement*.	N/A
Replacement measure: Enhance the collection and use of agreed asset-based performance information.	N/A	N/A	Achieved
Expiring measure: Infrastructure State of the Nation report produced by 30 June.	Achieved	Achieved	N/A
Replacement measure: National Infrastructure Plan 2015 produced by 30 June 2015.	N/A	N/A	Achieved
New Zealand Export Credit Office			
New export credit policies underwritten.	82	59	80
New exports supported.	$305 million	$306 million	$300 million
New exposure of export credit policies.	$125 million	$86 million	$120 million

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Compliance with International Guidelines (OECD and World Trade Organisation [WTO]) and Delegated Mandate.	100%	100%	100%
Forecast total external engagements, including education seminars and deal-specific meetings regarding trade finance and export insurance solutions.	370	481	420
Expiring measure: Operating Expense/Earned Premium plus Application Fees ratio.	Maintained or declining	Not achieved – Increased This is owing, in part, to the majority of NZECO's larger premiums being executed in the latter part of the financial year. The measure has been dropped for 2014/15 because it can distort results.	N/A
Expiring measure: Complaints received regarding delivery of services or complaints are owing to issues outside of NZECO's mandate.	None	None	N/A
Expiring measure: 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 – 5.5%	N/A
Replacement measure: Five-year Loss Ratio (Claims Paid and Reserved/ Premium Earned).	N/A	N/A	Lower than 35%
Replacement measure: Since inception Loss Ratio (Total Claims Paid and Reserved/Total Premium Earned).	N/A	N/A	Lower than 35%

2013 Actual $000	Management and Administration of Financial Operations on behalf of the Crown	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
24,579	Expenses	31,078	23,249	33,186	29,251
	Funded by:				
21,730	Revenue Crown	27,437	23,248	29,772	27,050
3,251	Other revenue	3,239	1	3,012	2,201
402	Net surplus/(deficit)	(402)	-	(402)	-

Expenditure is $2.108 million under the Supplementary Estimates budget. The majority of this variance ($1.218 million) relates to NZECO owing to variable demand-related costs. Revenue related to this activity is recognised as premiums in Non-departmental (page 88).

Permanent Legislative Authority Funding for New Zealand Debt Management Office

What is Intended to be Achieved with this Appropriation

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

Scope of Appropriation

During 2013/14 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.

As of 1 July 2014 three PLAs are being merged into one appropriation: Administration of Crown Borrowing, Securities, Derivative Transactions and Investment PLA. The combined PLA is intended for the same purpose.

Significant Work Completed

During the year, the Treasury:

Borrowing programme

- Issued $8 billion of government bonds, achieving the targeted programme size. This compared to $14 billion in 2012/13.
- Introduced a 2030 maturity inflation indexed bond, with an initial issue via syndication raising $2.5 billion from the market. This transaction won the Kanga News 2013 New Zealand Domestic Bond Deal of the Year.
- Ran a buy-back programme which enabled investors to reduce holdings of the bond maturing in April 2015 by $2.1 billion, providing more liquidity for investment into longer term bonds.

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 overseas investor missions to the UK and Europe and support of inbound investor visits. These developed and strengthened intermediary and investor relations.

- Accompanied the Minister of Finance on visits to Hong Kong, Singapore and the US to participate in investor and rating agency presentations, including updates on the New Zealand economy and the NZDMO issuance strategy.
- Participated in, and presented at, a number of investor and sovereign peers conferences and other fora.
- Engaged with the three rating agencies (Moody's, Standard & Poor's 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 average monthly Value at Risk (VaR) limit.
- 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 a portfolio that at 30 June 2014 comprised marketable securities valued at $3.871 billion, deposits of $64 million and a cash balance of $3.414 billion. These assets were used to fund Crown operations, to provide short-term liquidity if required and to help repay debt maturities as they fall due.
- Assets were invested in a high credit quality portfolio, predominantly made up of AAA- and AA- rated securities.

Treasury services

- Provided Treasury services, and administered 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.

Technology platform redevelopment

- Commenced a project to progressively replace the existing platform that manages the end-to-end transaction capture, settlement and reporting functions for NZDMO. The creation of the Business Information Hub will enable increased functionality, flexibility and resilience in key processes. The project with take several years to fully implement, with the operating infrastructure and revaluation curves module having been completed in the 2013/14 year.

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 Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
New core borrowing is achieved at an acceptable cost relative to a dynamic benchmark, as defined within the Portfolio Management Policy.	New core borrowing cost is less than 25 basis points over the benchmark	New core borrowing cost was delivered at 5 basis points over the benchmark	New core borrowing cost is less than 25 basis points over the benchmark
Compliance with risk management policies and parameters for portfolio management and debt issuance.	No more than four breaches	Three breaches	No more than four breaches
Number of settlement errors, and financial value of losses arising from settlement errors.	No more than six errors; losses do not exceed $10,000	One error with no financial loss	No more than six errors; losses do not exceed $10,000
Expiring measure: Tender efficiency – average domestic bond tender cover ratio.	Average tender cover ratio is greater than 2	Average tender cover ratio is 2.9	N/A
Expiring measure: 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 6.5 basis points	N/A
Expiring measure: Tender efficiency – the tender process is successful.	Less than 10% of tenders result in an under-allocation of volume, owing to insufficient bids or unacceptable bid levels	No tenders resulted in an under-allocation of volume	N/A
Expiring measure: Losses incurred from the credit-related sale of securities, or from default by a counter-party have been actioned in line with the operating guidelines prescribed by the Portfolio Management Policy.	No losses	No losses	N/A
Borrowing programme is spread across the year.	Cumulative borrowing volume year to date is within 10% of the projected timing profile	Full-year borrowing programme volume achieved	Issued bonds volume variance to average requirement does not fall more than 10% behind the full-year programme volume

With the implementation of the Public Finance Amendment Act 2013, from 1 July 2014 three previous PLAs, Administration of Crown Borrowing, Administration of Derivative Transactions and Administration of Investment of Public Monies, were combined into Administration of Crown Borrowing and Investment.

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Administration of Crown Borrowing PLA				
3,999	Expenses	4,634	5,512	5,421	-
	Funded by:				
3,999	Revenue Crown	4,634	5,511	5,420	-
-	Revenue other	-	1	1	-
	Administration of Derivative Transactions PLA				
1,030	Expenses	950	1,127	983	-
	Funded by:				
1,030	Revenue Crown	950	1,125	981	-
-	Revenue other	-	2	2	-
	Administration of Investment of Public Money PLA				
677	Expenses	543	772	712	-
	Funded by:				
677	Revenue Crown	543	772	712	-
	Administration of Crown Borrowing and Investment PLA				
-	Expenses	-	-	-	8,917
	Funded by:				
-	Revenue Crown	-	-	-	8,914
-	Other revenue	-	-	-	3

Expenditure across the three PLAs is $989,000 under the Supplementary Estimates budget. The costs of administering debt servicing and development of the Business Information Hub were lower than expected.

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

What is Intended to be Achieved with this Appropriation

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

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 2013/14, the Treasury:

- resolved outstanding litigation acquired by the Crown from receivers as part of the transfer of residual assets from receiverships under the DGS, but
- 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).

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Meet our legal obligations under the Wholesale Guarantee Funding Facility and Retail Deposit Guarantee Scheme.	Achieved	Achieved	Achieved

2013 Actual $000	Administration of Guarantees and Indemnities given by the Crown Permanent Legislative Authority	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
661	Expenses	322	110	418	110
	Funded by:				
661	Revenue Crown	322	110	418	110

Expenditure is $96,000 under the Supplementary Estimates budget. Funding approved for potential legal costs in 2013/14 was not required.

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

What is Intended to be Achieved with this Appropriation

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

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 2013/14, the Treasury:

- provided Quarterly Reports on the performance of SOEs, Crown entities and other monitored entities to ownership Ministers. To achieve this, we engaged with monitored agencies, provided advice on strategy and planning documentation and ensured compliance with statutory requirements for Statements of Intent (SOIs), Statements of Corporate Intent (SCIs) and Purchase Agreements of monitored entities
- provided advice to Ministers on the completion of strategic reviews for the New Zealand Post Group, Quotable Value, Landcorp Farming, KiwiRail and Public Trust
- commissioned independent valuation reports for a number of entities in the commercial portfolio and made these publicly available via: http://www.treasury.govt.nz/commercial/publications/information-releases/valuation-reports/
- continued and extended the tailored Crown director development programme to improve governance knowledge and capability
- provided advice and support on Solid Energy's financial situation
- assessed KiwiRail's bid for funding ahead of Budget 2014 and recommended a comprehensive review of the business be undertaken to assess the likely future funding requirements for the business ahead of Budget 2015, and
- facilitated the managed wind-down of Learning Media, following the decision to wind down this company on the basis that it was no longer commercially viable.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Board appointments completed for SOEs' directors and directors for other entities.	53 SOEs' directors and 52 directors/board members for other entities	59 SOEs' directors and 62 directors/board members for other entities. This includes appointments and reappointments.	38 SOEs' directors and 29 directors/board members for other entities
Technical quality of operational advice papers regarding ownership, performance monitoring and governance as assessed through the general Treasury policy advice quality assessment process.	At least an average of 70%	Achieved – Average of 70%	At least an average of 70%
APR produced, which enables assessment of Crown company and CFI performance. NB: The Treasury applies a random sampling approach to assess the technical quality of the operational and policy advice it provides the Government. This process will ensure that at least one stream of operational advice from the Crown Ownership Monitoring Unit (COMU) is selected.	Achieved	Achieved	Achieved

2013 Actual $000	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
3,318	Expenses	5,154	4,042	5,506	4,508
	Funded by:				
3,318	Revenue Crown	5,146	4,042	5,506	4,508
-	Other revenue	8	-	-	-

Expenditure is $352,000 under the Supplementary Estimates budget owing to staff vacancies and minor delays in strategic reviews.

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

What is Intended to be Achieved with this Appropriation

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

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 2013/14, the Treasury:

- carried out a second opinion monitoring role in respect of the eight CRIs and reported on them in the Treasury's 2013 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 New Zealand Venture Investment Fund Ltd (NZVIF) business planning and risks and opportunities, and
- assisted Ministers with board appointments for CRIs, NZVIF and REANNZ.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Board appointments completed for CRIs and other entities.	23 directors	Not achieved – 20 directors	25 directors
Technical quality of operational advice papers regarding ownership, performance monitoring and governance as assessed through the general Treasury policy advice quality assessment process.	At least an average of 70%	Achieved – Average of 70%	At least an average of 70%

2013 Actual $000	Crown Company Monitoring Advice to the Minister of Science and Innovation and the Minister for Economic Development	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
384	Expenses	448	436	483	484
	Funded by:				
384	Revenue Crown	448	436	483	484

Expenditure is $35,000 under the Supplementary Estimates budget owing to staff vacancies and minor delays in strategic reviews.

Implementation of Mixed Ownership Model (Multi-year Appropriation)

What is Intended to be Achieved with this Appropriation

This appropriation is intended to achieve a deepening of capital markets, an enhancement of capital market disciplines and reduced pressure on the Crown to borrow for capital projects.

Scope of Appropriation

This appropriation is limited to expenses incurred in the following:

- Implementation of Mixed Ownership Model – This appropriation is limited to the policy, operational and transactional work to implement the MOM. Commenced on 15 December 2011 and expires on 30 June 2015.
- Direct Sale Costs for Implementing the Mixed Ownership Model – This appropriation is limited to the direct sales costs of implementing the MOM. Commenced on 15 December 2011 and expires on 30 June 2015.
- Loyalty Bonus Scheme Related to Initial Public Offers – This appropriation is limited to expenses incurred by allocating shares under a loyalty bonus scheme to eligible investors in initial public offers. Commenced on 1 March 2013 and expires on 30 June 2016.

