PART C:

ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

2010 Actual $000		Notes	2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
	REVENUE				
1,037,526	Crown		1,129,325	1,123,338	1,129,325
10,058	Departmental revenue		10,013	9,563	10,774
40,316	Other revenue	2	48,300	25,998	35,998
305	Dividends		312	–	–
–	Earthquake related income	26	11	–	–
1,088,205	**Total operating revenue**		**1,187,961**	**1,158,899**	**1,176,097**
	EXPENDITURE				
502,318	Personnel costs	3	520,320	550,177	542,203
276,757	Operating costs	4	323,501	321,875	348,984
129,839	Depreciation and amortisation	5	122,277	124,796	126,633
149,719	Capital charge	6	158,278	162,051	158,277
–	Earthquake related expenditure	26	11,103	–	–
1,058,633	**Total output expenses**		**1,135,479**	**1,158,899**	**1,176,097**
29,572	**Net surplus**		**52,482***	**–**	**–**
	OTHER COMPREHENSIVE INCOME				
–	Revaluation gains on land and buildings	18	60,163	–	–
(2,186)	Fair value through other comprehensive income		–	–	–
(2,186)	**Total other comprehensive income**		**60,163**	**–**	**–**
27,386	**Total comprehensive income attributable to the Crown**		**112,645**	**–**	**–**

* *Net surplus includes $8.405 million of revaluation gains in relation to biological assets, $3.100 million of unbudgeted revenue and under spending in personnel costs and operating expenditure where an in-principle transfer of up to $37.000 million to 2011/12 has been agreed.*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

For the year ended 30 June 2011

2010 Actual $000		Notes	2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
2,029,498	**Taxpayers' funds at 1 July**		**2,128,523**	**2,140,709**	**2,128,523**
	Changes in taxpayers' funds during the year				
	Transfers from statement of comprehensive income				
29,572	Add net surplus		52,482	–	–
–	Increase in revaluation reserves	18	60,163	–	–
(2,186)	Net write-back of revaluation losses related to previous year	18	–	–	–
27,386	**Total Comprehensive Income**		**112,645**	–	–
	Adjustment for flows to and from the Crown				
281,082	Add capital contributions from the Crown during the year	18	100,876	100,876	100,876
(179,871)	Less capital returned to the Crown during the year	18	(36,340)	(22,840)	(36,340)
(29,572)	Provision for the surplus attributable to the Crown and in-principle expense transfer	18	(52,482)	–	–
71,639	**Total adjustments for flows to and from the Crown**		**12,054**	**78,036**	**64,536**
2,128,523	**Taxpayers' funds at 30 June**		**2,253,222**	**2,218,745**	**2,193,059**

Taxpayers' funds include remeasurements for Land, Buildings and Biological Assets.

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

2010 Actual $000		Notes	2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
	ASSETS				
	Current assets				
204,297	Cash and cash equivalents	7	216,331	71,975	147,605
2,381	Prepayments	8	1,792	3,025	3,025
6,397	Debtors and other receivables	9	48,889	6,976	6,976
9,920	Inventories	10	5,471	6,231	6,231
222,995	**Total current assets**		**272,483**	**88,207**	**163,837**
	Non-current assets				
5,590	Investments	11	5,590	5,563	5,590
2,027,537	Property, plant and equipment	12	2,122,846	2,190,399	2,101,277
40,180	Intangible assets	13	32,674	50,961	37,644
41,131	Biological assets	14	49,347	37,735	41,131
2,114,438	**Total non-current assets**		**2,210,457**	**2,284,658**	**2,185,642**
2,337,433	**Total assets**		**2,482,940**	**2,372,865**	**2,349,479**
	LIABILITIES				
	Current liabilities				
89,033	Creditors and other payables	15	90,929	75,779	76,779
66,613	Employee entitlements	16	66,424	65,723	66,523
11,280	Provisions	17	7,775	–	–
29,572	Provision for surplus attributable to the Crown and in-principle transfer	18	52,482	–	–
196,498	**Total current liabilities**		**217,610**	**141,502**	**143,302**
	Non-current liabilities				
12,412	Employee entitlements	16	12,108	12,618	13,118
12,412	**Total non-current liabilities**		**12,108**	**12,618**	**13,118**
208,910	**Total liabilities**		**229,718**	**154,120**	**156,420**
	TAXPAYERS' FUNDS				
1,603,094	General funds	18	1,667,630	1,691,130	1,665,363
525,429	Reserves	18	585,592	527,615	527,696
2,128,523	**Total taxpayers' funds**		**2,253,222**	**2,218,745**	**2,193,059**
2,337,433	**Total liabilities and taxpayers' funds**		**2,482,940**	**2,372,865**	**2,349,479**

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

2010 Actual $000		Notes	2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
	CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash provided from:				
	Supply of outputs to				
1,041,254	Receipts from Crown		1,087,499	1,123,338	1,129,325
10,695	Receipts from Departments		9,866	9,563	10,282
37,215	Receipts from Other revenue		38,542	25,998	35,911
(1,714)	Change in GST payable (net)*		10,796	–	2,994
	Cash disbursed to:				
(500,656)	Payments to Employees		(519,732)	(546,077)	(537,487)
(259,032)	Payments to Suppliers		(313,163)	(328,917)	(372,211)
(149,719)	Payments for Capital charge		(158,278)	(162,051)	(158,277)
178,043	**Net cash flows from operating activities**	**19**	**155,530**	**121,854**	**110,537**
	CASH FLOWS FROM INVESTING ACTIVITIES				
	Cash provided from:				
305	Receipts from interest and dividends		312	–	–
145	Receipts from sale of investments		–	–	–
1,157	Receipts from sale of property, plant and equipment, biological and intangible assets		2,063	1,000	1,605
	Cash disbursed to:				
(202,064)	Purchase of property, plant and equipment and biological assets**		(172,450)	(228,637)	(195,583)
(7,787)	Purchase of intangible assets**		(8,385)	(17,300)	(8,215)
(208,244)	**Net cash flows from investing activities**		**(178,460)**	**(244,937)**	**(202,193)**
	CASH FLOWS FROM FINANCING ACTIVITIES				
	Cash provided from:				
281,082	Capital injections		100,876	100,876	100,876
	Cash disbursed to:				
(179,871)	Return of capital		(36,340)	(22,840)	(36,340)
(13,398)	Return of operating surpluses		(29,572)	(19,368)	(29,572)
87,813	**Net cash flows from financing activities**		**34,964**	**58,668**	**34,964**
57,612	**Net increase/(decrease) in cash**		**12,034**	**(64,415)**	**(56,692)**
146,685	Cash at the beginning of the year		204,297	136,390	204,297
204,297	**Cash at the end of the year**		**216,331**	**71,975**	**147,605**

* *The GST (net) component of operating activities reflects the net GST paid to suppliers and received from customers and the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.*

** *During the period, the Department acquired no property, plant and equipment by means of finance leases (2010: nil).*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF COMMITMENTS

As at 30 June 2011

2010 Actual $000		2011 Actual $000
	CAPITAL COMMITMENTS	
	Property, plant and equipment	
87,909	Less than one year	24,034
–	One to five years	–
–	More than five years	–
87,909		**24,034**
	Intangible assets	
–	Less than one year	–
–	One to five years	–
–	More than five years	–
87,909	**Total capital commitments**	**24,034**
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	Office accommodation	
11,918	Less than one year	12,055
15,731	One to five years	27,578
6,232	More than five years	8,597
33,881		**48,230**
	Office equipment	
191	Less than one year	5,441
1	One to five years	–
–	More than five years	–
192		**5,441**
34,073	**Total non-cancellable operating lease commitments**	**53,671**
	COMMITMENTS ARISING FROM OTHER CONTRACTS	
	Offender programmes and services	
24,472	Less than one year	42,449
42,092	One to five years	127,804
–	More than five years	23,905
66,564		**194,158**
	Facilities Management Services	
19,765	Less than one year	21,989
76,202	One to five years	64,254
–	More than five years	–
95,967		**86,243**
	Information system support and services	
18,831	Less than one year	19,754
68,720	One to five years	51,097
2,336	More than five years	–
89,887		**70,851**
252,418	**Total commitments arising from other contracts**	**351,252**
374,400	**Total commitments**	**428,957**

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition or construction of property, plant and equipment, and intangible assets that have not been paid for or not recognised as a liability at the balance sheet date.

