Ngā Tauākī Pūtea - ā-Tari –
Financial Statements – Departmental

Financial Statements 2019/20

Departmental

Statement of comprehensive revenue and expense

for the year ended 30 June 2020
Parent and group

Actual 2019 $000		Note	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
	Revenue					
265,703	Revenue Crown	2	316,259	280,154	316,259	344,323
221,624	Other revenue	2	185,671	230,990	222,250	132,271
487,327	**Total revenue**		**501,930**	**511,144**	**538,509**	**476,594**
	Expenses					
219,202	Personnel costs	3	248,350	214,484	243,115	272,404
41,764	Depreciation, amortisation and impairment expense	9, 11	45,631	46,640	44,753	52,378
20,590	Capital charge	18	22,770	22,680	22,769	22,549
373	Finance costs	19	408	323	379	348
171,926	Other operating expenses	4	167,010	207,820	215,700	186,910
453,855	**Total expenses**		**484,169**	**491,947**	**526,716**	**534,589**
33,472	**Operating surplus/(deficit)**		**17,761**	**19,197**	**11,793**	**(57,995)**
	Other comprehensive revenue and expense					
	Item that will not be reclassified to net surplus					
1,683	Asset revaluation gains/(losses)	9, 21	(392)	-	-	-
35,155	**Total comprehensive revenue and expense**		**17,369**	**19,197**	**11,793**	**(57,995)**

Explanations of significant variances against budget are detailed in Note 26.
The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2020

Parent and group

Actual 2019 $000		Note	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
	Assets					
	Current assets					
71,027	Cash and cash equivalents	6	42,900	40,612	35,647	21,030
64,688	Debtor Crown		83,669	75,000	109,400	-
18,804	Debtors and other receivables	7	12,790	7,844	18,374	13,392
1,555	Inventories	8	1,080	1,595	1,700	1,200
5,390	Prepayments		5,287	5,603	4,172	5,604
39,024	Non-current assets held for sale	10	1,904	39,939	1,904	-
200,488	**Total current assets**		**147,630**	**170,593**	**171,197**	**41,226**
	Non-current assets					
98	Prepayments		89	-	-	-
226,506	Property, plant and equipment	9	236,396	228,881	240,975	255,094
130,886	Intangible assets	11	168,644	167,861	170,391	200,178
357,490	**Total non-current assets**		**405,129**	**396,742**	**411,366**	**455,272**
557,978	**Total assets**		**552,759**	**567,335**	**582,563**	**496,498**
	Liabilities and taxpayers' funds					
	Current liabilities					
39,440	Creditors and other payables	12	36,943	28,754	25,945	33,141
6,392	Provisions	13	4,012	7,932	3,223	1,823
14,605	Revenue received in advance	14	8,263	12,168	13,000	12,000
10,668	Employee entitlements	15	13,966	11,413	16,659	15,913
653	Finance leases	17	2,925	707	2,925	406
478	Other financial liabilities	20	478	-	-	-
1,317	Return of operating surplus	16	16,474	-	-	-
73,553	**Total current liabilities**		**83,061**	**60,974**	**61,752**	**63,283**
	Non-current liabilities					
136	Provisions	13	482	-	5,372	5,817
2,894	Employee entitlements	15	3,280	2,376	2,694	3,680
3,676	Finance leases	17	8,486	2,969	8,486	8,080
5,463	Other financial liabilities	20	6,011	-	-	-
12,169	**Total non-current liabilities**		**18,259**	**5,345**	**16,552**	**17,577**
85,722	**Total liabilities**		**101,320**	**66,319**	**78,304**	**80,860**
472,256	**Net assets**		**451,439**	**501,016**	**504,259**	**415,638**
	Equity					
329,836	Taxpayer's funds	21	308,124	452,845	454,405	365,764
92,567	Memorandum accounts	5	93,854	-	-	-
49,853	Revaluation reserves	21	49,461	48,171	49,854	49,874
472,256	**Total equity**		**451,439**	**501,016**	**504,259**	**415,638**

Explanations of significant variances against budget are detailed in Note 26.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2020
Parent and group

Actual 2019 $000		Note	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
404,592	**Balance at 1 July**		**472,256**	**464,779**	**472,258**	**451,853**
33,472	Operating surplus for the year		17,761	19,197	11,793	(57,995)
1,683	Other comprehensive revenue and expense		(392)	-	-	-
35,155	**Total comprehensive revenue and expense**		**17,369**	**19,197**	**11,793**	**(57,995)**
	Owner transactions					
35,639	Capital injections	22	16,008	17,640	20,808	21,780
(1,813)	Capital withdrawal	22	(37,720)	(600)	(600)	-
(1,317)	Return of operating surplus	16	(16,474)	-	-	-
472,256	**Balance at 30 June**		**451,439**	**501,016**	**504,259**	**415,638**

Explanations of significant variances against budget are detailed in Note 26.
The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2020
Parent and group

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
	Cash flows from operating activities				
240,360	Receipts from the Crown	297,277	260,154	271,547	427,992
215,579	Receipts from third parties	184,953	220,955	222,353	131,365
94	Net goods and services tax	145	57	(258)	596
(376,539)	Payments to suppliers and employees	(415,017)	(408,774)	(470,951)	(461,661)
(20,590)	Payments for capital charges	(22,770)	(22,565)	(22,769)	(22,549)
58,904	**Net cash flows from operating activities**	**44,588**	**49,827**	**(78)**	**75,743**
	Cash flows from investing activities				
259	Receipts from sale of property, plant and equipment	36,785	600	37,520	1,904
(30,393)	Purchase of property, plant and equipment	(30,082)	(24,707)	(31,862)	(39,029)
(38,296)	Purchase of intangible assets	(63,471)	(41,944)	(64,008)	(62,463)
(68,430)	**Net cash flows from investing activities**	**(56,768)**	**(66,051)**	**(58,350)**	**(99,588)**
	Cash flows from financing activities				
35,639	Capital injections	16,008	17,640	20,808	21,780
(1,700)	Capital withdrawals	(37,720)	(600)	(600)	-
(2,591)	Repayment of surplus to the Crown	(1,317)	-	(1,317)	(16,474)
(603)	Payments on finance leases	7,082	(707)	4,157	(3,331)
30,745	**Net cash flows from financing activities**	**(15,947)**	**16,333**	**23,048**	**1,975**
	Movement in cash				
49,808	Opening cash and cash equivalents	71,027	40,503	71,027	42,900
21,219	Net increase/(decrease) in cash	(28,127)	109	(35,380)	(21,870)
71,027	**Closing cash and cash equivalents**	**42,900**	**40,612**	**35,647**	**21,030**

Explanations of significant variances against budget are detailed in Note 26.

The accompanying notes form part of these financial statements.

Statement of cash flows (continued)

for the year ended 30 June 2020

Parent and group

Reconciliation of the net surplus cash flow from operating activities

Actual 2019 $000		Actual 2020 $000
35,155	**Total comprehensive revenue and expense**	**17,369**
	Add/(deduct) non-cash items	
41,764	Depreciation, amortisation and impairment expense	44,512
(1,603)	Asset revaluation gains	392
-	Impairment of intangible assets	1,119
(80)	Transfer to taxpayers' funds on disposal	-
(275)	Acquisition of donated assets	(250)
39,806	**Total non-cash items**	**45,773**
	Add/(deduct) items classified as investing activities	
30	Losses/(gains) on sale of property, plant and equipment	601
30	**Total investing or financial activities**	**601**
	Add/(deduct) movements in Statement of financial position items	
(33,212)	(Increase)/decrease in debtors and other receivables	(13,096)
653	(Increase)/decrease in other current assets	587
8,285	Increase/ (decrease) in other current liabilities	(4,531)
444	Increase/(decrease) in non-current liabilities	385
7,742	Increase/ (decrease) in creditors and other payables	(2,500)
(16,088)	**Total net movement in working capital items**	**(19,155)**
58,904	**Net cash flows from operating activities**	**44,588**

The accompanying notes form part of these financial statements.

Statement of commitments

as at 30 June 2020
Parent and group

Actual 2019 $000		Actual 2020 $000
	Capital commitments	
4,716	Intangible assets	3,605
47	Non-residential buildings	2
5,183	Plant and equipment	-
2	Furniture and fittings	-
519	Leasehold improvements	-
10,467	**Total capital commitments**	**3,607**
	Non-cancellable operating commitment leases as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases	
14,515	No later than one year	18,626
12,241	Later than one and not later than two years	17,923
30,890	Later than two and not later than five years	43,881
62,329	Later than five years	95,466
119,975	**Total non-cancellable operating commitment leases as lessee**	**175,896**
130,442	**Total commitments**	**179,503**

Capital commitments

Capital commitments are the cumulative amount of capital expenditure were the department entered into a contract for the acquisition of property, plant and equipment and intangible assets that have not been paid for, or are not recognised as a liability, at the financial year end.

Cancellable capital commitments are reported at the lower of the remaining contractual commitment or the early exit costs explicit in the exit clause of the agreement.

Non-cancellable operating commitment leases as lessee

The Department leases property, plant and equipment in the normal course of its business of which the majority are for premises across New Zealand. These lease amounts are disclosed as future commitments based on current rental rates extrapolated to future years. The non-cancellable leasing period for these leases varies.

The Department's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Department by any of its leasing arrangements.

The total of minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is $0.876 million (2018/19: $1.223 million).

The accompanying notes form part of these financial statements.