Significant Work Completed

During 2013/14, the Treasury:

- completed the Meridian Initial Public Offer (IPO) on schedule and within budget. The IPO met the Government's objectives of widespread New Zealand ownership and raised $1.88 billion for the Crown's Future Investment Fund. Over 62,000 New Zealanders subscribed for shares in the company representing a New Zealand ownership level of 86.5%
- completed the sale of 20% of the shares in Air New Zealand, raising $370 million for the Crown's Future Investment Fund and reducing the Crown's ownership of the company to 53%. The shares were sold at no discount to the market price at close of business immediately before the transaction, and
- completed the Genesis IPO on schedule and within budget. The IPO met the Government's objectives of widespread New Zealand ownership and raised $730 million for the Crown's Future Investment Fund. Over 68,000 New Zealanders subscribed for shares in the company representing a New Zealand ownership level of 88%.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Technical quality of operational advice papers regarding ownership, performance monitoring and governance as assessed through the general Treasury policy advice quality assessment process.	At least an average of 70%	Achieved – Average of 70%	At least an average of 70%
Sufficient domestic demand is created such that 85% to 90% of shares are held by New Zealanders.	Achieved	Achieved	Achieved
The process for each IPO exceeds an agreed reserve value.	Achieved	Achieved	Achieved
The costs of the sale programme do not exceed 2% of the sale proceeds.	Achieved	Achieved	Achieved

2013 Actual $000	Implementation of Mixed Ownership Model	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
10,345	Expenses	10,042	15,313	12,333	-
	Funded by:				
10,345	Revenue Crown	10,042	15,313	12,333	-

Expenditure is $2.291 million under the Supplementary Estimates budget. The Government Share Offer Programme has completed.

Appropriations, Adjustments and Use	$000
Implementation of Mixed Ownership Model Commenced on 15 December 2011 and expires on 30 June 2015	
Original Appropriation	46,802
Adjustments to 2012/13	-
Adjustments for 2013/14	(17,485)
Adjusted Appropriation	29,317
Actual to 2012/13 Year End	16,984
Actual to 2013/14 Year End	10,042
Estimated Actual for 2014/15	-
Estimated Appropriation Remaining	2,291

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

What is Intended to be Achieved with this Appropriation

This appropriation is intended to deliver high-quality administrative services to the New Zealand Local Government Funding Agency (LGFA) to enable it to optimise the debt funding terms and conditions for participating local authorities.

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 LGFA.

Significant Work Completed

During 2013/14, the Treasury:

- provided services to LGFA, including bond tendering, processing on-lending to local councils, executing investment and derivative transactions, settling transactions and regular valuation, finance and risk reports
- managed the risk on $955 million of interest-rate swaps transacted for LGFA, and
- charged fees to cover the costs of providing these services, in accordance with the SLA.

Performance Measure	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Agreed service level standards are met.	Achieved	Achieved	Achieved

2013 Actual $000	Provision of Financial Services to the New Zealand Local Government Funding Agency RDA	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
146	Expenses	154	165	165	165
	Funded by:				
146	Other revenue	154	165	165	165

Expenditure is $11,000 under the Supplementary Estimates budget owing to minor timing variations.

Shared Support Services

What is Intended to be Achieved with this Appropriation

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

Scope of Appropriation

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

Significant Work Completed

During 2013/14, the Treasury:

- delivered finance, human resources, information management and technology services to SSC and DPMC
- continued standardising and enhancing the Central Agencies' operating environment; in particular, upgrading the payroll system, undertaking a major refresh and consolidation of CASS IT infrastructure, implementing Finance workflow and implementing e-recruitment. These enhancements are intended to deliver greater network resilience and performance, improved security and reduced risks. In addition we have taken up support for the MCDEM as it was merged into DPMC, and
- achieved the objectives for the second year of operation; which entailed reducing risk, building resilience, expanding its services to include MCDEM and starting to develop the future vision for ICT and for CASS as a whole.

Performance Dimensions	Target for 2013/14	Performance for 2013/14	Forecast for 2014/15
Service level standards are met to the standards and timeframes agreed with the three Central Agencies.	Achieved	Achieved	Achieved

2013 Actual $000	Shared Support Services	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
6,381	Expenses	7,430	8,000	9,654	10,400
	Funded by:				
6,381	Other revenue	7,430	8,000	9,654	10,400

Expenditure is $2.224 million under the Supplementary Estimates budget and this is also reflected in the lower Departmental Revenue charged for these services. MCDEM activities moved from DIA to DPMC from 1 April 2014, which increased related support services. The transition is continuing into 2014/15 resulting in under-expenditure in 2013/14.

Ministerial Servicing Performance 2013/14

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's workflow management system has recently been enhanced to provide improved reporting on Ministerial Servicing. Easier availability of data, together with increased managerial focus, is expected to improve the Ministerial Servicing statistics.

	PQ	MC	MOIA	TOIA
Total for all Votes (estimated volume for full year)	400	1000	160	260
Actual volume of replies completed to 30 June 2014	308	452	114	185
Target % answered by due date	100%	95%	100%	100%
Actual % answered by due date	89%	78%	82%	78%
Target % first draft accepted	100%	95%	95%	N/A
Actual % first draft accepted	98%	85%	88%	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 2013/14

As in previous years, a panel of experienced policy leaders within the Treasury was commissioned to review a sample of the Treasury's policy advice for the 2013/14 year. 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.

The panel was run jointly with SSC, which ensures an external perspective to the assessment of advice.

The panel looked at a representative sample of advice selected using a randomised methodology.

The review found that:

- the average grade for assessed reports was 7 out of 10; a slight decrease on last year's grade of 7.2. Given the small sample size we cannot determine whether this is of statistical significance, and
- 70% of reports were graded 7 out of 10 or higher; by contrast to 81% last year.

These results mean we have achieved our target of achieving at least an average of 70% and provide confidence that we are maintaining a satisfactory level of quality and the strengths and weaknesses identified remain consistent with previous annual reviews.

The strengths identified included: a clear logical structure to the papers, with good use of evidence and stakeholder engagement and clear options analysis. The language was plain and easy to understand with a strong focus on customer needs and interests.

The areas for improvement included a greater clarity of purpose in advice and providing succinct background information about the context in which the paper was written.

We are working through these findings with a view to determining any further actions we could take to lift the quality of our policy advice.

Financial Statements – Departmental

for the year ended 30 June 2014

Statement of Comprehensive Income

for the year ended 30 June 2014

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 2014. Total expenses equals total departmental output classes expenditure and appropriations in the Statement of Departmental Expenses and Capital Expenditure Against Appropriations on page 63.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Income					
74,628	Revenue Crown	2,19	81,333	85,478	90,491	75,758
9,986	Other revenue	3	10,912	8,181	12,866	12,781
84,614	Total income		92,245	93,659	103,357	88,539
	Expenditure					
50,191	Personnel costs	4	55,260	50,476	55,142	55,747
2,017	Depreciation and amortisation expense	8, 9	2,840	2,710	3,057	2,588
717	Capital charge	5	717	717	717	1,013
31,287	Other operating expenses	6	33,830	39,756	44,843	29,191
84,212	Total expenditure		92,647	93,659	103,759	88,539
402	Net surplus / (deficit) and comprehensive income	12	(402)	-	(402)	-

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

Statement of Changes in Equity

for the year ended 30 June 2014

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.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
8,957	Balance as at 1 July 2013	18	8,957	8,957	8,957	12,660
402	Comprehensive income / (expense)	12	(402)	-	(402)	-
(402)	Return of operating surplus to the Crown	12	-	-	-	-
-	Transfer from other agencies	19	4,392	700	4,392	700
-	Other		402	-	-	-
8,957	Balance as at 30 June 2014		13,349	9,657	12,947	13,360

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

Statement of Financial Position

as at 30 June 2014

The Statement of Financial Position reports the total assets and liabilities of the Treasury as at 30 June 2014. Taxpayers' funds are represented by the difference between the assets and liabilities.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Assets					
	Current assets					
4,926	Cash and cash equivalents	17	13,288	7,650	11,689	3,815
1,700	Debtors and other receivables	7	2,654	1,019	1,400	1,400
8,485	Debtors Crown		886	3,000	1,536	7,000
910	Prepayments		314	468	903	903
16,021	Total current assets		17,142	12,137	15,528	13,118
	Non-current assets					
3,966	Property, plant and equipment	8	3,929	4,542	3,828	4,833
1,315	Intangible assets	9	3,741	4,411	5,394	6,267
5,281	Total non-current assets		7,670	8,953	9,222	11,100
21,302	Total assets		24,812	21,090	24,750	24,218
	Liabilities					
	Current liabilities					
5,887	Creditors and other payables	11	5,216	5,701	5,703	4,758
402	Repayment of surplus	12	-	-	-	-
5,156	Employee entitlements	13	5,451	4,862	5,200	5,200
11,445	Total current liabilities		10,667	10,563	10,903	9,958
	Non-current liabilities					
900	Employee entitlements	13	796	870	900	900
900	Total non-current liabilities		796	870	900	900
12,345	Total liabilities		11,463	11,433	11,803	10,858
8,957	Net assets		13,349	9,657	12,947	13,360
	Equity					
8,957	Taxpayers' funds		13,349	9,657	12,947	13,360
8,957	Total equity		13,349	9,657	12,947	13,360

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

Statement of Cash Flows

for the year ended 30 June 2014

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 60.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Cash flows from operating activities					
69,982	Receipts from Crown		88,932	82,853	87,634	74,919
10,607	Receipts from other revenue		9,707	8,191	14,515	12,781
(31,161)	Payments to suppliers		(33,156)	(39,362)	(42,263)	(29,002)
(49,990)	Payments to employees		(54,993)	(47,927)	(50,741)	(54,193)
(717)	Payments for capital charge		(717)	(717)	(717)	(1,013)
126	Goods and services tax (net)		77	(3)	231	397
(1,153)	Net cash flows from operating activities	14	9,850	3,035	8,659	3,889
	Cash flows from investing activities					
(891)	Purchase of property, plant and equipment		(1,802)	(1,238)	(1,826)	(2,593)
(774)	Purchase of intangible assets		(1,752)	(2,550)	(1,962)	(2,240)
(1,665)	Net cash flows from investing activities		(3,554)	(3,788)	(3,788)	(4,833)
	Cash flows from financing activities					
-	Capital contributions		2,066	700	1,892	700
-	Net cash flows from financing activities		2,066	700	1,892	700
(2,818)	Net (decrease) / increase in cash		8,362	(53)	6,763	(244)
7,744	Cash at the beginning of the year		4,926	7,703	4,926	4,059
4,926	Cash at the end of the year		13,288	7,650	11,689	3,815

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 2014

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 60.

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Vote Finance: Departmental Output Classes				
3,999	Administration of Crown Borrowing PLA	4,634	5,512	5,421	-
1,030	Administration of Derivative Transactions PLA	950	1,127	983	-
661	Administration of Guarantees and Indemnities given by the Crown PLA	322	110	418	110
677	Administration of Investment of Public Money PLA	543	772	712	-
-	Administration of Crown Borrowing and Investment PLA	-	-	-	8,917
384	Crown Company Monitoring Advice to the Minister for Science and Innovation and the Minister for Economic Development	448	436	483	484
3,318	Crown Company Monitoring Advice to the Minister for State-Owned Enterprises and Other Responsible Ministers	5,154	4,042	5,506	4,508
10,345	Implementation of Mixed Ownership Model MYA	10,042	15,313	12,333	-
32,692	Policy Advice – Finance	31,892	34,933	34,898	34,704
24,579	Provision of Financial Operations Services and Operational Advice	31,078	23,249	33,186	29,251
146	Provision of Financial Services to the New Zealand Local Government Funding Agency RDA	154	165	165	165
6,381	Shared Support Services	7,430	8,000	9,654	10,400
84,212	Total Vote Finance: Departmental Output Classes	92,647	93,659	103,759	88,539
	Appropriations for capital expenses				
1,807	Total departmental capital expenditure	5,350	3,788	4,496	4,833

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

Statement of Commitments

2013 Actual $000		2014 Actual $000
	Non-cancellable operating lease commitments	
5,641	Not later than 1 year	3,983
10,298	Later than 1 year and not later than 5 years	7,049
-	Later than 5 years	-
15,939	Total non-cancellable operating lease commitments	11,032
15,939	Total commitments	11,032

Capital commitments

There are no capital commitments for this year (30 June 2013: 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 and Contingent Assets

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 2014, the Department had no quantifiable departmental contingent assets and liabilities (30 June 2013: 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 2014

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 the External Reporting Board's Accounting Standards Framework.

The Financial Statements of the Treasury are for the year ended 30 June 2014. The unaudited Forecast Financial Statements are for the year ended 30 June 2015 which were prepared on 14 April 2014 (BEFU). These Financial Statements were authorised for issue by the Secretary to the Treasury on 30 September 2014.

Statement of compliance

The Financial Statements and Forecast 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.

Public Benefit Entities are required to report under the new Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) from 1 July 2014. The new standards will affect disclosures. The changes have not been reflected in the current year.

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 issued for public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the 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 have been developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means the Treasury will transition to the new standards in preparing its 30 June 2015 Financial Statements.

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 when the transaction occurs.

Revenue Crown

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

Revenue other

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 2014. 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 comprises 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	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 it 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

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 2014, 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.