Non-cancellable operating lease commitments

The Department leases premises at many locations throughout New Zealand. The annual lease rentals are subject to regular reviews, usually ranging from two years to three years. The amounts disclosed above as future commitments are based on current rental rates.

Commitments arising from other contracts

The Department has entered into non-cancellable contracts for computer maintenance, telephone exchange systems, photocopiers, and other contracts for offender programmes and services.

Operating lease commitments – Department as lessor

The Department has operating leases for some of its premises. These premises are fair valued under NZ IAS 16 – Property, Plant and Equipment as they are maintained solely to provide rental income. Revenue earned under operating leases are disclosed as board and rents and reported under Note 2: Other Revenue.

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2011

CONTINGENT LIABILITIES

2010 Actual $000		2011 Actual $000
3,719	Legal proceedings	3,892
1,142	Personal grievances	453
4,861	**Total contingent liabilities**	**4,345**

Legal proceedings

The Department was defending 24 (2010:35) legal proceedings claims by prisoners and related/external parties as at 30 June 2011. They cover a range of areas, including breach of the NZ Bill of Rights Act 1990, seeking compensation or other redress for perceived/alleged instances of wrongful action or decision making by the Department and individuals.

Personal grievances

The Department was also defending 21 (2010: 25) employment related claims made by staff members as at 30 June 2011.

UNQUANTIFIED CLAIMS

The Department is a participating employer in the Defined Benefit Plan Contributors Scheme (the Scheme), managed by the Board of Trustees of the National Provident Fund. The Scheme is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the Department could be responsible for the entire deficit of the Scheme. Similarly, if a number of employers ceased to participate in the Scheme, the Department could be responsible for an increased share of the deficit. The Department considers the risk of these events occurring to be minimal.

The Actuary of the Scheme has recommended the employer contribution should remain at two times contributor's contributions until the past service deficit is extinguished and then reduces to the employer contribution rate required to meet the net future service liability after that. The multiplication by two is inclusive of Employer Superannuation Contribution Withholding Tax.

Insufficient information is available to use defined benefit accounting and it is not possible to determine from the terms of the Scheme, the extent to which the deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation.

Contingent Assets

The Department does not have any contingent assets as at 30 June 2011 (2010: nil).

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2011

2010 Expenditure Actual $000		2011 Expenditure Actual $000	2011 Appropriation Voted $000
	VOTE: CORRECTIONS		
	Departmental output expenditure		
54,132	Information and Administrative Services to the Judiciary and the New Zealand Parole Board	62,109	66,090
734	Management of Third Party Custodial Services	24,261	24,956
5,109	Policy Advice and Ministerial Services	4,868	5,067
688,093	Prison-based Custodial Services MCOA	725,380	749,441
145,430	– *Custody of Remand Prisoners*	*168,782*	*177,011*
542,663	– *Custody of Sentenced Prisoners*	*556,598*	*572,430*
57,796	Prisoner Employment	–	–
10,483	Prisoner Transportation and Courtroom Supervision	–	–
64,585	Rehabilitation and Reintegrative Services	130,402	135,053
171,330	Sentences and Orders Served in the Community	188,459	195,490
5,832	Services to the New Zealand Parole Board	–	–
1,058,094	**Total departmental output expenditure**	**1,135,479**	**1,176,097**
	Appropriation for capital expenditure		
281,082	**Corrections – Permanent Legislative Authority**	**203,798**	**203,798**

Remeasurement gains are included in the Statement of Comprehensive Income under Other Income.

Refer to Part B: Statement of Service Performance for detailed performance against each output class (page 27).

Changes in Appropriation Structure

The Department has reviewed the appropriation structure to reflect its long-term objective to provide a more defined outline of core services, with logical and coherent grouping of outputs (services) and output performance measures and standards. Changes to the appropriation structure include the following:

- The Services to the New Zealand Parole Board outputs were combined with the Information Services appropriation to form the Information and Administrative Services to the Judiciary and the New Zealand Parole Board appropriation.
- The Prisoner Transportation and Courtroom Supervision appropriation outputs were combined with the Multi-class output appropriation (MCOA) for Prison Based Remand & Prison Based Sentenced outputs.
- The Prisoner Employment outputs were combined with the Rehabilitation and Reintegrative Services appropriation.

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF UNAPPROPRIATED EXPENDITURE

For the year ended 30 June 2011

2010 Unappropriated Expenditure $000		2011 Actual Expenditure $000	2011 Appropriation Voted $000	2011 Unappropriated Expenditure $000
	VOTE: CORRECTIONS			
	Appropriations for output expenditure			
–	Information and Administrative Services to the Judiciary and the New Zealand Parole Board	62,109	66,090	–
–	Management of Third Party Custodial Services	24,261	24,956	–
–	Policy Advice and Ministerial Services	4,868	5,067	–
–	Prison-based Custodial Services	725,380	749,441	–
–	– Custody of Remand Prisoners	168,782	177,011	–
–	– Custody of Sentenced Prisoners	556,598	572,430	–
–	Rehabilitation and Reintegrative Services	130,402	135,053	–
–	Sentences and Orders Served in the Community	188,459	195,490	–
–	**Total**	**1,135,479**	**1,176,097**	**–**

There was no unappropriated expenditure for the years ended 30 June 2010 and 30 June 2011.

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

STATEMENT OF TRUST MONIES

For the year ended 30 June 2011

	As at 1 July 2010 $000	Contribution $000	Distribution $000	As at 30 June 2011 $000
Prison Trust Accounts	1,275	16,096	(16,172)	1,199
	1,275	**16,096**	**(16,172)**	**1,199**

Prison Trust accounts represent monies held in trust at each prison on behalf of prisoners to account for prisoner earnings, reduced by purchases while in prison and other receipts/withdrawals of prisoner funds.

Trust monies are not included in the Department's reported bank balances. Trust monies are held on behalf of the prisoners in bank accounts maintained by the prisons (one bank account per prison).

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 86).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The Department of Corrections is a government department as defined by Section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

These are the financial statements of the Department of Corrections prepared pursuant to Section 45B of the Public Finance Act 1989.

The Department of Corrections has reported trust monies which it administers.

The Department of Corrections administers the corrections system in a way designed to improve public safety, reduce re-offending and contribute to the maintenance of a fair and just society. Under the New Zealand equivalents of International Financial Reporting Standards (NZ IFRS), the Department of Corrections is classified as a Public Benefit Entity. This has affected the selection of accounting policies required or permitted under the NZ IFRS.

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

BASIS OF PREPARATION

These financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirements to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and Treasury Instructions. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for public benefit entities.

NEW ACCOUNTING STANDARDS AND INTERPRETATION

There have been no changes in accounting policies since the date of the last audited financial statements, other than the early adoption of NZ IAS 24 *Related Party Disclosures (Revised 2009)*. The effect of the early adoption of revised NZ IAS 24 is:

> more information is required to be disclosed about transactions between the Department and entities controlled, jointly controlled, or significantly influenced by the Crown;

> commitments with related parties require disclosure.

