



ANNUAL REPORT

for the year ended 30 June 2011



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CHIEF EXECUTIVE'S OVERVIEW

In common with families, communities and organisations across the nation – but especially in Christchurch and surrounding areas – the Department of the Prime Minister and Cabinet has had its past year dominated by the devastating Canterbury earthquakes.

From the time of the very first advice of a major tremor near Darfield, received early on the morning of Saturday 4 September 2010, most staff in the department were drawn into the nationwide efforts to support the people of Canterbury. DPMC had a key role in leading and coordinating the national emergency response in support of the Ministry of Civil Defence and Emergency Management (MCDEM), which was the lead central-government agency working alongside the local efforts of the Christchurch City Council and Waimakariri and Selwyn District Councils.

The subsequent tragedy of 22 February, which cost 181 people their lives in Christchurch, proved an even tougher test for our national and local emergency management structures and processes. Never before had a national state of emergency been declared in New Zealand in response to a natural disaster. Never before had we been the recipients of spontaneous and generous assistance from partner countries around the region and around the world. This included urban search and rescue crews, military and police support, private donations and corporate resources – all of which was provided immediately alongside local New Zealand help from communities, volunteers, business, iwi, churches and others.

DPMC has a particular role in leading New Zealand's crisis-management structure. So the scale and intensity of the disasters, as well as the ongoing aftershocks, proved to be a very real test of our disaster preparedness and our emergency-response procedures. During the emergency response to the February earthquake, the National Crisis Management Centre was activated in the Beehive basement, with DPMC chairing the crisis response session. The department was able to draw on the complete and unstinting support and goodwill of every New Zealand government agency and the total professionalism and commitment of their staff. Our role was to draw together all the capabilities and support MCDEM in its efforts – alongside the Canterbury local authorities and emergency services – to save lives, assist the injured, and deliver welfare and other forms of assistance.

The Canterbury earthquakes required agencies not normally associated with emergency response to become engaged for the first time, or to be become engaged in a different manner

or to a more intensive extent. For example the Ministry of Foreign Affairs and Trade dispatched a team of staff to Christchurch to assist foreign search and rescue teams, media representatives, and diplomatic and consular staff. The New Zealand Defence Force deployed all three services, in large numbers, and these deployments were utilised by Police and MCDEM in a range of emergency tasks that included security and cordon control, transport, logistics, community support and evacuations.

In the aftermath of both major earthquakes, DPMC's Policy Advisory Group and the Cabinet Office were called upon to coordinate advice and support across agencies for the Prime Minister and his Cabinet colleagues over a number of complex, unforeseen issues that the earthquakes provoked. Ministers sought parliamentary approval for new legislation to govern the response to the September earthquake, which was superseded after the tragedy in February by the decision to establish a new central-government agency in Christchurch, the Canterbury Earthquake Recovery Authority (CERA). A Minister for Canterbury Earthquake Recovery, the Hon Gerry Brownlee, was appointed and a new (ad hoc) Cabinet committee was established. Officials' processes in support of these initiatives were led by DPMC, even as the transition from response to recovery was taking place.

The Cabinet Office and Government House were also closely involved in arrangements for the National Christchurch Memorial Service as well as the associated visit to New Zealand by HRH Prince William, representing Her Majesty.

Clearly, recovery from the (continuing) earthquakes – and the full rebuild of Christchurch and neighbouring communities – will take many years. DPMC stands fully committed to exerting every possible effort to help the people of Canterbury in their ongoing challenges, particularly in supporting the work of the CERA. Several DPMC staff have been seconded to the new agency and have relocated to Christchurch. We must also remain vigilant, together with MCDEM, so that an appropriate response can be delivered effectively should there be another event.

These unforeseen tragedies naturally dominated the department's work. But there were other major events in the past year – as foreseen in our Statement of Intent for that year.

These include the successful completion of the Government House Conservation Project in Wellington, several months ahead of schedule and slightly under budget (although associated minor work will continue over the next few months).

This is a most pleasing result, which reflects much credit on all contractors and staff involved in the conception and delivery of the project. The result has been assessed as outstanding by many who have seen it, and the project has been the recipient of awards for excellence in heritage conservation.

It has been particularly pleasing that the early completion of the project permitted Their Excellencies the Rt Hon Sir Anand and Lady Satyanand to resume occupation of their official residence much earlier than had been anticipated.

Not unexpectedly, our national tragedies strongly influenced Their Excellencies' domestic travel. They made several visits to Christchurch in support of the response and recovery effort and attended the National Christchurch Memorial Service. They also represented The Queen at the Pike River Memorial Service in Greymouth. Internationally, Their Excellencies made official visits to India, Brunei Darussalam and Finland and represented this country at the wedding of HRH Prince William and Miss Catherine Middleton in London.

Efforts to improve the performance of the public service have continued apace over the past year, through a strongly collaborative project with the State Services Commission (SSC) and the Treasury. Proposals for change were presented to ministers early in 2011; and in May the Better Public Services Advisory Group, which is led by the department, was established to provide ongoing advice.

DPMC has also led delivery of the recommendations of the reviews conducted last year into New Zealand's intelligence and security agencies. Greater coherence in the direction of the work done by the New Zealand Intelligence Community (NZIC) is being pursued through DPMC's new Intelligence Coordination Group; and efficiencies and stronger collaboration are being achieved through co-location of intelligence and security agency staff in Pipitea House.

With SSC and Treasury, DPMC has also embarked on a project to build an integrated shared-services centre for the three central agencies. This is intended to deliver improved service, greater resilience and operational efficiencies to all agencies.

The Prime Minister's Chief Science Advisor, Professor Sir Peter Gluckman KNZM, has had an active second year in his role of supporting the Government's goal for science and innovation. He has made particular contributions to national discussions on the role of science in national development, the importance of evidence in policy processes, issues surrounding child and youth development, and the strengthening of New Zealand linkages with international science.

Over the latter part of the reporting period, the department – in particular the Cabinet Office – commenced preparations for the General Election being held on 26 November. The Cabinet Office also supported the Prime Minister in his recommendation to Her Majesty that Sir Jerry Mateparae be appointed as the incoming Governor-General. Sir Jerry and Lady Mateparae will commence their official duties in late August.

Over the past year, I have been particularly pleased to welcome Steve Brazier and Roy Ferguson to the department as new managers and as members of the Senior Management Group. Steve heads DPMC's Security and Risk Group; Roy is the Director of DPMC's Intelligence Coordination Group and is leading efforts to lift the coherence and effectiveness of the NZIC. Both Steve and Roy, and their small teams, have made a particularly valuable contribution to the department's work since their arrival – and Steve performed considerable service in Christchurch following the earthquakes, including as alternate controller of civil defence activities.

The pressures on the entire department over the past year have been considerable. They have also been unforeseen in their particular timing and impact. However, DPMC has always known that in times of national emergency it has a special set of responsibilities to support the Prime Minister and ministers in leading the nation through adverse times.

I am especially proud of the contribution of DPMC's staff over the past year. Tragic circumstances required an immediate response from across the entire department. Everyone gave spontaneously, unstintingly, and with enormous determination to see the right job done – again and again. They are a credit to themselves and to the New Zealand public service. I thank each and every one of them, in particular my tremendous senior management team and those who served so long to assist their fellow citizens in the hours of need.



Maarten Wevers CNZM
Chief Executive

THE DEPARTMENT'S ROLE

The Department of the Prime Minister and Cabinet occupies a unique position at the centre of New Zealand's system of democratic government. It exists to support the effective conduct of executive government by the Prime Minister, the Governor-General and members of the Cabinet.

The department's principal role is provision of advice, on a daily basis, to the Prime Minister and Cabinet on the wide range of complex issues that confront the Government – particularly its policy priorities. Issues that governments are required to deal with are often complex or pressing, and require well-founded advice and judgement. DPMC also provides impartial advice, through the Clerk of the Executive Council and Government House, to the Governor-General. It plays a role in coordinating and leading the work of government departments and agencies, and other entities as appropriate, to ensure that decision-making takes account of all relevant viewpoints and that advice is as coherent and complete as possible. In addition, it supports the Cabinet decision-making process.

SUPPORTING THE PRIME MINISTER AND CABINET

The Prime Minister is the political leader of the government and the country – and its main public “face”. The Prime Minister is also the chair of the Cabinet, and is responsible for the effective operation of executive government. These roles combine political and executive responsibilities. DPMC provides assistance to the Prime Minister in three broad categories.

Issues that are the direct responsibility of the Prime Minister

The Cabinet Office provides free and frank advice and support on constitutional issues relating to the conduct of executive government – including during elections and transitions between administrations – and issues associated with the operation of the Cabinet system.

Issues that arise across the full range of government business

DPMC provides a continuous flow of advice to the Prime Minister on major and daily issues, along with oversight of wider government activity and access to information and assessments. DPMC works with central agencies to draw together departments in support of the Government's

priorities, to focus agencies on providing options for action, to ensure implementation of agreed programmes and policies, to drive for enhanced agency performance, and to deal effectively with issues which affect the nation. The Cabinet Office, which is within DPMC, provides the secretariat support for decision-making by the Cabinet and its committees.

Administrative support to the Prime Minister

This includes preparation of replies to Parliamentary questions, and dealing with Official Information Act requests and other correspondence. A totally separate body, the Office of the Prime Minister, also advises the Prime Minister: it is the primary point of responsibility for managing political issues and relationships with other political parties and for providing administrative and media support.

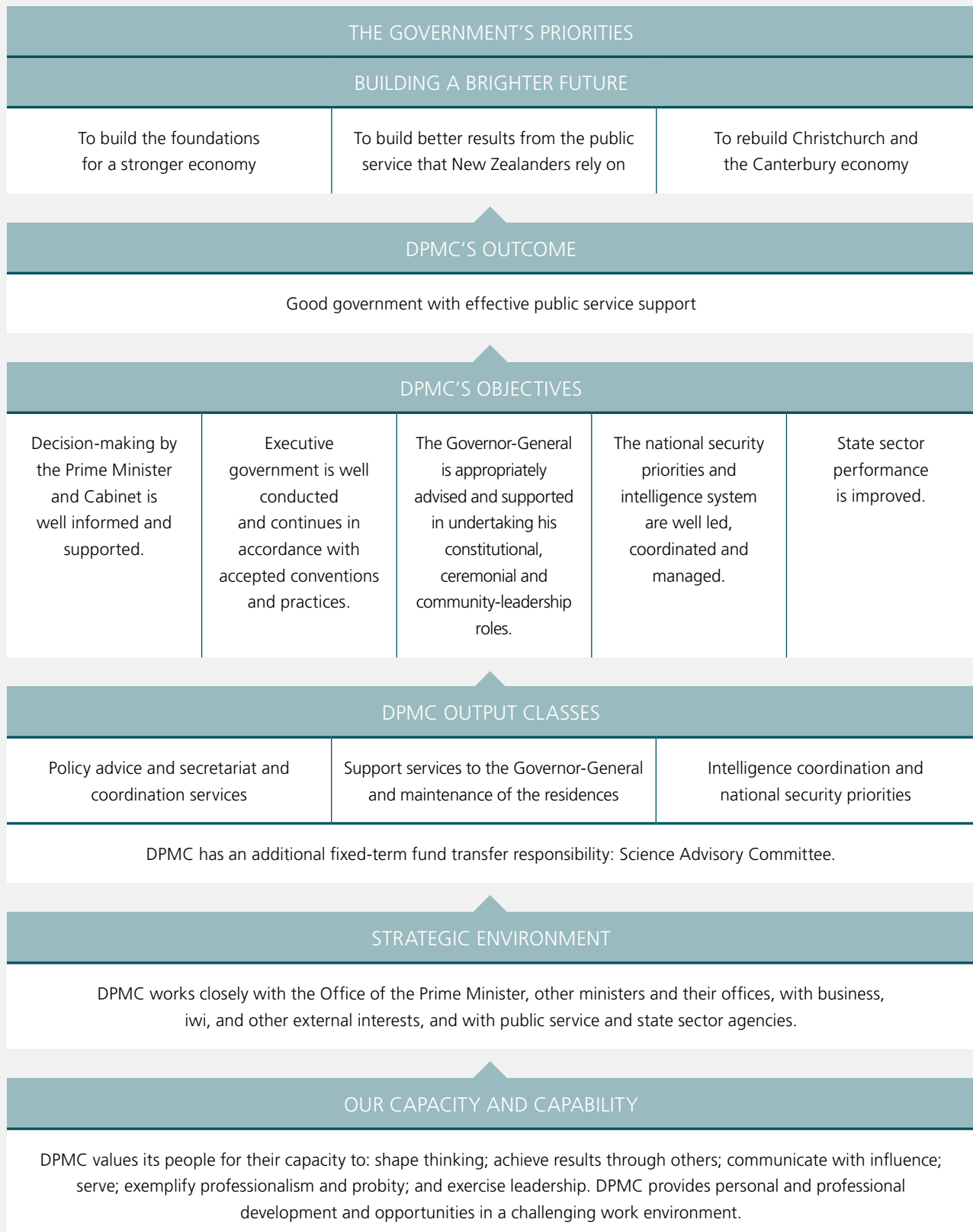
SUPPORTING THE GOVERNOR-GENERAL

The office of the Governor-General is an important part of New Zealand's constitutional arrangements. New Zealand is a constitutional monarchy and the Governor-General serves as the representative of our head of state, The Queen of New Zealand. His constitutional, ceremonial and community roles together seek to maintain national unity and foster national identity. The Clerk of the Executive Council and Government House staff support the Governor-General in carrying out his functions.

