

DEPARTMENT
of the PRIME MINISTER
and CABINET



Statement of Intent

FOR THE YEAR ENDING 30 JUNE 2008

Statement of Forecast Service Performance and Forecast Financial Statements



STATEMENT OF INTENT

for the year ending 30 June 2008

The following Statement of Forecast Service Performance and forecast financial statements form part of the Department of the Prime Minister and Cabinet's Statement of Intent for the year ended 30 June 2008 and should be read in conjunction with Part A.

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 the preparation of the department's forecast financial statements and the judgements made in the process of producing those statements.

I have the responsibility for establishing and maintaining a system of internal control procedures and recording that provides reasonable assurances as to the integrity and reliability of the forecast financial information in this report.

The financial performance forecast to be achieved by the department for the year ending 30 June 2008, which is specified in this Statement of Intent, is as agreed with the Prime Minister, who is the minister responsible for the financial performance of the Department of the Prime Minister and Cabinet.

The forecast performance of each class of outputs to be achieved by the department for the year ending 30 June 2008, which is specified in this Statement of Intent, is as agreed with the Prime Minister, who is the Minister responsible for Vote: Prime Minister and Cabinet.

We certify that the information contained in this Statement of Intent is consistent with the existing appropriations and the appropriations contained in the Estimates for the year ending 30 June 2008 that are being laid before the House of Representatives under section 13 of the Public Finance Act 1989.

Signed:

Maarten Wevers, CNZM
Chief Executive

Brent Anderson
Corporate Services Manager



STATEMENT OF FORECAST SERVICE PERFORMANCE

OUTPUT CLASS 1

SERVICE PERFORMANCE:

Policy advice and secretariat and co-ordination services

Description

This class of outputs involves:

- the provision of immediate, medium- and long-term policy advice of an impartial nature, delivered freely and frankly to the Prime Minister and, at the Prime Minister's request, to other ministers
- the promotion and facilitation of interdepartmental co-ordination of policy advice and the promotion of a more collaborative approach to performance across the state sector, including through the formulation and implementation of the government's key priorities
- the co-ordination of central government activities aimed at protecting New Zealand's domestic and external security, including intelligence, counter-terrorism response and preparedness, emergency/crisis management and preparedness, and external defence deployments
- the provision of 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
- the provision of impartial secretariat services to Cabinet, Cabinet committees and the Executive Council; and the promulgation of their decisions
- the provision of advice on the policies, processes and procedures relating to the Executive Council, Cabinet and Cabinet committees, and the adaptation of these as required
- the co-ordination of the policy and administrative aspects of the legislative programme as directed by Cabinet Legislation Committee
- advice on central-government decision-making processes
- the provision of policy advice and administrative support for the New Zealand Royal Honours system.

Policy advice and co-ordination services

1: Provide high-quality information, analysis and advice to enable the Prime Minister to lead and manage the public-policy business of the government.

Performance standards (quality, quantity and timeliness) are:

- Advice meets the department's quality criteria (see box).
- The Prime Minister and the Governor-General are satisfied that the advice provided meets their requirements.
- Other key clients, including ministers, are satisfied with the advice and co-ordination services provided.

Performance measures are:

- formal feedback sought from the Prime Minister and the Governor-General in the course of the year on the range of advice and support received, and on specific issues as they arise.

Quality criteria for DPMC advice

Advice provided will:

- be based on a full and impartial analysis of information from relevant sources
- relate, as appropriate, to the priorities and key goals of the government
- be of high quality (the purpose of the advice is clear, the assumptions used are explicit, and the arguments followed are logical; the facts are accurate, and adequate consultation with interested parties has been undertaken when appropriate; the advice is practical, is presented effectively, and is concisely summarised in plain English)
- be presented in a timely fashion or within an agreed or required timeframe.

Secretariat services to Cabinet and Executive Council

1: 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; and ensure that the constitutional processes involving the Governor-General, the Prime Minister and ministers are appropriately facilitated and supported.



STATEMENT OF FORECAST SERVICE PERFORMANCE

Performance standards are:

- Advice meets the department's quality criteria for advice (see box on previous page).
- Advice meets the requirements of the Prime Minister and the Governor-General.
- Feedback is positive.

Performance measures are:

- feedback sought from the Prime Minister and the Governor-General.

2: Provide impartial, efficient and effective secretariat services to Cabinet and Cabinet committees to ensure they operate smoothly and within Cabinet's rules.