> information is required to be disclosed about any related party transactions with Ministers of the Crown with portfolio responsibility for the Ministry. An exemption is provided from reporting transactions with other Ministers of the Crown.

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

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

> NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2014. The Department does not expect to early adopt this standard.

> Financial Reporting Standard (FRS)-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments) – These were issued in May 2011 with the purpose of harmonising Australia and New Zealand's accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The amendments must first be adopted for the year ended 30 June 2012. The Department has not yet assessed the effects of FRS-44 and the Harmonisation Amendments.

As the External Reporting Board is to decide on a new accounting standards framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS with a mandatory effective date for annual reporting periods commencing on or after 1 January 2012 will not be applicable to public benefit entities. This means that the financial reporting requirements for public benefit entities are expected to be effectively frozen in the short-term. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

REPORTING PERIOD

The reporting period covers the 12 months from 1 July 2010 to 30 June 2011. Comparative figures for the year ended 30 June 2010 are provided.

MEASUREMENT BASE

The financial statements have been prepared on an historical cost basis, modified by the revaluation of certain non-current assets.

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 is New Zealand dollars.

ACCOUNTING POLICIES

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

The Department does not qualify for differential reporting exemptions.

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

REVENUE

Revenue – Crown

The Department derives revenue through the provision of outputs to the Crown.

Crown revenue is recognised at the fair value of the consideration received or receivable when earned.

Revenue – Department

The Department derives revenue through the provision of goods and services to other Departments. Departmental revenue is recognised at the fair value of the consideration received or receivable when earned.

Other Revenue – External Sales of Goods and Services

The Department derives other revenue from the sale of goods and services to third parties. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised:

- where there are significant uncertainties regarding recovery of the consideration due, associated goods or possible return of goods;
- where there is continuing management involvement with goods;
- where the amount of revenue cannot be measured reliably;
- where it is not probable that the economic benefits associated with the transaction will flow to the Department; and
- where the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue – Interest

Revenue from interest is recognised using the effective interest method, using the effective interest rate.

Revenue – Dividends

Revenue from dividends is recognised when the shareholder's right to receive payment is established.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation are provided on a straight-line basis on all property, plant, equipment and intangible assets, other than freehold land and assets under construction, over their estimated economic useful lives. There is no allowance for residual values, except for 'motor vehicles – other', which have a residual value of 20 percent of cost. Revalued assets are depreciated or amortised on their revalued amount on a straight-line basis over their remaining useful lives.

Depreciation

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

Buildings		
Buildings – concrete	50 to 65 years	(2.0% to 1.5%)
Buildings – commercial	75 years	(1.3%)
Buildings – wood	25 years	(4.0%)
Buildings – fit-outs	3 to 20 years	(33.3% to 5.0%)
Hut complexes – concrete	50 years	(2.0%)
Hut complexes – wood	25 years	(4.0%)
Hut fit-outs	3 to 20 years	(33.3% to 5.0%)
Leasehold Improvements		
Leasehold improvements	10 years	(10.0%)
Plant and Equipment		
Plant and machinery	10 years	(10.0%)
Office equipment	5 years	(20.0%)
Tools and equipment	5 years	(20.0%)
Furniture and Fittings		
Furniture and fittings – office	5 years	(20.0%)
Furniture and fittings – prisoner	3 years	(33.3%)
Computer Hardware		
Information technology – network	5 years	(20.0%)
Information technology – specialised	3 to 10 years	(33.3% to 10.0%)
Information technology – PC based	3 years	(33.3%)
Motor Vehicles		
Motor vehicles – heavy duty	8 years	(12.5%)
Motor vehicles – other	5 years	(20.0%)

The useful life of buildings is reassessed following any revaluation.

Where the fixed term of a lease is for less than 10 years, excluding rights of renewal, leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Amortisation

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

Computer Software		
Information technology – network	5 years	(20%)
Information technology – specialised	3 to 10 years	(33.3% to 10%)
Information technology – PC based	3 years	(33.3%)

OPERATING LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash held in bank accounts and is measured at face value.

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 according to 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 surplus or deficit.

Subsequent recoveries of amounts previously written off are credited against the surplus or deficit.

Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

INVENTORIES

Inventories held for distribution, or consumption in the provision of services, that are not supplied on a commercial basis are measured at the lower of cost (calculated using the weighted average method) and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

The replacement cost of the economic benefits or service potential of inventory held for distribution reflects any obsolescence or any other impairment.

Inventories held for sale or use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average cost method.

The write-down from cost to current replacement cost or net realisable value is recognised in the surplus or deficit in the period when the write-down occurs.

ASSETS HELD FOR SALE

Assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of assets held for sale are recognised in the surplus or deficit.

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

Assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence, except for prison buildings, which are valued at optimised depreciated replacement cost. Land and buildings are revalued at least every two years. Additions between revaluations are recorded at cost. The two-year cycle is subject to a reasonableness test on an annual basis to ensure it does not result in material differences in fair value.

The results of revaluing land and buildings are credited or debited to other comprehensive income and is accumulated to the asset revaluation reserve for that class of asset. Where a revaluation would result in a debit balance within an asset class in the revaluation reserve, the debit balance will be expensed within the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit, will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

All other property, plant and equipment, or groups of assets forming part of a network, which are material in aggregate, costing more than $3,000 (GST exclusive) or deemed as valuable and/or attractive are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the surplus or deficit.

Discontinued operations, disposals, transfers and assets held for sale are shown at fair value prior to being sold or disposed.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are sold or derecognised, the amounts included in asset revaluation reserves in respect of those assets are transferred to general funds.

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.

INTANGIBLE ASSETS

Intangible assets with finite lives are recorded at cost less any amortisation and impairment losses. Amortisation is charged to the surplus or deficit on a straight-line basis over the useful life of the asset.

Intangible assets, or groups of intangible assets forming part of a network, which are material in aggregate, costing more than $3,000 (GST exclusive) or deemed as valuable and/or attractive are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the surplus or deficit.

The disposals and assets held for sale are shown at fair value prior to being sold or disposed.

Intangible assets are tested for impairment where an indicator arises.

Software Acquisition and Development

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

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

BIOLOGICAL ASSETS

The Department recognises biological assets or agricultural produce when, and only when:

> the Department controls the assets as a result of past events;
> it is probable that future economic benefits associated with the asset will flow to the Department; and
> the fair value or cost of the asset can be measured reliably.

Biological assets managed for harvesting into agricultural produce are recorded at fair value less point of sale costs, with any realised gains or losses reported in the surplus or deficit.

The Department's valuations incorporate any material point of sale costs in the valuation.

The Department's biological assets are forests and livestock.

Forests

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined post-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit.

The costs to maintain the forestry assets are included in the surplus or deficit.

Livestock

Livestock assets are recorded at fair value less point of sale costs.

Gains and losses at balance date due to changes in the per head value of livestock and changes in livestock numbers are recognised within the surplus or deficit.

Any material differences in fair value are taken to surplus or deficit.

CAPITAL CHARGE

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

INVESTMENTS

Investments are classified as financial assets at fair value through surplus or deficit.

Investments are recognised initially at cost being the fair value of consideration given. All investments are subsequently carried at fair value. Any changes in fair value are recognised in the surplus or deficit in the period in which they arise.

Fair value for investments are determined as follows:

> listed shares are valued at the quoted price at the close of business on the balance date; and

> non-listed shares are recognised at initial cost of investment and adjusted for performance of the business since that date.