Forecast figures

Basis of preparation

These Forecast Financial Statements have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) International Public Sector Accounting Standards (IPSAS) and are unaudited. While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

These are the first set of prospective financial statements presented under NZ PBE IPSAS. They are compliant with PBE FRS – 42 Prospective Financial Statements and are consistent with Generally Accepted Accounting Practice. The purpose of the Forecast Financial Statements is to facilitate Parliament's consideration of the appropriation for, and planned performance of, the Department. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast information presented and that the variations may be material.

These financial forecasts are based on BEFU and have been prepared on the basis of assumptions as to future events that the Department reasonably expects to occur, associated with the actions it reasonably expects to take. They have been compiled on the basis of existing government policies and ministerial expectations at the date that the information was prepared.

The actual results will remain substantially the same as the previous year. Additional factors that could lead to material differences between the Forecast Financial Statements and the 2012/13 Actual Financial Statements include changes to the baseline budget through new initiatives, transfer of funding across financial years or technical adjustment.

Comment on PBE IPSAS accounting policies

Prospective financial statements have been prepared in accordance with the accounting policies expected to be used in the future for reporting historical general purpose financial statements. This is the first set of prospective financial statements prepared under PBE IPSAS accounting policies. While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

Authorisation statement

These Forecast Financial Statements were authorised for issue by the Secretary and Chief Executive of the Treasury on 14 April 2014. The Secretary and Chief Executive is responsible for the Forecast Financial Statements presented, including the appropriateness of the assumptions underlying the Forecast Financial Statements and all other required disclosure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

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 cannot be identified with a specific output. Indirect costs are allocated to each output class based on cost drivers, related activity and usage information.

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

Central Agency Shared 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.

Changes in deliverables

The Gateway and Major Project Monitoring function was transferred from SSC to the Treasury on 2 December 2013.

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

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $0000
6,381	Cost recoveries from SSC and DPMC for CASS	7,430	7,046	9,607	10,400
1,079	Cost recoveries for State Sector Productivity	450	-	544	-
1,535	Cost recoveries for Secondments	1,177	993	1,200	2,178
991	Other	1,855	142	1,515	203
9,986	Total other and departmental revenue	10,912	8,181	12,866	12,781

4 Personnel Costs

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
46,542	Salaries and wages	50,694	46,407	50,049	50,218
1,432	Superannuation contributions to defined contribution plans	1,751	1,706	2,173	2,321
(9)	Increase / (decrease) in employee entitlements	67	466	-	-
991	Training and development	1,442	1,589	1,521	1,840
1,235	Other	1,306	308	1,399	1,368
50,191	Total personnel costs	55,260	50,476	55,142	55,747

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 2014 year was 8% (2013: 8%).

6 Other Operating Expenses

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
2,933	Lease of premises	2,823	3,126	2,929	2,786
1,111	Occupancy costs	1,435	1,078	1,541	1,573
964	Bank fees, commissions and service charges	924	974	964	920
	Fees to Auditor:				
334	▸ fees to KPMG for audit of the Department and NZDMO	306	717	790	497
151	▸ fees for internal audit (Deloittes)	219	186	133	133
351	▸ fees for audit of Financial Statements of Government	279	121	206	206
	Consultants:				
6,609	▸ Government share offers	4,854	6,267	7,847	-
8,146	▸ Other consultants	10,257	9,033	15,711	7,573
	Legal fees:				
1,270	▸ Government share offers	3,064	2,872	2,252	-
91	▸ Other legal fees	764	1,404	1,665	1,066
	Process management services:				
6	▸ Government share offers	8	3,757	-	-
1,531	▸ Other process management services	727	2,264	1,522	2,233
1,696	Transport and travel	1,963	2,242	2,326	2,005
	Information and communication costs:				
1,732	Other information and communication costs	2,020	1,794	1,795	1,925
1,501	Data processing costs	1,945	1,886	2,048	3,138
563	Office administration costs	595	627	692	694
167	Restructuring costs	38	-	-	-
861	Other operating costs	1,609	1,408	2,422	4,442
31,287	Total operating expenses	33,830	39,756	44,843	29,191

7 Debtors and Other Receivables

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
397	Trade debtors	215	100	400	400
1,306	Accrued revenue and other receivables	2,439	919	1,000	1,000
(3)	Less: provision for doubtful debts	-	-	-	-
1,303	Net accrued revenue and other receivables	2,439	919	1,000	1,000
1,700	Total debtors and other receivables	2,654	1,019	1,400	1,400

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

	Gross $000	2014 Impairment $000	Net $000	Gross $000	2013 Impairment $000	Net $000
Cost						
Current	2,320	-	2,320	1,506	-	1,506
Past due 31–60 days	296	-	296	177	-	177
Past due 61–90 days	-	-	-	1	-	1
Past due > 91 days	38	-	38	19	(3)	16
Total	2,654	-	2,654	1,703	(3)	1,700

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 2013	4,749	620	1,391	5,189	11,949
Additions	89	72	-	1,873	2,034
Disposals	(15)	(11)	(7)	(1,232)	(1,265)
Balance at 30 June 2014	4,823	681	1,384	5,830	12,718
Accumulated depreciation and impairment losses					
Balance at 1 July 2013	3,320	555	1,154	2,954	7,983
Depreciation expense	657	21	74	1,268	2,020
Disposals	(10)	(11)	(6)	(1,187)	(1,214)
Impairment losses	-	-	-	-	-
Balance at 30 June 2014	3,967	565	1,222	3,035	8,789
Carrying amounts					
At 1 July 2012	1,861	63	314	2,351	4,589
At 30 June/1 July 2013	1,429	65	237	2,235	3,966
At 30 June 2014	856	116	162	2,795	3,929

Additions for 2013/14 include $273,000 transferred from DIA with the transition of MCDEM.

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 2013	1,219	1,720	2,939
Additions/transfers	3,283	33	3,316
Disposals	(17)	(70)	(87)
Balance at 30 June 2014	4,485	1,683	6,168
Accumulated amortisation and impairment losses			
Balance at 1 July 2013	1,013	611	1,624
Amortisation expense	189	631	820
Disposals	(17)	-	(17)
Balance at 30 June 2014	1,185	1,242	2,427
Carrying amounts			
At 1 July 2012	411	512	923
At 30 June 2012/1 July 2013	206	1,109	1,315
At 30 June 2014	3,300	441	3,741

Additions for 2013/14 include $2.047 million transferred from DIA with the transition of MCDEM.

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

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
4	Furniture and fittings	-	55	118
14	Leasehold improvements	89	530	448
995	Computer hardware	1,873	611	1,341
20	Office machinery	72	42	39
1,033	Total property, plant and equipment	2,034	1,238	1,946
774	Internally generated software	33	815	815
-	Other software	3,283	1735	1,735
774	Total intangibles	3,316	2,550	2,550
1,807	Total capital expenditure	5,350	3,788	4,496

11 Creditors and Other Payables

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
1,862	Sundry creditors	2,008	300	1,000
3,288	Accrued expenses	2,396	5,001	3,903
737	GST and other taxes payable	812	400	800
5,887	Total creditors and other payables	5,216	5,701	5,703

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 had a surplus of $402,000 in the 2012/13 financial year and had obtained permission to retain it.

This has been appropriated this year, resulting in a corresponding offsetting loss in 2013/14, which was charged against taxpayers’ funds at the end of the 2013/14 year.

13 Provision for Employee Entitlements

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Current liabilities				
1,476	Accrued salaries	1,514	836	816	2,000
439	Accrued performance payments	477	264	264	100
2,790	Annual leave	3,007	2,599	2,987	2,200
96	Sick leave	73	143	140	100
355	Retirement, resigning and long service leave	332	473	462	300
-	Other employee entitlements	48	546	532	500
5,156	Total current portion	5,451	4,862	5,200	5,200
	Non-current liabilities				
900	Retirement, resigning and long service leave	796	870	900	900
900	Total non-current portion	796	870	900	900
6,056	Total employee entitlements	6,247	5,732	6,100	6,100

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

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
402	Net surplus (deficit)	(402)	-	(402)
	Non-cash items:			
2,017	Depreciation, amortisation and impairment expenses	2,840	2,710	3,057
2,017	Total non-cash items	2,840	2,710	3,057
	Add/(less) items classified as investing or financing activities:			
20	Net (Gains)/Losses on disposal of property, plant and equipment	54	-	-
	Add/(less) movements in deferrals and accruals:			
(4,646)	(Increase)/Decrease in debtor – Crown	7,599	3,696	2,303
1,568	(Increase)/Decrease in debtors and other receivables	(309)	(3,367)	1,342
(535)	(Increase)/Decrease in prepayments	601	-	-
(177)	Increase/(Decrease) in creditors and other payables	(796)	(1)	2,013
126	Increase/(Decrease) in GST	74	(3)	231
1	Increase/(Decrease) in provisions	(2)	(546)	(829)
71	Increase/(Decrease) in employee entitlements	191	546	944
(3,592)	Net movement in working capital items	7,358	325	6,004
(1,153)	Net cash flow from operating activities	9,850	3,035	8,659

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 $81.333 million to provide services to the public for the year ended 30 June 2014 (2013: $74.628 million).

In conducting its activities, the Treasury is required to pay various taxes and levies (such as GST, Fringe Benefit Tax [FBT], Pay-as-you-earn tax [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 2014 totalled $5.534 million (2013: $5.401 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, DPMC, Ministry of Foreign Affairs and Trade, SSC, DIA, MBIE and Statistics New Zealand.

2013 Actual $000		2014 Actual $000
3,166	Salaries and other short-term employee benefits	3,032
81	Post-employment benefits	102
-	Termination payments	221
4	Other long-term employee benefits	4
137	Board member fees	152
3,389	Total key management personnel compensation	3,495

Key management personnel of the Treasury at 30 June 2014 included the ELT (Chief Executive, one Deputy Chief Executive and five Deputy Secretaries) plus the Treasury Board fees. In early February 2014 the ELT structure was revised resulting in a smaller ELT with three roles being disestablished and two positions made redundant. The termination costs are included in the table.

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 (2013: Nil).

16 Events After Balance Date

There were no events subsequent to balance date that required adjustment to the Financial Statements or disclosure (2013: 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:

2013 Actual $000		2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Unaudited Forecast as per BEFU 2014 $000
	Loans and receivables				
4,926	Cash and cash equivalents	13,288	7,650	11,689	3,815
2,610	Debtors and other receivables	2,968	1,487	3,839	2,303
7,536	Total loans and receivables	16,256	9,137	15,528	6,118
	Financial liabilities				
5,887	Creditors and other payables	5,216	5,701	5,703	4,758

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
2014			
Creditors and other provisions	5,216	5,216	-
2013			
Creditors and other provisions	5,887	5,887	-

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

Statement of Comprehensive Income

The following major variations occurred between the 2013/14 Main Estimates budget and the Supplementary Estimates:

- The implementation of the government share offers work programme decreased costs in 2013/14 by $2.98 million reflecting a transfer of funding to the Non-departmental appropriations.
- Shared support services increased for DPMC owing to additional support for Emergency Management Services that transferred to DPMC from DIA from 1 April 2014. Revenue and expenditure increased by $2.8 million compared to 2012/13. Cost recoverable services to other agencies also increased revenue and expenditure budgets by $1.4 million.
- The Gateway and Major Project Monitoring functions transferred to the Treasury from SSC from 2 December 2013. This increased revenue and expenditure budgets by $1.5 million. New funding increased costs in 2013/14 for the Analytics and Insight programme by $2 million and $1.9 million for Social Housing.
- A range of approvals was given to transfer funding from 2012/13 ($3 million). This includes the retention of $400,000 surplus from prior year rent recoveries, $800,000 associated with shared service work programme, $500,000 for monitoring activity for ACC and HNZC and a number of smaller transfer amounts for a range of project work.

The following major budget variations occurred between the 2013/14 Actuals and the 2013/14 Supplementary Estimates budgets:

- Lower expenditure than forecast in the multi-year funding provided for the government share offers ($2.288 million).
- Shared Support Services expenditure and revenue were below budget by $2.2 million. Increased funding in 2013/14 reflected the transfer of Emergency Management Services to DPMC from 1 April 2014 which were not fully spent by 30 June 2014.
- Expenditure on NZDMO activities was lower than anticipated by $1 million owing to change in timing in development of the new business information system.
- Additional funding for social housing work was approved late in the financial year; $1.865 million of this funding remains unused, while priority areas were determined.
- NZECO expenditure was below budget by $1.2 million. This activity is cost recovered through non-departmental revenues.
- A number of other projects across the Treasury were delivered with a lower level of consultancy spend, including Analytics and Insights programme and performance improvement initiatives.