BRINGING THE SYSTEM TOGETHER

DPMC strives to support a high standard of executive decision-making by providing quality advice that is timely, responds to the directions set by the Government, is forward-looking, is cognisant of changing circumstances and emerging issues, and gives assurance that policies are being delivered in an effective and coordinated manner. In addition we play a role in coordinating and leading the work of government departments and agencies – including the intelligence agencies – as well as other entities as appropriate, to ensure that decision-making takes account of all relevant viewpoints and that advice is as coherent and complete as possible.

OUTCOMES



STATEMENT OF ACCOUNTABILITY

The Chief Executive of the Department of the Prime Minister and Cabinet is accountable to the Prime Minister for the financial and human resources management of the Crown's investment in the department and for the production of the classes of outputs detailed in its Statement of Service Performance, with the following exceptions:

- The Secretary of the Cabinet is responsible directly to the Prime Minister for the impartial recording of Cabinet decisions and the development and administration of Cabinet processes. The Secretary is also responsible to Cabinet as a whole for ensuring the confidentiality of Cabinet proceedings and the impartial and effective operation of the Cabinet system.
- The Secretary of the Cabinet, as Clerk of the Executive Council, is responsible directly to the Governor-General and the Prime Minister for servicing the Executive Council and providing advice as may be required on constitutional matters.
- The Director of the National Assessments Bureau is accountable to the Prime Minister for the provision of impartial information and assessments under Output Class 3: Intelligence coordination and national security priorities.



Maarten Wevers CNZM
CHIEF EXECUTIVE

Date: 30 September 2011

COUNTERSIGNED BY



Brent Anderson
CORPORATE SERVICES MANAGER

Date: 30 September 2011



STATEMENT OF SERVICE PERFORMANCE

Output Class 1:

Policy advice and secretariat and coordination services

DESCRIPTION

This class of outputs involves:

- providing immediate, medium and long-term impartial policy advice that is delivered freely and frankly to the Prime Minister and, at the Prime Minister's request, to other ministers
- promoting and facilitating the coordination of interdepartmental policy development and promoting a more collective approach across the state sector to the formulation and implementation of the government's key priorities
- providing advice to the Governor-General, the Prime Minister and ministers on constitutional issues relating to the conduct of executive government to support the conduct and continuity of government within accepted conventions and practices (this includes support for the change of Governor-General)
- providing impartial secretariat services to Cabinet, Cabinet committees and the Executive Council; and promulgating their decisions
- providing advice on the policies, processes and procedures relating to the Executive Council, Cabinet and Cabinet committees; and adapting these as required
- coordinating the policy and administrative aspects of the legislative programme as directed by the Cabinet Legislation Committee
- advising on central government decision-making processes
- providing policy advice and administrative support for the New Zealand royal honours system.

The department assists the Prime Minister in overseeing and leading the government as a whole. In addition, it supports the Cabinet decision-making process. As a central agency, the department has a clear role to play in promoting effective policy coordination across the public service. Ministers need to have complete trust in the quality of the advice and support the department offers on the proper conduct of government business within accepted conventions and practices.

Output Class 1 Financial Performance

30.06.10		30.06.11		30.06.2011	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
8,369	Revenue – Crown	7,063	8,441	7,063	
–	Revenue – other	–	–	–	
8,337	Expenditure	7,062	8,441	7,063	
32	Surplus	1	–	–	

Output Class 1 Service Performance

PERFORMANCE MEASURES	2010/11	
	ACTUAL STANDARD	BUDGET STANDARD
Advice provided meets the department's quality, quantity and timeliness standards.	Stakeholder feedback indicates high satisfaction.	Key stakeholders are satisfied.
Services provided meet quality, accuracy, impartiality and timeliness criteria.	Stakeholder feedback indicates high satisfaction.	Key stakeholders are satisfied.

OUTPUT CLASS 1 SERVICE PERFORMANCE: POLICY ADVISORY GROUP

Policy advice to the Prime Minister

OBJECTIVE

Decision-making by the Prime Minister and Cabinet is well informed and supported.

Performance

The Prime Minister is regularly advised by the Chief Executive (with the support of the Director of the Policy Advisory Group, the Secretary of the Cabinet, and the Director of the Security and Risk Group in their own specialist areas) of the range of activities undertaken to facilitate cross-agency coordination of policy advice and implementation. This includes: fortnightly meetings of departmental chief executives (convened to share information on policy directions); weekly meetings with counterpart central-agency chief executives; and interdepartmental coordination of a wide range of policy priorities.

The Policy Advisory Group provided advice to the Prime Minister as necessary on all Cabinet and Cabinet committee papers in time for these to be used in Cabinet or Cabinet committee meetings.

In addition, the Policy Advisory Group provided timely briefing notes on issues of interest to the Prime Minister either in response to requests from the Prime Minister or on the Group's initiative. Feedback from the Prime Minister on advice tendered was made available to the Chief Executive, the Director of the Policy Advisory Group, and the advisor concerned.

DPMC provided an important whole-of-government coordination and support role for the Prime Minister and Cabinet on several matters of national importance, most notably in the response and recovery phases of the Canterbury earthquakes and in relation to the Pike River tragedy.

The Policy Advisory Group played a key role following the Canterbury earthquakes. The Ministry of Civil Defence and Emergency Management (MCDEM) led the immediate response, but soon thereafter the Government needed to complement its emergency response with policy decisions to assist the recovery and rebuild. The Policy Advisory Group has played a number of roles, including co-coordinating and leading policy development. Some staff from the Group have also been seconded into the Canterbury Earthquake Recovery Authority (CERA).

DPMC provided advice on the establishment of the Royal Commission of Inquiry into the Pike River Coal Mine Tragedy, and played a coordinating role across agencies in advising ministers.

The Policy Advisory Group participated in a wide range of other whole-of-government processes. DPMC worked closely with Treasury and SSC to provide ministers with advice on the further potential for state sector reform. This work led directly to the formation of the Better Public Services Advisory Group, which is chaired by the Chief Executive of DPMC. In addition, the three central agencies have continued to develop and enhance the Performance Improvement Framework (PIF).

Together with the Cabinet Office, the Policy Advisory Group reviewed the level of ministerial satisfaction with the performance of the officials' committees established in support of Cabinet committees. Policy Advisory Group staff either convened or participated in all Cabinet officials' committees.

OBJECTIVE

State Sector performance is improved.

Performance

DPMC has worked closely with its central agency partners (Treasury and SSC), recognising that the central agencies are jointly responsible for leading performance improvements within the state sector, albeit with distinctive roles and perspectives. The three central agencies are committed to ensuring that better services are delivered to New Zealanders, that the state sector is high-performing, and that state sector expenditure is disciplined.

In 2010/11, amongst a range of other activities, the central agencies focused on three crucial areas:

The three central agencies share a commitment to building *better public services*. As part of that commitment, DPMC worked closely with Treasury and SSC to provide advice to ministers on the further potential for state sector reform, with a view to redefining New Zealand public services for the 21st century. This work has continued under the governance of the Better Public Services Advisory Group, and can also be referenced on the Better Public Services website (www.dPMC.govt.nz/better_public_services/).

The *Performance Improvement Framework* (PIF) is a joint initiative used in the reviewing of agencies. Central agency staff pool their knowledge of the agency being reviewed and the context in which it is operating. The information generated on



the agency's performance enables the review to identify and promote best practice and areas where a whole-of-system response may be required to lift performance.

The central agencies have promoted *disciplined expenditure in the state sector* to raise the quality of advice and service delivery by leading improvements in sector management and performance through a shared work programme.

The Government commissioned the Review of Expenditure on Policy Advice in August 2010 to examine the cost and quality of policy advice and also the alignment between policy expenditure and the Government's priorities. Of the 15 projects arising from the review, 10 are being implemented through the central agencies.

OUTPUT CLASS 1 SERVICE PERFORMANCE: CABINET OFFICE

Support for the proper and effective operation of the key institutions of executive government

OBJECTIVE

To provide impartial, efficient and effective secretariat services to Cabinet and Cabinet committees to ensure they operate smoothly and within Cabinet's rules.

Performance

The Cabinet Office provided secretariat services to 285 (2009/10 comparison: 271) Cabinet and Cabinet committee meetings, and 45 (34) Executive Council meetings during the year. See "Meeting statistics" table.

The Prime Minister, the chairs of Cabinet committees, and ministers' offices were consulted as required on the compilation of agendas and the acceptance of submissions for meetings.

There were 2,139 (2,121) summary cover sheets prepared for submissions to Cabinet and Cabinet committees during the past year.

Our performance target for the delivery of submissions to ministers' offices is for all papers to be delivered by the close of business two days before the meeting. In the past year, 83 (85) per cent of submissions were received in the Cabinet Office within the Cabinet deadline for lodging papers and we achieved a delivery rate of 76 (79) per cent of all papers to ministers' offices within the period stated in our performance target.

There were 2,407 (2,403) Cabinet and Cabinet committee minutes recorded over the year. Only 11 (15) of these required amendment by the Cabinet Office. (This excludes amendments to committee minutes made as a result of a Cabinet decision.)

All Cabinet committee minutes were prepared in time for the next meeting of Cabinet.

Ninety-five (95) per cent of all Cabinet minutes were issued within three days of the Cabinet meeting.

Meeting statistics for the year ended 30 June 2011

	Number of meetings	Number of agenda items	Average number of items per meeting
Executive Council	45	428	9
Cabinet	46	750	16
Cabinet Strategy Committee	13	14	1
Cabinet Committee on Treaty of Waitangi Negotiations	12	44	3
Cabinet Committee on Implementation of Auckland Governance Reforms	5	6	1
Cabinet Economic Growth and Infrastructure Committee	28	284	10
Cabinet Social Policy Committee	29	141	5
Cabinet External Relations and Defence Committee	10	28	3
Cabinet Legislation Committee	30	228	7
Cabinet Appointments and Honours Committee	24	261	11
Cabinet Expenditure Control Committee	20	57	3
Cabinet Committee on Domestic and External Security Coordination	4	15	4
Cabinet Business Committee	11	93	8
Cabinet Domestic Policy Committee	21	112	5
Ad hoc Cabinet committee on Rugby World Cup	9	25	3
Ad hoc Cabinet committee on Canterbury Earthquake Recovery	23	81	3
Subtotal of Cabinet committee meetings	239	1389	6
Total including Cabinet	285	2139	7

OBJECTIVE

To provide impartial and effective advice to the Prime Minister and ministers to support the proper operation of Cabinet and Cabinet committees.

Performance

Six Cabinet Office circulars were prepared and issued in 2010/11 on a range of issues: Capital Asset Management in Departments and Crown Entities – Expectations; 2011 Legislation Programme – Requirements for Submitting Bids; Statutes Amendment Bill (No.3) for 2011; Government Decisions and Actions in the Pre-Election Period; and Cabinet Committee Membership – update.