Investments arise from the Department's dealings with companies in the farming industry.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at balance date is tested for impairment annually.

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

Value in use is the depreciated replacement cost for an asset where the future economic benefits or service potential of the asset is 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. For revalued assets, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation reserve in equity for that same class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

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

The Department accounts for reversals on a class basis. A reversal of an impairment loss on a revalued asset is credited to other comprehensive income and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss on the same class of asset was previously recognised in the surplus or deficit, a reversal of that impairment loss is also recognised in the surplus or deficit.

EMPLOYEE ENTITLEMENTS

Short-term employee entitlements

Employee entitlements which the Department expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

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

The Department recognises a liability and an expense for performance payments where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis based on the present value of expected future entitlements.

The calculations are based on:

> likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and

> the present value of the estimated future cash flows. A discount rate of 2.84 percent to 6.24 percent (2010: 3.73 percent to 6.15 percent), and a future salary growth rate of 3 percent (2010: 3 percent) were used. The discount rates are based on the table of the latest risk-free discount rates and CPI assumptions issued by The Treasury.

SUPERANNUATION SCHEMES

Defined Contribution Schemes

Obligations for contributions to KiwiSaver, the Government Superannuation Fund, and other defined contribution superannuation schemes are recognised as an expense in the surplus or deficit as incurred.

Defined Benefit Schemes

The Department is a participating employer in the Defined Benefit Plan Contributors Scheme (the Scheme), managed by the Board of Trustees of the National Provident Fund. The Scheme is a multi-employer defined benefit scheme. Insufficient information is available to use defined benefit accounting and it is not possible to determine from the terms of the Scheme, the extent to which the surplus or deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Termination Benefits

Termination benefits are recognised in the surplus or deficit only when there is a demonstrable commitment either to terminate employment prior to normal employment 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. Other termination benefits are reported at the present value of the estimated future cash outflows.

ONEROUS CONTRACTS

Where the benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation under the contract, a provision is recognised. No provision has been recognised for the year ended 2011 (2010: nil). A provision would be stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

PROVISIONS

The Department recognises a provision for future expenditure of an uncertain amount or timing when:

> there is a present obligation (either legal or constructive) as a result of a past event;

> it is probable that an outflow of future economic benefits will be required to settle the obligation; and

> a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the 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.

Accident Compensation Corporation (ACC) Partnership Programme

The Department belongs to the ACC Partnership Programme whereby the Department accepts the management and financial responsibility of work-related illnesses and accidents of employees. Under the ACC Partnership Programme, the Department is effectively providing accident insurance to employees and this is accounted for as an insurance contract. The value of this liability represents the expected future payments in relation to accidents and illnesses occurring up to the balance date for which the Department has responsibility under the terms of the ACC Partnership Programme.

The liability for claims reported prior to balance date has been determined by assuming that the future experience for each current claim is consistent with historical claim information since the commencement of the programme. The liability for injuries or illnesses that have occurred up to balance date, but not yet reported or not enough reported, has been determined by reference to historical information of the time it takes to report injury or illness.

The liability is measured at the present value of the expected future payments to be made in respect of employee injuries and claims up to the reporting date using actuarial techniques.

COMMITMENTS

Future expenses and liabilities to be incurred on capital and operating contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

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

CONTINGENT LIABILITIES

Contingent liabilities are disclosed at the point at which the contingency is evident and for each class of contingent liability at the balance date, a brief description of the nature of the contingent liability is provided.

Contingent liabilities are not disclosed if the possibility of an outflow of resources embodying economic resources is remote.

TAXPAYERS' FUNDS

Taxpayers' Funds is the Crown's net investment in the Department and is measured as the difference between total assets and total liabilities.

Taxpayers' Funds is disaggregated and classified as general funds and revaluation reserves.

FOREIGN CURRENCY

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction.

FINANCIAL INSTRUMENTS

The Department is party to financial instruments as part of its normal operations. These financial instruments include bank accounts; debtors and other receivables; creditors and other payables; and investments. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the surplus or deficit.

Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

TAXATION

Income Tax

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

Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST except for creditors and other payables and debtors and other receivables, which are GST inclusive. All other financial statements are GST exclusive. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST payable to, or recoverable from, the Inland Revenue Department at balance date is included in creditors and other payables and debtors and other receivables.

Commitments and contingent liabilities are disclosed exclusive of GST. The movement in GST paid or received is recognised as a separate cash flow line item.

BUDGET FIGURES

The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 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. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing these financial statements, the Department has made estimates, assumptions and critical judgements in applying accounting policies concerning the future. These estimates, assumptions, and critical judgements in applying accounting policies may differ from the subsequent actual results. Estimates, assumptions and critical judgements in applying accounting policies are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

Employee entitlements – retiring and long service leave

Note 16 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

Revaluation of Property, Plant and Equipment

At each revaluation, the useful lives and residual values of the Department's land and buildings are reviewed. Assessing the appropriateness of useful lives and residual values of land and buildings requires consideration of a number of factors such as the physical condition of land and buildings, expected period of use of land and buildings by the Department, and expected proceeds from the disposal of land and buildings.

Reassessment of the useful lives or residual values will impact on the depreciable amount of land and buildings, therefore impacting on the depreciation expense recognised in the surplus or deficit, and the carrying amount of land and buildings in the Statement of Financial Position.

NOTES

The notes that accompany the financial statements form part of the financial statements.

COST ACCOUNTING POLICIES

The Department has determined the costs of outputs using the cost allocation system outlined below.

COST ALLOCATION

Costs that are driven by prisoner or offender related activities are recognised as direct costs and assigned to outputs. Direct costs are charged to outputs based on actual consumption or activity analysis. Pre-established ratios have been used in some instances which are reviewed at regular intervals.

Indirect costs are driven by organisational support functions and are not directly related to prisoner or offender activities. Indirect costs are allocated to outputs based on appropriate resource consumption and/or activity analysis.

Examples of cost groupings and suitable drivers:

Cost Type	Driver
National office personnel costs	Direct established positions
Community Probation Services area office overheads	Programme/sentence delivery hours
Prison site overheads	Prisoner capacity
Prison site and regional rehabilitation overheads	Planned program hours

CHANGES IN COST ACCOUNTING POLICIES

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

NOTE 2: OTHER REVENUE

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
34,207	Sale of goods	36,412	24,498	34,498
342	External revenue – services	–	–	–
1,691	Board and rents	2,708	1,500	1,500
2,812	Revaluation Gains[16]	8,405	–	–
622	Profit on sale of assets	775	–	–
642	Miscellaneous	–	–	–
40,316	**Total other revenue**	**48,300**	**25,998**	**35,998**

NOTE 3: PERSONNEL COSTS

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
482,845	Salaries and wages	499,072	535,296	526,322
484	Government Superannuation Fund contribution expense	630	550	550
11,122	State Sector Retirement Savings Scheme and KiwiSaver employer contribution	9,516	9,229	10,229
5,731	Restructuring Costs	11,593	–	–
947	Annual leave	(1,591)	5,102	5,102
1,092	Retirement and long service leave	451	–	–
97	Sick leave	649	–	–
502,318	**Total personnel costs**	**520,320**	**550,177**	**542,203**

16 The Department had revaluation gains due to price movements in forestry of $6.064 million (2010: a gain of $1.460 million) and livestock of $2.341 million (2010: a gain of $0.605 million). The Department incurred a quantity movement loss from livestock and forestry of $0.189 million (2010: a gain of $0.539 million).