Statement of Financial Position

The following major variations occurred between the 2013/14 and the 2012/13 Actuals:

- Intangible assets increased as a result of Emergency Management functions transferring from DIA.

The following major budget variations occurred between the 2013/14 Actuals and the 2013/14 Supplementary Estimates budgets:

- Cash balances were higher and reflect additional draw-downs against the Crown debtor than budgeted.
- The increase in debtors and receivables reflects the increased support service charges provided for Emergency Management functions in DPMC and additional debtors associated with Gateway services.
- Capital expenditure programme was lower than anticipated for intangible assets for the Business Information Hub and on the IT development programme.

Supplementary Financial Schedules – Non-departmental

for the year ended 30 June 2014

Schedule of Expenses

for the year ended 30 June 2014

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 97 to 105.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
	Vote Finance				
5,704	Non-departmental output classes		5,688	6,709	6,853
3,662,183	Borrowing expenses	23(c)	3,549,500	3,492,841	3,554,913
745,918	Other expenses incurred by the Crown		807,028	747,750	839,838
	Re-measurements:				
118	Change in DGS receivable revaluation	2(a)	387	-	-
3,947	Change in Southern Response Earthquake Services Ltd (SRESL) provision	26	-	-	4,600
3,106	Investment in Associates impairment	11	-	-	-
-	Loss on sale of Landcorp – Opouahi Station to Office of Treaty Settlements	12	3,990	-	-
7,436	Foreign Exchange losses incurred by the Treasury	10	21,997	-	-
216,000	Fair value losses incurred by NZDMO	23(d)	140,000	147,000	168,000
-	Change in initial recognition of financial assets – NZDMO	23(e)	113,843	-	122,000
4,644,412	Total non-departmental expenses		4,642,433	4,394,300	4,696,204

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 2014.

Schedule of Expenditure and Appropriations

for the year ended 30 June 2014

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

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
	Vote Finance				
	Non-departmental output classes				
35	Management of New Zealand House, London	21	201	1,000	1,000
323	Management of Crown's Obligations for Geothermal Wells		106	151	295
318	Management of the New Zealand Superannuation Fund		351	528	528
5,028	Inquiries and Research into Productivity-related Matters MCOA		5,030	5,030	5,030
4,525	▸ *Inquiries into Productivity-related Matters*		*4,527*	*4,527*	*4,527*
503	▸ *Research into and Promotion of Productivity-related Matters*		*503*	*503*	*503*
5,704			5,688	6,709	6,853
	Borrowing expenses				
3,662,183	Debt servicing[10]	23(c)	3,549,500	3,492,841	3,554,913
3,662,183			3,549,500	3,492,841	3,554,913
	Other expenses incurred by the Crown				
10,258	New Zealand House, London	21	12,066	13,000	12,800
5	Crown Residual Liabilities		49	230	455
-	Geothermal Wells Fund		-	500	500
2	Government Superannuation Appeals Board		2	50	50
24,767	Government Superannuation Fund Authority – Crown's Share of Expenses[10]	8	28,758	24,599	27,856
610,150	Government Superannuation Fund Unfunded Liability[10]	7	613,744	635,803	619,174
-	Impairment of Loans to Taitokerau Forests Limited	28	261	800	200
-	Impairment of Learning Media	29	4,059	-	7,700
17,607	Landcorp Protected Land Agreement – Operating	12	557	2,000	4,857
24,677	Loyalty Bonus Scheme Related to Initial Public Offers[11]	17	22,135	-	27,423
21,511	Direct Sale Costs for Implementing the Mixed Ownership Model[11]	13-17	32,778	33,850	40,974
27,078	National Provident Fund Schemes – Liability Crown Under Crown Guarantee[10]	18	27,408	26,000	26,000

[10] These expenses or capital expenditures have permanent legislative authority.

[11] Multi-year Appropriation.

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
-	Payments in respect of NZECO Guarantees and Indemnities[12]	20	1,412	-	527
4	Payments in respect of Guarantees and Indemnities[12]	2(a)	-	-	83
-	Renegotiation of New Zealand House Lease		187	-	200
-	Solid Energy Share Impairment	27	25,000	-	25,000
156	Taitokerau Forests Limited Grant	28	-	200	244
1	Unclaimed Money[12]	5	98	250	250
-	Unclaimed Trust Money[12]	5	-	250	250
-	New Zealand Aluminium Smelters – Electricity Agreement Incentive Payment		30,000	-	30,000
9,702	Unwind of Discount Rate used in the Present Value Calculation of Payment under Crown Deed of Support with AMI Insurance Ltd (AMI)	26	8,514	10,218	15,295
745,918			807,028	747,750	839,838
	Capital expenditure				
54,809	Crown Asset Management Limited (CAML) Equity Injection	2(b)	4,000	-	10,000
35,164	International Financial Institutions[12]	10	25,310	212,000	212,000
5,591	Landcorp Protected Land Agreement – Capital	12	1,622	2,000	4,409
-	New Zealand House, London – Capital	21	-	750	750
-	Solid Energy New Zealand Limited Loan Facility	27	-	-	130,000
-	Solid Energy Redeemable Preference Shares	27	25,000	-	25,000
1,359	Taitokerau Forests	28	1,200	800	1,700
-	Learning Media	29	4,059	-	7,700
96,923			61,191	215,550	391,559
4,510,728	Total non-departmental expenditure and appropriations		4,423,407	4,462,850	4,793,163

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 2014.

[12] These expenses or capital expenditures have permanent legislative authority.

Statement of Unappropriated Expenditure

for the year ended 30 June 2014

There was one item of unappropriated expenditure in Vote Finance in the year ended 30 June 2014.

Appropriation Type	Appropriation Name	Appropriated Expenditure in 2013/14 $000	Total Expenditure, Expenses or Liabilities Incurred $000	Unapproved Unappropriated Expenses $000	Appropriated Expenditure in 2014/15 $000
Non-departmental other expense	Impairment of Loans to Taitokerau Forest Limited	200	261	61	200

The Rewarewa forest did not produce sufficient net proceeds to repay its portion of Taitokerau's total debt to the Crown resulting in a write-off of the loan of $261,000. This impairment was not expected in this fiscal year.

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 2014.

Schedule of Revenue

for the year ended 30 June 2014

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
	Vote Finance				
1,840,769	Capital charge	1	1,860,704	1,840,444	1,857,397
1,251,351	Change in GSF Unfunded Liability	7	576,691	-	712,691
52,461	Change in National Provident Fund (NPF) Unfunded Liability	18	21,872	-	-
22,979	Change in Crown DGS Assets	2(a)	-	-	-
1,514	Change in Crown DGS Liabilities		-	-	-
8,785	Change in International Financial Institutions investment	10	-	-	-
-	Change in initial recognition of financial assets – NZDMO	23(e)	15,407	-	-
13,259	Change in SRESL Crown Support Deed	26	-	-	36,531
3,230	Change in Loyalty Bonus Scheme provision	14	-	-	-
29,341	Crown Wholesale Guarantee Facility	2(c)	26,364	26,362	26,362
11,287	Dividends from Crown entities	3	67,761	9,765	67,721
727,337	Dividends from SOEs	3	719,627	908,110	718,827
2,705	Dividends – other	3	5,593	2,505	2,505
10,000	Earthquake Commission guarantee fee	4	10,000	10,000	10,000
42,089	Employers' superannuation contributions	9	39,669	42,300	41,399
1,498,646	Gain on sale from Government Share Offers	14-17	2,003,158	-	1,977,361
1,907	NZECO	20	1,889	1,536	2,349
254,694	Interest from investments	23(a)	186,088	238,990	238,990
3,453	Interest income – other		4,455	1,502	4,000
-	Other gain on sale of shares		5	-	-
(153)	Other gain on derivatives		186	-	-
173,853	Other income – NZDMO	23(a)	175,364	174,508	155,010
294,183	Other revenue – NZDMO (gains on derivatives)	23(b)	226,936	181,841	217,000
9,710	Rentals from Crown overseas properties	21	11,506	9,500	9,500
160,000	RBNZ notional surplus	25	175,000	228,000	175,000
2,000	Foreign exchange (losses)/gains incurred by NZDMO		-	-	(1,000)
-	Foreign exchange (losses)/gains incurred by the Treasury		66	-	-
8,401	Other current revenue	24	59,295	2,565	79,400
3,796	Other fees		3,744	3,752	7,117
1,427	Unclaimed money		670	500	500
250	Dividends from CRIs		2,000	-	1,987
6,429,274	Total non-departmental revenue		6,194,050	3,682,180	6,340,647

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 2014.

Schedule of Capital Receipts

for the year ended 30 June 2014

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

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
	Vote Finance				
116,822	Capital withdrawal from Crown entities	2(b)	30,472	41,561	30,472
1,263	Loan repayments from other parties	28	661	-	-
215,761	Repayments from Deposit Guarantee Scheme	2	27,376	-	-
5,082	Return of capital by IMF	10	20,264	-	8,226
7,774	Unwind of prior year capital expenditure for Landcorp Protected Land Agreement	12	-	-	-
346,702	Total capital receipts		78,773	41,561	38,698

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 2014.

Schedule of Assets

as at 30 June 2014

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

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
	Current assets				
5,461,768	Cash and cash equivalents		4,652,731	5,244,101	4,759,000
51,733	Accounts receivable	2(a),16	621,884	12,543	610,065
733,769	Advances		1,493,376	1,025,770	821,769
3,907,000	Marketable securities, deposits and derivatives in gain		5,228,000	5,817,000	5,738,000
1,221	Prepayments – employer contributions (GSF)		872	481	1,221
10,155,491	Total current assets		11,996,863	12,099,895	11,930,055
	Non-current assets				
5,829,000	Advances		5,037,000	5,829,000	5,907,000
257,950	Intangibles and goodwill	6	257,950	257,950	257,950
2,068,000	Marketable securities, deposits and derivatives in gain		2,119,000	2,399,000	2,316,000
229,542	Other share investments		207,546	220,757	229,542
185,457	Other equity-accounted investments		200,444	168,690	185,457
69,825	Property, plant and equipment		62,671	60,601	63,239
8,639,774	Total non-current assets		7,884,611	8,935,998	8,959,188
18,795,265	Total non-departmental assets		19,881,474	21,035,893	20,889,243

In addition, the Treasury monitors 18 SOEs and 20 Crown entities. The investment in these entities is consolidated in the Crown Financial Statements on a line-by-line basis. The investment in these entities is not included in this schedule.

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 2014.

Schedule of Liabilities

as at 30 June 2014

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

2013 Actual $000		Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates Voted $000
	Current liabilities				
5,086,000	Crown balances with Westpac		5,174,000	4,575,000	4,772,000
141,435	Payables and accrued expenses		147,712	17,197	17,197
6,290,000	Borrowings	23(c)	15,096,000	18,152,000	15,256,000
26,363	Deferred revenue	2(c)	2,192	2,195	2,195
750,000	GSF unfunded liability	7	724,000	734,944	740,162
95	Guarantee scheme payable	2(a)	95	-	-
1,173	Insurance premiums received in advance	20	1,144	770	770
186	Derivatives in loss		1	34	34
394,254	Other provisions	20, 26	403,231	395,396	349,717
21,447	Loyalty Bonus Scheme liability related to Initial Public Offers	17	43,582	21,447	48,870
12,689,506	Total current liabilities		21,591,957	23,877,536	21,138,075
	Non-current liabilities				
72,980,000	Borrowings	23(c)	66,985,000	68,138,000	65,733,000
2,193	Deferred revenue	2(c)	-	-	-
675	Insurance premiums received in advance	20	517	570	570
11,158,675	GSF unfunded liability	7	10,162,730	11,031,889	9,997,411
977,224	NPF DBP(A) Scheme unfunded provision	18	909,759	986,707	986,707
85,140,214	Total non-current liabilities		78,058,003	80,178,613	76,766,558
97,829,720	Total non-departmental liabilities		99,649,960	104,056,149	97,904,633

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 2014.

Schedule of Commitments

as at 30 June 2014

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.

2013 $000		2014 $000
	Operating commitments	
	By type:	
1,091	Non-cancellable property lease	794
471	Other non-cancellable operating commitments	471
1,562		1,265
	By term:	
149	Less than one year	149
149	One to two years	149
329	Two to five years	94
935	More than five years	873
1,562	Total commitments	1,265

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 2014.