Statement of contingent assets and liabilities

as at 30 June 2020
Parent and group

Quantifiable contingent assets

As at 30 June 2020, the Department had no quantifiable contingent assets (2018/19: nil).

Unquantifiable contingent assets

As at 30 June 2020, the Department had no unquantifiable contingent assets (2018/19: nil).

Quantifiable contingent liabilities

As at 30 June 2020, the Department had:

- One quantifiable contingent liability of $5.192million for costs associated with the concept design phase of the new Wellington Archives, should the development not proceed (2018/19: $0.400 million).
- One quantifiable contingent liability of $0.045 million relating to an employment issue (2018/19: $0.196 million).

Unquantifiable contingent liabilities

As at 30 June 2020, the Department had no unquantifiable contingent liabilities (2018/19: two).

Employment issue and personal grievances

On occasion, employment issues or personal grievances arise. The Department works within its policies to resolve all issues raised in good faith. Where this is not possible a mediated settlement may be agreed.

The accompanying notes form part of these financial statements.

Notes to the financial statements
Basis of reporting

1. Statement of accounting policies

Reporting entity

The Department of Internal Affairs (the Department) (Parent) is a government department as defined by Section 2 of the Public Finance Act (PFA) 1989 and is domiciled in New Zealand.

The Department's primary objective is to serve and connect people, communities and government to build a safe, prosperous and respected nation.

The Department does not operate to make a financial return and is also regarded as a Public Benefit Entity (PBE) for the purposes of complying with New Zealand generally accepted accounting practice (NZ GAAP).

The Department also reports on the Non-Departmental (Crown) activities and Trusts which it administers.

The Group consists of the Department and its subsidiary, Te Puna Foundation (the Foundation).

The Foundation is a Charitable Trust, which is controlled by the Department to provide support to the National Library of New Zealand in accordance with the National Library of New Zealand (Te Puna Mātauranga o Aotearoa) Act 2003. The consolidation is required for financial reporting purposes only. The Department and the Foundation operate independently.

Reporting period

The reporting period for these financial statements is the year ended 30 June 2020 with comparative figures for the year ended 30 June 2019. The financial statements were authorised for issue by the Chief Executive of the Department of Internal Affairs on 16 November 2020.

Basis of preparation

These financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements also comply with the requirements of the PFA 1989, which include the requirement to comply with NZ GAAP and Treasury Instructions. These financial statements have been prepared in accordance with and comply with Tier 1 PBE International Public Sector Accounting Standards (PBE IPSAS).

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

Measurement base

The financial statements have been prepared on an historical cost basis, adjusted by the revaluation of land and buildings, antiques and art, actuarial valuations of long service and retirement leave liabilities, and the fair value of certain financial instruments.

Changes in accounting policies

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

Comparatives

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

Standards issued and not yet effective

There are no standards or amendments, that have been issued but are not yet effective, that are relevant to the Department's financial reporting.

Significant accounting policies

Significant accounting policies are included in the notes to which they relate and those that do not relate to a specific note are outlined below.

Foreign currency transactions

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive revenue and expense.

Taxation

The Department is exempt from the payment of income tax. Accordingly, no provision has been made for income tax. The Department is subject to fringe benefit tax (FBT) and goods and services tax (GST). It administers pay as you earn tax (PAYE), employer superannuation contribution tax (ESCT) and withholding tax (WHT).

Goods and Services Tax (GST)

All items in the financial statements including commitments and contingencies are GST exclusive, except for receivables and payables that are GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST owing at balance date, being the difference between output GST and input GST, is included in either receivables or payables in the Statement of financial position.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows. It reflects the net GST paid or received during the year. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Budget and forecast figures

Basis of the budget and forecast figures

The 2019/20 budget figures (Unaudited Budget 2020) are for the year ended 30 June 2020. They are consistent with the Department's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2019/20. In addition, the financial statements also present the updated budget information from the Supplementary Estimates (Unaudited Supps EST 2020).

The 2020/21 forecast figures (Unaudited Forecast 2021) are for the year ending 30 June 2021, which are consistent with the best estimate financial forecast information submitted to the Treasury for the Pre-election Economic and Fiscal Update (PREFU) for 2020/21. The forecast financial statements have been prepared as required by the PFA 1989 to provide forecast financial information for accountability purposes.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

Significant assumptions used in preparing the forecast financial information

The 30 June 2021 forecast figures have been prepared in accordance with and comply with PBE Financial Reporting Standards (FRS) 42 Prospective financial statements. The forecast figures contained in these financial statements reflect the Department's purpose and activities and based on several assumptions on what may occur during 2020/21. The forecast figures have been compiled based on existing government policies and ministerial expectations at the time the Main Estimates were finalised.

The main assumptions are as follows:

- the Department's activities will remain substantially the same as for the previous year focusing on the Government's priorities,
- personnel costs are based on full-time equivalent staff, which considers staff turnover,
- remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes,
- operating costs are based on the best estimate at the time the financial statements are finalised,
- no impact on the revaluation of land and buildings has been assumed in the forecast,
- capital commitments will realise as planned,
- estimated year end information for 2019/20 is used as the opening position for 2020/21 forecasts, and
- revenue forecast changes as a result of the COVID-19 pandemic have been reflected in the forecast financials.

The actual financial results achieved for 30 June 2021 are likely to vary from the forecast information presented, and the variations may be material. Factors that could lead to material differences between the forecast financial statements and the 2020/21 actual financial statements include:

- further operating impacts associated with the COVID-19 pandemic,
- capability resource availability,
- efficiency or productivity gains,
- changes to the baseline because of technical adjustments, and
- demand driven volume changes.

Any changes to budgets during 2020/21 will be incorporated into the Supplementary Estimates of appropriations for the Government of New Zealand for the year ending 30 June 2021.

Authorisation statement

The forecast financial statements were approved for issue by the Chief Financial Officer on 16 April 2020. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures. While the Department regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2021 will not be published.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of appropriations for, and planned performance of, the Department. These forecast financial statements may not be appropriate for other purposes.

Critical accounting estimates, assumptions and critical judgements in applying accounting policies

In preparing the financial statements in conformity with PBE accounting standards, critical judgements, estimates and assumptions have been made concerning the future and may differ from the subsequent actual results. The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the progress of applying the accounting policies, the Department has made several judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Notes	Judgements, estimates and assumptions
Note 11 – Intangible assets	Assessing the useful lives of software
Note 15 – Employee entitlements	Measuring long service leave and retirement gratuities
Note 17 – Finance leases	Classification of leases
Note 21 – Equity	Estimating the fair value of land and building

Results for the year

2. Revenue

Accounting policy

Revenue is measured at the fair value of consideration received or receivable. The specific accounting policies for significant revenue items are explained below.

Revenue – non-exchange transactions

Revenue Crown

Crown revenue consists of amounts appropriated to departmental appropriations for the year, adjusted for any formal additions and reductions. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised considers any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Department can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue Crown has been determined to be equivalent to the funding entitlement.

Donated or subsidised assets

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue in the Statement of comprehensive revenue and expense.

Revenue – exchange transactions

Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Third party revenue

The Department derives revenue from third parties through the provision of outputs (products or services). Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer unless an alternative method better represents the stage of completion of the transaction. Such revenue is recognised when earned and is reported in the financial period to which it relates.

The Department uses memorandum accounts to record the accumulated balance of surpluses and deficits incurred in the provision of third party fully-cost-recovered outputs. These memorandum accounts separately disclose the cost of such outputs, as otherwise this information would be aggregated as part of the Department’s Statement of financial position.

Rental revenue from subleases

Rental revenue under an operating sublease is recognised as revenue on a straight-line basis over the lease term.

Breakdown of other revenue and further information

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
	Other revenue from non-exchange transactions				
275	Other third-party revenue	250	-	-	-
275	**Total other revenue from non-exchange transactions**	**250**	**-**	**-**	**-**
	Other revenue from exchange transactions				
118,902	Passport fees	91,117	126,149	118,300	28,785
22,388	Non-casino gaming licences and fees	18,060	21,471	21,424	20,647
15,274	Birth, death, marriage and civil union fees	13,767	15,256	15,255	15,256
15,436	Citizenship fees	11,973	17,524	14,351	17,508
10,570	Recovery from New Zealand Lottery Grants Board	11,034	10,513	11,334	10,513
9,062	VIP transport	8,771	9,000	9,000	9,000
7,661	e-Government development and operations	8,533	7,743	7,812	7,360
5,453	Casino operators' levies	4,651	6,951	6,951	6,948
3,711	Electronic purchasing in collaboration	3,718	3,475	3,595	3,595
2,107	Kōtui library services	2,308	1,800	2,200	2,199
1,540	Translation services	1,792	1,000	2,003	1,000
1,855	RealMe	1,746	2,068	1,912	2,068
1,293	Te Puna catalogue and inter-loan library services	1,511	1,002	1,562	1,495
846	Lake Taupō boating facilities	911	915	916	980
869	Charities registrations	830	852	852	852
751	New Zealand Gazette	757	844	844	844
1,483	Language line interpreter services	400	1,551	400	-
400	National dog database levy	400	400	400	400
321	Rental revenue from sublease	384	-	-	350
78	National Library auditorium	141	460	210	210
-	Net foreign exchange gain	11	-	-	-
1,349	Other third-party revenue	2,606	2,016	2,929	2,261
221,349	**Total other revenue from exchange transactions**	**185,421**	**230,990**	**222,250**	**132,271**
221,624	**Total other revenue**	**185,671**	**230,990**	**222,250**	**132,271**

COVID-19 pandemic revenue impact

The countrywide lockdown and other restricted COVID-19 Alert Levels have directly impacted the Department's third-party revenue streams. In particular, passport fees and gambling revenues were significantly impacted.