NOTE 4: OPERATING COSTS

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
16,476	Operating lease rentals	17,077	17,575	16,300
307	Audit fees for annual audit	344	328	376
130	Fees to auditors for other services	133	–	–
77,003	Facilities maintenance	73,398	63,186	72,588
40,944	Offender management costs	42,982	73,157	72,983
14,020	Computer costs	20,733	13,559	17,709
25,127	Contract management	37,021	31,444	32,398
36,020	Administration	45,374	38,332	54,353
152	Receivables written off during period	59	(13)	0
(639)	ACC Partnership Programme	254	–	–
14,126	Inventory expenses	10,849	4,936	9,207
50,507	Other operating costs	58,541	79,371	69,993
–	Biological assets revaluation	189	–	–
105	Investment revaluation	–	–	–
2,479	Net Loss on sale or disposal of property, plant and equipment	16,547	–	3,077
276,757	**Total operating costs**	**323,501**	**321,875**	**348,984**

The fees to auditors for other services were for independent quality assurance engagements for:

> the Tender Processes for the Provision of Prison Management Services and Reintegration Support Services.

> the Selection Process for a PPP Partner.

NOTE 5: DEPRECIATION AND AMORTISATION

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
	DEPRECIATION			
101,654	Buildings	94,522	95,913	97,166
2,493	Leasehold improvements	2,540	3,248	2,927
4,373	Plant and equipment	4,430	4,330	4,397
1,525	Furniture and fittings	574	1,280	590
5,549	Computer hardware	5,466	5,078	5,737
3,859	Motor vehicles	4,318	4,205	4,289
119,453	**Depreciation charge**	**111,850**	**114,054**	**115,106**
	AMORTISATION			
10,386	Computer software	10,427	10,742	11,527
10,386	**Amortisation charge**	**10,427**	**10,742**	**11,527**
129,839	**Total depreciation and amortisation charge**	**122,277**	**124,796**	**126,633**

NOTE 6: CAPITAL CHARGE

The Department pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2011 was 7.5 percent per annum (2010: 7.5 percent).

NOTE 7: CASH AND CASH EQUIVALENTS

2010 Actual $000		2011 Actual $000
204,297	Cash and bank balances	216,331
204,297	**Total cash and cash equivalents**	**216,331**

The Department is required to maintain a positive balance in New Zealand dollar bank accounts at all times. The Department has three departmental bank accounts with Westpac New Zealand Limited.

NOTE 8: PREPAYMENTS

2010 Actual $000		2011 Actual $000
	CURRENT PORTION	
2,381	Prepayments	1,792
2,381	**Total prepayments**	**1,792**

The Department classifies prepayments that are expected to be realised within 12 months as current.

NOTE 9: DEBTORS AND OTHER RECEIVABLES

2010 Actual $000		2011 Actual $000
	CURRENT PORTION	
–	**Debtor Crown**	**41,826**
–	Crown debtors	41,826
3,287	Trade debtors – external	3,833
154	Employee advances	161
(43)	Less provision for impairment	(77)
3,398	**Trade debtors – external and employees**	**3,917**
2,999	Trade debtors – other government entities	3,146
2,999	**Trade debtors – other government entities**	**3,146**
6,397	**Total debtors and other receivables**	**48,889**

The carrying value of trade debtors approximates their fair value.

The Crown debtor relates to $41.826 million (GST inclusive) funding providing for an in-principle expenditure transfer from 2010/11 to 2011/12. The Department does not make loans to employees other than minor salary/travel advances. There were no loans outstanding to related parties.

There is minimal credit risk with respect to receivables outside the Department, as the Department has a spread of external customers. The Department's standard terms of credit are that payment is due on the 20th of the month following the date of invoice. No further extension of credit is permitted.

The Department classifies debtors that are expected to be realised within 12 months as current, other than those debtors which are considered doubtful.

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

	2010 $000 Gross	2010 $000 Impairment	2010 $000 Net	2011 $000 Gross	2011 $000 Impairment	2011 $000 Net
Not past due	5,374	–	**5,374**	42,538	–	**42,538**
Past due 1-30 days	897	–	**897**	5,488	–	**5,488**
Past due 31-60 days	(2)	–	**(2)**	628	–	**628**
Past due 61-90 days	171	(43)	**128**	29	–	**29**
Past due > 91 days	–	–	**–**	283	(77)	**206**
	6,440	**(43)**	**6,397**	**48,966**	**(77)**	**48,889**

As at 30 June 2010 and 2011, all overdue receivables were assessed for impairment and appropriate provisions applied. Movements in the provision for impairment of debtors and other receivables are as follows:

2010 Actual $000		2011 Actual $000
95	Balance at 1 July	43
(52)	Additional provisions made during the year	34
43	**Balance at 30 June**	**77**

The provision for impairment of debtors has been calculated based on expected losses for the Department's pool of debtors. Expected losses have been determined based on analysis of the Department's losses in previous periods, and review of specific debtors.

Those specific debtors that are insolvent are fully provided for. As at 30 June 2011 the Department has identified no debtors (2010: nil) that are insolvent.

NOTE 10: INVENTORIES

2010 Actual $000		2011 Actual $000
8,488	Inventory held for the provision of goods and services	4,813
1,432	Finished goods	658
9,920	**Total inventories**	**5,471**

The Department's inventory consists of supplies that are available for prisoner purchases, operational supplies and inventory held for the use in prisoner employment. No inventories are pledged as security for liabilities.

The Department classifies inventories that are expected to be realised within 12 months as current.

NOTE 11: INVESTMENTS

2010 Actual $000		2011 Actual $000
	NON-CURRENT PORTION	
5,590	Investments	5,590
5,590	**Total investments**	**5,590**

Investments arise from the Department's dealings with companies in the farming industry. These investments are classified as financial instruments and valued at fair value through the surplus or deficit.

The Department classifies investments that are expected to be realised within 12 months as current.

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

The most recent valuation of freehold land and buildings was performed by an independent valuer, Darroch Valuations, and the valuation is effective as at 30 June 2011. This valuation was certified by K Stewart FPINZ FNZIV.

The total fair value of freehold land and buildings valued by Darroch Valuations at 30 June 2011 totalled $1,990 million.

The land holdings of the Department are subject to general Treaty of Waitangi claims. No reduction in value has been recognised in these financial statements but there may be restrictions on the Department disposing of the holdings except under Treaty claims procedures.

The Department classifies property, plant and equipment expected to be sold in the next 12 months as assets held for sale.

The Department constructs prison buildings, which are classified as assets under construction. Assets under construction are capitalised at the in-service date.

The Department reports transfers and disposals together for presentation purposes only.

The Department currently holds residential properties that were purchased in the 1960s. The core intention of these properties are for staff working in prisons located in rural areas. The rental income that is received from these properties is incidental, as opposed to being held for rental income or capital gains. The net carrying amount of these properties is $8.857 million (2010: $3.782 million). There are no restrictions over the title of the Department's property, plant and equipment, nor any property, plant and equipment pledged as security for liabilities.