The Cabinet Office provided 32 (2009/10: 25) briefing seminars to departments and interested parties on the Cabinet decision-making process. The Secretary of the Cabinet also gave briefings to a number of departmental chief executives and senior managers on ministers' expectations for Cabinet papers.

Feedback from the Prime Minister and other stakeholders was positive.

OBJECTIVE

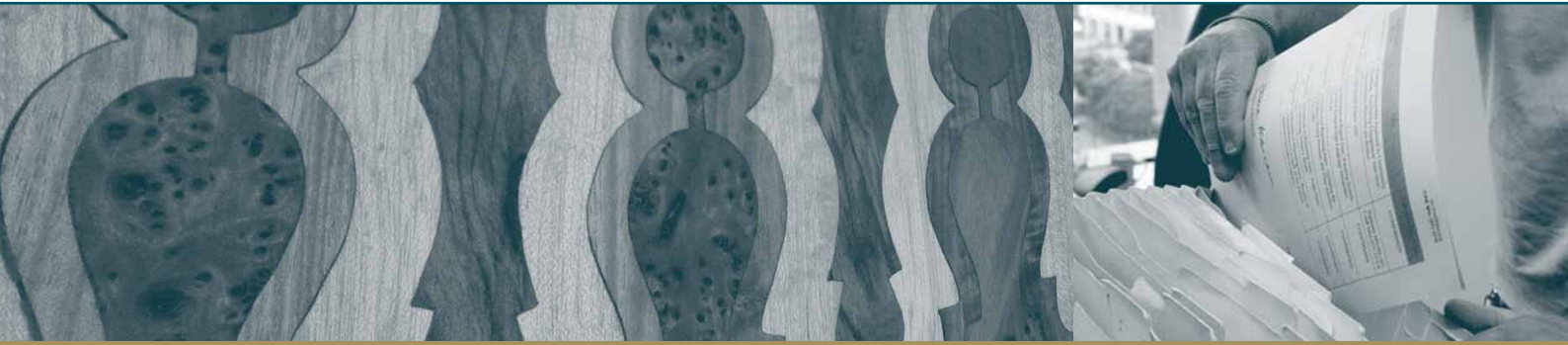
To provide impartial and effective advice to the Governor-General, the Prime Minister and ministers:

- to support the proper and effective operation of the key institutions of executive government
- to ensure the constitutional processes involving the Governor-General, the Prime Minister and ministers are appropriately facilitated and supported.

Performance

Advice and support was provided to the Prime Minister and the Governor-General on a range of matters relating to constitutional issues and the functioning of executive government.

This included support for the Prime Minister and Governor-General on HRH Prince William's visit to New Zealand in March 2011, and for the Prime Minister on the appointment of the Governor-General designate and on the passage of the Governor-General Act 2010. Support was also provided for the changeover of Governors-General in August 2011, for responding to the Law Commission's review of entitlements for members of Parliament and the Executive, and for effecting changes in ministerial responsibilities and appointment of new ministers. In addition, the Cabinet Office provided advice on matters relating to ministerial conduct,



public duty and personal interests; undertook preparations for support of the 2011 General Election; and updated the Directory of Ministerial Responsibilities and the Register of Assigned Legislation.

Feedback from the Prime Minister and the Governor-General was positive.

OBJECTIVE

To coordinate the policy and administrative aspects of the legislative programme, as directed by the Cabinet Legislation Committee.

Performance

Advice and support on the management of the Government's legislative programme and on the preparation and management of the legislative programme for the 2011 calendar year was provided to the Leader of the House and – from February 2011 – to the Acting Leader of the House, who in that month assumed responsibility for the House's management.

OBJECTIVE

To provide advice on the policy aspects of the New Zealand royal honours system, support for the compilation of honours lists, and administration of the honours system.

Performance

The Honours Unit (formerly the Honours Secretariat) advised and assisted the Cabinet Appointments and Honours Committee on the compilation of the 2011 New Year Honours List (167 recipients), the 2011 Queen's Birthday Honours List (169 recipients), and special honours lists (32 recipients). See "New Zealand honours" table.

New Zealand honours for the year ended 30 June 2011

The Order of New Zealand	
Ordinary Member	1
The New Zealand Order of Merit	
Knight/Dame Grand Companion	1
Additional Knight Grand Companion	1
Dame Companion	3
Knight Companion	10
Companion	28
Honorary Companion	1
Officer	45
Member	99
The Queen's Service Order	
Companion	12
Additional Companion	1
The Queen's Service Medal	130
New Zealand Bravery Awards	
The New Zealand Bravery Star	8
The New Zealand Bravery Decoration	7
The New Zealand Bravery Medal	13
Honorary New Zealand Bravery Medal	2
The New Zealand Distinguished Service Decoration	
The New Zealand Distinguished Service Decoration	7
TOTAL	369
Other honours and appointments	
Grant of the title "The Honourable" for life	6
GRAND TOTAL	375

During the reporting period, the Honours Unit dealt with requests from Commonwealth and foreign governments for approval to confer their country's honours on New Zealand citizens. The unit has continued to work with the New Zealand Defence Force on relevant policy matters, including the New Zealand Defence Service Medal. In August 2010 The Queen approved new rules for the granting the titles "The Right Honourable" and "The Honourable". The unit also responded to public enquiries about the honours system.

The department has implemented initiatives to improve the quality of secretariat support provided to ministers in the context of the Cabinet Appointments and Honours Committee.

OBJECTIVE

To maintain the records of Cabinet; and to provide related information services.

Performance

The Cabinet Office maintains records of all Cabinet and Cabinet committee meetings, administers the convention on access to documents of previous administrations, and provides advice to ministers' offices on the storage and disposal of Cabinet papers.

The Cabinet Office receives and redirects Official Information Act requests for Cabinet documents and handles substantive requests for information about the work of the Cabinet Office. In addition, on behalf of the Prime Minister, it consults with the Leader of the Opposition about the proposed release of official information dating from previous Opposition administrations.

In 2010/11 the Cabinet Office handled 127 (2009/10: 162) enquiries and requests from ministers' offices and departments about Cabinet papers and related information.

The Cabinet Office has led the development of a business case for an electronic Cabinet support system (CabNet). On 20 June 2011, the Cabinet approved that the CabNet project could proceed.



STATEMENT OF SERVICE PERFORMANCE

Output Class 2:

Support services to the Governor-General and maintenance of the residences

DESCRIPTION

This class of outputs involves:

- providing financial, administrative, communications, travel and advisory services to the Office of the Governor-General; and providing domestic and personal services to the Governor-General
- conducting a range of official functions, investitures and receptions at Government House, and hosting state and other dignitaries
- providing for the general upkeep and security of the Government Houses and grounds in Wellington and Auckland
- maintaining the other residences and buildings associated with the two Government Houses
- completing the Government House Conservation Project, and facilitating reoccupation of the House.

The Governor-General is The Queen's representative in New Zealand – and has constitutional, ceremonial and community roles. He requires high-quality advice and support to carry out these roles in a way that is appropriate for the representative of our head of state. Government House Wellington and Government House Auckland are important facilities for carrying out the Governor-General's duties, and are also important as listed historic places.

Output Class 2 Financial Performance

30.06.10		30.06.11		30.06.2011	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
3,491	Revenue – Crown	4,288	3,531	4,288	
45	Revenue – other	27	30	30	
3,484	Expenditure	4,301	3,561	4,318	
52	Surplus	14	–	–	

Output Class 2 Service Performance

PERFORMANCE MEASURES	2010/11	
	ACTUAL STANDARD	BUDGET STANDARD
Support to the Governor-General is efficient and effective.	Positive feedback has been received.	Feedback from the Governor-General is positive.
Events at the two Government Houses are well organised.	Stakeholder feedback indicates high satisfaction.	Feedback from key stakeholders on the quality of events is positive.
Maintenance of the Governor-General's programme is appropriate and well-balanced.	Feedback has been predominantly positive.	Feedback from the Governor-General and other key stakeholders is positive.
The usefulness and heritage value of the two Government Houses is maintained or increased.	Building code and regulatory compliance has been exceeded for many key items; significant functionality improvements and award-winning heritage preservation have been achieved for Government House Wellington.	Deferred maintenance is completed; building code and other regulatory requirements are met; Government House Wellington is reconfigured to improve functionality and renovated to preserve heritage, constitutional and cultural values for future generations.

OUTPUT CLASS 2 SERVICE PERFORMANCE: SUPPORT SERVICES TO THE GOVERNOR GENERAL AND MAINTENANCE OF THE RESIDENCES

Support services to the Governor-General

OBJECTIVE

To provide efficient and effective support to the Governor-General to facilitate the ceremonial and the community roles of the Governor-General.

Performance

The strategic programme framework to enhance the Governor-General's ceremonial and community roles has continued to be implemented, with Their Excellencies maintaining a full and varied domestic and international programme in the past year.

An official visit to India was carried out in support of the New Zealand team at the Commonwealth Games in New Delhi, while visits to Brunei Darussalam and Finland were conducted in support of New Zealand's foreign policy objectives. Their Excellencies also represented New Zealand at the wedding of HRH Prince William and Miss Catherine Middleton in London. Close liaison for these visits was maintained with other government agencies such as the Cabinet Office, Ministry of Foreign Affairs and Trade, New Zealand Defence Force, and Police.

Within New Zealand, Their Excellencies attended the Pike River Memorial Service in Greymouth in December; they also visited Christchurch on several occasions in support of the response and recovery effort after the September and February earthquakes, as well as attending the National Christchurch Memorial Service in March. In addition, Their Excellencies made visits to the Wairarapa and Northland regions and, further afield, to New Zealand's sub-Antarctic islands (this last was as part of Operation Endurance, which was jointly organised by the Department of Conservation and the Royal New Zealand Navy).

Full briefing as well as travel and administrative support was provided for all domestic and international travel.

The Governor-General's ceremonial programme included Waitangi Day activities at Waitangi and Auckland; 20 investiture ceremonies for the recipients of the 2010 Queen's Birthday Honours and 2011 New Year Honours awards in Christchurch, Wellington and Auckland; and special ceremonies for Dame Temuranga Batley-Jackson DNZM and Sir Tamati Reedy KNZM. Six credentials ceremonies for newly accredited heads of diplomatic missions were also held. In addition, Government House supported the visit to New Zealand by the Prime Minister of Australia in February 2011. Their Excellencies' participation in these events was well received, and was fully covered by the media.

Their Excellencies were kept well informed on and fully engaged in all programme-planning activities through regular reviews of the strategic programme framework, weekly programme-planning meetings, and full debriefings after overseas and regional visits. Regular feedback was sought and received from the Governor-General on the range of services provided in support of his ceremonial and community roles. Feedback on performance was also regularly received from external agencies and other stakeholders.

OBJECTIVE

To provide services to the Governor-General to ensure the efficient and effective running of the official programme and the household. These services include advisory, administrative and household activities, and the organising of functions.

Performance

Support was provided to Their Excellencies at Government House Auckland, at Government House Vogel in Lower Hutt, at the Islington Office in the grounds of Government House Wellington, and at Government House Wellington following its re-opening in March.

A diverse range of functions was delivered and supported throughout the year to the standard required by the Governor-General. This included 238 official engagements throughout New Zealand as well as the hosting of 147 functions at Government House Vogel, Premier House, Government House Auckland and Government House Wellington with an estimated 12,498 people participating as guests. Highlights of the year centred around Government House Wellington: the celebration of its centenary in October, and a series of events in March and April to mark its re-opening. Amongst the latter were a ceremony attended by the Prime Minister, the Rt Hon John Key, on 24 March, which was followed by a dinner for former

Governors-General; and in early April two public open days were held with more than 8,000 visiting the House and several thousand more enjoying the grounds. These events garnered significant media coverage which highlighted the successful conservation of Government House Wellington. Feedback from Their Excellencies and guests confirm that these events were well organised, and that they maintained the dignity and standard expected of the Office of the Governor-General.

More than 250 draft speeches were also prepared for Their Excellencies on a wide range of topics. These speeches were favourably commented on by Their Excellencies for their content and informative style and were well received by audiences. Significant speeches were uploaded to the Government House website, as were many photographs and features focusing on Their Excellencies' work. Government House also established a presence for the Governor-General in social media, with regular updates on Their Excellencies' activities through Facebook and Twitter.