Passport fees: international border closures associated with COVID-19 have created a passport revenue risk for the Department, with a material impact of approximately $27.5 million to 30 June 2020. It is uncertain when this revenue stream will recover, as it relies on factors outside the control of the Department, such as border restriction decreases, resumption of international travel, and willingness of passport holders to travel. The Department is modelling various scenarios and will refine them as the situation becomes more certain.

Non-casino gaming licences and fees: revenue was affected by COVID-19 restrictions as venues could not operate during alert levels 3 and 4 and operated at a reduced capacity during alert level 2. On 1 July 2020 a number of regulatory amendments were introduced to mitigate the impact of COVID-19 on the gambling sector. These amendments waived certain fees for the period from 25 March to 30 June 2020 and cancelled the fee increase planned for 1 July 2020. The overall impact decreased gambling revenue by $5.3 million compared to last year.

Electronic purchasing in collaboration: subscriptions will be largely funded by the Crown rather than 3rd party revenues for the 2020/21 and 2021/22 financial years.

Te Puna catalogue and inter-loan library services: subscriptions will be largely funded by the Crown rather than 3rd party revenues for the 2020/21 and 2021/22 financial years.

3. Personnel costs

Accounting policy

Salaries and wages and employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave, and other similar benefits are recognised in the Statement of comprehensive revenue and expense when they accrue to employees.

Defined contribution superannuation schemes

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

Restructuring costs

Restructuring costs are recognised in the Statement of comprehensive revenue and expense only when there is a demonstrable commitment to either terminate employment prior to normal employment date or to provide such benefits because of a position becoming redundant.

Breakdown of personnel costs

Actual 2019 $000		Actual 2020 $000
206,290	Salaries, wages and contractor expenses	234,988
6,073	Employer contribution to defined contribution plans	6,727
3,313	Restructuring costs	-
1,139	Increase in employee entitlements	3,624
2,387	Other personnel costs	3,011
219,202	**Total personnel costs**	**248,350**

4. Other operating expenses

Accounting policy

Operating leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Accommodation and motor vehicle leases are recognised as operating leases.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense (refer to Note 20).

Other expenses

Other expenses are recognised as goods and services as received.

Breakdown of other operating expenses

Actual 2019 $000		Note	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Supp EST 2020 $000	Unaudited Forecast 2021 $000
52,777	Computer costs		58,932	75,132	56,421	63,669
24,197	Rental and leasing costs		25,313	21,937	23,683	29,445
15,600	Consultants and outsourcing contracts		16,399	15,337	20,955	21,630
21,879	Inventory costs		13,152	23,521	20,085	12,399
12,930	Agency fees		12,044	12,700	12,591	12,436
9,662	Travel expenses		8,545	9,143	11,315	9,885
8,952	Office expenses		7,741	10,178	8,715	8,084
4,419	Professional fees		7,303	3,700	10,463	8,358
3,850	Library resources and subscriptions		4,958	5,008	4,725	4,666
3,409	Staff development		2,379	3,622	3,621	5,169
1,533	Repair and maintenance		1,710	6,832	1,821	1,367
1,223	Publicity and promotion		757	1,050	1,239	1,298
30	Loss on write-off of assets		601	-	365	-
396	Fees for auditor (financial statement audit)		405	426	426	434
15	Increase in provision for expected lifetime credit loss	7	39	-	13	-
30	Fees to Auditor (assurance and related Services)		37	-	-	-
67	Realised foreign exchange losses		13	-	13	-
180	Increase in provision for onerous contracts	13	-	-	-	-
10,777	Other departmental operating costs		6,682	19,234	39,249	8,070
171,926	**Total other operating expenses**		**167,010**	**207,820**	**215,700**	**186,910**

5. Memorandum accounts

Accounting policy

Memorandum accounts reflect the cumulative surplus/(deficit) on those departmental services provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. They are intended to provide a long-run perspective to the pricing of outputs. The balance of each memorandum account is expected to trend toward zero over time, with interim deficits being met either from cash from the Department's Statement of financial position or by seeking approval for a capital injection from the Crown. Capital injections will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

Summary of memorandum accounts

Actual 2019 $000		Actual 2020 $000
(238)	New Zealand Gazette	(232)
(158)	Use of facilities and access to Lake Taupō by boat users	(253)
78,492	Passport products	83,010
20,279	Citizenship products	16,425
436	Marriage and civil union products	210
1,683	Issue of birth, death and marriage certifications and other products	1,358
4,526	Gaming	8,608
1,196	Kōtui library services	1,063
303	Electronic Purchasing in Collaboration (EPIC)	70
(14,898)	Common capability products	(17,479)
946	National dog control information database	1,074
92,567	**Balance at 30 June**	**93,854**

Breakdown of memorandum accounts and further information

New Zealand Gazette (Established 30 June 2002)

Purpose: The cost of publishing and distributing the New Zealand Gazette is recovered through third party fees.

Actions: Costs and Revenues will be reviewed in 2020/21 and revised where appropriate to ensure they balance over time.

Actual 2019 $000		Actual 2020 $000
	New Zealand Gazette	
(282)	**Balance at 1 July**	**(238)**
751	Revenue movement for the year	757
(707)	Expense movement for the year	(751)
44	**Net memorandum account surplus for the year**	**6**
(238)	**Balance at 30 June**	**(232)**

Use of facilities and access to Lake Taupō by boat users (Established 30 June 2002)

Purpose: The Department manages berths, jetties and boat ramps located at Lake Taupō. Fees are charged to third parties for the use of boat ramps and marina berths. These fees are used to cover the cost of the administration and maintenance of these facilities.

Actions: New fees for the Lake Taupō boating facilities were introduced in November 2019. This will lead to increased revenue from 2020/21. COVID-19 restrictions caused a reduction in the number of temporary permits issued with an estimated revenue impact of $20,000 when compared to the same period last year.

Actual 2019 $000		Actual 2020 $000
	Use of facilities and access to Lake Taupō by boat users	
(22)	**Balance at 1 July**	**(158)**
846	Revenue movement for the year	911
(982)	Expense movement for the year	(1,006)
(136)	**Net memorandum account (deficit) for the year**	**(95)**
(158)	**Balance at 30 June**	**(253)**

Passport products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a ten-year planning horizon. This strategy supports the introduction of new technologies, including the replacement of the ageing passport system within that timeframe.

Actions: The full implications of the COVID-19 pandemic on passport volumes are unknown and will be greatly affected by the timing of borders re-opening and international travel restarting. The Department is modelling various scenarios and will refine them as the situation becomes more certain. The next passport fees review is currently planned for November 2021 when the impact of the pandemic on passport application volumes should be clearer.

Actual 2019 $000		Actual 2020 $000
Passport products		
55,095	**Balance at 1 July**	**78,492**
118,901	Revenue movement for the year	91,178
(95,504)	Expense movement for the year	(86,660)
23,398	**Net memorandum account surplus for the year**	**4,518**
78,492	**Balance at 30 June**	**83,010**

Citizenship products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for identity-related products. The surplus will contribute to the costs of replacing aging technology.

Actual 2019 $000		Actual 2020 $000
Citizenship products		
16,766	**Balance at 1 July**	**20,279**
15,437	Revenue movement for the year	11,972
(11,924)	Expense movement for the year	(15,826)
3,513	**Net memorandum account surplus/(deficit) for the year**	**(3,854)**
20,279	**Balance at 30 June**	**16,425**

Marriage and civil union products (Established 30 June 2002, amended to include civil unions 1 July 2012)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon. This strategy supports the introduction of new technologies including the replacement of the ageing births, deaths and marriages (BDM) systems within that timeframe.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for identity-related products. The surplus will contribute to the cost of replacing aging technology.

Actual 2019 $000		Actual 2020 $000
Marriage and civil union products		
(86)	**Balance at 1 July**	**436**
4,153	Revenue movement for the year	3,740
(3,631)	Expense movement for the year	(3,966)
522	**Net memorandum account surplus/(deficit) for the year**	**(226)**
436	**Balance at 30 June**	**210**

Issue of birth, death and marriage certifications and other products (Established 30 June 2002)

Purpose: To support a strategy to stabilise fees based on full cost recovery over a four to five-year planning horizon. This strategy includes the introduction of new technologies that allow greater access by applicants through the Internet.

Actions: The Department is undertaking work as part of the Te Ara Manaaki programme to modernise systems for identity-related products. The surplus will contribute towards the cost of replacing aging technology.

Actual 2019 $000		Actual 2020 $000
Issue of birth, death and marriage certifications and other products		
1,087	**Balance at 1 July**	**1,683**
11,121	Revenue movement for the year	10,015
(10,525)	Expense movement for the year	(10,340)
596	**Net memorandum account surplus/(deficit) for the year**	**(325)**
1,683	**Balance at 30 June**	**1,358**

Gaming (Established 30 June 2002; amended to include Casino Fees on activities, July 2014)

Purpose: Fees established to recover the cost of administration and regulation of casino and non-casino gaming are reflected in gaming machine fees, compliance fees, license fees and similar charges for differing types of gambling activity, in addition to charges relating to the electronic monitoring of non-casino gaming machines.