Performance standards are:

- Minutes are recorded accurately and impartially (at least 98 per cent of minutes will not require amendment).
- Well-judged summaries are prepared of submissions to Cabinet and Cabinet committees.
- Advice meets the department's quality criteria for advice (see box on previous page).
- Agendas and summaries are distributed in a timely manner to ministers (with most delivered two days before Cabinet and Cabinet committees).
- Minutes are timely (at least 80 per cent of minutes are distributed within two days of the meeting; and 95 per cent of minutes are distributed within three days).

Performance measures are:

- statistics produced on the level of timeliness and accuracy
- formal feedback sought from the Prime Minister during the course of the year, and from other ministers from time to time.

3: Provide impartial and effective advice to the Prime Minister and ministers to support the proper operation of Cabinet and Cabinet committees.

Performance standards are:

- Advice meets the department's quality criteria for advice (see box on previous page).
- Advice meets the requirements of the Prime Minister.
- Policies and procedures relating to the central processes of executive government are reviewed as required and reflect, as appropriate, the best practices in countries with systems similar to that of New Zealand.

- The Prime Minister, ministers, officials, and government agencies are informed of Cabinet and Cabinet committee procedures and changes in a timely manner.
- Feedback is positive.

Performance measures are:

- formal feedback sought from the Prime Minister during the course of the year, and from other ministers from time to time.

Cost

Policy advice, secretariat and co-ordination services will be provided within the sum of \$8.201 million to be funded by revenue: Crown. The department will also administer an appropriation of \$30,000 under permanent legislative authority (the NZSIS Amendment Act [No 2] 1999) for the Commissioner of Security Warrants.

OUTPUT CLASS 2 SERVICE PERFORMANCE:

Support services to the Governor-General and maintenance of the two Government Houses

Description

This class of outputs involves:

- the provision of financial, administrative, communications, travel, and advisory services to the Office of the Governor-General; and the provision of domestic and personal services to the Governor-General
- the conducting of a range of official functions, investitures and receptions at Government House, and the hosting of state and other dignitaries
- the general upkeep and security of the Government Houses and grounds in Wellington and Auckland
- the maintenance of the other residences and buildings associated with the two Government Houses
- investigations into the condition and steps required to restore Government House Wellington.

Support services to the Governor-General

- 1: Provide efficient and effective support to the Governor-General to facilitate the ceremonial and community roles of the Governor-General.**



STATEMENT OF FORECAST SERVICE PERFORMANCE

Performance standards are:

- Events are well organised to a high standard agreed with the Governor-General, efficient, and cost effective.
- The Governor-General's programme is appropriate to the Office and well balanced.
- The Governor-General is highly satisfied with all services and functions.
- Feedback is positive.

Performance measures are:

- three-monthly formal feedback sought from the Governor-General on the range of services provided
- formal feedback and evaluation sought from the Governor-General and external agency staff on specific events (such as state welcomes and dinners, investitures, credentials, and regional visits within New Zealand).

2: *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 standards are:

- All correspondence is registered and actioned appropriately within one week of receipt.
- All speech material is timely, co-ordinated with contributing agencies, and of a high standard acceptable to the Governor-General.
- All services meet the requirements of the official programme, including overseas travel, that has been agreed with the Governor-General.
- Formal feedback from the Governor-General is positive.

Performance measures are:

- formal feedback sought from the Governor-General on a three-monthly basis
- formal feedback and evaluation sought from the Governor-General and staff on specific events (for example, after every overseas trip)
- peer review by external agencies (such as the Ministry of Foreign Affairs and Trade, Ministry of Culture and Heritage, and Department of Internal Affairs) sought from time to time.

Maintenance of the two Government Houses

1: *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 standards are:

- Maintenance programmes meet the requirements of government policies for the management of historic heritage buildings, and health and safety.
- Routine maintenance, rolling programmes, and development projects are carried out in a timely cost-effective manner, and to an appropriate standard.
- An annual security survey will review existing and changing security requirements.
- Security systems and physical security apparatus will be regularly inspected and maintained.

Performance measures are:

- the Governor-General informed as appropriate on Government House property matters, on an ongoing basis
- the Governor-General's views on priorities sought, on a regular basis
- peer review of security by an external expert, on an annual basis
- completion of a well researched authoritative report on options for the possible restoration of Government House Wellington by 1 December 2007.

Cost

Support services to the Governor-General and maintenance of the two Government Houses will be produced within the sum of \$3.546 million. \$3.516 million is to be funded from revenue: Crown, and \$30,000 from revenue: other. An appropriation of \$798,000 is also administered under permanent legislative authority (the Civil List Act 1979) for the purposes of meeting the Governor-General's salary, allowances and travel. An appropriation of \$2.15 million for investment in Government House and \$475,000 for depreciation for Crown assets has been included in the 2007/08 Estimates.