All correspondence including Royal Prerogative of Mercy applications and commemorative cards and letters were dealt with in a timely and appropriate manner.

With the announcement in March that Lieutenant General Sir Jerry Mateparae would succeed Sir Anand Satyanand as New Zealand's 20th Governor-General, Government House began preparation, in collaboration with the Cabinet Office and a number of other agencies, for Sir Jerry's swearing-in at the end of August and the commencement of his official programme.

Maintenance of the residences

OBJECTIVE

To preserve, secure and enhance the buildings and grounds of both Government Houses as appropriate residences for the head of state and as historic places.

Performance

The Government House Conservation Project was completed in early 2011 within budget and several months ahead of schedule, although some associated minor work will be carried out over the next few months. Staff reoccupied the building in January, Their Excellencies resumed residence in February, and Government House was formally re-opened in late March. The completion of the project means that Government House Wellington is now well equipped to meet the current and future requirements of New Zealand's Governors-General. It also means that, while its heritage values have been respected and enhanced, the House now meets regulatory and statutory requirements (particularly earthquake strengthening) and incorporates environmentally sustainable design features.

Government House Auckland's maintenance plan and schedule has continued. As a result, maintenance work on the guard house at the main gate was carried out to make it weather tight and the interior of the tennis pavilion was repainted. Maintenance of the Auckland grounds has also continued.

The views of Their Excellencies on the maintenance and development programmes for both Government Houses were sought regularly and taken into account.

Government House Conservation Project Budget and Expenditure

	2006/07–2010/11
	\$000
Budget	44,737
Expenditure	43,581
Underspend as at 30.6.11	1,156

STATEMENT OF SERVICE PERFORMANCE

Output Class 3:

Intelligence coordination and national security priorities

DESCRIPTION

This class of outputs involves:

- coordinating central government activities to enhance New Zealand's national security – including intelligence, counter-terrorism preparedness, emergency/crisis management, and defence operations
- providing advice and guidance on policies and preparation for strengthening national security
- producing intelligence assessments on political, economic, scientific, environmental, strategic, and biographic subjects overseas affecting New Zealand's interests
- collecting, collating, evaluating, and analysing information that is used in the production of these assessments.

The use of effective planning and coordination processes in government can manage the risks of certain adverse events occurring, and can lessen their effect if they do occur. The department is responsible for assessing, monitoring and responding to threats of any kind in a timely and structured way.

Output Class 3 Financial Performance

30.06.10		30.06.11	30.06.2011	
			Main Estimates \$000	Supplementary Estimates \$000
3,463	Revenue – Crown	5,481	3,780	5,481
–	Revenue – other	–	–	–
3,457	Expenditure	5,452	3,780	5,481
6	Surplus	29	–	–

Output Class 3 Service Performance

PERFORMANCE MEASURES	2010/11	
	ACTUAL STANDARD	BUDGET STANDARD
The assessments of developments overseas are high-quality, accurate and succinct.	99% of assessments were factually correct.	100% of assessments are factually correct.
	At least 90% assessments required no more than minor revision.	90% of assessments require no more than minor revision.
	Stakeholder feedback indicates high satisfaction.	Feedback from key stakeholders is positive.
The assessments are of policy relevance to New Zealand.	Stakeholder feedback indicates high satisfaction.	Feedback from key stakeholders is positive.

OUTPUT CLASS 3 SERVICE PERFORMANCE: SECURITY AND RISK GROUP

OBJECTIVE

To provide integrated advice on issues involving national security and defence, and emergency management; and to guide and coordinate crisis-management arrangements across the government.

Performance

The renaming of the Domestic and External Security Group as the Security and Risk Group (SRG) in 2010 reflected the shift from a "domestic/external" split to a more holistic and broad-spectrum approach to national security. In its combined policy and operational roles, SRG has provided leadership and coordination across government on national security issues. In particular, it has worked with a range of government and non-government stakeholders to ensure national security

issues are managed effectively and proportionately, and to build resilience in government and communities.

SRG fulfilled its advisory role for national security issues across departments and agencies with operational responsibilities for managing such risks. It coordinated the government's response to situations that had significant consequences for New Zealand's national security or interests. On behalf of government, SRG provided leadership, support and coordination around all major security issues.

Unprecedented challenges this year involved coordinating support for the responses to the Christchurch earthquakes – which included having the Director of SRG relocate to Christchurch because of the national state of emergency after the 22 February shock – and the Pike River mining tragedy. SRG was called upon to play key roles in our national crisis response mechanisms.

Advice was provided to the Prime Minister as necessary on Cabinet and Cabinet committee papers and met the requirements for quality and timeliness. A wide range of briefing notes on security issues of interest were also provided to the Prime Minister, both proactively and in response to requests from the Prime Minister. Feedback was received from the Prime Minister on advice tendered.

SRG supported the Domestic and External Security Coordination (DESC) system in the following ways:

- ▶ providing advice and support for departmental chief executives under ODESC (Officials' Committee for Domestic and External Security Coordination)
- ▶ chairing Watch Group (close situation monitoring) meetings of specialists, to deal with particular issues at a "details" level
- ▶ facilitating interactions across central government, industry, local government and other sectors as appropriate, to advance policy and practical solution-finding
- ▶ providing advice and support for departmental chief executives under ODESC.

Other issues of national security relevance involving SRG included:

- ▶ assuring the security of New Zealanders at major events overseas (for example the New Delhi Commonwealth Games and the Cricket World Cup)
- ▶ supporting consular incidents overseas (such as the civil unrest in Africa and the Middle East)
- ▶ coordinating and supporting the security planning for the 2011 Rugby World Cup, including national exercises and preparedness

- ▶ assisting agencies which have primary responsibilities for leading all-of-government responses to a variety of national security threats, either to reduce or mitigate risk or to develop an enhanced state of response readiness
- ▶ supporting the process of designating a number of entities as terrorist organisations.

OBJECTIVE

To provide a system of foreign-intelligence collection and assessment activity that reflects policy priorities, national requirements and available resources and that also ensures a coordinated and harmonised outcome.

Performance

SRG developed effective working relationships with the newly formed Intelligence Coordination Group (ICG), to ensure that intelligence plays an appropriate role in the understanding and management of certain national security risks.

OUTPUT CLASS 3 SERVICE PERFORMANCE: INTELLIGENCE COORDINATION GROUP

Following a review of the intelligence agencies conducted on behalf of the State Services Commission, DPMS established the Intelligence Coordination Group (ICG) in September 2010. The role of ICG has been to:

- ▶ advise the Prime Minister on intelligence matters
- ▶ provide priority setting, coordination and collaboration, resourcing, and evaluation of the New Zealand Intelligence Community (NZIC)
- ▶ coordinate New Zealand's international intelligence relationships.

OBJECTIVE

To advise the Prime Minister on intelligence matters.

Performance

With the assistance of agencies in the NZIC, ICG provided regular coordinated briefings to the Prime Minister, and to other Ministers where appropriate. Positive feedback was received from the Prime Minister on this.

OBJECTIVE

To provide priority setting, coordination and collaboration, resourcing, accountability and evaluation of the New Zealand Intelligence Community (NZIC).

Performance

With the assistance of intelligence agencies, ICG produced a joint Statement of Intent (SOI) on behalf of the core intelligence agencies which report to the Prime Minister – namely the Government Communications Security Bureau (GCSB), the New Zealand Security Intelligence Service (NZSIS) and the National Assessments Bureau (NAB). This is the first time that a joint SOI has been produced for the core intelligence agencies; and it sets out the agencies' priorities, as well as performance measures, for the next 3 to 5 years. Central government agencies, along with the ODESC group responsible for the governance of the NZIC, have provided positive feedback on the creation of the SOI.

ICG closely worked with SRG to produce a paper outlining New Zealand's National Security System (NSS) and updating the terms of reference for government decision-making bodies on national security. The completion of the NSS has meant that ICG has been able to continue work on setting priorities for the NZIC.

Work has been done on a number of projects to ensure that the NZIC is well coordinated and collaborative. Examples include: coordinating regular meetings of NZIC heads and senior management as well as "working level" forums to ensure a coordinated NZIC approach to issues of importance to New Zealand; ensuring the NZIC is well-coordinated in terms of giving support to the Police leading up to and during the Rugby World Cup in 2011; reviewing training and professional development in the NZIC; reviewing overseas representation; and assisting Parliament's Intelligence and Security Committee with the passage of the NZSIS Amendment Bill.

In addition, ICG has worked to ensure that the NZIC is using its resources as efficiently as possible. This year it coordinated a joint Budget submission for GCSB, NZSIS and NAB – the first-ever such submission – and it has also led a working group on future information management needs in the NZIC, to ensure prudent use of NZIC resources. ICG has also taken advantage of the opportunities afforded by the Pipitea House co-location of much of the NZIC and has actively worked to ensure a more coordinated and collaborative response from the NZIC on issues of importance to the Government.

OBJECTIVE

To coordinate New Zealand's international intelligence relationships.

Performance

ICG has developed a coordinated and coherent "voice" for the NZIC when dealing with its international counterparts, to ensure that New Zealand's national interests are served.

OUTPUT CLASS 3 SERVICE PERFORMANCE: NATIONAL ASSESSMENTS BUREAU (NAB)

The main focus of the National Assessments Bureau (NAB) has continued to be implementation of the changes, mandated by the Cabinet in March 2010, that arose out of a review of intelligence agencies. This has comprised establishing mechanisms for carrying out NAB's broadened mandate for coordination of assessments that draw on the resources of the whole of the NZIC, initiating a business model review of NAB, and moving to a new office location.

The National Assessments Committee (NAC), which is chaired by the Director of NAB, has continued to develop and evolve. It is now the primary vehicle by which the national assessments programme, mandated by the March 2010 Cabinet decisions, is coordinated. This ensures an NZIC-wide view of the most pressing assessment priorities and the allocation of the most appropriate assessment resource to the task. The NAC's mandate has evolved to include matters relating to national security more generally, as well as external developments of relevance to New Zealand policy interests. In another significant development, nearly one-third of NAC reports in this reporting year were drafted by other agencies whereas previously the great majority of NAC reports were written by NAB. The NAC also assists in providing oversight of the weekly executive intelligence summary. This report has evolved into a weekly whole-of-community product coordinated and edited by NAB, and is the basis of the newly-implemented weekly brief to the Prime Minister. As well as coordinating and editing the report, NAB contributes about sixty per cent of the material used in it.

NAB has initiated a business-model review which focuses on NAB's "value proposition" and its internal processes. In keeping with the direction provided by the Cabinet mandate, NAB has taken a consultative approach in reviewing its coverage as the NZIC seeks to pool and better coordinate resources in order to deliver efficiencies.

In March 2011 NAB moved its office location from the Reserve Bank Building to Pipitea House, thus implementing another of the Cabinet's March 2010 directives. The move was carried out successfully with no sensitive or classified material being compromised and with minimum down-time for NAB's operating capability. In Pipitea House NAB is co-located with two other agencies of the NZIC, which provides a strong foundation for the closer cooperation and coordination mandated by Cabinet.

OBJECTIVE

To ensure the effective provision of high-quality, accurate and succinct assessments of national security and overseas developments that are of policy relevance to New Zealand.

Performance

There were no instances of significant factual errors being reported in papers that had already been issued.

In a few instances, readers (particularly in New Zealand diplomatic missions overseas) provided additional information, insights and interpretations subsequent to the publication of papers, especially for biographic reports. (NAB generally seeks such input before publication, as part of its established process of consultation to improve the quality of its assessments.)

In order to provide greater quality assurance and transparency, NAB is implementing a process of documenting the consultations undertaken, the analytic techniques used, and the information base for the major assessments produced.

During the reporting period:

- The NAC approved 22 (2009/10: 41) papers. The decline in numbers is partly due to the increased time required to produce each report (as the result of increased emphasis on quality assurance) and partly due to the interruption to the NAC's programme while new terms of reference and processes were being implemented.
- NAB prepared 219 (718) biographic reports. The decline in numbers was partly due to a decline in demand for such reports (which are produced in response to specific ministerial requirements) and partly as the result of NAB adjusting its coverage to provide "narrower but deeper" reporting.