Schedule of Contingent Liabilities

as at 30 June 2014

2013 $000		2014 $000
	Quantifiable contingent liabilities	
89,540	Guarantees and indemnities	96,480
6,268,879	Uncalled capital and promissory notes	5,651,084
50	Legal proceedings and disputes	50
15,960	Other contingent liabilities	-
6,374,429	Total contingent liabilities	5,747,614

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 (2013: 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 2014.

Statement of Trust Monies

as at 30 June 2014

(a) Unclaimed Money

2013 $000		2014 $000
2,671	Balance at the beginning of the year	2,962
312	Contribution	1,834
(89)	Distribution	(106)
68	Interest earned on trust money	90
2,962	Balance at the end of the year	4,780

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

In 2012/13 the Crown opened a Mighty River Power Initial Public Offer Trust Account to facilitate the partial sale of Mighty River Power. The source of funds relates 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.

2013 $000		2014 $000
-	Balance at the beginning of the year	1,025
997,318	Contribution	44
(997,245)	Distribution	(1,065)
952	Interest earned on trust money	-
1,025	Balance at the end of the year	4

(c) Meridian Initial Public Offer Trust Account

During the year, the Crown opened a Meridian Initial Public Offer Trust Account to facilitate the partial sale of Meridian. The source of funds relates 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.

2013 $000		2014 $000
-	Balance at the beginning of the year	-
-	Contribution	850,435
-	Distribution	(850,369)
-	Interest earned on trust money	-
-	Balance at the end of the year	66

(d) Genesis Initial Public Offer Trust Account

During the year, the Crown opened a Genesis Initial Public Offer Trust Account to facilitate the partial sale of Genesis Energy. The source of funds relates 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.

2013 $000		2014 $000
-	Balance at the beginning of the year	-
-	Contribution	1,039,603
-	Distribution	(1,039,436)
-	Interest earned on trust money	-
-	Balance at the end of the year	167

(e) Treasury Trust Account

During the year, the Crown opened a Trust Account to facilitate transactions where there are monies due to persons and collected under any agreement with the Crown.

2013 $000		2014 $000
-	Balance at the beginning of the year	-
-	Contribution	420
-	Distribution	-
-	Interest earned on trust money	-
-	Balance at the end of the year	420

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 2014.

Statement of Accounting Policies

for the year ended 30 June 2014

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 2014.

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. Changes are not anticipated.

Foreign exchange

Foreign exchange transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of 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 2012/13 and 2013/14 and between 2013/14 actual results and 2013/14 Supplementary Estimates.

1 Capital Charge

Capital charge revenue increased by $19.935 million from 2012/13 year owing to the value of Taxpayer Funds on which the charge is based.

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.

2013 Actual $000	Summary of Crown Deposit Guarantee Scheme Disclosures in the Supplementary Schedules – Non-departmental	Note	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
118	Schedule of Expenses – Receivable revaluation		387	-	-
4	Statement of Expenditure and Appropriations – Payments in Respect of Guarantees and Indemnities		-	-	83
122					
215,761	Schedule of Revenue – Capital receipts (recoveries)	24	27,200	-	-
39,073	Schedule of Assets – Accounts receivable (expected recoveries)		11,487	39,073	39,073
95	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 2013 $000		Note	30 June 2014 $000
270,940	Opening balance of recoveries expected from receiverships		39,073
8,464	Revision of expected recoveries (net)		(387)
(38,963)	Transfer of assets from receiverships into CAML	2(b)	-
14,393	Revaluation gains on transferred assets in CAML		-
(215,761)	Payments received from receivers	24	(27,199)
39,073	Closing balance of recoveries expected from receiverships		11,487
196	Total payments to depositors under the Guarantee Scheme		-

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 to acquire the DGS assets and property portfolio of SRESL which was mostly drawn down in 2011/12 with lower funding injections in 2012/13 of $54.8 million and in 2013/14 of $4 million. The remaining $6 million is not required.

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 2014, eight guarantee certificates remained in place, and the remaining value of wholesale securities guaranteed was $2.478 billion. No provision is made for losses under this scheme as the probability of loss is considered remote.

2013 Actual $000	Summary of Crown Wholesale Funding Guarantee Facility Disclosures in the Supplementary Schedules – Non-departmental	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
29,341	Schedule of Revenue – Crown Wholesale Guarantee Facility (fees)	26,364	26,362	26,362
26,363	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Current	2,192	2,195	2,195
2,193	Schedule of Liabilities – Deferred Revenue – Crown Wholesale Guarantee Facility (fees) – Non-current	-	-	-

3 Dividends

Total dividends from commercial entities received this year have decreased by $7.7 million from 2012/13 with increases in dividends for Meridian, Genesis and Air New Zealand offsetting a reduction in dividends to the Crown from Mighty River Power.

Dividends from Crown entities include $67.311 million paid by CAML (see note 2(b)).

Other dividends received are from the Crown's share in Christchurch, Dunedin and Hawkes Bay Airports which are $2.888 million higher than those received in 2012/13. This is mainly owing to a lower dividend last year for Christchurch International Airport.

4 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 (2013: $10 million).

5 Unclaimed Money

Appropriation allows for unexpected claims on funds held in trust.

6 Goodwill

Goodwill administered on behalf of the Crown in relation to Air New Zealand of $258 million (2013: $258 million) has been tested for impairment under NZIAS 36 Impairment of Assets. 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 2014. 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 2014 was $10,887 million, a decrease of $1,022 million compared with 30 June 2013.

This is primarily attributed to an actuarial gain recognised in the year of $577 million (2013: $1,251 million gain) 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 2013/14 were $700 million (2013: $658 million) offset by revenue giving net expense of $613 million (2013: $610 million).

The improvement was offset owing to the current service costs and interest expenses (appropriated under Other Expenses Incurred by the Crown – GSF Unfunded Liability) of $250 million (2013: $276 million).

The Government expects to make a contribution of $727 million to GSF in the year ended 30 June 2015.

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 NZ 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 2013/14 was $28.758 million, $3.991 million higher than that in 2012/13. 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 $42.089 million in 2012/13 to $39.669 million in 2013/14. This is because of reduced memberships and lower average employee salaries which attracted lower employer contributions.

10 International Financial Institutions (IFIs)

Contributions of $25.31 million were made to the IMF lending programme in 2013/14 compared to forecast of $212 million owing to a timing variation in the draw-down of funding by IFIs. Capital withdrawals of $20.264 million (2013: $5.082 million) were made by IMF representing a repayment of advances to IMF to support countries in financial difficulties. During the year, a net loss of $21.997 million on revaluation of IFIs' investment was recorded as a result of New Zealand dollar foreign exchange rate movement (2013: $1.349 million gain).

11 Invercargill Airport Limited

During the year, the Crown divested its 2.82% share investment in Invercargill Airport Limited to iwi making a gain of $5,600 as the investment had been impaired to nil value in last financial year.

12 Landcorp Protected Land Agreement

The Landcorp Protected Land Agreement has two appropriations: one for operating costs and one for capital expenditure in managing a total of 10 farms protected by the Crown.

Capital expenditure in managing the protected land since inception has totalled $7.213 million (2013: $5.591 million). Farming profits and forestry revenue net of tax was $557,000 (2013: $711,000).

During the year the Crown sold Opouahi Station for $7.617 million incurring a re-measurement loss against initial investment and capital improvements of $3.99 million. Operating and capital annual costs payable to Landcorp for Protected Land were below appropriation as recovery costs from 2012/13 droughts were lower.

13 Mighty River Power Initial Public Offer

On 14 May 2013 the Crown sold 48.9% of the shares in Mighty River Power receiving gross cash proceeds of $1,686.1 million.

New Zealand retail investors in the Mighty River Power share offer will 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 as an expense and in the Schedule of Liabilities 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 $24.676 million at the allotment date.

As at 30 June 2014, the loyalty bonus share scheme liability has been re-valued based on the number of loyalty bonus shares that retail investors were entitled to at that date, assuming they continued to hold their shares until May 2015 (although no estimate has been made for future sale of shares by investors) and Mighty River Power's share price as at that date (no estimate has been made for Mighty River Power's share price at the time the loyalty bonus shares are transferred to investors). The liability was reduced partly because Mighty River Power's share price as at 30 June 2014 was lower than the offer price, and the fact that a small number of investors had sold some of their shares and are no longer eligible for the loyalty bonus shares. In total, the liability reduced by $1.152 million (2013: $3.229 million). The gain offset the loss recognised on the valuation of the Genesis Energy loyalty bonus shares.

14 Air New Zealand Transaction

On 17 November 2013 the Crown sold around 20% of the shares on issue in Air New Zealand receiving gross cash proceeds of $365.2 million which resulted in a gain on sale of $206.9 million after direct costs of sales, as measured against the historical cost of Air New Zealand recorded in the Treasury Non-departmental assets.

15 Genesis Energy Initial Public Offer

In April 2014 the Crown sold 48.99% of the shares in Genesis Energy receiving gross cash proceeds of $733.5 million which resulted in a gain on sale of $395.2 million after selling expenses and allowance for loyalty bonus shares as measured against the historical cost of Genesis Energy recorded in the Treasury Non-departmental assets.

New Zealand retail investors in the Genesis Energy share offer will receive one loyalty bonus share for every 15 shares they hold for 12 months from the allotment date, 16 April 2014, up to a maximum of 2,000 loyalty bonus shares.

Loyalty bonus shares are allocated per every 15 shares purchased and held by the Crown for 12 months, capped at a maximum of 2,000 loyalty bonus shares per registered holder.

The total maximum cost of the loyalty bonus scheme to the Crown was estimated to be $21.606 million at the allotment date.

As at 30 June 2014, the loyalty bonus share scheme liability has been re-valued based on the number of loyalty bonus shares that retail investors were entitled to at that date, assuming they continued to hold their shares until May 2015 (although no estimate has been made for future sale of shares by investors) and Genesis Energy's share price as at that date (no estimate has been made for Genesis Energy's share price at the time loyalty bonus shares are transferred to investors). The liability was increased owing to an increase in the Genesis share price from the offer price, partially offset by the impact of the small number of investors who had sold some of their shares and were no longer eligible for the loyalty bonus shares. In total, the liability increased by $1.681 million. The loss is partially offset by the gain recognised on the valuation of Mighty River Power loyalty bonus shares.

16 Meridian Energy Initial Public Offer

In November 2013 the Crown sold a 48.982% share in Meridian Energy Limited receiving gross cash proceeds of $1.255 billion for the first instalment. The sale resulted in a gain on sale of $1,400 million after selling expenses as measured against the historical cost of Meridian Energy recorded in the Treasury Non-departmental assets. Further proceeds of $627.7 million will be received on 15 May 2015, when the final instalment is payable by investors.

Deferred proceeds from the final instalment are recognised progressively at a discounted rate from maturity.

17 Loyalty Bonus Shares

30 June 2013 $000		Note	30 June 2014 $000
	Mighty River Power Loyalty Bonus Shares	13	
-	Opening balance		21,447
24,676	Initial recognition		-
(3,229)	Valuation at 30 June 2013		-
-	Valuation at 30 June 2014		(1,152)
21,447	Closing balance		20,295
	Genesis Energy Loyalty Bonus Shares	15	
-	Opening balance		-
-	Initial recognition		21,606
-	Valuation at 30 June 2014		1,681
-	Closing balance		23,287
21,447	Schedule of Liabilities – Loyalty Bonus Scheme related to Initial Public Offers		43,582
21,447	Schedule of Expenditure and Appropriation – Loyalty Bonus Scheme related to Initial Public Offers		22,135

Costs associated with the GSO were under budget, but remaining funding will be retained for costs associated with the final instalment payment for Meridian Energy, and movements in the value of the loyalty bonus shares to be transferred to investors in Mighty River Power and Genesis Energy in May 2015 and April 2015 respectively.

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

The Government has guaranteed superannuation schemes managed by NPF. As at 30 June 2014, NPF's DBP Scheme was in a net deficit position of $910 million (2013: $977 million), represented by a gross estimated pension obligation of $943 million (2013: $1,011 million) with net investment assets valued at $33 million (2013: $34 million). No additional provision was required during the year for other pension schemes managed by NPF, under the Government's guarantee described in section 60 of the National Provident Fund Restructuring Act 1990.

The decrease of $96 million in the Crown's liability for the NPF DBP(A) Scheme under Crown guarantee as at 30 June 2014 was primarily owing to:

- payments made against the liability by the Crown during the year of $73 million, and
- the actuarial gain recognised for the year of $22 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 are included in the Financial Statements of the Government for this liability.

19 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 2013/14 to 31 March 2014 (2013: Nil) and a nil provision for the three months to 30 June 2014 (2013: Nil).