STATEMENT OF FORECAST SERVICE PERFORMANCE

OUTPUT CLASS 3

SERVICE PERFORMANCE:

Intelligence assessments on developments overseas

Description

This class of outputs involves:

- the preparation of intelligence assessments and reports on political, economic, environmental, biographic, strategic, and scientific events and trends overseas affecting New Zealand's foreign relations and external interests
- the collection, collation, evaluation and analysis of such events and trends

Intelligence assessments

1: Ensure the effective provision of high-quality, accurate and succinct assessments of overseas developments that are of policy relevance to New Zealand.

Performance standards are:

- All assessments and reports are factually correct, comprehensive (they take into account all available information), concise (they are no longer than necessary for conveying the information), and pertinent and informative (they reflect national priorities and address topics requested by readers).
- Feedback from the readers of assessments and reports is positive (no more than five per cent of readers make substantive complaints about correctness, comprehensiveness, conciseness, pertinence, and informativeness).
- Ninety per cent of assessments submitted to the National Assessments Committee require no more than minor revision.
- Assessments and reports are appropriate to the Prime Minister's requirements.
- All assessments and reports are delivered in a timeframe useful to policy makers.
- Feedback is positive.

Performance measures are:

- regular feedback sought from the Prime Minister on the quality and relevance of the intelligence assessments provided

- feedback sought from time to time from senior officials in partner departments and agencies in the foreign relations, law enforcement and intelligence communities on the quality and relevance of the intelligence assessments provided
- weekly documenting, by External Assessments Bureau (EAB) management, of the National Assessments Committee's consideration of assessments
- a strengthened National Assessments Committee that is better placed to carry out its review functions and better able to apply an increasingly systematic process of review of EAB's work (the new capability will supplement and reinforce the feedback provided by the Prime Minister and senior officials)
- an annual report on work output (including the number of assessments and their nature and comparative historical data) provided to senior officials.

Cost

Intelligence assessments on developments overseas will be produced within the appropriated sum of \$3.399 million, to be funded by revenue: Crown.



FORECAST FINANCIAL STATEMENTS

- 8 : Statement of Forecast Financial Performance for the year ending 30 June 2008
- 9 : Statement of Estimated Financial Position as at 30 June 2007 and Forecast Financial Position to 30 June 2008
- 10 : Statement of Cash Flows as at 30 June 2007 and Forecast Cash Flows to 30 June 2008
- 11 : Forecast Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) in the Statement of Forecast Financial Performance for the year ending 30 June 2008
- 11 : Statement of Forecast Movements in Taxpayers' Funds (Equity) as at 30 June 2008
- 12 : Departmental Capital Expenditure (to be incurred in accordance with section 24 of the Public Finance Act 1989)
- 12 : Forecast Details of Fixed Assets by Category as at 30 June 2008
- 13 : Statement of Forecast Service Performance specifying the financial performance forecast for the department for the year ending 30 June 2008
- 14 : Statement of Significant Accounting Policies



STATEMENT OF FORECAST FINANCIAL PERFORMANCE

for the year ending 30 June 2008

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
REVENUE			
Crown	14,917	14,917	15,116
Other	58	58	58
TOTAL REVENUE	14,975	14,975	15,174
EXPENSES			
Personnel	10,564	10,564	10,996
Operating	4,000	4,000	3,707
Depreciation	320	320	380
Capital charge	63	63	63
TOTAL EXPENSES	14,947	14,947	15,146
NET SURPLUS/(DEFICIT)	28	28	28



STATEMENT OF ESTIMATED FINANCIAL POSITION

as at 30 June 2007 and Forecast Financial Position to 30 June 2008

	Actual Financial Position	Estimated Financial Position	Forecast Financial Position
	as at 30 June 2006 \$000	as at 30 June 2007 \$000	as at 30 June 2008 \$000
CURRENT ASSETS			
Cash and bank balances	1712	1,711	1,591
Receivables and prepayments	29	29	29
Inventory	100	100	100
TOTAL CURRENT ASSETS	1,841	1,840	1,720
NON-CURRENT ASSETS			
Inventory	283	300	300
Fixed assets	893	873	993
TOTAL NON-CURRENT ASSETS	1,176	1,173	1,293
TOTAL ASSETS	3,017	3,013	3,013
CURRENT LIABILITIES			
Creditors, payables and provisions	1,106	1,180	1,180
Provision for payment of surplus	106	28	28
Provision for employee entitlements	485	482	482
TOTAL CURRENT LIABILITIES	1,697	1,690	1,690
NON-CURRENT LIABILITIES			
Provision for employee entitlements	480	483	500
TOTAL LIABILITIES	2,177	2,173	2,190
TAXPAYERS' FUNDS			
General funds	840	840	823
TOTAL TAXPAYERS' FUNDS	840	840	823
TOTAL LIABILITIES AND TAXPAYERS' FUNDS	3,017	3,013	3,013