At least 90 per cent of assessments submitted to the NAC required no more than minor revision. (This performance indicator remains unchanged from last year.) NAB maintains a file record of the outcome of every NAC meeting so that its performance against this criterion is documented.

There were 167 (194) other assessments and reports prepared, including 52 (87) executive intelligence summaries.

NAB assessments and reports

	2011	2010	2009	2008
National Assessments Committee reports	22 ¹	41	61	74
Biographical reports	219	718	622	575
Other reports and assessments	115	107	111	108
Executive intelligence summaries	52 ²	87	90	93

¹ This included seven reports written by other agencies and two jointly produced by NAB and another agency.

² The reduction in numbers reflects a shift from twice-weekly to weekly reporting; each report now usually contains more individual items than the previous reports.

OBJECTIVE

To ensure that the Prime Minister, other senior ministers, and officials are satisfied with the assessments and reports provided.

Performance

NAB continues to implement its responses to the Government's updated guidance on its expectations for intelligence assessment reporting. The weekly briefings to the Prime Minister and to the Minister of Foreign Affairs, delivered by the Director of ICG and based on the executive intelligence summaries coordinated by NAB, provide a regular forum for those ministers to provide feedback and to request additional reports and information on priority matters. Feedback from the Prime Minister and ministers was positive.

STATEMENT OF SERVICE PERFORMANCE

Output Class 4:

Science Advisory Committee

DESCRIPTION

This class of outputs involves:

- providing strategic and operational advice on science and science policy issues to the Prime Minister
- promoting the public understanding of, and engagement with, science
- developing relationships with similar offices overseas.

The Chief Science Advisor, Professor Sir Peter Gluckman, is appointed as a Ministerial Advisory Committee of one. He is accountable to the Prime Minister.

Output Class 4 Financial Performance

30.06.10		30.06.2011		
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
335	Revenue – Crown	335	335	335
–	Revenue – other	–	–	–
328	Expenditure	335	335	335
7	Surplus	–	–	–

Output Class 4 Service Performance

PERFORMANCE MEASURES	2010/11	
	ACTUAL STANDARD	BUDGET STANDARD
Advice provided meets the department's quality, quantity and timeliness standards.	Stakeholder feedback indicates high satisfaction.	Key stakeholders are satisfied.

OBJECTIVE

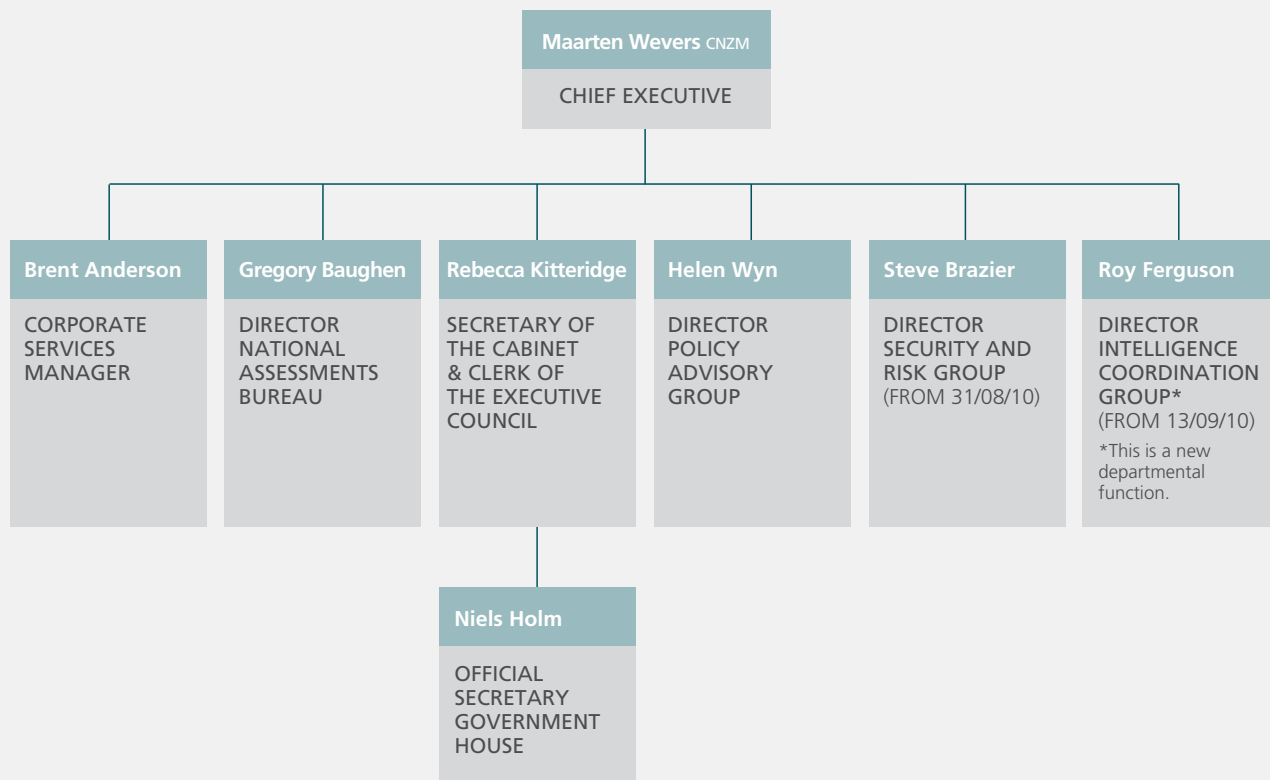
To provide independent advice to the Prime Minister and his Government on such matters as are from time to time included in an agreed work programme determined by the Prime Minister.

Performance

The Chief Science Advisor's work programme – involving activities aimed at promoting the role of science in, and its contribution to, society – has been well executed; and feedback from the Prime Minister on the performance of the Chief Science Advisor has been positive. For more information see the *Report on the Office of the Chief Science Advisor* at pmcsa.org.nz.



SENIOR MANAGEMENT TEAM



OUR DEMOGRAPHICS

as at 30 June 2011

	2011 ¹		2010	2009	2008	2007
	Full time	Part time				
Office of the Chief Executive	2	0	2	2	2	2
Corporate Services	16	2	16	15	15	15
Government House Project	1	0	2	2	2	1
Policy Advisory Group	17	2	17	17	16	16
Intelligence Coordination Group ²	4	0	–	–	–	–
Security and Risk Group	5	1	7	8	6	8
National Assessments Bureau	23	2	27	30	27	28
Cabinet Office	21	5	26	26	25	27
Government House	25	1	29	19	27	28
Sub-total	114	13				
TOTAL	127 ³		126 ⁴	119 ⁵	119 ⁶	125 ⁷

GENDER DISTRIBUTION	2011	2010	2009	2008	2007
Female	50%	52%	52%	55%	55%
Male	50%	48%	48%	45%	45%

ETHNICITY	2011	2010	2009	2008	2007
NZ European	85%	83%	79%	81%	82%
NZ Māori	3%	4%	7%	7%	8%
Pacific peoples	1%	1%	1%	2.5%	2%
Asian	3%	2%	3%	2.5%	2%
Other	8%	10%	12%	7%	6%

¹ The department has an establishment cap of 124 full-time-equivalent (FTE) staff in seven business units spread over seven locations. For more information see www.dpmc.govt.nz.

² The Intelligence Coordination Group was established in September 2010.

³ Includes 13 staff seconded from other departments and organisations.

⁴ Includes 15 part-time staff and 12 staff seconded from other departments and organisations.

⁵ Includes 13 part-time staff and 14 staff seconded from other departments and organisations.

⁶ Total includes 13 part-time staff and 12 seconded from other departments and organisations.

⁷ Total includes 11 staff seconded from other departments and organisations. Casual staff are not included.

DEPARTMENTAL HEALTH AND CAPABILITY

Creating a supportive and focused workplace is central to the department's ability to maintain high performance.

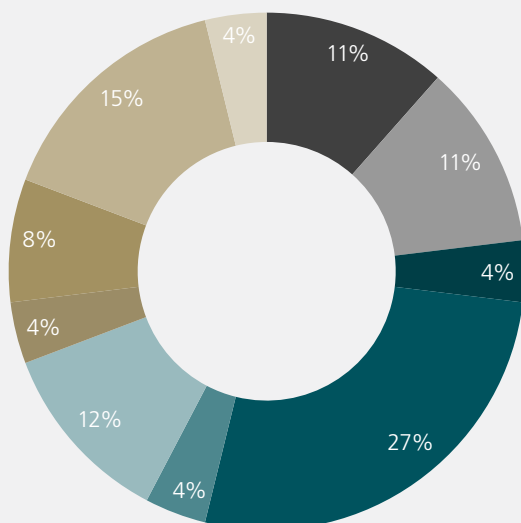
Key capability requirements in DPMC are fairly constant. They are based on our ability to attract and retain high-performing staff. DPMC seeks to create a workplace where staff are treated – and treat each other – fairly and with respect, where staff are well managed, and where unhelpful barriers to work and personal development are removed as much as possible.

Our people

Over one-third of our staff have been with us for five years or more, and just over half of our staff have been with DPMC three years or more. DPMC continues to balance the retention of existing staff – and their good organisational knowledge – with the recruitment of new talent and skills.

Planned turnover (defined as retirement and secondment) and unplanned turnover has remained stable for the last five years, at close to 19 per cent. DPMC's solid practice of secondment of staff continues to be reflected in this figure: staff are attracted to the department because they wish to broaden their policy coordination experience in a whole-of-government environment or to work on specialist projects or taskforces with the intention of using this experience upon their return to a line agency.

Reasons for turnover



Our health

Creating a healthy and safe work environment is an ongoing departmental priority. Our staff are encouraged to participate in a wide variety of health and wellbeing activities.

Absence due to illness remains low. Average sick-leave usage is 5.1 days per annum (2009/10 comparison: 5.4); average accrued sick leave is 43.8 days (37.5). We continue to monitor sick leave and actively encourage staff to stay home when they are sick. The department remains vigilant in its response to potential influenza outbreaks by supplying all employees with a personal pack of hand antiseptic, providing travel packs for those travelling for work purposes, arranging extra cleaning services of commonly used services, and advising staff and managers to stay home if they have any flu symptoms.

DPMC also provides a comprehensive occupational health service to all staff. This includes:

- immunisation for influenza (free vaccination)
- eye tests
- a health and exercise subsidy
- ergonomic assessment for all new staff as part of induction, and further assessment on request.

The Health and Safety Committee met four times during 2010/11 and facilitated occupational health and safety discussions between management and staff. In addition,

a self-audit was undertaken by DPMC and validated by an external resource: this audit highlighted good practices and low risk to staff, and showed the department's responsiveness to workplace health concerns.

Our learning and development framework

The department has again reviewed staff feedback through the performance management process. This will be used to develop a matrix of identified development needs that will form the foundation for our learning and development programme over the next 12 months.

We place high value on the development of leadership and management capabilities and continue to utilise Leadership Development Centre (LDC) and Australia and New Zealand School of Government (ANZSOG) offerings. Third parties are used to provide development opportunities for staff who do not meet LDC and ANZSOG criteria.

Our administrative staff continue to work through the national qualifications in business administration that were started last year. We expect to have DPMC's first graduate towards the end of the year.

Risk-assurance processes

DPMC continues to update its strategic risk profile. The review of each of our high-level risks and associated mitigation strategies has been established as a formal agenda item for the department's Senior Management Group (SMG). This review process is expected to continue into the 2011/12 financial year.

The Audit and Risk Committee (ARC) has continued to meet regularly to review and assess a range of DPMC capabilities and areas of potential risk, and to report on these to the Chief Executive. The current committee consists of two external members (Souella Cumming, who is also the Chair; and Shenagh Gleisner) and one DPMC representative (Michael Webster). A joint ARC/SMG risk-review session is programmed for early next year.

Information management

Infrastructure and systems expansion within the central agencies has built a foundation for integrating and delivering a highly resilient and modern network where sharing of resources and information can continue to be delivered. Upgrades to the eDRMS as well as to MS Office Suite, email, internet and intranets have been completed this year and these will continue to improve our collaboration with the shared services. The Government House network has been redeveloped: it provides for wireless and other applications, including security and building management systems, and will operate alongside the existing internal networks. New network infrastructure to support our intelligence community business has also been completed. Challenges around the ongoing and increasing presence of cyber threats, viruses and spam continue to have an impact on DPMC's small information-management team.