20 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 offerings. This support may help exporters mitigate buyer repayment risks, secure increased export sales and access additional credit facilities from their banks.

2013 Actual $000	Summary of NZECO Disclosures in the Supplementary Schedules – Non-departmental	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
1,907	Schedule of Revenue – NZECO	1,889	1,536	2,349
-	Schedule of Expenditure and Appropriations – Payments in respect of NZECO Guarantees and Indemnities	1,412	-	527
1,173	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Current	1,144	770	770
675	Schedule of Liabilities – Insurance premiums received in advance (NZECO) – Non-current	514	570	570
29,705	Schedule of Liabilities – Other provision	30,172	-	-

Payment of guarantees and indemnities was higher than anticipated for NZECO, owing to claims and provisions at year-end. An outstanding provision recognised in 2011/12 is awaiting settlement at $29.705 million.

21 New Zealand House – London

2013 Actual $000	Summary of New Zealand House – London Disclosures in the Supplementary Schedules – Non-departmental	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
9,710	Schedule of Revenue – Rentals from Crown Overseas Properties	11,506	9,500	9,500
35	Statement of Expenditure and Appropriations – Non-departmental Output Class – Management of New Zealand House, London	201	1,000	1,000
10,258	Statement of Expenditure and Appropriations – Other Expenses Incurred by the Crown – New Zealand House, London	12,066	13,000	12,800
-	Statement of Expenditure and Appropriations – Renegotiation of New Zealand House Lease	187	-	200
-	Statement of Expenditure and Appropriations – New Zealand House, London, Capital	-	750	750

Operational costs associated with New Zealand House (including depreciation) are included in Other Expenses Incurred by the Crown – New Zealand House, London. Costs are kept to a minimum, but appropriation allows for unexpected costs.

22 New Zealand Superannuation Fund

No contributions were made to NZSF in 2013/14 as a result of the Government's decision in May 2009 to suspend contributions until there are budget surpluses sufficient to fund contributions.

23 New Zealand Debt Management Office

23(a) Interest from investments and other income

NZDMO's interest from investments decreased by $68.606 million owing to lower average funds available for investment during 2013/14.

23(b) Other revenue – NZDMO derivatives

Other revenue – NZDMO comprises net gains on NZDMO derivatives (excluding fair value and foreign exchange gains/losses). Current year decrease of $67.247 million is attributable to both interest rate changes and transactional activity.

23(c) Borrowing costs

Borrowing costs have decreased by $112.683 million mainly owing to lower interest expenses on market government bonds.

23(d) Fair value losses incurred by NZDMO

Fair value losses incurred are lower in the current year by $76 million owing to a combination of funding situations incurred by NZDMO where the resulting financial instruments are accounted for on different bases.

23(e) Change in initial recognition of financial assets – NZDMO

Changes in initial recognition of both drawn and undrawn loans under a $500 million loan facility to Auckland Council resulted in revenue of $16 million. Similarly, changes in initial recognition of undrawn loans under a $375 million lending commitment to NZTA resulted in expenses of $114 million.

24 Other Current Revenue

Other current revenue has increased by $51.07 million in 2013/14 which is owing to an unanticipated recovery of an asset that was part of the government guarantee scheme but had been fully written down.

25 Reserve Bank Surplus

Dividends received by the Crown from RBNZ increased from $160 million in 2012/13 to $175 million in 2013/14 owing to an increase in RBNZ's surplus. The principal reason for this increase is owing to additional interest income earned, foreign exchange gains and changes in the market value of financial instruments.

26 Southern Response Earthquake Services Limited

The Crown Support Deed (CSD) with SRESL has been revalued to its net present value in June 2014 to recognise the likely profile of cash draw downs 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 and was completed by Finity Consulting Pty Limited.

2013 Actual $000	Summary of SRESL Disclosures in the Supplementary Schedules – Non-departmental	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000
13,259	Schedule of Revenue – Change in SRESL CSD	-	-	36,531
3,947	Schedule of Expenses – Change in SRESL provision	-	-	4,600
9,702	Schedule of Expenditure and Appropriation – Unwind of Discount Rate used in the Present Value Calculation of Payment under Crown Deed of Support with AMI	8,514	10,218	15,295
364,549	Schedule of Liabilities – Other provision (SRESL)	373,063	355,396	349,717

Variance is owing to delay in draw down of the loan and changes in discount rates.

27 Solid Energy New Zealand Limited

During 2013/14 an appropriation was established for $130 million to provide secured loan facilities to Solid Energy New Zealand Limited in the event the company required them. The company has not needed to draw down on these facilities to date. In addition, the Crown subscribed to $25 million of redeemable preference shares in Solid Energy New Zealand Limited which was immediately impaired recognising the position of the company. Subsequent to reporting date, the Crown signed a Deed of Indemnity and Bond Facility with Solid Energy. The Deed of Indemnity creates a liability provision for the Crown and an asset for Solid Energy, recognised on signing, of $103 million. Under this Deed the Crown will reimburse the costs of the rehabilitation expenses of Solid Energy, Pike River (2012) Ltd and Spring Creek Mining Company to the extent of $103 million in present value terms.

28 Taitokerau Forests Limited

Loans to Taitokerau Forests Limited of $1.2 million were advanced as per a loan agreement during 2013/14. Two of the 12 forests, namely Ngaiotonga and Rewarewa, have completed their harvesting. Unfortunately, the Rewarewa forest did not generate sufficient cash-flow to repay its debt, resulting in a loss of $261,000 including accrued interest which was written off.

No grants were provided in 2013/14 and draw downs against the loan were lower than budgeted owing to a variation in harvest timetable.

29 Learning Media

Costs associated with the liquidation of Learning Media are lower than appropriated with remaining funding being retained to cover any final costs.

New Zealand Debt Management Office

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 $18.36 billion of assets, $86.286 billion of liabilities, $365 million of revenue and $3.421 billion of expenses on behalf of the Crown for the year ended 30 June 2014. Further information on NZDMO's performance in managing the Crown's sovereign-issued debt and related financial assets is provided on page 40 and pages 45 to 48.

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 2014

2013 Carrying Value $m	2013 Fair Value $m		2014 Carrying Value $m	2014 Fair Value $m
		Assets		
		Cash, cash equivalents and receivables		
4,585	4,585	Crown settlement account	3,414	3,414
80	80	Crown trust account	115	115
714	714	Foreign cash and cash equivalents	1,069	1,069
-	-	Debtors and receivables	-	-
		Advances		
1,859	1,859	RBNZ	1,636	1,636
2,216	2,216	Ministry of Health	2,228	2,228
1,861	1,861	Housing New Zealand	1,887	1,887
182	182	New Zealand Railways Corporation	179	179
100	100	New Zealand Transport Agency	100	100
3	3	Other Crown	3	3
222	224	Non-Crown	382	384
		Financial assets		
2,401	2,401	Marketable securities	3,871	3,871
99	99	External deposits	64	64
1,184	1,184	Derivatives in gain	1,270	1,270
2,291	2,291	IMF financial assets	2,142	2,142
17,797	17,799	Total assets	18,360	18,362
		Liabilities		
		Overdrafts and payables		
5,086	5,086	Crown disbursement account[13]	5,174	5,174
107	107	Creditors and payables	136	136
		Financial liabilities		
4,118	4,119	Treasury bills – market	3,192	3,189
579	579	Treasury bills – non-market	579	579
58,963	61,403	Government bonds – market	59,080	60,099
3,384	3,655	Government bonds – non-market	3,238	3,387
5,308	5,376	Inflation-indexed bonds – market	10,404	10,354
650	662	Inflation-indexed bonds – non-market	970	961
199	199	Kiwi bonds	183	182
-	-	Euro-commercial paper	-	-
130	130	Foreign currency debt	109	109
702	702	Collateral	887	887

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.

2013 Carrying Value $m	2013 Fair Value $m		2014 Carrying Value $m	2014 Fair Value $m
672	672	Derivatives in loss	638	638
85	85	Departmental deposits	75	75
1,651	1,651	IMF allocation	1,506	1,506
7	7	Immigration investor policy bonds	-	-
30	30	Other	115	115
81,671	84,463	Total liabilities	86,286	87,391
(63,874)	(66,664)	Net assets/(liabilities)	(67,926)	(69,029)

Schedule of Revenues and Expenses

for the year ended 30 June 2014

2013 $m		2014 $m
	Revenue	
	Cash, cash equivalents and receivables	
144	Crown settlement account	65
1	Crown trust account	3
2	Foreign cash and cash equivalents	1
	Advances	
(6)	RBNZ	(6)
102	Ministry of Health	102
49	Housing New Zealand	52
10	New Zealand Railways Corporation	9
4	New Zealand Transport Agency	4
-	Other Crown	-
12	Non-Crown	18
	Financial assets	
104	Marketable securities	114
8	External deposits	1
2	IMF financial assets	2
432	Total revenue	365
	Expenses	
152	Treasury bills – market	97
12	Treasury bills – non-market	15
2,954	Government bonds – market	2,765
243	Government bonds – non-market	184
199	Inflation-indexed bonds – market	391
34	Inflation-indexed bonds – non-market	38
5	Kiwi bonds	5
1	Euro-commercial paper	-
13	Foreign currency debt	9
2	Collateral	1
(293)	Derivatives[14]	(228)
1	IMF allocation	2
-	Immigration investor policy bonds	-
45	Other	142
3,368	Total expenses	3,421
2	Net foreign exchange gains/(losses)	-
(216)	Net fair value (FV) gains/(losses)[15]	(140)
(3,150)	Net revenue/(expenses)	(3,196)

[14] 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. Foreign exchange gains/losses on derivatives are reported as part of the overall Net foreign exchange gains/(losses) line while fair value gains/losses are part of the overall Net FV gains/(losses) line.

[15] 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:

2013 Amortised Cost[16] $m	2013 Fair Value Through Profit or Loss[17] $m	2013 Available for Sale $m	2013 Carrying Value $m		2014 Amortised Cost[16] $m	2014 Fair Value Through Profit or Loss[17] $m	2014 Available for Sale $m	2014 Carrying Value $m
				Financial assets				
				Cash, cash equivalents and receivables				
4,585	-	-	4,585	Crown settlement account	3,414	-	-	3,414
80	-	-	80	Crown trust account	115	-	-	115
90	624	-	714	Foreign cash and cash equivalents	174	895	-	1,069
-	-	-	-	Debtors and receivables	-	-	-	-
				Advances				
-	1,859	-	1,859	RBNZ	-	1,636	-	1,636
-	2,216	-	2,216	Ministry of Health	-	2,228	-	2,228
388	1,473	-	1,861	Housing New Zealand	203	1,684	-	1,887
-	182	-	182	New Zealand Railways Corporation	-	179	-	179
-	100	-	100	New Zealand Transport Agency	-	100	-	100
-	3	-	3	Other Crown	-	3	-	3
19	150	53	222	Non-Crown	21	305	56	382
				Financial assets				
-	2,401	-	2,401	Marketable securities	-	3,871	-	3,871
-	99	-	99	External deposits	-	64	-	64
-	1,184	-	1,184	Derivatives in gain	-	1,270	-	1,270
2,291	-	-	2,291	IMF financial assets	2,142	-	-	2,142
7,453	10,291	53	17,797	Total financial assets by designation	6,069	12,235	56	18,360
				Financial liabilities				
5,086	-	-	5,086	Crown disbursement account	5,174	-	-	5,174
107	-	-	107	Creditors and payables	136	-	-	136
4,118	-	-	4,118	Treasury bills – market	3,192	-	-	3,192
579	-	-	579	Treasury bills – non-market	579	-	-	579
56,052	2,911	-	58,963	Government bonds – market	56,275	2,805	-	59,080
3,384	-	-	3,384	Government bonds – non-market	3,238	-	-	3,238
5,308	-	-	5,308	Inflation-indexed bonds – market	10,404	-	-	10,404
650	-	-	650	Inflation-indexed bonds – non-market	970	-	-	970
199	-	-	199	Kiwi bonds	183	-	-	183
-	-	-	-	Euro-commercial paper	-	-	-	-
-	130	-	130	Foreign currency debt	-	109	-	109
-	702	-	702	Collateral	-	887	-	887

[16] NZDMO's amortised cost assets are designated as loans and receivables.

[17] 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.