	Land $000	Buildings $000	Leasehold Improvements $000	Plant & Equipment $000	Furniture & Fittings $000	Computer Hardware $000	Motor Vehicles $000	Total $000
Cost or valuation								
Balance 1 July 2009	215,376	1,566,979	14,627	41,531	11,897	44,468	41,347	1,936,225
Additions	658	81,630	907	4,779	1,354	4,964	6,347	100,639
Disposals/transfers	(23)	53,392	1,619	(370)	(3,168)	(4,896)	(4,003)	42,551
Cost or valuation at 30 June 2010	**216,011**	**1,702,001**	**17,153**	**45,940**	**10,083**	**44,536**	**43,691**	**2,079,415**
Add: Movements								
Additions	–	85,933	3,344	5,255	131	3,314	8,361	106,338
Revaluation increase/(decrease)	672	(136,988)	–	–	–	–	–	(136,316)
Disposals/transfers	(575)	123,381	(7,930)	(2,738)	(3,313)	168	(5,967)	103,026
Cost or valuation at 30 June 2011	**216,108**	**1,774,327**	**12,567**	**48,457**	**6,901**	**48,018**	**46,085**	**2,152,463**
Accumulated depreciation and impairment losses								
Balance 1 July 2009	–	(339)	(7,215)	(25,558)	(8,624)	(33,678)	(24,945)	(100,359)
Depreciation expense	–	(101,654)	(2,493)	(4,373)	(1,525)	(5,549)	(3,860)	(119,454)
Disposals/transfers	–	–	665	1,438	1,260	6,287	3,413	13,063
Accumulated depreciation and impairment losses at 30 June 2010	**–**	**(101,993)**	**(9,043)**	**(28,493)**	**(8,889)**	**(32,940)**	**(25,392)**	**(206,750)**
Add: Movements								
Depreciation expense	–	(94,522)	(2,540)	(4,430)	(574)	(5,466)	(4,318)	(111,850)
Disposals/transfers	–	36	6,278	2,536	3,292	1,437	5,010	18,589
Revaluation increase	–	196,479	–	–	–	–	–	196,479
Accumulated depreciation and impairment losses at 30 June 2011	**–**	**–**	**(5,305)**	**(30,387)**	**(6,171)**	**(36,969)**	**(24,700)**	**(103,532)**

	Land $000	Buildings $000	Leasehold Improvements $000	Plant & Equipment $000	Furniture & Fittings $000	Computer Hardware $000	Motor Vehicles $000	Total $000
Carrying amounts per asset class								
At 30 June 2010	216,011	1,600,008	8,110	17,447	1,194	11,596	18,299	1,872,665
At 30 June 2011	216,108	1,774,327	7,262	18,070	730	11,049	21,385	2,048,931
Add: Assets under construction								
At 30 June 2010								**154,872**
At 30 June 2011								**73,915**
Total carrying amounts								
At 30 June 2010	**216,011**	**1,600,008**	**8,110**	**17,447**	**1,194**	**11,596**	**18,299**	**2,027,537**
At 30 June 2011	**216,108**	**1,774,327**	**7,262**	**18,070**	**730**	**11,049**	**21,385**	**2,122,846**

* *Transfers refer to movements between assets under construction and property, plant and equipment.*

NOTE 13: INTANGIBLE ASSETS

	Acquired Software $000	Internally Generated Software $000	Total Intangible Assets $000
Cost or valuation			
Balance 1 July 2009	31,973	55,896	87,869
Additions	1,270	5,882	7,152
Disposals/transfers	4,922	6,002	10,924
Cost or valuation at 30 June 2010	**38,165**	**67,780**	**105,945**
Add: Movements			
Additions	1,318	1,542	2,860
Disposals/transfers	325	(10,850)	(10,525)
Cost or valuation at 30 June 2011	**39,808**	**58,472**	**98,280**
Accumulated depreciation and impairment losses			
Balance 1 July 2009	(26,869)	(29,161)	(56,030)
Amortisation expense	(3,156)	(7,229)	(10,385)
Disposals/transfers	–	14	14
Impairment losses	–	–	–
Accumulated depreciation and impairment losses at 30 June 2010	**(30,025)**	**(36,376)**	**(66,401)**
Add: Movements			
Amortisation expense	(3,274)	(7,153)	(10,427)
Disposals/transfers		5,401	5,401
Impairment losses			
Accumulated depreciation and impairment losses at 30 June 2011	**(33,299)**	**(38,128)**	**(71,427)**
Carrying amounts			
At 30 June 2010	**8,140**	**31,404**	**39,544**
At 30 June 2011	**6,509**	**20,344**	**26,853**
Add: Assets under construction			
At 30 June 2010	**385**	**251**	**636**
At 30 June 2011	**1,167**	**4,654**	**5,821**
Total carrying amounts			
At 30 June 2010	**8,525**	**31,655**	**40,180**
At 30 June 2011	**7,676**	**24,998**	**32,674**

The Department develops and maintains internally generated software, which are classified as assets under construction and capitalised at the in-service date.

There are no restrictions over the title of the Department's intangible assets, nor are any intangible assets pledged as security for liabilities.

NOTE 14: BIOLOGICAL ASSETS

	Forests $000	Livestock $000	Total Biological Assets $000
Cost or valuation			
Balance 1 July 2009	28,037	9,698	37,735
Purchases	–	717	717
Gains arising from changes in fair value less estimated point of sale costs	3,539	6,756	10,295
Sales/harvest	(1,134)	(6,482)	(7,616)
Cost or valuation at 30 June 2010	**30,442**	**10,689**	**41,131**
Add: Movements			
Purchases	–	58	58
Gains arising from changes in fair value less estimated point of sale costs	6,064	7,206	13,270
Sales/harvest	(77)	(5,035)	(5,112)
Cost or valuation at 30 June 2011	**36,429**	**12,918**	**49,347**
Movement	**5,987**	**2,229**	**8,216**
Change due to movement quantity (note 4)	(77)	(112)	(189)
Change due to movement in fair value (note 2)	6,064	2,341	8,405
Carrying amounts			
At 30 June 2010	**30,442**	**10,689**	**41,131**
At 30 June 2011	**36,429**	**12,918**	**49,347**

There are no restrictions over the title of the Department's biological assets, nor are any biological assets pledged as security for liabilities.

FORESTS

The Tongariro forest land is owned by the Crown. The Department manages the forest as part of its prisoner employment training programme. The Tongariro forest area is as follows:

Forest	Legal description	Legal area
Tongariro	Land rated as commercial forest	4,512 ha
	Land rated as reserve	1,332 ha
	Total legal area	**5,844 ha**

The valuation of forests was undertaken by an independent registered valuer, PF Olsen and Company Limited, on 30 June 2011. T Vos, registered forestry consultant (NZIF), completed this valuation.

The forest valuation was determined using the expectation value approach adopting the following valuation assumptions:

> a discount rate of 7 percent (2010: 7 percent) has been applied to post-tax cash flows;

> land values, improvements, protection or amenity planting have been excluded;

> the tree crop has been valued on a liquidation basis;

> an inflation rate of 3 percent (2010: 3 percent) has been applied;

> annual and forest operations costs are based on current industry costs for similar forests; and

> log prices are derived from average prices published by the Ministry of Agriculture and Forestry.

LIVESTOCK

The Department farms sheep, cattle, deer and pigs at various locations in both the North and South Islands. At 30 June 2011, livestock on hand comprised 15,619 sheep (2010: 16,261); 1,755 beef cattle (2010: 1,749); 4,325 dairy cattle (2010: 4,329); 2,661 deer (2010: 2,542) and 6,585 pigs (2010: 6,752).

The valuation of livestock is valued based on the active market price and was undertaken by various independent livestock valuers.

FINANCIAL RISK MANAGEMENT STRATEGIES

The Department is not materially exposed to financial risks arising from changes in commodity prices. The Department reviews its outlook for timber and livestock prices regularly in considering the need for active financial risk management.

NOTE 15: CREDITORS AND OTHER PAYABLES

2010 Actual $000		2011 Actual $000
	CURRENT PORTION	
30,816	Trade creditors	31,859
55,211	Accrued expenditure	45,268
3,006	GST payable	13,802
89,033	**Total creditors and other payables**	**90,929**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and payables approximates their fair value.