STATUTORY AND FORMAL RESPONSIBILITIES

Chief Executive

The Chief Executive has the following responsibilities:

- the statutory responsibility to appoint such officers as may be required to assist the Intelligence and Security Committee of Parliamentarians (established under the Intelligence and Security Committee Act 1996) to carry out its duties
- coordination responsibilities in the response phase of an emergency under the International Terrorism (Emergency Powers) Act 1987.

Secretary of the Cabinet and Clerk of the Executive Council

The statutory and formal responsibilities of the Secretary of the Cabinet and the Clerk of the Executive Council are:

- to administer the Letters Patent Constituting the Office of the Governor-General of New Zealand 1983
- to preserve and maintain the official records of Cabinet, and to administer the convention on access to documents of a previous administration
- to administer the Governor-General Act 2010
- to certificate subordinate legislation approved in Executive Council in terms of Section 32 of the Evidence Act 1908
- to certificate other instruments executed by the Governor-General in terms of the Official Appointments and Documents Act 1919
- to administer the Oath of Allegiance and the Executive Councillors' Oath in terms of Section 23 of the Oaths and Declarations Act 1957
- to administer the Statutes of The Queen's Service Order (2007), The Order of New Zealand (1987), and The New Zealand Order of Merit (1996)
- to administer the Royal Warrants of the New Zealand Gallantry Awards
- to administer the New Zealand Bravery Awards (1999)
- to administer the Seal of New Zealand Act 1977
- to administer the Royal Titles Act 1978.

STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989 I am responsible, as Chief Executive of the Department of the Prime Minister and Cabinet, for preparation of the department's financial statements and Statement of Service Performance, and for the judgements made in them.

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

In my opinion, these financial statements and this Statement of Service Performance fairly reflect the financial position and operations of the department for the year ended 30 June 2011.



Maarten Wevers CNZM
CHIEF EXECUTIVE

Date: 30 September 2011

COUNTERSIGNED BY



Brent Anderson
CORPORATE SERVICES MANAGER

Date: 30 September 2011

FINANCIAL STATEMENTS

for the year ended 30 June 2011

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DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

30.6.10		Note	30.6.11		
Actual \$000			Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	REVENUE				
15,658	Revenue – Crown		17,167	16,117	17,167
45	Revenue – other	3	27	40	30
15,703	TOTAL INCOME		17,194	16,157	17,197
	EXPENSES				
11,133	Personnel costs	4	12,105	11,275	11,950
383	Depreciation and amortisation expense	7, 8	386	520	470
53	Capital charge	5	53	140	53
4,037	Other operating expenses	6	4,606	4,212	4,724
15,606	TOTAL EXPENDITURE		17,150	16,147	17,197
97	NET SURPLUS		44	10	–

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

30.6.10			30.6.11		
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	CURRENT ASSETS				
2,017	Cash and cash equivalents		1,806	473	834
53	Other receivables		27	–	55
56	Prepayments		23	50	55
100	Inventory		100	100	100
2,226	TOTAL CURRENT ASSETS		1,956	623	1,044
	NON-CURRENT ASSETS				
318	Inventory		284	325	318
815	Property, plant and equipment	7	767	1,758	1,021
317	Intangible assets	8	477	292	407
1,450	TOTAL NON-CURRENT ASSETS		1,528	2,375	1,746
3,676	TOTAL ASSETS		3,484	2,998	2,790
	CURRENT LIABILITIES				
1,621	Creditors and other payables	9	1,624	1,145	1,090
97	Provision for repayment of surplus	10	44	10	–
626	Employee entitlements	11	699	560	566
258	Provisions	12	140	120	–
2,602	TOTAL CURRENT LIABILITIES		2,507	1,835	1,656
	NON-CURRENT LIABILITIES				
371	Employee entitlements	11	274	460	431
371	TOTAL NON-CURRENT LIABILITIES		274	460	431
2,973	TOTAL LIABILITIES		2,781	2,295	2,087
703	NET ASSETS		703	703	703
	TAXPAYERS' FUNDS				
703	General funds	13	703	703	703
703	TOTAL TAXPAYERS' FUNDS		703	703	703

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

for the year ended 30 June 2011

30.6.10		Note	30.6.11		30.6.11	
Actual \$000			Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
703	Balance at 1 July		703	703	703	
97	Surplus for the year		44	10	–	
(97)	Provision for repayment of surplus to the crown	10	(44)	(10)	–	
–	MOVEMENTS IN TAXPAYERS' FUNDS FOR THE YEAR		–	–	–	
703	TAXPAYERS' FUNDS AS AT 30 JUNE		703	703	703	

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2011

30.6.10		30.6.11		30.6.11	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
	CASH FLOW – OPERATING ACTIVITIES				
15,658	Receipts from the Crown	17,167	16,117	17,167	
45	Receipts from other revenue	27	40	30	
(3,466)	Payments to suppliers	(4,505)	(4,308)	(5,522)	
(11,160)	Payments to employees	(12,056)	(11,179)	(11,894)	
(53)	Payments for capital charge	(53)	(140)	(53)	
(27)	Goods and services tax (net)	(44)	–	–	
997	NET CASH FLOW FROM OPERATING ACTIVITIES	536	530	(272)	
	CASH FLOW – INVESTING ACTIVITIES				
(448)	Purchase of property, plant and equipment	(359)	(1,372)	(612)	
(276)	Purchase of intangible assets	(291)	(100)	(200)	
(724)	NET CASH FLOW FROM INVESTING ACTIVITIES	(650)	(1,472)	(812)	
	CASH FLOW – FINANCING ACTIVITIES				
(336)	Repayment of net surplus to the Crown	(97)	(406)	(99)	
(336)	NET CASH FLOW FROM FINANCING ACTIVITIES	(97)	(406)	(99)	
(63)	Net increase/(decrease) in cash and cash equivalents	(211)	(1,348)	(1,183)	
2,080	Cash and cash equivalents at the beginning of the year	2,017	1,821	2,017	
2,017	CASH AND CASH EQUIVALENTS AT END OF YEAR	1,806	473	834	

The accompanying notes form part of these financial statements.

RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

for the year ended 30 June 2011

30.6.10		30.6.11	30.6.11	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
97	NET SURPLUS	44	10	–
	ADD/(LESS) NON-CASH ITEMS			
383	Depreciation	386	520	470
–	Asset written off	122	–	–
14	Increase/(decrease) in non-current employee entitlements	(97)	–	60
(241)	Increase/(decrease) in non-current provisions	–	–	–
156	TOTAL NON-CASH ITEMS	411	520	530
	ADD/(LESS) WORKING CAPITAL MOVEMENTS			
(7)	(Increase)/decrease in receivables and prepayments	59	–	1
7	(Increase)/decrease in inventory	34	–	–
523	Increase/(decrease) in creditors and other payables	33	–	(485)
(37)	Increase/(decrease) in current employee entitlements	73	–	(60)
258	Increase/(decrease) in current provisions	(118)	–	(258)
744	WORKING CAPITAL MOVEMENTS – NET	81	–	(802)
997	NET CASH FLOW FROM OPERATING ACTIVITIES	536	530	(272)

The accompanying notes form part of these financial statements.

STATEMENT OF COMMITMENTS

as at 30 June 2011

Non-cancellable operating lease commitments

The department leases premises on the fifth floor of the Reserve Bank Building, and on the second floor of Pipitea House in Wellington (see note 6).

The annual lease payments are subject to three-yearly and ten-yearly reviews. The amounts disclosed as future commitments are based on the current rental rates. Other operating commitments include contracts for photocopying services and garden maintenance services.

There are no restrictions placed on the department by any of the operating leasing arrangements.

30.6.10		30.6.11
Actual \$000		Actual \$000
	OPERATING COMMITMENTS	
295	Accommodation leases	5,892
108	Other operating commitments	79
403	TOTAL COMMITMENTS	5,971
	TERM CLASSIFICATION FOR OPERATING COMMITMENTS	
403	Less than one year	706
–	One to five years	5,265
403	TOTAL COMMITMENTS	5,971

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

as at 30 June 2011

Contingent liabilities

At 30 June 2011 the department has no contingent liabilities. (2010: nil)

Contingent assets

At 30 June 2011 the department has no contingent assets. (2010: nil)

The accompanying notes form part of these financial statements.

STATEMENT OF UNAPPROPRIATED EXPENDITURE

for the year ended 30 June 2011

The department has no unappropriated expenditure for the year ended 30 June 2011. (2010: nil)

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

for the year ended 30 June 2011

30.6.10			30.6.11	30.6.11	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	<i>Vote: Prime Minister and Cabinet</i>				
	APPROPRIATIONS FOR OUTPUT EXPENSES				
8,337	D1 – Policy advice and secretariat and coordination services	18	7,062	8,441	7,063
3,484	D2 – Support services to the Governor-General and maintenance of the residences	18	4,301	3,591	4,318
3,457	D3 – Intelligence coordination and national security priorities	18	5,452	3,780	5,481
328	D4 – Science Advisory Committee		335	335	335
15,606	TOTAL OUTPUT EXPENSES		17,150	16,147	17,197
	APPROPRIATIONS FOR CAPITAL EXPENDITURE				
674	Property, plant and equipment	18	621	1,472	766
674	TOTAL CAPITAL EXPENDITURE		621	1,472	766

The accompanying notes form part of these financial statements.

NOTES TO THE DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2011

Reporting entity

The Department of the Prime Minister and Cabinet ("the department") is a government department as defined by the Public Finance Act 1989 and is domiciled in New Zealand.

The primary objective of the department is to provide services to the public rather than making a financial return. Accordingly the Department of the Prime Minister and Cabinet is a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the department are for the year ended 30 June 2011. The financial statements were authorised for issue by the Chief Executive of the department on 24 September 2011.

In addition, the department has reported on Crown activities which it administers.

Basis of preparation

Statement of compliance

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

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

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

The financial statements have been prepared on historical-cost basis. The accrual basis of accounting has been used.

Functional and presentation currency

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

Judgements and estimations

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

There is one item where judgements have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year. It is:

Retirement and long-service leave

Note 11 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long-service leave liabilities.

Changes in accounting policies

Accounting policies are changed only if the change is required by a standard or interpretation, or if it otherwise provides more reliable and more relevant information.

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

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

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

- *NZ IAS 24 Related Party Disclosures (Revised 2009)* replaces *NZ IAS 24 Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
 - i) Removes the previous disclosure concessions applied by the department in relation to arms-length transactions between the department and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the department and entities controlled or significantly influenced by the Crown.
 - ii) Provides clarity on the disclosure of related-party transactions with ministers of the Crown. The clarification could result in additional disclosures should there be any related-party transactions with ministers of the Crown, although the department will be exempted from certain disclosure requirements relating to transactions with ministers (other than the responsible minister).
 - iii) Clarifies that related-party transactions include commitments with related parties.

The department expects it will undertake early adoption of *NZ IAS 24 Related Party Disclosures (Revised 2009)* for the year ended 30 June 2012.
- *NZ IFRS 9 Financial Instruments* will eventually replace *NZ IAS 39 Financial Instruments: Recognition and measurement*. *NZ IFRS 9* is being introduced in three phases (Classification and Measurement, Impairment Methodology and Hedge Accounting) and is required to be adopted for the year ended 30 June 2014. The department has not yet assessed the effect of *NZ IFRS 9* and is unlikely to adopt it early.

Significant accounting policies

Revenue

Revenue is measured at the fair value of consideration received.

Revenue from the Crown is earned in exchange for the provision of outputs and is recognised as revenue when earned. The department receives its revenue through the Crown's appropriation process.

Revenue from the supply of goods and services is recognised as earned.

Rental income is recognised as other revenue in the Statement of Comprehensive Income when it is earned.

Revenue from the sales of items of property, plant and equipment is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Capital charge

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

Debtors and other receivables

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

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

Financial instruments

The department is a party to financial arrangements as part of its everyday operations. These include instruments such as cash and cash equivalents, receivables, and creditors and other payables. Financial assets and financial liabilities are initially measured at fair value plus transaction costs. The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

Cash and cash equivalents

Cash includes cash on hand and bank accounts.