2013 Amortised Cost[16] $m	2013 Fair Value Through Profit or Loss[17] $m	2013 Available for Sale $m	2013 Carrying Value $m		2014 Amortised Cost[16] $m	2014 Fair Value Through Profit or Loss[17] $m	2014 Available for Sale $m	2014 Carrying Value $m
-	672	-	672	Derivatives in loss	-	638	-	638
-	85	-	85	Departmental deposits	-	75	-	75
1,651	-	-	1,651	IMF allocation	1,506	-	-	1,506
7	-	-	7	Immigration investor policy bonds	-	-	-	-
1	29	-	30	Other	1	114	-	115
77,142	4,529	-	81,671	Total financial liabilities by designation	81,658	4,628	-	86,286

Derivatives

As at 30 June 2014, the value of derivatives was as follows:

2013 Carrying Value in Gain $m	2013 Carrying Value in Loss $m	2013 Net Carrying Value $m	2013 Notional Value $m		2014 Carrying Value in Gain $m	2014 Carrying Value in Loss $m	2014 Net Carrying Value $m	2014 Notional Value $m
				Derivatives				
51	(67)	(16)	3,362	Foreign exchange contracts	114	(24)	90	4,208
-	-	-	-	Foreign exchange options	-	-	-	-
672	(353)	319	7,754	Cross-currency swaps	880	(403)	477	6,066
461	(252)	209	12,115	Interest-rate swaps	276	(211)	65	15,802
1,184	(672)	512	23,231	Total derivatives	1,270	(638)	632	26,076

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 2014	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	5,174	5,174	-	-	-	-
Creditors and payables	136	136	-	-	-	-
Financial liabilities						
Treasury bills – market	3,220	3,220	-	-	-	-
Treasury bills – non-market	580	580	-	-	-	-
Government bonds – market	72,446	11,745	2,564	29,441	28,696	-
Government bonds – non-market	4,038	826	138	1,408	1,666	-
Inflation-indexed bonds – market	13,414	286	2,028	621	1,036	9,443
Inflation-indexed bonds – non-market	1,197	31	367	46	76	677
Kiwi bonds	187	124	45	18	-	-
Euro-commercial paper	-	-	-	-	-	-
Foreign currency debt	110	17	60	33	-	-
Collateral	887	887	-	-	-	-
Departmental deposits	75	75	-	-	-	-
IMF allocation	1,506	1,506	-	-	-	-
Immigration investor policy bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total non-derivative liabilities	102,970	24,607	5,202	31,567	31,474	10,120
Derivative inflows[18]						
Foreign exchange contracts	4,208	3,803	360	44	1	-
Cross-currency swaps	6,493	2,463	1,938	2,092	-	-
Interest-rate swaps	2,791	666	536	1,093	496	-
Total derivative inflows	13,492	6,932	2,834	3,229	497	-
Derivative outflows[18]						
Foreign exchange contracts	4,090	3,709	338	42	1	-
Cross-currency swaps	5,819	2,172	1,837	1,810	-	-
Interest-rate swaps	2,729	618	511	1,093	506	1
Total derivative outflows	12,638	6,499	2,686	2,945	507	1

18 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, foreign exchange options and foreign exchange 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 foreign exchange 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.

2013 $m	Credit Risk Management	2014 $m
17,797	Total NZDMO financial assets	18,360
	Less:	
11,126	Crown-related balances	9,761
6,671	Total credit exposure for financial assets	8,599

Concentration of Credit Exposure as at 30 June 2014

By Credit Rating	AAA $m	AA $m	A $m	Other $m	Non-rated $m	Credit Exposure $m
Foreign cash and cash equivalents	-	1,066	3	-	-	1,069
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	325	-	-	57	382
Marketable securities	1,392	2,155	217	-	-	3,764
External deposits	-	64	-	-	-	64
Derivatives in gain	-	724	454	-	-	1,178
IMF financial assets	-	-	-	-	2,142	2,142
Total credit exposure by credit rating	1,392	4,334	674	-	2,199	8,599

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	896	-	91	82	-	1,069
Debtors and receivables	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	382	382
Marketable securities	255	601	1,069	1,065	774	3,764
External deposits	-	-	64	-	-	64
Derivatives in gain	-	-	721	413	44	1,178
IMF financial assets	-	2,142	-	-	-	2,142
Total credit exposure by industry	1,151	2,743	1,945	1,560	1,200	8,599

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	892	-	4	3	91	-	79	1,069
Debtors and receivables	-	-	-	-	-	-	-	-
Advances to non-Crown	-	-	-	-	382	-	-	382
Marketable securities	89	1,369	-	224	1,110	601	371	3,764
External deposits	-	-	-	-	64	-	-	64
Derivatives in gain	58	293	-	104	723	-	-	1,178
IMF financial assets	-	-	-	-	-	2,142	-	2,142
Total credit exposure by geographical area	1,039	1,662	4	331	2,370	2,743	450	8,599

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 $192 million is undrawn as at 30 June 2014. 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 2014 with the potential for this to be increased to a maximum $1,000 million by February 2015. As at 30 June 2014 the facility has not been utilised.

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

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, foreign exchange 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 2014	NZD $m	USD $m	Yen $m	Euro $m	AUD $m	Other $m	Carrying Value $m
Cash, cash equivalents and receivables							
Crown settlement account	3,414	-	-	-	-	-	3,414
Crown trust account	115	-	-	-	-	-	115
Foreign cash and cash equivalents	-	896	10	104	7	52	1,069
Debtors and receivables	-	-	-	-	-	-	-
Advances							
RBNZ	101	955	-	580	-	-	1,636
Ministry of Health	2,228	-	-	-	-	-	2,228
Housing New Zealand	1,887	-	-	-	-	-	1,887
New Zealand Railways Corporation	179	-	-	-	-	-	179
New Zealand Transport Agency	100	-	-	-	-	-	100
Other Crown	3	-	-	-	-	-	3
Non-Crown	382	-	-	-	-	-	382
Financial assets							
Marketable securities	2,537	671	-	48	551	64	3,871
External deposits	29	-	-	-	-	35	64
Derivatives in gain	6,627	(4,139)	(84)	(618)	(418)	(98)	1,270
IMF financial assets	6	895	201	799	-	241	2,142
Total financial assets	17,608	(722)	127	913	140	294	18,360
Overdrafts and payables							
Crown disbursement account	5,174	-	-	-	-	-	5,174
Creditors and payables	136	-	-	-	-	-	136
Financial liabilities							
NZ-dollar government securities	77,646	-	-	-	-	-	77,646
Euro-commercial paper	-	-	-	-	-	-	-
Foreign currency debt	-	99	-	-	-	10	109
Collateral	-	887	-	-	-	-	887
Derivatives in loss	2,485	(2,357)	(27)	279	142	116	638
Departmental deposits	-	-	-	72	-	3	75
IMF allocation	-	631	142	563	-	170	1,506
Immigration investor policy bonds	-	-	-	-	-	-	-
Other	115	-	-	-	-	-	115
Total financial liabilities	85,556	(740)	115	914	142	299	86,286
Net currency holdings	(67,948)	18	12	(1)	(2)	(5)	(67,926)

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).

			Hierarchy		
As at 30 June 2014	Carrying Value $m	Fair Value Measurement $m	Level 1 $m	Level 2 $m	Level 3[19] $m
Cash, cash equivalents and receivables					
Crown settlement account	3,414	-	-	-	-
Crown trust account	115	-	-	-	-
Foreign cash and cash equivalents	1,069	895	-	895	-
Debtors and receivables	-	-	-	-	-
Advances					
RBNZ	1,636	1,636	-	1,636	-
Ministry of Health	2,228	2,228	-	2,228	-
Housing New Zealand	1,887	1,684	-	1,684	-
New Zealand Railways Corporation	179	179	-	179	-
New Zealand Transport Agency	100	100	-	100	-
Other Crown	3	3	-	3	-
Non-Crown	382	361	-	-	361
Financial assets					
Marketable securities	3,871	3,871	3,585	286	
External deposits	64	64		64	
Derivatives in gain	1,270	1,270		1,270	
IMF financial assets	2,142	-			
Total financial assets	18,360	12,291	3,585	8,345	361
Overdrafts and payables					
Crown disbursement account	5,174	-	-	-	-
Creditors and payables	136	-	-	-	-
Financial liabilities					
Treasury bills – market	3,192	-	-	-	-
Treasury bills – non-market	579	-	-	-	-
Government bonds – market	59,080	2,805	2,805	-	-
Government bonds – non-market	3,238	-	-	-	-
Inflation-indexed bonds – market	10,404	-	-	-	-
Inflation-indexed bonds – non-market	970	-	-	-	-
Kiwi bonds	183	-	-	-	-
Euro-commercial paper	-	-	-	-	-
Foreign currency debt	109	109	-	109	-
Collateral	887	887		887	-

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

As at 30 June 2014	Carrying Value $m	Fair Value Measurement $m	Hierarchy Level 1 $m	Level 2 $m	Level 3[19] $m
Derivatives in loss	638	638	-	638	-
Departmental deposits	75	75	-	75	-
IMF allocation	1,506	-	-	-	-
Immigration investor policy bonds	-	-	-	-	-
Other	115	114	-	-	114
Total financial liabilities	86,286	4,628	2,805	1,709	114

Independent Auditor's Report

KPMG

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 2014

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, 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 60 to 82, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in equity, 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 34 to 57 and the report about outcomes on pages 9 to 22; and
- the schedules of non-departmental activities of the Department on pages 84 to 105 and 107 to 120 that comprise the schedule of assets, schedule of liabilities and revaluation reserves, schedule of commitments and schedule of contingent liabilities and contingent assets as at 30 June 2014, 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 60 to 82:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Department's:
    - financial position as at 30 June 2014;
    - 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 2014; and
    - unappropriated expenses and capital expenditure for the year ended 30 June 2014; and
- the non-financial performance information of the Department on pages 34 to 57 and 9 to 22:
  - 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 2014, including for each class of outputs:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and

  - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

- the schedules of non-departmental activities of the Department on pages 84 to 105 and 107 to 120 fairly reflect, in accordance with the Treasury Instructions:
  - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2014 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 30 September 2014. 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 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 statement, 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 other 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.

G Edwards

Graeme Edwards
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Executive Leadership Team

Gabriel Makhlouf – Secretary to the Treasury, Chief Executive

Gabriel (Gabs) Makhlouf 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 Makhlouf 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 as the Chief Operating Officer, has responsibility for the Treasury's commercial, financial and corporate functions. 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 New Zealand 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.

Fiona Ross – Deputy Secretary, Budget and Public Services

Fiona Ross re-joined the Treasury in 2011. She leads the Treasury's work to raise living standards by helping to ensure the Government's finances are well managed and overseeing advice on the performance of the public sector as a whole. Ms Ross has over 20 years' experience in the public service, including 10 years of experience on change and reform programmes in the UK public service. Ms Ross holds an Honours degree in Arts and a Master's degree in Public Policy, both from Victoria University of Wellington. She has been actively involved with a number of not-for-profit groups focused on the issues of sexual abuse and women's sport and fitness.

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.

Bill Moran – Deputy Secretary, Strategy, Change and Performance

Bill Moran joined the Treasury in 1985. He has led work for the Treasury in macroeconomic and fiscal policy, tax strategy and State sector management. He is a strong advocate for ensuring the Treasury's work is informed by external views, and involving New Zealanders in the policy process. This has included leading a wide-ranging public engagement programme to review the tax system in 2009 and to test the assumptions and analysis for the Treasury's Long Term Fiscal Statement in 2013.

Mr Moran holds a Master's degree in Political Science from Victoria University of Wellington. He is a board member of New Zealand Football, Chair of the Organising Committee for the 2015 FIFA Under-20 Men's World Cup, to be held in New Zealand, a member of the FIFA Organising Committee for the 2018 Confederations Cup, to be held in Russia and was the Founding Chair of the Play It Strange Trust, a schools-based youth development initiative.

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.

External Advice on Governance and Performance

Treasury Board

The Treasury Board is an advisory board that supports the Secretary to the Treasury to meet the Treasury'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.

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 seven 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, the Todd Corporation and is Chair of the Gillies 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 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, Ngāti Porou Seafoods and Ngāti Porou Forestry and a director on the boards of Contact Energy, HNZC and Ngāti Porou Holding Company. He is of Ngāti Porou and Ngāti Rangitihi 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, Fletcher Building 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, and in 2013 was conferred by the University of NSW with an Honorary Doctorate in Business.

Dr Martin Parkinson PSM

Dr Martin Parkinson was appointed as Australia's Secretary to the Treasury in March 2011. As Secretary, he is a member of the Board of the Reserve Bank of Australia, Chair of the Advisory Board of the Australian Office of Financial Management and a member of the Council of Financial Regulators and the Prime Minister's Business Advisory Council. He holds a PhD from Princeton University, a MEc from the Australian National University and a BEc (Hons) from the University of Adelaide. He was awarded the Public Service Medal in 2008.