The Department classifies creditors and other payables that are expected to be settled within 12 months as current.

NOTE 16: EMPLOYEE ENTITLEMENTS

2010 Actual $000		2011 Actual $000
	Current liabilities	
46,027	Annual leave	44,436
19,336	Retirement and long service leave	20,090
1,250	Sick leave	1,898
66,613	**Total current portion**	**66,424**
	Non-current liabilities	
12,412	Retirement and long service leave	12,108
12,412	**Total non-current portion**	**12,108**
79,025	**Total provision for employee entitlements**	**78,532**

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 annual leave earned to, but not yet taken, at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

The Department classifies employee entitlements as current that:

> are expected to be settled within 12 months after the balance date; and

> the Department does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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 a number of assumptions. Two key assumptions used in calculating this liability include the discount rates and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

The revaluation of long service leave and retirement leave as at 30 June 2011 was conducted by independent valuer G R Lee (BSc FIA), a member of the New Zealand Society of Actuaries, of Aon New Zealand. Aon New Zealand revalues the Department's non-current employment entitlements on a quarterly basis.

The major assumptions used in the 30 June 2011 valuation are that future salary growth rates are 3 percent (2010: 3 percent) per annum and discount rates ranged from 2.84 percent to 6.24 percent (2010: 3.73 percent to 6.15 percent) per annum.

In determining the appropriate discount rates, the valuer used the weighted averages of returns on government stock of different terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary growth assumption is consistent with the results of the Aon Economists' Survey.

NOTE 17: PROVISIONS

2010 Total Provisions Actual $000		2011 Restructuring Actual $000	2011 Employee Accidents Actual $000	2011 Total Provisions Actual $000
	Current provisions			
8,578	Balance at 1 July	3,072	8,208	11,280
5,994	Additional provisions made during the year	–	7,775	7,775
(3,292)	Charged against provision for the year	(3,072)	(8,208)	(11,280)
11,280	**Current provisions**	–	**7,775**	**7,775**
–	**Non-current provisions**	–	–	–
11,280	**Total provisions**	–	**7,775**	**7,775**

EMPLOYEE ACCIDENTS

The provision relates to the estimation of the ACC Partnership Programme's Outstanding Claims Liability and ACC Levies:

2010 Actual $000		2011 Actual $000
3,732	Outstanding Claims Liability	3,986
4,476	Outstanding ACC Levies Provision	3,789
8,208	**Total outstanding claims liability and ACC levies**	**7,775**

An external independent actuarial valuer, Mark Weaver from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the outstanding claims liability and the valuation is effective 30 June 2011. The actuary has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuary's report. The key assumptions used in determining the value of outstanding claims are detailed in the paragraphs below.

The estimate as at 30 June 2011 is $3.986 million, compared to a result as at 30 June 2010 of $3.732 million.

The principal assumptions made were:

> the development pattern of claims payments is the same for all loss periods i.e. the future claims pattern will reflect that which occurred in the past;

> the assumed loss ratio of 0.55 percent (2010: 0.60 percent) of liable earnings was determined by considering the observed loss ratios for developed loss quarters;

> the discount rates were based on government bond yields published by the Reserve Bank of New Zealand; and

> the Department will remain in the ACC Partnership Programme for the foreseeable future. If the Department were to exit immediately, a risk margin of 12.80 percent (2010: 11.70 percent) would be added by ACC.

The estimated ACC Partnership Programme outstanding claims liability as at 30 June 2011 included a provision for future claims handling expenses of 10 percent (2010: 7.50 percent) of expected future claims costs.

The Department's largest ever claim incurred has an estimated total cost of $0.808 million (discounted $0.551 million).

This claim has no precedent in the Department's experience in terms of size. As such, the Bornhuetter-Ferguson (BF) method will not include any provision for future payments of this magnitude and a specific provision was made for this claim.

The Department manages its exposure arising from the programme by promoting a safe and healthy working environment by:

> implementing and monitoring health and safety policies;

> induction training on health and safety;

> actively managing work place injuries to ensure employees return to work as soon as practical;

> recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and

> identification of work place hazards and implementation of appropriate safety procedures.

The value of the liability is not material for the Department's financial statements, therefore any changes in assumptions will not have a material impact on the financial statements.

NOTE 18: TAXPAYERS' FUNDS

Taxpayers' Funds comprise General Funds, Revaluation Reserves and Fair Value Through Other Comprehensive Income Reserves.

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
	GENERAL FUNDS			
1,501,883	Balance at 1 July	1,603,094	1,613,094	1,600,827
29,572	Net operating surplus	52,482	–	–
281,082	Capital contribution from the Crown	100,876	100,876	100,876
(179,871)	Capital returned to the Crown	(36,340)	(22,840)	(36,340)
130,783	Total movement in general funds	117,018	78,036	64,536
(29,572)	Provision for the surplus attributable to the Crown and in-principle transfer	(52,482)	–	–
1,603,094	**Balance at 30 June**	**1,667,630**	**1,691,130**	**1,665,363**
	REVALUATION RESERVES			
525,348	Balance at 1 July	523,162	525,348	525,429
(2,186)	Revaluation gains/(losses)	60,163	–	–
523,162	**Balance at 30 June**	**583,325**	**525,348**	**525,429**
	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RESERVE			
2,267	Balance at 1 July	2,267	2,267	2,267
2,267	**Balance at 30 June**	**2,267**	**2,267**	**2,267**
525,429	**Revaluation Balance**	**585,592**	**527,615**	**527,696**
2,128,523	**Total Taxpayers' Funds at 30 June**	**2,253,222**	**2,218,745**	**2,193,059**

The net surplus attributable to the Crown from the delivery of outputs must be repaid by 31 October each year. The Department has no restricted reserves.

REVALUATION RESERVES

2010 Actual $000		2011 Actual $000
	Asset Revaluation Reserve	
	Land	
137,380	**Revaluation reserves at 1 July**	**137,380**
–	Revaluation gains	672
137,380	**Balance as at 30 June 2011**	**138,052**
	Buildings	
387,968	**Asset revaluation reserves at 1 July**	**385,782**
–	Revaluation gains	59,491
(2,186)	Net write-back of assets	–
385,782	**Balance as at 30 June 2011**	**445,273**
523,162	**Total Asset revaluation reserves at 30 June 2011**	**583,325**
	Fair Value Through Equity Reserve	
2,267	**Asset revaluation reserves at 1 July**	**2,267**
2,267	**Balance as at 30 June 2011**	**2,267**
525,429	**Total revaluation reserves at 30 June 2011**	**585,592**

NOTE 19: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

2010 Actual $000		2011 Actual $000	2011 Main Estimates $000	2011 Supp. Estimates $000
29,572	**Net surplus before other comprehensive income**	**52,482**	**–**	**–**
	Add/(less) non-cash items			
129,839	Depreciation and amortisation	122,277	124,796	126,633
(208)	Non-current employee entitlements	(304)	–	706
(2,812)	Biological assets revaluation gain	(8,405)	–	–
91	Other non-cash items	–	–	–
126,910	**Total non-cash items**	**113,568**	**124,796**	**127,339**
	(Increase)/Decrease in Working capital			
4,781	Debtors and other receivables	(42,492)	–	(579)
(3,476)	Inventories	4,449	58	3,689
638	Prepayments	589	–	(644)
13,890	Creditors and other payables	11,419	(3,000)	(22,255)
2,702	Provisions	(3,505)	–	–
2,007	Current employee entitlements	(189)	–	(90)
20,542	**Working capital movements – net**	**(29,729)**	**(2,942)**	**(19,879)**
	Add/(less) items classified as investing or financing activities			
(305)	Dividends	(312)	–	–
(584)	Biological assets revaluation loss/(gain)	189	–	–
(40)	Investments revaluation loss	–	–	–
34	Net loss on sale or disposal of investments	–	–	–
1,914	Net loss on sale or disposal of property, plant & equipment	19,332	–	3077
1,019	**Total investing activity items**	**19,209**	**–**	**3,077**
178,043	**Net cash flow from operating activities**	**155,530**	**121,854**	**110,537**

NOTE 20: CONTINGENCIES

Contingent liabilities and assets are separately disclosed in the Statement of Contingent Liabilities and Assets.