Inventory

Inventories held for distribution for public benefit purposes are recorded at the lower of cost calculated using the first-in first-out method or current replacement cost.

Property, plant and equipment

Overview

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

All individual assets are capitalised if their purchase cost is \$2,000 or greater.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

Subsequent costs

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

Depreciation

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

Fixtures and fittings	10 years	10%
IT equipment	3–4 years	20–33%
Office equipment	5 years	20%
Furniture	5 years	20%
Motor vehicles	4 years	25%
Kitchen equipment	5 years	20%
Plant and equipment	5–10 years	10–20%
Ground improvements	5 years	20%

Intangible assets

Software acquisition and development

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct costs include software acquisition and development, and consultancy costs. Staff training costs are recognised as an expense when incurred.

Amortisation

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses.

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

The useful life and associated amortisation rate of computer software is as follows:

Acquired computer software	3–4 years	20–33%
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Impairment of non-financial assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed at least annually to determine if there is any indication of impairment, i.e. that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use.

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

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

Losses resulting from impairment are recognised in the Statement of Comprehensive Income.



Employee entitlements

Short-term employee entitlements

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

These include salaries and wages, annual leave, and sick leave and are recognised in the Statement of Comprehensive Income when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

Termination benefits are recognised in the Statement of Comprehensive Income only when there is a demonstrable commitment, without realistic possibility of withdrawal, either to terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy.

The department recognises a liability for sick leave. The amount of the liability is calculated on the unused sick-leave entitlement that can be carried forward at balance date, to the extent that the department anticipates it will be used by staff to cover future sick-leave absences.

Long-term employee entitlements

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

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

Defined-contribution plans

Obligations for contributions to defined-contribution pension plans are recognised as an expense in the Statement of Comprehensive Income when they are due.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Leases

The department leases office premises and photocopiers. As substantially all risks and rewards incidental to ownership of assets are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Superannuation schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and individual retirement funds are accounted for as defined-contribution schemes and are recognised as expenses in the Statement of Comprehensive Income when they are incurred.

Provisions

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

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

Taxpayers' funds

Taxpayers' funds are the Crown's investment in the department and are measured as the difference between total assets and total liabilities. They consist of general funds.

Commitments

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

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

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Goods and services tax (GST)

All items in the financial statements, including the appropriation statements, are GST exclusive – except for receivables and payables, which are on a GST-inclusive basis.

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

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

Commitment and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are those included in the department's Budget Estimates for the year ended 30 June 2011, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates.

Statement of cost accounting policies

The department has determined the cost of outputs using the cost allocation system that follows:

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes.
- Indirect costs are expenses incurred by Corporate Services and by the Office of the Chief Executive. Indirect costs are allocated to each output class based on cost drivers, related activity, and usage information.

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

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.

Related parties

The department is a wholly owned entity of the Crown. The government significantly influences the roles of the department as well as its source of revenue.

The department undertakes transactions with other departments, Crown entities, and state-owned enterprises. These transactions are carried out at an arm's length basis and are not considered to be related-party transactions.

Apart from those transactions described above, the department has not entered into any related-party transactions.

2. BUDGET COMPOSITION

	30.6.11		30.6.11
	Budget Forecast \$000	Supplementary Estimates Changes \$000	Final Budget Total \$000
REVENUE			
Crown	16,117	1,050	17,167
Other	40	(10)	30
TOTAL REVENUE	16,157	1,040	17,197
EXPENDITURE			
Personnel	11,275	675	11,950
Operating	4,212	512	4,724
Depreciation	520	(50)	470
Capital charge	140	(87)	53
TOTAL EXPENSES	16,147	1,050	17,197
NET SURPLUS	10	(10)	-

3. REVENUE – OTHER

30.6.10		30.6.11
Actual \$000		Actual \$000
31	Rental income	27
31	TOTAL REVENUE – OTHER	27

4. PERSONNEL COSTS

30.6.10		30.6.11	
Actual \$000		Actual \$000	
10,443	Salaries and wages	11,347	
390	Employer contributions to defined-contribution plans	465	
(23)	Increase/(decrease) in employee entitlements	(24)	
323	Other ¹	317	
11,133	TOTAL PERSONNEL COSTS	12,105	

¹ Other includes recruitment, staff training and attendance at conferences and seminars.

5. CAPITAL CHARGE

The department pays a capital charge on its taxpayers' funds at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2011 was 7.5 per cent. (2009/10: 7.5 per cent)

6. OTHER OPERATING EXPENSES

Other operating expenses include:

30.6.10		30.6.11	
Actual \$000		Actual \$000	
50	Audit fees for audit of financial statements	53	
401	Premises rental ¹	622	
149	Contract for photocopying services	149	
89	Inventories consumed	103	

¹ The premises rental expenses do not include the costs of accommodation for personnel located on two floors of the Beehive, which is provided by the Parliamentary Service (estimated annual rental for this furnished accommodation is \$350,000).

7. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings	Furniture	Office equipment	Motor vehicles	Plant and equipment	IT equipment	Kitchen equipment	Ground improvement	Total
COST									
Balance at 1 July 2009	726	216	231	218	493	1,187	98	33	3,202
Additions	16	–	2	10	–	370	–	–	398
Disposals	–	–	(89)	(54)	–	(306)	–	–	(449)
Other movement	–	–	–	–	–	11	–	–	11
Balance at 30 June 2010	742	216	144	174	493	1,262	98	33	3,162
Balance at 1 July 2010	742	216	144	174	493	1,262	98	33	3,162
Additions	17	–	–	–	–	313	–	–	330
Disposals	(628)	(14)	(32)	–	(21)	(187)	–	–	(882)
Other movement	–	–	–	–	9	–	–	–	9
Balance at 30 June 2011	131	202	112	174	481	1,388	98	33	2,619
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES									
Balance at 1 July 2009	489	182	201	110	446	946	85	27	2,486
Depreciation expense	72	17	16	39	35	115	5	3	302
Eliminated on disposal	–	–	(89)	(54)	–	(306)	–	–	(449)
Other movement	–	–	–	–	–	9	–	–	9
Balance at 30 June 2010	561	199	128	95	481	764	90	30	2,348
Balance at 1 July 2010	561	199	128	95	481	764	90	30	2,348
Depreciation expense	45	13	11	43	11	150	5	3	281
Eliminated on disposal	(568)	(14)	(33)	–	(21)	(141)	–	–	(777)
Balance at 30 June 2011	38	198	106	138	471	773	95	33	1,852
CARRYING VALUE									
At 30 June and 1 July 2010	181	17	16	80	12	498	8	3	815
AT 30 JUNE 2011	93	4	6	36	10	615	3	–	767

8. INTANGIBLE ASSETS

30.6.10		30.6.11
Actual \$000		Actual \$000
	ACQUIRED SOFTWARE	
	COST	
160	Opening balance 1 July	436
276	Additions	291
–	Disposal	(26)
436	Closing balance 30 June	701
	ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES	
38	Opening balance 1 July	119
81	Amortisation expenses	105
119	Closing balance 30 June	224
	CARRYING VALUE	
317	AT 30 JUNE	477

9. CREDITORS AND OTHER PAYABLES

30.6.10		30.6.11
Actual \$000		Actual \$000
881	Trade creditors	737
46	Creditors relating to capital expenditure	16
628	Accrued expenses	761
66	GST payable	110
1,621	TOTAL CREDITORS AND OTHER PAYABLES	1,624

10. PROVISION FOR REPAYMENT OF SURPLUS TO THE CROWN

30.6.10		30.6.11	
Actual \$000		Actual \$000	
97	Current year net surplus	44	
97	TOTAL PROVISION FOR REPAYMENT OF SURPLUS	44	

11. EMPLOYEE ENTITLEMENTS

30.6.10		30.6.11	
Actual \$000		Actual \$000	
	CURRENT EMPLOYEE ENTITLEMENTS		
441	Annual leave	436	
32	Long-service leave	24	
103	Retirement leave	201	
50	Sick leave	38	
626	TOTAL CURRENT LIABILITIES	699	
	NON-CURRENT EMPLOYEE ENTITLEMENTS		
37	Long-service leave	43	
334	Retirement leave	231	
371	TOTAL NON-CURRENT LIABILITIES	274	
997	TOTAL EMPLOYEE ENTITLEMENTS	973	

The present value of the retirement and long-service leave obligations depend on a number of factors that are determined on an actuarial basis using some assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary-inflation factor. Any changes in these assumptions will have an impact on the carrying amount of the liability.

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

If the discount rate were to differ by 1 per cent from the department's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$3,000 higher/lower.

If the inflation factor were to differ by 1 per cent from the department's estimates, with all other factors held constant, the carrying amount would be an estimated \$4,000 higher/lower.

12. PROVISIONS

30.6.10		30.6.11
Actual \$000		Actual \$000
	LEASE MAKE-GOOD	
120	Opening balance 1 July	120
–	Provision used	(60)
120	Closing balance 30 June	60
	ASSETS WRITE-OFF	
121	Opening balance 1 July	138
17	Additional provision made	10
–	Provision used	(68)
138	Closing balance 30 June	80
258	TOTAL PROVISIONS	140

In respect of its leased premises, the department has made provision to make good any damages and to remove fixtures and fittings as required by the lessor at the expiry of the lease term.

13. TAXPAYERS' FUNDS

30.6.10		30.6.11
Actual \$000		Actual \$000
	GENERAL FUNDS	
703	Balance at 1 July	703
97	Net surplus	44
(97)	Provision for repayment of surplus to the Crown	(44)
703	GENERAL FUNDS AT 30 JUNE	703

14. RELATED-PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Related-party transactions

The department is a wholly owned entity of the Crown. The government significantly influences the roles of the department as well as its source of revenue.

The department undertakes transactions with other departments, Crown entities and state-owned enterprises. These transactions are carried out at an arm's length basis and are not considered to be related-party transactions. Apart from those transactions described above, the department has not entered into any related-party transactions.

Key management personnel compensation

30.6.10		30.6.11	
Actual		Actual	
\$000		\$000	
2,018	Salaries and other short-term employee benefits	2,155	
2,018	TOTAL KEY MANAGEMENT PERSONNEL¹ COMPENSATION	2,155	

¹ Key management personnel are the Chief Executive and the seven senior managers.

15. FINANCIAL-INSTRUMENT RISKS

The department is a party to financial arrangements as part of its everyday operations.

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 operations, the department incurs credit risk from sundry debtors, prepayments, bank deposits, and transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The department does not require any collateral or security to support financial instruments with the financial institutions it deals with, or with NZDMO, as these entities have high credit ratings. For other financial instruments, the department does not have significant concentrations of credit risk.

The department's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, debtors and other receivables.

Currency risk and interest-rate risk

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

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

The department has no significant exposure to currency risk or interest-rate risk on its financial instruments.

Liquidity risk

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

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

All of the department's financial liabilities (i.e. creditors and other payables – see note 9) are expected to be settled within 12 months. The contractual undiscounted cash flows equal the carrying values disclosed in note 9.

16. CATEGORIES OF FINANCIAL INSTRUMENTS

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

30.6.10		30.6.11
Actual \$000		Actual \$000
	LOANS AND RECEIVABLES	
2,017	Cash and cash equivalent	1,806
109	Other receivables	50
2,126	TOTAL LOANS AND RECEIVABLES	1,856
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	
1,621	CREDITORS AND OTHER PAYABLES (SEE NOTE 9)	1,624

17. CAPITAL MANAGEMENT

The department's capital is its equity (or taxpayers' funds), which comprise the general funds. Equity is represented by the net assets.

The department manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The department's equity is largely managed as a by-product of managing income, expenses, assets and liabilities and complying with the government Budget processes and Treasury instructions.

The objective of managing the department's equity is to ensure that the department is effective in achieving the goals and objectives for which it has been established, while remaining a going concern.

18. EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET

D1 – Policy advice and secretariat and coordination services

The appropriation for this output class decreased by \$1.378 million in the Supplementary Estimates. The change is largely a result of fiscally neutral transfers to D2 – Support services to the Governor-General and maintenance of the residences (\$120,000) and to D3 – Intelligence coordination and national security priorities (\$1.293 million).