Actions: Revenue for the year was affected by COVID-19 restrictions with venues not being able to operate during Alert Levels 3 and 4 and operating at a reduced capacity during Alert Level 2. On 1 July 2020 regulatory amendments were introduced to mitigate the impact of COVID-19 on the gambling sector. These amendments waived certain fees for the period from 25 March to 30 June 2020 and cancelled the fee increase planned for 1 July 2020. The overall impact on revenue was $5.4 million for the year. A review of the gaming memorandum account highlighted that the memorandum account had been overcharged by $3.606 million during the period from 1 July 2014 to 30 June 2019. This issue has been rectified and $3.606 million returned to the memorandum account. The next fee review is expected to be undertaken in 2021/22.

Actual 2019 $000		Actual 2020 $000
Gaming		
(2,576)	**Balance at 1 July**	**4,526**
27,010	Revenue movement for the year	21,755
(19,908)	Expense movement for the year	(21,279)
7,102	**Net memorandum account surplus for the year**	**476**
-	Transfers	3,606
4,526	**Balance at 30 June**	**8,608**

Gambling Commission and Censorship revenue and expenditure are not included in the Gaming memorandum account, because they are policy monitoring, not administration and regulation.

Kōtui library services (Established 30 January 2011)

Purpose: Kōtui is a shared service of integrated library management and resource discovery systems for public libraries. The business model is a subscription service where public libraries pay a one-off software installation fee followed by annual subscription charges. The Kōtui shared library and resource discovery service was launched to public libraries in September 2011. This memorandum account was established to enable the provision of the Kōtui Library Management System, which is designed to be funded 100% by member contributions. The cost model for the Kōtui memorandum account was designed to operate in surplus over a ten-year period with the surplus slowly decreasing over time.

Actions: Subscription fees are reviewed annually to ensure recovery of full costs.

Actual 2019 $000		Actual 2020 $000
Kōtui library services		
1,123	**Balance at 1 July**	**1,196**
2,107	Revenue movement for the year	2,309
(2,034)	Expense movement for the year	(2,442)
73	**Net memorandum account surplus/(deficit) for the year**	**(133)**
1,196	**Balance at 30 June**	**1,063**

Electronic Purchasing in Collaboration (EPIC) (Established 2012)

Purpose: The purpose of EPIC is to negotiate group licenses to electronic resources and to provide member libraries and all New Zealand schools with access to high quality subscription electronic resources at more favourable rates than they would be able to achieve individually.

Actions: Fees are reviewed annually and are based on member uptake and vendor costs.

Actual 2019 $000		Actual 2020 $000
	Electronic Purchasing in Collaboration (EPIC)	
(49)	**Balance at 1 July**	**303**
3,710	Revenue movement for the year	3,706
(3,358)	Expense movement for the year	(3,939)
352	**Net memorandum account surplus/(deficit) for the year**	**(233)**
303	**Balance at 30 June**	**70**

Common capability products (Established 2013; amended to include Infrastructure as a Service (IaaS) and All-of-Government adoption of cloud computing memorandum accounts with effect from 1 July 2015)

Purpose: This memorandum account was established to record both the amount of revenue received from agencies for Government ICT Common Capability (GCC) products, not otherwise accounted for via separate memorandum accounts, and the amount of expenses incurred in supporting the development (where not funded separately), delivery, operation and renewal of these GCC products.

Actions: The memorandum account was forecast to break even from 2020/21. However, updated projections now indicate the breakeven position will not occur in 2020/21 or in outyears. Work is progressing in 2020/21 to develop a sustainable funding mechanism for the Common Capabilities products.

Actual 2019 $000		Actual 2020 $000
	Common capability products	
(11,415)	**Balance at 1 July**	**(14,898)**
7,661	Revenue movement for the year	8,553
(11,144)	Expense movement for the year	(11,134)
(3,483)	**Net memorandum account (deficit) for the year**	**(2,581)**
(14,898)	**Balance at 30 June**	**(17,479)**

National dog control information database (Established 2014)

Purpose: This memorandum account was established to track the revenue and expenditure associated with administering the national dog control information database.

Actions: A period of higher expenditure is expected in 2020/21 associated with reviewing and renewing the National Dog Control Information Database operation and support contract. This expenditure is expected to utilise the accumulated surplus.

Actual 2019 $000		Actual 2020 $000
	National dog control information database	
771	**Balance at 1 July**	**946**
400	Revenue movement for the year	400
(225)	Expense movement for the year	(272)
175	**Net memorandum account surplus for the year**	**128**
946	**Balance at 30 June**	**1,074**

Operating assets and liabilities

6. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand, cash in transit, and funds on deposit with banks with an original maturity of no more than three months. The Department is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Overseas bank accounts are shown in New Zealand dollars converted at the closing mid-point exchange rate.

Trust bank account is defined in the Regulatory Systems (Commercial Matters) Amendment Act 2017. This requires all retentions on commercial contracts to be held in a trust bank account. This account holds the money that is deposited with the Department pending practical completion of a transaction or dispute and which may become payable to the supplier.

Breakdown of cash and cash equivalents and further information

Actual 2019 $000		Actual 2020 $000
69,996	New Zealand bank accounts	41,143
	Overseas bank accounts	
500	Australian bank accounts	1,091
166	United Kingdom bank accounts	362
	Trust bank account	
365	Retention trust account	304
71,027	**Total cash and cash equivalents**	**42,900**

7. Debtors and other receivables

Accounting policy

Debtors and other receivables are recorded at face value, less an allowance for credit losses. The Department has applied the simplified expected credit loss model of recognising lifetime expected credit losses for receivables. In measuring expected credit losses, debtors and other receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Debtors and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Provision for expected lifetime credit loss

The provision for expected lifetime credit loss consists of specific individual impairment provisions, based on review of overdue receivables, and a collective impairment provision based on an analysis of past collection history and debt write-offs.

There have been no changes, during the reporting period, to the estimation techniques or significant assumptions used to measure the provision.

Breakdown of receivables and further information

Actual 2019 $000		Actual 2020 $000
18,889	Gross trade receivables	12,908
(85)	Less provision for expected lifetime credit loss	(118)
18,804	**Total accounts receivables**	**12,790**
	Total receivables comprise:	
18,804	Receivables from exchange transactions	12,790
18,804	**Total receivable**	**12,790**

All receivables more than 30 days in age are past due. As at balance date, all receivables have been assessed for impairment, and appropriate provisions applied, as detailed below.

2019				2020		
Gross $000	Lifetime expected credit loss $000	Net $000		Gross $000	Lifetime expected credit loss $000	Net $000
13,760	(8)	13,752	Not past due	9,242	(9)	9,233
3,859	(2)	3,857	Past due 1-30 days	378	(1)	377
394	(4)	390	Past due 31-60 days	1,467	(14)	1,453
350	(12)	338	Past due 61-90 days	694	(12)	682
526	(59)	467	Past due > 91 days	1,127	(82)	1,045
18,889	**(85)**	**18,804**	**Total accounts receivables**	**12,908**	**(118)**	**12,790**

Movements in the provision for expected lifetime credit loss are as follows:

Actual 2019 $000		Actual 2020 $000
(70)	**Opening expected lifetime credit loss as at 1 July**	**(85)**
(85)	Additional provisions made during the year	(118)
70	Provisions released during the year	85
(85)	**Closing expected lifetime credit loss as at 30 June**	**(118)**

8. Inventories

Accounting policy

Inventories held for distribution or consumption in the provision of services that are not issued on a commercial basis is measured at the lower of cost (determined on the first-in first-out method) and current replacement costs. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Any write-down from cost to net realisable value or for the loss of service potential is recognised in the Statement of comprehensive revenue and expense in the year of the write-down.

Breakdown of inventories and further information

Actual 2019 $000		Actual 2020 $000
	Birth, death and marriage certificates	
75	Stock on hand	50
	Citizenship	
20	Stock on hand	21
647	Work in progress	636
	Film preservation laboratory	
48	Stock on hand	41
	National library	
25	Stock on hand	25
	Passports	
96	Stock on hand	89
644	Work in progress	218
1,555	**Total inventories**	**1,080**

No inventories have been written down during the year (2018/19: nil).

No inventories are pledged as security for liabilities (2018/19: nil). However, some inventories are subject to retention of title clauses.

9. Property, plant and equipment

Accounting policy

Property, plant and equipment consists of land, buildings, boating facilities, equipment, leasehold improvements, furniture and fittings, collections, computer hardware, motor vehicles, and leased assets.

Additions

Items of property, plant and equipment costing more than $3,000 are initially capitalised and recorded at cost if it is probable that future economic benefits or service potential will flow to the Department. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value on the date of acquisition. Work in Progress is recognised at cost less impairment and is not depreciated.

Under the Department's assets accounting policy, plant and equipment that individually costs less than $3,000 and is acquired as a group purchase with a total cost of more than $30,000 will be treated as a capital acquisition and capitalised as a fixed asset.

Subsequent costs

Subsequent costs are capitalised 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.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the Statement of comprehensive revenue and expense as they are incurred.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised in the Statement of comprehensive revenue and expense in the period the transaction occurs. Any associated gains and losses on revalued assets are transferred from the revaluation reserve.

Impairments

The Department does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant, and equipment held at cost that has a finite useful life is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impaired asset's carrying amount is written down to its recoverable amount which is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised immediately in the Statement of comprehensive revenue and expense, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Value-in-use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value-in-use depends on the nature of the impairment and availability of information.