STATEMENT OF CASH FLOWS

as at 30 June 2007 and Forecast Cash Flows to 30 June 2008

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash provided from:			
Supply of outputs to			
Crown	14,917	14,917	15,116
Other	58	58	58
Cash disbursed to:			
Output expenses	(14,467)	(14,467)	(14,703)
Capital charge	(63)	(63)	(63)
NET CASH FLOWS FROM OPERATING ACTIVITIES	445	445	408
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash provided from:			
Sale of physical assets	-	-	-
Cash disbursed to:			
Purchase of physical assets	(340)	(340)	(500)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(340)	(340)	(500)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash disbursed to:			
Capital repayment	-	-	-
Payment of surplus to Crown	(106)	(106)	(28)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(106)	(106)	(28)
NET INCREASE/(DECREASE) IN CASH HELD	(1)	(1)	(120)
OPENING CASH BALANCE	1,712	1,712	1,711
CLOSING TOTAL CASH BALANCE AT 30 JUNE	1,711	1,711	1,591



FORECAST RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO NET SURPLUS/(DEFICIT) IN THE STATEMENT OF FORECAST FINANCIAL PERFORMANCE
for the year ending 30 June 2008

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
SURPLUS/(DEFICIT) FROM STATEMENT OF FORECAST FINANCIAL PERFORMANCE	28	28	28
ADD/(DEDUCT) NON-CASH ITEMS			
Depreciation	320	320	380
MOVEMENTS IN WORKING CAPITAL ITEMS			
(Increase)/decrease on debtor – Crown	-	-	-
(Increase)/decrease in inventory	(17)	(17)	-
(Increase)/decrease in receivables and prepayments	-	-	-
Increase/(decrease) in payables and provisions	114	114	-
ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Net (gain)/loss on sale of physical assets	-	-	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	445	445	408



STATEMENT OF FORECAST MOVEMENTS IN TAXPAYERS' FUNDS (EQUITY)
as at 30 June 2008

	Estimated Position	Forecast Position
	as at 30 June 2007 \$000	as at 30 June 2008 \$000
TAXPAYERS' FUNDS AT START OF PERIOD	840	823
Prior-period adjustments	-	-
Amended taxpayers' funds at start of period	840	823
Taxpayers' funds at end of period	840	823
Change in taxpayers' funds during the period	-	-
Less change in taxpayers' funds through contributions from owners	-	-
Less provision for retirement leave	-	-
Add change in taxpayers' funds through transfer	-	-
CHANGE IN TAXPAYERS' FUNDS	-	-



DEPARTMENTAL CAPITAL EXPENDITURE

(to be incurred in accordance with section 24 of the Public Finance Act 1989)

DEPARTMENTAL CAPITAL EXPENDITURE	Actual 2002/03 \$000	Actual 2003/04 \$000	Actual 2004/05 \$000	Actual 2005/06 \$000	Budget 2006/07 \$000	Estimated Actual 2006/07 \$000	Forecast 2007/08 \$000
FIXED ASSETS	163	199	539	157	700	300	500

The forecast capital expenditure for the 2007/08 financial year is primarily routine replacement and upgrading of the department's information technology and office equipment, to help our staff efficiently deliver the services set out in this Statement of Intent.



FORECAST DETAILS OF FIXED ASSETS BY CATEGORY

as at 30 June 2008

	30 June 2007	30 June 2008 Forecast Position		
	Estimated Actual Position \$000	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
Furniture and fittings	484	1,476	912	564
Motor vehicles	40	146	79	67
Plant and equipment	160	1,270	1,125	145
Computer equipment	189	2,787	2,570	217
TOTAL	873	5,679	4,686	993