D2 – Support services to the Governor-General and maintenance of the residences

The appropriation for this output class increased by \$757,000 in the Supplementary Estimates. The change is largely a result of an increase in Crown Revenue (\$600,000), which has been transferred from Crown Capital, combined with a fiscally neutral transfer from D1 – Policy advice and secretariat and coordination services (\$120,000).

D3 – Intelligence coordination and national security priorities

The appropriation for this output class increased by \$1.701 million in the Supplementary Estimates. The change is largely a result of fiscally neutral transfers from D1 – Policy advice and secretariat and coordination services (\$1.293 million) and new funding for the establishment of the Intelligence Coordination Group (\$436,000).

Appropriations for capital expenditure

The appropriation for capital expenditure increased by \$466,000 in the Supplementary Estimates; this is a result of a carry-forward from 2009/10. The variance between actual and budgeted capital expenditure for 2010/11 was due to delay in the implementation of planned IT upgrades.

NON-DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

The following statements and schedules record the expenses, assets, liabilities, commitments and contingent liabilities that the department manages on behalf of the Crown.

STATEMENT OF NON-DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

for the year ended 30 June 2011

30.6.10			30.6.11	30.6.11	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	APPROPRIATIONS FOR OTHER EXPENSES TO BE INCURRED BY THE CROWN (PERMANENT LEGISLATIVE AUTHORITY)				
1,559	Depreciation expenses on Crown assets	5	1,425	1,060	1,708
51	Commissioner of Security Warrants (NZSIS Amendment (No 2) Act 1999)		52	51	71
856	Government House – other payments (Civil Act 1979)	5	933	1,279	1,279
149	Ex-gratia payment to the University of Auckland	5	149	168	168
–	Revaluation loss	5	–	–	19,226
–	Loss on sale of fixed assets	5	–	–	328
2,615	SUB-TOTAL		2,559	2,558	22,780
	APPROPRIATION FOR PURCHASE OR DEVELOPMENT OF CAPITAL ASSETS BY THE CROWN				
19,131	Government House – capital investment	5	16,525	11,650	17,463
19,131	SUB-TOTAL		16,525	11,650	17,463
21,746	TOTAL		19,084	14,208	40,243

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2011.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

for the year ended 30 June 2011

This schedule summarises non-departmental expenses that the department administers on behalf of the Crown.

30.6.10		30.6.11		
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	<i>Vote: Prime Minister and Cabinet</i>			
856	Governor-General remuneration and travel	933	1,279	1,279
1,559	Depreciation on Crown assets	1,425	1,060	1,708
149	Ex-gratia payment to the University of Auckland	149	168	168
51	Fees for Commissioner of Security Warrants	52	51	71
2,615	TOTAL NON-DEPARTMENTAL EXPENSES	2,559	2,558	3,226

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2011.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL ASSETS AND LIABILITIES

as at 30 June 2011

30.6.10			30.6.11		30.6.11	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
	Vote: Prime Minister and Cabinet					
	CURRENT ASSETS					
5,282	Cash in bank	5	4,559	5,157	2,998	
–	Sundry receivables		6	–	–	
5,282	TOTAL CURRENT ASSETS		4,565	5,157	2,998	
	NON-CURRENT ASSETS					
45,400	Land, property, plant and equipment	2	77,918	80,135	60,851	
25,320	Construction in progress		–	–	–	
70,720	TOTAL NON-CURRENT ASSETS		77,918	80,135	60,851	
76,002	TOTAL NON-DEPARTMENTAL ASSETS		82,483	85,292	63,849	
	CURRENT LIABILITIES					
2,519	Creditors and other payables	3	733	1,600	1,209	
2,519	TOTAL CURRENT LIABILITIES		733	1,600	1,209	
2,519	TOTAL NON-DEPARTMENTAL LIABILITIES		733	1,600	1,209	

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2011.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

as at 30 June 2011

There is no capital commitment as at 30 June 2011. (30 June 2010: \$13.31 million)

There are no operating commitments as at 30 June 2011. (30 June 2010: nil)

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

as at 30 June 2011

There are no contingent liabilities as at 30 June 2011 (30 June 2010: nil)

There are no contingent assets as at 30 June 2011. (30 June 2010: nil)

SCHEDULE OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE

for the year ended 30 June 2011

There was no unappropriated non-departmental expenditure for the year ended 30 June 2011 (2010: nil).

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2011.

NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2011

Reporting entity

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

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

Accounting policies

The non-departmental schedules and statements have been prepared in accordance with the government's accounting policies as set out in the Financial Statements of the Government of New Zealand and in accordance with the relevant Treasury instructions and Treasury circulars.

Measurement and recognition rules applied in the preparation of these non-departmental financial statements and schedules are consistent with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for public benefit entities.

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

Budget figures

The budget figures are those presented in the Budget Estimates (Main Estimates) and those amended by the Supplementary Estimates and any transfer made by Order in Council under the Public Finance Act 1989.

Goods and services tax (GST)

All statements are GST exclusive, with the exception of the Schedule of Non-Departmental Assets and Liabilities where the entries for creditors and payables are GST inclusive. In accordance with Treasury instructions, input-tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense in the financial statements.

Valuation of property, plant and equipment

Land and buildings are recorded at fair value, as determined by an independent registered valuer. QV Valuations revalued land and buildings as at 30 June 2011. Fair value is determined using market-based evidence unless insufficient market-based evidence exists, in which case the land and buildings are valued at optimised depreciated replacement cost.

Land and buildings are revalued at least every three years. Additions between revaluations are recorded at cost.

Other artwork, ornaments and some antique furniture and fittings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. They are recorded at this fair value, less accumulated depreciation and impairment losses.

Any revaluation surplus arising on the revaluation of a class of asset is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the class of property, plant and equipment is recognised in the Statement of Non-Departmental Expenses and Capital Expenditure against Appropriations in the period in which it arises.

Other items of property, plant and equipment are recorded at cost, less accumulated depreciation and impairment losses. All individual assets are capitalised if their purchase cost is \$2,000 or greater.



Depreciation

All items of property, plant and equipment have been depreciated on a straight-line basis that reflects the decline in service potential of the asset during the reporting period. Specific rates of depreciation used for the various classes of property, plant and equipment for the current and comparative periods are as follows:

Buildings	1–33%
Fixtures and fittings	10%
Furniture	20%
Motor vehicles	25%
Plant and equipment	20%
Other assets	2–20%

The useful life of Government House Wellington's building components has been revised during the year.

Commitments

Future payments are disclosed as commitments at the point where a contractual obligation arises, to the extent that they are equally unperformed obligations.

Financial assets and liabilities

All financial assets and financial liabilities are measured at amortised cost.

2. PROPERTY, PLANT AND EQUIPMENT

	Land ¹	Building ¹	Plant and equipment	Furniture and fittings	Motor vehicles	Other assets	Total
COST							
Balance at 1 July 2009	30,220	14,068	27	2,173	160	2,333	48,981
Additions	–	150	–	–	–	–	150
Disposals	–	(578)	–	–	–	–	(578)
Revaluation increase/(decrease)	–	–	–	–	–	–	–
Balance at 30 June 2010	30,220	13,640	27	2,173	160	2,333	48,553
Balance at 1 July 2010	30,220	13,640	27	2,173	160	2,333	48,553
Additions	–	16,237	8	280	–	–	16,525
Revaluation increase/(decrease)	(1,372)	(7,942)	–	–	–	–	(9,314)
Transfer from work in progress	–	25,320	–	–	–	–	25,320
Disposals	–	–	(16)	(538)	–	(7)	(561)
Balance at 30 June 2011	28,848	47,255	19	1,915	160	2,326	80,523
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
Balance at 1 July 2009	–	479	27	985	160	521	2,172
Depreciation expense	–	1,099	–	354	–	106	1,559
Eliminated on disposal	–	(578)	–	–	–	–	(578)
Eliminated on revaluation	–	–	–	–	–	–	–
Balance at 30 June 2010	–	1,000	27	1,339	160	627	3,153
Balance at 1 July 2010	–	1,000	27	1,339	160	627	3,153
Depreciation expense	–	864	–	454	–	107	1,425
Eliminated on disposal	–	–	(14)	(538)	–	(6)	(558)
Eliminated on revaluation	–	(1,415)	–	–	–	–	(1,415)
Balance at 30 June 2011	–	449	13	1,255	160	728	2,605
CARRYING VALUE							
At 30 June and 1 July 2010	30,220	12,640	–	834	–	1,706	45,400
AT 30 June 2011	28,848	46,806	6	660	–	1,598	77,918

¹ Land and buildings have been revalued to fair value as at 30 June 2011 by an independently contracted registered valuer, QV Valuations.

3. CREDITORS AND OTHER PAYABLES

30.6.10		30.6.11	
Actual \$000		Actual \$000	
126	Trade creditors	35	
2,245	Creditors relating to capital expenditure	581	
65	Accrued expenses	74	
83	Other payables	43	
2,519	TOTAL CREDITORS AND OTHER PAYABLES	733	

4. CATEGORIES OF FINANCIAL INSTRUMENTS

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

30.6.10		30.6.11	
Actual \$000		Actual \$000	
	LOANS AND RECEIVABLES		
5,282	Cash and cash equivalent	4,559	
–	Sundry receivables	6	
5,282	TOTAL LOANS AND RECEIVABLES	4,565	
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
2,519	CREDITORS AND OTHER PAYABLES	733	

5. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Statement of Non-Departmental Expenses and Capital Expenditure against Appropriations

The appropriation for depreciation expenses on Crown assets increased by \$648,000 in the Supplementary Estimates, because of the new revaluation.

At 30 June 2011, expenditure under permanent legislative authority (the Civil List Act 1979) was \$346,000 below Supplementary Estimates because of changed or rescheduled travel intentions.

The appropriation for revaluation was not spent because of the higher than expected valuation following the completion of the Government House Conservation Project.

The appropriation for loss on sale of fixed assets was not spent because of the delay in the sale.

The Government House capital investment (the Government House Conservation Project) increased by \$5.813 million in the Supplementary Estimates. This is a result of a carry-forward from 2009/10 (\$976,000), a transfer from 2011/12 baseline to cover the increased costs because the project is progressing ahead of schedule (\$5.437 million), and a fiscally neutral transfer to the operating budget (\$600,000). The Government House Conservation Project is the department's second fixed-term responsibility.

Schedule of Non-Departmental Assets and Liabilities

At 30 June 2011, the department's bank balance was higher than shown in the Supplementary Estimates because of underspending in non-departmental expenses.

Creditors and other payables are lower than shown in the Supplementary Estimates because of early completion of the Government House Conservation Project.



AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of the Department of the Prime Minister and Cabinet's financial statements, statement of service performance and schedules of non-departmental activities for the year ended 30 June 2011

The Auditor-General is the auditor of Department of the Prime Minister and Cabinet (the Department). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the statement of service performance and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- the financial statements of the Department on pages 27 to 46, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in taxpayers's funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the statement of service performance of the Department on pages 6 to 19; and
- the schedules of non-departmental activities of the Department on pages 47 to 54 that comprise the schedule of assets and liabilities, schedule of commitments and schedule of contingent liabilities and contingent assets as at 30 June 2011, the schedule of expenses, statement of expenses and capital expenditure against appropriations and schedule of unappropriated expenditure for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

OPINION

In our opinion:

- the financial statements of the Department on pages 27 to 46:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Department's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date; and
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2011; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2011.
- the statement of service performance of the Department on pages 6 to 19:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs for the year ended 30 June 2011 the Department's:
 - service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- the schedules of non-departmental activities of the Department on pages 47 to 54, fairly reflect:
 - the assets, liabilities, contingencies, commitments as at 30 June 2011 managed by the Department on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 30 September 2011. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the statement of service performance and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the adequacy of all disclosures in the financial statements, the statement of service performance and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the statement of service performance and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the statement of service performance and the schedules of non-departmental activities. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE

The Chief Executive is responsible for preparing:

- financial statements and a statement of service performance that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflects its service performance; and
- schedules of non departmental activities, in accordance with the Treasury Instructions 2010 that fairly reflect those activities managed by the Department on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, statement of service performance and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

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

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Department.



S B Lucy
AUDIT NEW ZEALAND

On behalf of the Auditor-General
Wellington, New Zealand

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