The reversal of an impairment loss is recognised as part of the Statement of comprehensive revenue and expense.

Revaluations

Revaluations are carried out on several classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset with changes reported by class of asset.

Classes of property, plant and equipment that are revalued at least once every three years or whenever the carrying amount differs materially to fair value which is assessed every year by an independent registered valuer. Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date and are recognised as other comprehensive revenue and expense in the Statement of comprehensive revenue and expense.

A gain is credited to the Statement of comprehensive revenue and expense to the extent that it reverses a loss previously charged to the Statement of comprehensive revenue and expense for the asset class. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. Any loss is debited to the reserve to the extent that there is a balance in the asset revaluation reserve for that asset class. Otherwise, losses are reported in the Statement of comprehensive revenue and expense.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount. The useful life of an asset is reassessed following revaluation.

Specific asset class policies

The asset class specific policies that have been applied are outlined below:

Land and buildings

Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute.

Collections

Collections include both general and school library collections. These current use collections are recorded at cost less accumulated depreciation and accumulated impairment losses.

Other property, plant and equipment

Other property, plant and equipment, which include motor vehicles and office equipment, are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment or collections, less any estimated residual value, over its estimated useful life. Depreciation is not charged on land, antiques, artworks or capital work in progress.

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

Asset category	Asset life
Buildings and non-residential buildings	30 - 90 years
Furniture and fittings	5 - 30 years
IT equipment	3 - 5 years
Leasehold improvements	Shorter of lease period or estimated useful life of the improvements
Leased assets	15 years
Motor vehicles	3 - 6 years
National library general and schools' collections	5 - 50 years
Plant and equipment	5 - 100 years
Office equipment	5 - 10 years

Breakdown of property, plant, and equipment and further information

2020

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairment $000	Disposals $000	Transfers* $000	Balance at 30 June $000
Land	14,170	-	-	-	-	14,170
Non-residential buildings	136,771	4,969	20	-	(4,812)	136,948
Leasehold improvements	36,616	12,574	-	-	(671)	48,519
Boating facilities	-	-	-	-	-	-
Antiques and works of art	1,383	-	(412)	(12)	-	959
Furniture and fittings	29,002	2,600	-	(8)	451	32,045
General collections	32,318	463	-	-	157	32,938
Schools collections	20,963	845	-	(3,103)	36	18,741
Motor vehicles	6,887	1,943	-	(471)	1	8,360
Plant and equipment	15,491	4,684	-	-	(5,567)	14,608
IT equipment	37,023	4,143	-	-	(442)	40,724
Leased assets	6,700	8,930	-	-	-	15,630
Total cost	**337,324**	**41,151**	**(392)**	**(3,594)**	**(10,847)**	**363,642**

2020

Accumulated depreciation

Asset class	Balance at 1 July $000	Depreciation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	-	-	-	-	-	-
Non-residential buildings	1,256	5,665	-	-	-	6,921
Leasehold improvements	12,703	2,522	-	-	-	15,225
Boating facilities	-	-	-	-	-	-
Antiques and works of art	-	-	-	-	-	-
Furniture and fittings	14,288	1,876	-	(8)	-	16,156
General collections	24,539	1,040	-	-	-	25,579
Schools collections	18,241	1,072	-	(3,103)	-	16,210
Motor vehicles	2,784	953	-	(380)	-	3,357
Plant and equipment	5,521	414	-	-	-	5,935
IT equipment	26,988	5,122	-	-	-	32,110
Leased assets	4,498	1,255	-	-	-	5,753
Total accumulated depreciation	**110,818**	**19,919**	**-**	**(3,491)**	**-**	**127,246**

*Transfers include transfers between assets categories, transfers between government entities, and transfers to non-current assets held for sale.

2019

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	9,585	-	3,670	-	914	14,170
Non-residential buildings	147,342	12,831	(19,612)	-	(3,789)	136,771
Leasehold improvements	32,524	4,092	-	-	-	36,616
Boating facilities	120	-	-	(120)	-	-
Antiques and works of art	1,378	13	-	(8)	-	1,383
Furniture and Fittings	25,889	558	-	(12)	2,567	29,002
General collections	31,714	485	-	-	119	32,318
Schools collections	19,857	1,061	-	-	45	20,963
Motor vehicles	7,120	356	-	(842)	253	6,887
Plant and equipment	10,223	9,259	-	(159)	(3,832)	15,491
IT equipment	30,746	975	-	(59)	5,361	37,023
Leased assets	6,700	-	-	-	-	6,700
Total cost	**323,198**	**29,630**	**(15,942)**	**(1,200)**	**1,638**	**337,324**

2019

Accumulated depreciation

Asset class	Balance at 1 July $000	Depreciation $000	Revaluation/ Impairment $000	Disposals $000	Transfers $000	Balance at 30 June $000
Land	-	-	-	-	-	-
Non-residential buildings	12,093	6,944	(17,625)	(156)	-	1,256
Leasehold improvements	11,097	1,606	-	-	-	12,703
Boating facilities	6	1	-	(7)	-	-
Antiques and works of art	-	-	-	-	-	-
Furniture and fittings	12,669	1,631	-	(12)	-	14,288
General collections	23,481	1,058	-	-	-	24,539
Schools collections	17,146	1,095	-	-	-	18,241
Motor vehicles	2,666	715	-	(597)	-	2,784
Plant and equipment	5,262	418	-	(159)	-	5,521
IT equipment	23,110	3,936	-	(58)	-	26,988
Leased assets	3,541	957	-	-	-	4,498
Total accumulated depreciation	**111,071**	**18,361**	**(17,625)**	**(989)**	**-**	**110,818**

Summary of property, plant and equipment

2019				2020		
Cost or valuation $000	Accumulated depreciation $000	Carrying value $000	Asset class	Cost or valuation $000	Accumulated depreciation $000	Carrying value $000
14,170	-	14,170	Land	14,170	-	14,170
136,771	1,256	135,515	Non-residential buildings	136,948	6,921	130,027
36,616	12,703	23,913	Leasehold improvements	48,519	15,225	33,294
1,383	-	1,383	Antiques and works of art	959	-	959
29,002	14,288	14,714	Furniture and fittings	32,045	16,156	15,889
32,318	24,539	7,779	General collections	32,938	25,579	7,359
20,963	18,241	2,722	Schools collections	18,741	16,210	2,531
6,887	2,784	4,103	Motor vehicles	8,360	3,737	4,623
15,491	5,521	9,970	Plant and equipment	14,608	5,555	9,053
37,023	26,988	10,035	IT equipment	40,724	32,110	8,614
6,700	4,498	2,202	Leased assets	15,630	5,753	9,877
337,324	**110,818**	**226,506**	**Total property, plant and equipment**	**363,642**	**127,246**	**236,396**

Finance leases

The net carrying amount of the leased assets (passport printers) held by way of a finance lease is $9.877 million (2018/19: $2.202 million).

Capital work in progress

2019 cost $000	Asset class	2020 cost $000
13,887	Non-residential buildings (including leasehold improvements)	3,518
178	Furniture and fittings	43
2,713	Plant and equipment	5,394
16,778	**Total capital work in progress**	**8,955**

Revaluation movement

Details of valuations and revaluation movements are contained in Note 21.

Impairment losses

The Department has no impairment losses (2018/19: nil).

Restrictions of title

There are no restrictions over the title of the Department's property, plant and equipment and none are pledged as security for liabilities.

10. Non-current assets held for sale

Accounting policy

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met, only when the sale is highly probable, and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification. 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 revenue and expense.

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

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

Breakdown of non-current assets held for sale and further information

Actual 2019 $000		Actual 2020 $000
	Land	
37,120	Land beneath Archives and National Library - Wellington	-
1,904	Archives New Zealand - Christchurch	1,904
	Building	
-	Archives New Zealand - Christchurch	-
39,024	**Total non-current assets held for sale**	**1,904**

Land beneath Archives and National Library – Wellington

The land under National Library and Archives New Zealand was included as deferred sale and leaseback redress within the Taranaki Whānui ki te Upoko o te Ika Settlement in 2008. The Department completed the settlement in June 2020.

Land and building Archives New Zealand - Christchurch

This property was used as the key South Island Repository for Archives New Zealand (Archives NZ). The 2011 earthquake severely compromised both the building and the land as a suitable location for a significant part of the National Archive.

The property was deemed surplus to requirements and the Department has engaged Land Information New Zealand (LINZ) to coordinate the disposal. The sale is expected to be completed in the 2020 calendar year. The full financial impact of this sale and purchase agreement will be disclosed in the 2020/21 annual report.

The accumulated revaluation (gain) reserve associated with the land is $1.324 million and the accumulated revaluation (loss) reserve associated with the building is $0.600 million.

11. Intangible assets

Accounting policy

Additions

Intangible assets are initially recorded at cost. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The cost of an internally generated intangible asset represents direct expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Direct costs include the costs of services, software development employee costs, and an appropriate portion of relevant overheads. Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Impairments

Intangible assets held at cost that have finite useful lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impaired asset’s carrying amount is written down to its recoverable service amount which is the higher of an asset’s fair value less costs to sell and value in use. An impairment loss is recognised immediately in the Statement of comprehensive revenue and expense.

Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

The reversal of an impairment loss is recognised as part of the Statement of comprehensive revenue and expense.