STATEMENT OF FORECAST SERVICE PERFORMANCE SPECIFYING THE FINANCIAL PERFORMANCE FORECAST FOR THE DEPARTMENT

for the year ending 30 June 2008

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
OPERATING RESULTS			
Other revenue	58	58	58
Output expenses	14,947	14,947	15,146
Operating surplus before capital charge	91	91	91
Net surplus/(deficit)	28	28	28
WORKING CAPITAL			
Net current assets ¹	144	150	30
Current ratio ²	108%	109%	102%
Liquid ratio	101%	101%	94%
Average creditors outstanding	50 days	50 days	50 days
RESOURCE UTILISATION			
Physical assets:			
Total physical assets at year end	873	873	993
Additions as % of physical assets	39%	39%	50%
Taxpayers' funds:			
Level at year-end	840	840	823
FORECAST NET CASH FLOWS			
Surplus/(deficit) operating activities	445	445	408
Surplus/(deficit) investing activities	(340)	(340)	(500)
Surplus/(deficit) financing activities	(106)	(106)	(28)
Net increase/(decrease) in cash held	(1)	(1)	(120)
HUMAN RESOURCES			
Staff turnover	20%	27%	23%
Average length of service	5.8 years	5.4 years	5.4 years
Total staff	127	125	127

The department aims to provide a work environment and conditions of employment that enable it to recruit and retain high-calibre staff who have the skills and experience it requires.

¹ Current assets minus current liabilities.

² Current assets as a proportion of current liabilities.



STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting framework

The forecast financial statements for the Department of the Prime Minister and Cabinet have been prepared in accordance with Section 39 of the Public Finance Act 1989.

The reporting entity is the Department of the Prime Minister and Cabinet. The reporting entity consists of those activities (represented by outputs) supplied by the department and related assets, liabilities and taxpayers' funds.

The forecast financial statements show the financial performance and financial position after the elimination of all significant intra-entity transactions between output classes. Actual results for 2007/08 are likely to vary from the information presented and these variations could be material. These variations would be attributed mainly to changes in the level of demand for services produced by the department.

Statement of Compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for public benefit entities.

These are the department's first financial statements complying with NZ IFRS. NZ IFRS 1 has been applied.

There are no significant differences arising on transition.

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand GAAP and the 2007/08 forecast financial statements have been prepared under NZ IFRS.

Goods and services tax

All statements are GST-exclusive, with the exception of the Statement of Forecast Financial Position where the entries for creditors, payables and debtors are GST-inclusive.

The amount of GST owing to or from the Department of Inland Revenue (IR) at balance date, being the difference between output GST and input GST, is included in creditors, payables and provisions or in receivables and prepayments as appropriate.

Inventory

Inventories held for distribution for public benefit purposes are recorded at the lower of cost or current replacement cost.

Fixed assets

All fixed assets have been valued on historical-cost basis. All individual assets are capitalised if their purchase cost is \$2,000 or greater.

Gains and losses arising from the sale or disposal of assets have been included in the Statement of Forecast Financial Performance.

The carrying amounts of plant, property and equipment are reviewed at least annually to determine whether there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance.

Intangible assets

Intangible assets are computer software with an estimated useful life of 3 years. They are initially recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the asset.

Depreciation of assets

All fixed assets 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 fixed assets are as follows:

Fixtures and fittings	10%
IT equipment	33%
Office equipment	20%
Furniture.....	20%
Motor vehicles	25%
Kitchen equipment e.g. domestic appliances	20%
Major plant and equipment	10%
Minor plant and equipment.....	20%
Ground improvements.....	14%



STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Taxation

The department is exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

Employee benefits

Pension liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the Statement of Financial Performance as they fall due.

Other employee entitlements

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

Termination benefits

Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Financial instruments

The department is a party to financial arrangements as part of its everyday operations. These include instruments such as bank balance, sundry receivables and trade creditors.

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 and from 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 financial institutions it deals with, nor with NZDMO, as these entities have high credit-ratings. For other financial instruments, the department does not have significant concentrations of credit risk.

Fair value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position. The department is not involved in any off-balance-sheet transactions.

Currency risk and interest rate risk

Currency risk is the risk that debtors and creditors due in foreign currency will fluctuate because of changes in foreign exchange rates.

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

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.

Cost allocation

Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes. Direct costs will represent 86 per cent of total departmental appropriations for output costs in 2007/08. (This compares with 87 per cent in 2006/07.)

Indirect costs are expenses incurred by Corporate Services and by the Office of the Chief Executive. Indirect costs are allocated to each output class in proportion to the level of appropriations in relation to the total vote. Indirect costs will represent 14 per cent of total departmental appropriations for output costs in 2007/08. (This compares with 13 per cent in 2006/07.)



STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Leases

The department leases office premises. As all risks and ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

Commitments

Future payments are disclosed as commitments at the point where a contractual obligation arises, to the extent that they are equally unperformed obligations. Commitments relating to employment agreements are not disclosed.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.