Ms 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 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' not-for-profit involvement is through trusteeships of The Tindall Foundation and the Louise Perkins Foundation (Sweet Louise) and through her chairmanship of a steering group which has developed a pipeline for Māori and Pacific students at three South Auckland high schools through tertiary study into employment at Counties Manukau District Health Board.

Note: Positions are as at date of publication.

Risk and Audit Committee

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. Susan Macken is the Chair. The primary benefit of 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.

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 RAC separates its focus between Treasury departmental operations and the preparation of the Financial Statements of the Government. During 2013/14 RAC met five times.

Following a review of RAC function and the establishment of the Commercial Advisory Board, the Chief Executive has changed the nature of the Treasury assurance arrangements. From 2014/15 RAC will focus on providing advice and assurance on departmental operations and a new Audit Committee will provide advice and assurance on the Financial Statements of the Government.

Mr Roy Tiffin

Mr Roy Tiffin serves in an independent advisory role on the Treasury's RAC. 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).

Quality Standards for Policy Advice

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)

Relevant frameworks

- 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.

Robust reasoning and logic

- 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.

Evidence-based

Analysis is supported by relevant evidence:

- 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.

Set in a Wider Strategic Context (Applied Analysis)

Strategic

- 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.

Practical

- 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.
- 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.

Public sector engagement

Ministers receive advice that enables them to engage with their colleagues on a fully informed basis because:

- 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.

Customer-focused and Persuasive (Advice)

Clear and well-written

Advice is compellingly presented. It is:

- 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).

Timely

- 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).

Politically aware

Advice:

- 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.

Solution-focused

- 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).

Dimensions of quality policy advice		
Analytically Rigorous (Analysis)	Set in a Wider Strategic Context (Applied Analysis)	Customer-focused and Persuasive (Advice)
Free and frank - 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.	Perspectives of wider stakeholders - 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.	Effective communication We communicate our advice based on how to most effectively engage with the customer, including: - the mode of communication (ie, verbal or written), and - the form of advice (eg, written paper or A3).
Quality involves continuous improvement		
In order to be a learning organisation we need to continually assess: - 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		
Description	*Timeframe*	*Quality Indicator*
Ministerial Correspondence	Unless otherwise agreed with the Minister's Office, submit a reply to: ▸ 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	Replies to written PQs will be submitted to the Minister's Office by 12.00pm on the due date specified by the Office. Replies to oral PQs will be due at the Minister's Office by 12.30pm on the due date specified by the Office.	Replies will be consistent with Standing Order 377.
Replies to Official Information Act requests made to the Minister	All MOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act. 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.	All replies will be complete and accurate in the information they convey and will be prepared with appropriate consultation of relevant parties. Advice on, handling of and replies to MOIA requests will accord with the provisions of the Official Information Act. At least 95% of MOIA replies will be acceptable to the Minister and will not require amendment.
Replies to Official Information Act requests made to the Treasury	All TOIA requests and Ombudsman investigations will be handled within the time limits prescribed by the Act. The Treasury will consult and inform the Minister, and/or other Ministers, on replies to TOIAs, as appropriate and within agreed timeframes.	All replies will be complete and accurate in the information they convey. Advice on, handling of and replies to TOIA requests will accord with the provisions of the Official Information Act. Consultation on proposed replies will be appropriate and acceptable to the Minister.

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) ▸ KiwiRail Holdings Ltd (KiwiRail) ▸ Kordia Group Ltd (Kordia) ▸ Landcorp Farming Ltd (Landcorp) ▸ Learning Media Ltd (LML) *in liquidation* ▸ Meteorological Service of New Zealand Ltd (MetService) ▸ New Zealand Post Ltd (NZ Post) ▸ New Zealand Railways Corporation ▸ Quotable Value Ltd (Quotable Value) ▸ Solid Energy NZ Ltd ▸ Transpower New Zealand Ltd (Transpower) *Other Crown Companies:* ▸ Crown Asset Management Ltd (CAML) ▸ Crown Fibre Holdings Ltd (CFH) ▸ Crown Irrigation Investments Ltd (Crown Irrigation) ▸ Health Benefits Ltd (supporting the Ministry of Health in monitoring this company) ▸ Radio New Zealand Ltd (RNZ) ▸ Southern Response Earthquake Services Ltd (SRESL) ▸ Television New Zealand Ltd (TVNZ) ▸ The Network for Learning Ltd (N4L)	*Entities for which we undertake a secondary monitoring role with the MBIE:* ▸ AgResearch Ltd (AgResearch) ▸ Fairway Resolution Ltd (Fairway) ▸ 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) ▸ New Zealand Venture Investment Fund Ltd (NZVIF) ▸ Research & Education Advanced Network NZ Ltd ▸ The New Zealand Institute for Plant & Food Research Ltd (Plant & Food Research) *Other:* ▸ Accident Compensation Corporation (ACC) ▸ Earthquake Commission ▸ Government Superannuation Fund Authority (GSF) ▸ Housing New Zealand Corporation (HNZC) ▸ New Zealand Lotteries Commission (Lotteries) ▸ New Zealand Superannuation Fund (NZSF) ▸ Public Trust *Entities the Crown has a partial interest in:* ▸ Air New Zealand Ltd ▸ Christchurch International Airport Ltd (CIAL) ▸ Dunedin International Airport Ltd (DIAL) ▸ Genesis Energy Ltd ▸ Hawkes Bay Airport Ltd (HBAL) ▸ Meridian Energy Ltd ▸ Mighty River Power Ltd ▸ National Provident Fund (NPF) ▸ NZ Local Government Funding Agency (supporting DIA in monitoring this enitity) ▸ Tāmaki Redevelopment Company Ltd (TRC)

The Treasury administers the board appointment processes for all of the above companies/entities. In addition, the Treasury administers the board appointment processes for the following entities: Crown Forestry Rental Trust, Government Superannuation Appeals Board, National Infrastructure Advisory Board, New Zealand Productivity Commission, Nominating Committee for the Guardians of New Zealand Superannuation, and RBNZ. The Treasury also serves as the secretariat function for the Government Superannuation Appeals Board.

Research and Policy Publications

The Treasury's research and policy publications present work-in-progress perspectives on a variety of economic, financial, trade and social issues. The 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.

Working Papers published for the year ended 30 June 2014	Publishing Date and Paper Number
Population Ageing and the Growth of Income and Consumption Tax Revenue	July 2013 – WP 13/09
Private Returns to Tertiary Education – How does New Zealand compare?	July 2013 – WP 13/10
Alternative Distributions for Inequality and Poverty Comparisons	July 2013 – WP 13/11
Intergenerational Smoothing of New Zealand's Future Fiscal Costs	July 2013 – WP 13/12
The Distributional Impact of Population Ageing	July 2013 – WP 13/13
Housing Affordability in New Zealand: Evidence from household surveys	July 2013 – WP 13/14
China's Recent Growth and its Impact on the New Zealand Economy	July 2013 – WP 13/15
The Outlook for China's Growth and its impact on New Zealand Exports	July 2013 – WP 13/16
Empirical Evidence on Growth Spillovers from China to New Zealand	July 2013 – WP 13/17
Estimating New Zealand's Output Gap Using a Small Macro Model	July 2013 – WP 13/18
Parameter Uncertainty and the Fiscal Multiplier	July 2013 – WP 13/19
The Requirements for Long-run Fiscal Sustainability	July 2013 – WP 13/20
Population Ageing, Productivity and Policies: A survey with implications for New Zealand	Dec 2013 – WP 13/21
Can Automatic Tax Increases Pay for the Public Spending Effects of Population Ageing in New Zealand?	Dec 2013 – WP 13/22
Tales of Three Budgets: Changes in long-term fiscal projections through the GFC and beyond	Dec 2013 – WP 13/23
The Elasticity of Taxable Income, Welfare Changes and Optimal Tax Rates	Dec 2013 – WP 13/24
Intergenerational Contracts and Time Consistency: Implications for policy settings and governance in the social welfare system	Dec 2013 – WP 13/25
How Does the Exchange Rate Affect the Real Economy? A Literature Survey	Dec 2013 – WP 13/26
Revenue-maximising Elasticities of Taxable Income in Multi-rate Income Tax Structures	Dec 2013 – WP 13/27
Retirement Income Policy and National Savings	Dec 2013 – WP 13/28
Estimating Firm-level Effective Marginal Tax Rates and the User Cost of Capital in New Zealand	Dec 2013 – WP 13/29
Macroeconomic Policy in New Zealand: From the great inflation to the global financial crisis	Dec 2013 – WP 13/30
Sources of International Investment Data in the Longitudinal Business Database	Dec 2013 – WP 13/31
Recent Unemployment Experience in New Zealand	Feb 2014 – WP 14/01
To Save or Save Not: Intergenerational neutrality and the expansion of New Zealand Superannuation	Feb 2014 – WP 14/02
New Zealand Labour Market Dynamics: Pre- and post-global financial crisis	Feb 2014 – WP 14/03
An Empirical Study of Sectoral-level Capital Investments in New Zealand	Feb 2014 – WP 14/04
A Gravity Model of Barriers to Trade in New Zealand	Feb 2014 – WP 14/05
KiwiSaver: Comparing survey and administrative data	Feb 2014 – WP 14/06
Food Expenditure and GST in New Zealand	April 2014 – WP 14/07
Estimation of Labour Supply in New Zealand	April 2014 – WP 14/08
Estimation of Wage Equations for New Zealand	April 2014 – WP 14/09
Migration and Macroeconomic Performance in New Zealand: Theory and evidence	April 2014 – WP 14/10
Housing Affordability: Lessons from the United States	April 2014 – WP 14/11

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	Benchmarking 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
CEC	Crown Entity Companies
CERA	Canterbury Earthquake Recovery Authority
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
DPMC	Department of the Prime Minister and Cabinet
ECA	Export Credit Agency
ELT	Executive Leadership Team
EMUs	Electric Multiple Units
ETS	Emissions Trading Scheme
EQC	Earthquake Commission
FBT	Fringe Benefit Tax
FSR	Fiscal Strategy Report
FVPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
GSF	Government Superannuation Fund
GSO	Government Share Offer Programme
GST	Goods and Services Tax
HNZC	Housing New Zealand Corporation
IFIs	International Financial Institutions
IMAP	Investment Management and Asset Performance
IMF	International Monetary Fund
IPO	Initial Public Offer
IRD	Inland Revenue Department
KPI	Key Performance Indicators
LGFA	Local Government Funding Agency
LVR	Loan Value Ratio
MBIE	Ministry of Business, Innovation and Employment
MCA	Ministerial Correspondence
MCA	Multi-Category Appropriation
MCDEM	Ministry of Civil Defence and Emergency Management
MfE	Ministry for the Environment
MOE	Ministry of Education
MOIAs	Ministry Official Information Act requests

MOJ	Ministry of Justice
MOM	Mixed Ownership Model
MOU	Memorandum of Understanding
MSD	Ministry of Social Development
MYA	Multi-year Appropriation
NCEA	National Certificate of Educational Achievement
NGOs	Non-Government Organisations
NIIP	Net International Investment Position
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
NZSF	New Zealand Superannuation Fund
NZTA	New Zealand Transport Agency
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
OGA	Office of the Government Accountant
OIAs	Official Information Act requests
OLAG	Outcome Leaders Action Group
PAS	Public Benefit Entity Accounting Standards
PAYE	Pay-As-You-Earn
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standards
PIF	Performance Improvement Framework
PLAs	Permanent Legislative Authorities
PPPs	Public Private Partnerships
PQs	Parliamentary Questions
PRC	People and Resources Committee
RAC	Risk and Audit Committee
RBNZ	Reserve Bank of New Zealand
REANNZ	Research and Education Advanced Network New Zealand
RIA	Regulatory Impact Analysis
RMA	Resource Management Act 1991
SCI	Statement of Corporate Intent
SLAs	Service Level Agreements
SOE	State-Owned Enterprise
SOI	Statement of Intent
SQS	Service Quality Score
SRESL	Southern Response Earthquake Services Ltd
SROs	Senior Responsible Owners
SSC	State Services Commission
TEC	Tertiary Education Commission
TOIAs	Treasury Official Information Act requests
TPP	Trans-Pacific Partnership
VaR	Value at Risk
WFGF	Wholesale Funding Guarantee Facility
WGI	Worldwide Governance Indicators
WTO	World Trade Organisation
XRB	External Reporting Board