Amortisation

Amortisation is charged in the Statement of comprehensive revenue and expense on a straight-line basis over the useful life of the asset. Amortisation is not charged on capital work in progress. The estimated useful lives of intangible assets are as follows:

Asset category	Asset life
Computer software	3 – 8 years
Births, deaths and marriages historical records databases	10 years
Digitised collections	8 – 20 years
Digitised collections – National Digital Heritage Archive	Indefinite life

Critical accounting estimates and assumptions

Useful life of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Department will receive benefits from the software, but not exceeding the licence term. For internally generated software developed by the Department, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

Breakdown of intangible assets and further information

Movements in the carrying value for each class of intangible asset are as follows:

2020

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	46,475	303	-	-	1,041	47,819
Software internally generated	252,466	52,530	(1,119)	(321)	9,807	313,363
Total software cost	**298,941**	**52,833**	**(1,119)**	**(321)**	**10,848**	**361,182**

2020

Accumulated amortisation

Asset class	Balance at 1 July $000	Amortisation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	28,451	3,461	-	(112)	-	31,800
Software internally generated	139,604	21,134	-	-	-	160,738
Total software amortisation	**168,055**	**24,595**	**-**	**(112)**	**-**	**192,538**
Net book value	**130,886**					**168,644**

2019

Cost or valuation

Asset class	Balance at 1 July $000	Additions $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	49,571	1,431	-	(4,104)	(423)	46,475
Software internally generated	218,629	48,540	(452)	(3,488)	(10,763)	252,466
Total software cost	**268,200**	**49,971**	**(452)**	**(7,592)**	**(11,186)**	**298,941**

2019

Accumulated amortisation

Asset class	Balance at 1 July $000	Amortisation $000	Revaluation/ Impairments $000	Disposals $000	Transfers $000	Balance at 30 June $000
Software acquired	29,128	3,391	-	(4,068)	-	28,451
Software internally generated	123,080	17,940	2,072	(3,488)	-	139,604
Total software amortisation	**152,208**	**21,331**	**2,072**	**(7,556)**	**-**	**168,055**
Net book value	**115,992**					**130,886**

Capital work in progress

The total amount of work in progress is $37.592 million (2018/19: $24.629 million).

Impairment losses

The Department has recognised an impairment loss of $1.119 million for internally generated software (2018/19: $2.072 million). The impairment loss has been recognised in the Statement of comprehensive revenue and expense.

Restrictions of title

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

12. Creditors and other payables

Accounting policy

Short-term payables are recorded at the amount payable.

Breakdown of creditors and other payables and further information

Actual 2019 $000		Actual 2020 $000
	Creditors and other payables under exchange transactions	
12,937	Creditors	2,528
19,023	Accrued expenses	23,896
4,222	Accrued salaries	7,115
	Creditors and other payables under non-exchange transactions	
3,258	GST payable	3,404
39,440	**Total creditors and other payables**	**36,943**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. The carrying value approximates their fair value.

13. Provisions

Accounting policy

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) because of a past event;
- it is probable that an outflow of future economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure 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.

Breakdown of provisions and further information

Actual 2019 $000		Actual 2020 $000
	Current provisions	
3,187	Restructuring	1,551
180	Onerous contracts	-
111	Lease make good	36
2,914	Others	2,425
6,392	**Total current provisions**	**4,012**
	Non-current provisions	
136	Lease make good	136
-	Onerous contracts	346
136	**Total non-current provisions**	**482**
6,528	**Total provisions**	**4,494**

	Restructuring $000	Lease make good $000	Onerous lease $000	Others $000	Total $000
2020					
Balance as at 1 July	3,187	247	180	2,914	6,528
Additional provisions made	-	-	346	1,194	1,540
Charge against provision for the year	(1,636)	(75)	(180)	(1,666)	(3,557)
Unused provision reversed	-	-	-	(17)	(17)
Balance as at 30 June	**1,551**	**172**	**346**	**2,425**	**4,494**

Restructuring

The Department recognises provisions for restructuring when an approved, detailed, formal plan for the restructuring has been announced publicly to those affected, or implementation has already commenced. The restructuring provision arises from the changes to operating models for delivery of services across the Department. These changes are expected to be completed within the next year.

Lease make good provision

The lease make good provision relates to contractual obligation resulting from the Department entering into property leases contracts. These lease obligations require the Department at the expiry of the lease term, restoration of the properties to an agreed condition, repairing any damage and removing any fixtures and fittings installed by the Department. A provision has been recorded to recognise this liability.

Onerous contracts

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. The leases are onerous because of vacant space. The Department has an onerous contract of $0.346 million as at 30 June 2020 (2018/19: $0.180 million).

Others

The Holidays Act 2003 (the Act) sets out the minimum entitlements to holidays and leave, and payment that employer is obliged to provide to their employees. The Department is working with the Ministry of Business, Innovation and Employment (MBIE) through the Labour Inspectorate to ensure that the Department meets the obligations under the Act going forward and addresses historical short payments to current and former employees.

The Department has estimated potential liabilities and is in the process of finalising the calculations of individual payment and plan on paying the remediation owing to the current employees shortly, with former employees paid and the implementation of necessary system remediation finalised in 2020/21.

14. Revenue received in advance

Accounting policy

Revenue is recognised in the Statement of financial position as a liability when the revenue has been received but does not meet the criteria for recognition as revenue in the Statement of comprehensive revenue and expense.

Breakdown of revenue received in advance

Actual 2019 $000		Actual 2020 $000
5,062	Passport fees; birth, death, marriage and civil union fees; and citizenship fees	4,831
5,351	Gaming - licensing fees	1,571
2,717	Electronic Purchasing in Collaboration	900
840	National Library - Pacific Virtual Museum Pilot Program	412
343	Software as a service	343
107	Kōtui library services	-
30	Te Puna	-
11	Aotearoa People's Network Kaharoa	-
144	Other	206
14,605	**Total revenue received in advance**	**8,263**

15. Employee entitlements

Accounting policy

Short-term employee entitlements

Employee entitlements that are due to be settled within 12 months after the end of the year in which the employee provides the related service are measured 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, long service leave and retirement gratuities expected to be settled within 12 months.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee entitlements that are due to be settled beyond 12 months after the end of the year in which the employee provides the related service, such as retirement and long service leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and contractual entitlements information, and
- the present value of the estimated future cash flows.

Presentation of employee entitlements

Annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Actual 2019 $000		Actual 2020 $000
	Current entitlements	
10,052	Annual leave	13,310
616	Long service and retirement leave	656
10,668	**Total current entitlements**	**13,966**
	Non-current entitlements	
2,894	Long service and retirement leave	3,280
2,894	**Total non-current entitlements**	**3,280**
13,562	**Total entitlements**	**17,246**

Critical accounting estimates and assumptions

Long service and retirement leave

An assessment was undertaken of the Long Service and Retirement Leave liability for each employee as at balance date. Actuarial services were provided by Mercer (N.Z.) Ltd and were prepared by the Fellow of the New Zealand Society of Actuaries.

The measurement of the retiring and long service leave obligations depends on several factors that are determined on an actuarial basis using several assumptions. Two key assumptions used in calculating this liability are the discount rate and salary inflation factor. Any changes in these assumptions will affect the carrying value of the liability.

Actual 2019 %		Actual 2020 %
	Discount rate	
1.43	Long service leave	0.34
1.35	Retirement leave	0.22
	Salary inflation factor	
3.10	Salary inflation	2.92

The following table provides a sensitivity analysis for the key assumptions:

	DISCOUNT RATE		SALARY INFLATION FACTOR	
	- 1.0%	+ 1.0%	- 1.0%	+ 1.0%
Long service leave	238,000	(211,000)	(208,000)	230,000
Retiring leave	-	-	-	-

16. Return of operating surplus

Actual 2019 $000		Actual 2020 $000
35,160	Total comprehensive revenue and expense	17,369
(1,683)	Revaluation loss/(gain)	392
(32,160)	(Surplus)/deficit on memorandum accounts	2,319
-	Transfers on Memorandum Accounts	(3,606)
1,317	**Total return of operating surplus**	**16,474**

As general government policy, except for the balances retained in memorandum accounts, the Department is not permitted to retain any operating surplus. The Department is required to repay the operating surplus to the Crown by 31 October each year.

Capital structure and financing costs

17. Finance leases

Accounting policy

Finance leases transfer to the Department, as lessee, substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Department expects to receive benefits from their use.

The finance charge is charged to the Statement of comprehensive revenue and expense over the lease period on a diminishing-value basis.

Critical judgements in applying accounting policies

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Department. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of financial position as property, plant and equipment (refer to Note 9), whereas with an operating lease, no such asset is recognised.

The Department has exercised its judgement on the appropriate classification of equipment lease. Approval is provided under section 50 of the Public Finance Act 1989 for the Department to be able to enter a finance lease for the supply of specialist printing equipment to produce passport books.

Actual 2019 $000		Actual 2020 $000
	Total minimum lease payments payable	
975	Not later than one year	3,489
3,902	Later than one year and not later than five years	3,617
488	Later than five years	8,892
5,365	**Total minimum lease payments**	**15,998**
	Future charges	
(323)	Not later than one year	(564)
(702)	Later than one year and not later than five years	(1,836)
(11)	Later than five years	(2,187)
(1,036)	**Total future charges**	**(4,587)**
	Present value of minimum lease payments payable	
653	Not later than one year	2,925
3,200	Later than one year and not later than five years	1,781
476	Later than five years	6,705
4,329	**Total present value of minimum lease payments**	**11,411**
	Represented by:	
653	Current	2,925
3,676	Non-current	8,486
4,329	**Total finance leases**	**11,411**

The net carrying amount of the leased assets within property, plant and equipment is shown in Note 9.

There are no restrictions placed on the Department because of the finance lease arrangement.

Finance lease liabilities are effectively secured, as the rights to the leased assets revert to the lessor in the event of default in payment.

18. Capital charge expense

Accounting policy

The Department pays a capital charge to the Crown on taxpayer's funds at 31 December and 30 June each financial year. This is recognised as an expense in the period to which the charge relates.

Further information

The capital charge rate for the year ended 30 June 2020 was 6.0% per annum (2018/19: 6.0%).

19. Finance costs

Accounting policy

Borrowing costs are recognised as an expense in the financial year in which they are incurred.

Breakdown of finance costs

Actual 2019 $000		Actual 2020 $000
373	Interest on finance leases	408
373	**Total finance costs**	**408**

20. Other financial liabilities

Accounting policy

Leasing incentives with durations of less than 12 months are recognised as liabilities at their nominal value, unless the effect of discounting is material. Anything greater than 12 months are subsequently measured at amortised cost.

Breakdown of other financial liabilities

Actual 2019 $000		Actual 2020 $000
	Current liabilities	
478	Leasing incentives	478
478	**Total current liabilities**	**478**
	Non-current liabilities	
5,463	Leasing incentives	6,011
5,463	**Total non-current liabilities**	**6,011**
5,941	**Total other financial liabilities**	**6,489**

21. Equity

Accounting policy

Equity

Equity is the Crown's investment in the Department and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts and property revaluation reserves.

Revaluation reserve

These reserves relate to the revaluation of land and buildings and works of art and antiques to fair value.

Breakdown of equity and further information

Actual 2019 $000		Note	Actual 2020 $000
	Taxpayers' funds		
295,930	Opening balance 1 July		329,836
35,155	Total comprehensive revenue and expense		17,369
(1,683)	Transfer of asset revaluation losses/(gains) to revaluation reserves	9	392
80	Transfer revaluation reserve to taxpayers' funds on disposal		-
(32,155)	Transfer of memorandum account net (surplus)/deficit for the year	5	2,319
-	Transfers on Memorandum Accounts		(3,606)
35,639	Capital injections	22	16,008
(1,700)	Capital withdrawals	22	(37,720)
(113)	Technical transfer	22	-
(1,317)	Return of operating surplus to the Crown	16	(16,474)
329,836	**Balance at 30 June**		**308,124**
	Memorandum accounts		
60,412	Opening balance 1 July		92,567
32,155	Net memorandum account surplus/(deficit) for the year	5	(2,319)
-	Transfers on Memorandum Accounts		3,606
92,567	**Balance at 30 June**		**93,854**
	Revaluation reserves		
48,250	Opening balance 1 July		49,853
1,683	Revaluation gains/(losses)	9	(392)
(80)	Transfer to taxpayers' funds on disposal		-
49,853	**Balance at 30 June**		**49,461**
	Revaluation reserves consist of:		
17,889	Land revaluation reserve		17,889
30,842	Building revaluation reserve		30,862
-	Boating facilities revaluation reserve		-
1,122	Antiques and works of art revaluation reserve		710
49,853	**Total revaluation reserves**		**49,461**

Critical accounting estimates and assumptions

Land and buildings - Departmental accommodation

The land and buildings were valued by CBRE Ltd, a Licensed Real Estate Agent (REAA 2008) and registered independent valuer in June 2019, with the valuation effective as at 30 June 2019. The next valuation will be effective from 30 June 2022, which is in line with the Department's accounting policy. The independent valuer confirmed that there would have been minimal change to the valuation assessment without the effects COVID-19. The majority of properties are measured using depreciated replacement cost (DRC) to determine fair value. Although construction costs will increase in the short term, they are not expected to be materially affected in the long term, therefore the COVID-19 pandemic is expected to have a limited overall impact on the value of land and buildings as at 30 June 2020. The 2019 valuation is deemed to be fair and reasonable.

Antiques and works of art

The Antiques and works of art were valued by Dunbar Sloane Ltd, an independent expert, in June 2020, with valuations effective as at 30 June 2020. In line with the Department's accounting policy, the next valuation will be effective 30 June 2023.

22. Capital injections and withdrawals

Actual 2019 $000		Actual 2020 $000
	Capital Injections	
-	Meeting Core Statutory Responsibilities	6,121
1,325	Royal Commission into Historical Abuse in State Care	3,168
3,000	RealMe	3,000
2,127	Preserving the nation's memory	2,869
850	Core Government trusted domain	850
19,069	Asset replacement programme funding	-
4,500	Digital Identity	-
3,168	Anti-money Laundering phase 2	-
1,000	Progressive steps programme	-
600	Royal Commission into Christchurch Mosques Terror Attack	-
-	2017 Change of Executive	-
-	Archives NZ - Christchurch Relocation	-
-	Wellington accommodation project	-
35,639	**Total capital injections**	**16,008**
	Capital Withdrawals	
-	Sale and Leaseback of Land to Taranaki Whānui	(37,120)
-	Royal Commission into Christchurch Mosques Terror Attack	(600)
(1,700)	RealMe Repayable Capital Injection	-
(113)	Asset transfers to non-Department	-
(1,813)	**Total capital withdrawals**	**(37,720)**

Capital management

The Department's capital is its equity, which comprises taxpayers' funds, memorandum accounts and revaluation reserves. Equity is represented by net assets. The objective of managing the Department's equity is to ensure the Department effectively achieves the goals and objectives for which it has been established, whilst remaining a going concern. Where the Department identifies that it does not have sufficient resources to achieve this objective a capital injection is sought.

Financial risk management

23. Financial instruments and risks management

Accounting policy

Derivative

For certain commitments the Department uses derivative financial instruments (foreign currency forward exchange contracts) to mitigate its risks associated with foreign currency fluctuations. The Department does not hold or issue derivative financial instruments for trading purposes. The Department has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered and are subsequently remeasured at their fair value at each balance date with the resulting gain or loss recognised in the Statement of comprehensive revenue and expense.

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

Financial instrument risks

The Department is party to financial instrument arrangements as part of its daily operations. These include cash and cash equivalents, accounts receivable, accounts payable, foreign currency forward contracts, and other financial liabilities.

The Department's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Department 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.

Market risk

Currency risk

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

The Department maintains bank accounts denominated in foreign currencies. Balances are regularly cleared to minimise exposure risk.

Interest rate risk

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

Under section 46 of the Public Finance Act 1989, the Department cannot raise a loan without approval of the Minister of Finance. Equipment leases are identified as finance leases in accordance with NZ IPSAS 13 Leases. The Department has received the approval of the Minister of Finance for this passport printer lease. The fixed interest rate on the term of these leases reduces the exposure on borrowed funds. This information is provided in Note 17.

Credit risk

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

In the normal course of its business, credit risk arises from receivables, deposits with banks, and derivative financial instrument assets. The Department banks with Treasury approved financial institutions. The Department is permitted to deposit funds only with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the Department does not have significant concentrations of credit risk.

Credit evaluations are undertaken on customers requiring credit. Collateral or other security is not generally required to support financial instruments with credit risk. Other than cash and bank balances and trade receivables, the Department does not have any significant credit risk. This information is provided in Note 6 and 7.

Liquidity risk

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

As part of meeting its liquidity requirements, the Department closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Department maintains a target level of available cash to meet liquidity requirements.

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

	Note	Total $000	Less than 6 months $000	Between 6 months and 1 year $000	Between 1 year and 5 years $000	Over 5 years $000
2020						
Creditors and other payables	12	36,943	36,943	-	-	-
Finance lease	17	15,998	1,745	1,744	3,617	8,892
Other financial liabilities	20	6,489	315	1,190	1,482	3,502
2019						
Creditors and other payables		39,440	39,440	-	-	-
Finance lease		5,365	488	487	3,902	488
Other financial liabilities		5,941	239	239	2,239	3,224

The Department had no forward exchange contracts outstanding at 30 June 2020 (2018/19: nil).

The fair values of forward foreign exchange contracts have been determined using a discounted cash flow valuation technique based on quoted market prices.

Categories of financial instruments

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

Actual 2019 $000		Note	Actual 2020 $000
	Loans and receivables		
71,027	Cash and cash equivalents	6	42,900
64,688	Debtor Crown		83,669
18,804	Debtors and other receivables	7	12,790
154,519	**Total loans and receivables**		**139,359**
	Financial liabilities measured at amortised cost		
39,440	Creditors and other payables (excluding revenue received in advance)	12	36,943
4,329	Finance lease	17	11,411
5,941	Other financial liabilities	20	6,489
49,710	**Total financial liabilities measured at amortised cost**		**54,843**

Fair value hierarchy disclosures

For those financial instruments recognised at fair value in the Statement of financial position, fair values are determined using the following hierarchy:

- Level 1 – Quoted market price – financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – Valuation technique using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation techniques with significant non-observable inputs – financial instruments valued using models where one or more significant inputs are not observable.

There are no Fair Value hierarchy disclosures for 2019/20 (2018/19: nil).

There were no transfers between the different levels of the fair value hierarchy.

Other disclosures

24. Controlled entity

The Department is required to prepare consolidated financial statements in relation to the group for each financial year. Consolidated financial statements for the group have not been prepared using the acquisition method due to the small size of its controlled entity, the Foundation, which means that the parent and group amounts are not materially different.

The Foundation has a balance date of 31 March and there has been no significant event to adjust between then and 30 June 2020.

The Foundation had total revenue of $0.376 million (2018/19: $1.704 million) and a net loss of $0.181 million (2018/19: $1.615 million surplus). The Foundation had assets of $2.086 million (2018/19: $2.338 million) and liabilities of $0.147 million (2018/19: $0.161 million)

The Foundation has no capital commitments or non-cancellable operating commitment leases as lessee. There is one commitment as the Board undertook to provide a $1 million contribution to the Community of Readers Project in partnership with the National Library. As at balance date unspent funds were $0.827 million.

The Foundation had no contingent assets or contingent liabilities at balance date.

Accounting policies applies to the controlled entity

Donations in kind

Donations in kind exist where an asset or service is provided by a third party in exchange for branding association or other non-cash benefits provided by the Foundation. This occurs through open market negotiations, and the fair market value of the asset or service provided is recognised as revenue to the Foundation, with an equal value recognised as the expense incurred in providing these associated benefits.

Investments

Short term investments are investments maturing within 12 months of the Foundation's reporting date (31 March); long term investments are investments maturing more than 12 months after the report date (31 March).

25. Related party transactions and key management personnel

All related party transactions have been entered on an arms' length basis. The Department is a government department and is wholly owned and controlled by the Crown. The Government significantly influences the roles of the Department as well as being its major source of revenue.

Related party transactions required to be disclosed

There are no related party transactions that are required to be disclosed.

Related party disclosures have not been made for transactions that are within a normal supplier, client or recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that the Department would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, Government Departments and Crown Entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Transactions with key management personnel and their close family members

Key management personnel compensation

Actual 2019 $000		**Actual 2020 $000**
	Leadership team, including the Chief Executive	
3,387	Remuneration	3,719
9	Number of full-time equivalent staff	9

The key management personnel remuneration disclosure includes the Chief Executive and eight members of the Executive Leadership Team (ELT) and those formally acting in these positions during the financial year. The Chief Executive's remuneration is determined and paid by the State Services Commission.

Key management personnel compensation excludes the remuneration and other benefits of the Responsible Ministers of the Department. The Ministers' remuneration and other benefits are set out by the remuneration authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority.

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

Treasury has confirmed that there were no related party transactions with the Responsible Ministers of the Department. Where there are close family members of key management personnel employed by the Department, the terms and conditions of the employment arrangements are no more favourable than the Department would have adopted if there were no relationship with key management personnel.

26. Explanation of significant variances against budget

Statement of comprehensive revenue and expense

Variances between the main estimates and the supplementary estimates

The changes in the budgets between the Main Estimates and Supplementary Estimates, together with explanations for the significant variances between actual expenditure and the Supplementary Estimates, are detailed by output expense in the Statements of Expenses and Capital Expenditure section.

The factors contributing to the overall increase in the expense budgets between the Main Estimates and Supplementary Estimates of $34.769 million are summarised below:

Reason for budget change	$000
Updates to the 2019/20 indicative spending profile associated with supporting the Royal Commission into Historical Abuse in State care and in the Care of Faith-based Institutions	14,734
Expense transfers from 2018/19 to 2019/20	5,029
Additional funding in 2019/20 for initiatives responding to the 15 March Terror Attack (Countering online violent extremist content, increased investment in ethnically diverse communities and Safer Communities Fund)	2,916
New funding in 2019/20 for Three Waters Review: Institutional Arrangement for a Drinking Water Regulator	2,900
New funding in 2019/20 for the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019: Extension to the Final Report-Back Date and Additional Funding	2,520
New funding in 2019/20 to meet the costs associated with the visit by the Prince of Wales and Duchess of Cornwall	1,848
New funding in 2019/20 to meet the costs associated with delivering digital skills programmes to address digital skills gaps	1,546
New funding in 2019/20 to support parents and caregivers to create a safe online environment for children and young people	1,500
New funding in 2019/20 to manage the transition of incoming and outgoing Ministers and staff following the 2020 General Election	1,097
New funding in 2019/20 to meets the costs associated with communicating authoritative COVID-19 information to New Zealanders via WhatsApp	672
Additional funding in 2019/20 to meet the additional costs associated with the Government Inquiry into Operation Burnham and Related Matters and the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019 as a result of COVID-19 pandemic	665
Additional funding in 2019/20 to meet the costs associated with identity verification	342
New funding in 2019/20 to meet the costs associated with engaging specialist expertise to support the implementation and monitoring of the support package for the racing industry	200
New funding in 2019/20 to meet the costs associated with a multi-faceted programme of work to respond to the impacts of COVID-19 on the organisations that rely upon gambling proceeds	200
Reprioritisation of funding to 2020/21 to contribute towards the costs associated with local government reform programmes and to support the development and implementation of a Local Government Recovery Plan	(400)
Expense transfer from 2019/20 to 2020/21	(1,000)
Total budget change	**34,769**

Variances between 2019/20 actuals and the Supplementary Estimates

The following major budget variance occurred between the 2019/20 actuals and the 2019/20 Supplementary Estimates.

	Actual 2020 $000	Unaudited Supp EST 2020 $000	Variance $000	Variance %
Statement of comprehensive revenue and expenses				
Other revenue	185,671	222,250	(36,579)	(16%)
Other operating expenses	167,010	215,700	(48,690)	(23%)

Explanations for significant variances between the 2019/20 actuals and the Supplementary Estimates are detailed below:

Other Revenue

Other revenue was lower than budget by $36.579 million mainly due to the impact of the COVID-19 pandemic:

- International border closures associated with COVID-19 are having a significant revenue impact on projected sales of services and products. It is uncertain when revenue will return to pre-COVID-19 levels.
- Time delays in processing identity services products due to the national lockdown.
- Gambling Revenue for the year was affected by COVID-19 restrictions with venues not being able to operate during alert levels 3 and 4 and operating at a reduced capacity during alert level 2. On 1 July 2020 a number of regulatory amendments were introduced to mitigate the impact of COVID-19 on the gambling sector. These amendments waived certain fees for the period from 25 March to 30 June 2020 and cancelled the fee increase planned for 1 July 2020.

Other operating expenses

Other operating expenses were lower than budget by $48.690 million mainly due to the following:

- Lower than projected sales of services and products, significantly impacted in quarter four by the COVID-19 pandemic and nationwide lockdown.
- Fewer travel costs mainly due to international and domestic travel restrictions resulting from the COVID-19 pandemic.
- Other operating costs were lower than forecast due to the impacts of the COVID-19 pandemic on the Department's priorities and work programme in the second half of the financial year.

Statement of financial position

Variances between the Main Estimates and the Supplementary Estimates

The primary factors contributing to the increase in general funds between the Main Estimates and the Supplementary Estimates of $3.243 million are detailed below:

Reason for budget change	$000
Adjustment to opening Taxpayers Funds resulting from final audited position for 2018/19 including surplus to be repaid to the Crown	7,479
Capital Contribution approved in 2019/20 for Royal Commission into Historical Abuse in State Care and in the Care of Faith-based Institutions	3,168
Movement in forecast net surplus for 2019/20	(7,404)
Total budget change	**3,243**

Variances between 2019/20 actuals and the Supplementary Estimates

The following major budget variances occurred between the 2019/20 actuals and the 2019/20 Supplementary Estimates.

	Actual 2020 $000	Unaudited Supp EST 2020 $000	Variance $000	Variance %
Statement of financial position				
Current assets	147,630	171,197	(23,567)	(14%)
Current liabilities	83,061	61,752	21,309	35%

Explanations for significant variances between the 2019/20 actuals and the Supplementary Estimates are detailed below:

Current assets

Current assets were lower than budget by $23.567 million mainly due to the following:

- timing of the receipt of Crown funding at the end of the year has resulted in smaller than expected Crown and other receivable balances,
- partially offset by higher than forecast cash balances.

Current liabilities

Current liabilities were higher than budget by $21.309 million mainly due to the following:

- timing of purchase order receipts and timely payment of creditors and payables,
- surplus repayment provision not budgeted for,
- partially offset by lower revenue received in advance.

27. Impact of COVID-19

Impact of COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic in respect to the COVID-19 virus outbreak. Following establishment of a foothold in the New Zealand population, the New Zealand Government initiated a full societal lockdown with significant isolation requirements and movement restrictions imposed on citizens (with only essential services permitted to operate). The countrywide lockdown commenced on 26 March 2020 and moved to Alert Level 1 on 9 June 2020. Alert level 1 does not restrict movement within New Zealand but restricts travel across the border. Since then, and until the date of signing these financial statements, the New Zealand Government has imposed varying COVID-19 Alert Level restrictions as necessary to manage the public health risk of the virus.

The implication of social distancing, restricting international travel, and other restrictions have led to a decrease in a number of the Department's third-party revenue streams, in particular:

- Passport fees decreased $27.785 million compared to 2018/19.
- Non-casino gaming licences and fees decreased $4.328 million compared to 2018/19.

The Department expects the lockdown and other restricted Alert Levels will continue to have a significant economic impact on New Zealand, which are likely to flow through to the Department's financial results.

The Department has estimated continued significant impact in 2020/21 for the following third-party revenue stream:

- Passport fees are estimated to decrease to $44.494 million - a decrease of $46.623 million (51%) compared to 2019/20. This is partially as a result of COVID-19 and partially due to the Passports validity period changing from 5 to 10 years.

28. Significant events after balance date

Other than the COVID-19 related matter set out in note 27, no events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements (2018/19: Nil).