NOTE 21: RELATED PARTY DISCLOSURE

The Department is a wholly owned entity of the Crown. The Government significantly influences the strategic direction, operating intentions and business operations of the Department as well as being its major source of revenue.

The Department has entered into the following significant transactions with the Government or other entities related to the Government during the 2010/11 fiscal year:

> received Crown Revenue of $1,129.3 million (excluding GST) to fund the Department's operating activities.

> received Departmental Revenue of $10 million from State Services Commission to fund employer contributions to KiwiSaver and SSRSS schemes.

> paid Capital Charge of $158.3 million to the New Zealand Government.

> purchased goods and services on normal commercial terms, primarily for electricity and travel, from government entities totalling $15.3 million.

> paid employer ACC levies to Accident Compensation Corporation totalling $2.468 million.

The Department entered into numerous transactions with other government departments, Crown agencies and state-owned enterprises on an 'arm's length' basis that are not of a material nature.

The Department has entered into the following related party transactions:

> engineering supplies were purchased from Vulcan Steel. A shareholder/director of the company is the brother of a member of the Department's Executive Team. Purchases during the year totalled $0.085 million (2010: $0.051 million). There is a balance of $0.008 million (2010: nil) outstanding at year end.

> legal services were purchased from Minter Ellison Rudd Watts. A partner of this legal firm is the brother of a member of the Department's Executive Team. He was not involved in providing any advice to the Department. Purchases during the year totalled $0.992 million (2010: $1.226 million). There is a balance of $0.024 million (2010: nil) outstanding at year end.

The Department has not entered into any commitments with these suppliers and transactions were conducted under normal commercial terms. Apart from those transactions described above, the Department has not entered into any related party transactions. The Department has determined key management personnel as the Chief Executive and the Executive Team.

The Treasury advises that the responsible Minister Judith Collins has certified that she has no related party transactions for the year ended 30 June 2011.

The personnel compensation relating to key management personnel is not disclosed as part of the related party disclosure note. Remuneration applicable to key management personnel is disclosed as part of the Key Management Personnel Compensation note.

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include the Chief Executive, the Deputy Chief Executive, seven General Managers (2010: seven General Managers) and 1 Director.

2010 Actual $000		2011 Actual $000
2,731	Salary and other short term benefits	2,639
26	Other long-term benefits	83
381	Termination benefits	–
3,138	**Total key management personnel compensation**	**2,722**

NOTE 23: POST-BALANCE DATE EVENTS

There were no post-balance date events that required adjustment to the financial statements.

NOTE 24: FINANCIAL INSTRUMENTS

The Department is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, investments, debtors and trade creditors.

FAIR VALUE

The Department uses various methods in estimating the fair value of a financial instrument. Fair values are determined according to the following hierarchy:

> Quoted market price – financial instruments with quoted market prices for identical instruments in active markets;

> Valuation technique using market observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and

> Valuation technique with significant non-market observable inputs – financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value on the balance date:

	Total $000	Quoted market Price $000	Valuation technique – market observable inputs $000	Valuation technique – non-market observable inputs $000
As at 30 June 2011				
Local Currency Financial Assets				
Cash and Cash Equivalents	216,331	216,331	–	–
Investments	5,590	5,312	278	–
Total Local Currency Financial Assets	**221,921**	**221,643**	**278**	**–**
As at 30 June 2010				
Local Currency Financial Assets				
Cash and Cash Equivalents	204,297	204,297	–	–
Investments	5,590	5,312	278	–
Total Local Currency Financial Assets	**209,887**	**209,609**	**278**	**–**

MARKET RISK

Price Risk

Price risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate as a result of changes in market prices. The Department is exposed to price risk on its investments. The price risk is nominal as the investments are held by the Department as a result of dealings with the farming industry and, as such, are not expected to be traded and are not used to support any cashflows.

CURRENCY RISK

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

The Department does not enter into forward foreign exchange contracts, as it engages in few overseas transactions, and is therefore only nominally susceptible to foreign exchange risks.

INTEREST RATE RISK

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

Under Section 46 of the Public Finance Act 1989 the Department cannot raise a loan without Ministerial approval and no such loans have been raised. Accordingly, the Department has no interest bearing financial instruments and therefore has no exposure to interest rate risk.

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 business, the Department incurs credit risk from trade debtors, transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The Department is only permitted to deposit funds with Westpac New Zealand limited, or with the 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 risk exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 7), prepayments (note 8), debtors and other receivables (note 9) presented in the Statement of Financial Position. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates:

2010 Actual $000		2011 Actual $000
	Counterparties with Credit Ratings	
	Cash and Cash Equivalent	
204,297	AA	216,331
204,297	**Total cash and cash equivalent**	**216,331**
	Investments	
5,272	AA	5,272
318	Non-rated	318
5,590	**Total investments**	**5,590**
	Counterparties without Credit Ratings	
	Debtors and other receivables	
6,326	Existing counterparty with no defaults in the past	48,889
71	Existing counterparty with defaults in the past	–
6,397	**Total debtors and other receivables**	**48,889**
	Prepayments	
2,381	Existing counterparty with no defaults in the past	1,792
2,381	**Total prepayments**	**1,792**

LIQUIDITY RISK

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

Management of Liquidity Risk

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

Contractual Maturity Analysis of Financial Liabilities

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

2010 Actual $000		2011 Actual $000
	Creditors and other payables (note 15)	
89,033	Less than six months	90,929
89,033		**90,929**

The liability for the repayment of surplus to the Crown is not a financial liability as defined by NZ IAS 32 – *Financial Instruments Presentation*, as the obligation to pay arises from statute.

SENSITIVITY ANALYSIS

As NZ IFRS 7: Financial Instruments: Disclosures does not prescribe the format for presenting sensitivity analysis, the Department has chosen to make the following disclosures.

Cash and Cash Equivalents: No cash or cash equivalents earn interest, nor are they held in any term deposits.

Bank Overdraft: The Department has no bank overdraft.

Secured Loans: The Department has no secured loans.

Derivatives: Held for Trading and Hedge Accounting: The Department has no derivatives held for trading and does not engage in hedge accounting.

Creditors and Other Payables: The Department holds no creditors or other payables that are affected by foreign exchange rate movements.

Categories of Financial Instruments

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

2010 Actual $000		2011 Actual $000
	FINANCIAL ASSETS	
	Loans and receivables	
204,297	Cash and cash equivalents (note 7)	216,331
6,397	Debtors and other receivables (note 9)	48,889
210,694	**Total cash and receivables**	**265,220**
	Fair value through surplus or deficit	
5,590	Investments (note 11)	5,590
5,590	**Total investments**	**5,590**
216,284	**Total financial assets**	**270,810**
	FINANCIAL LIABILITIES	
	Measured at amortised cost	
89,033	Creditors and other payables (note 15)	90,929
89,033	**Total financial liabilities**	**90,929**

NOTE 25: CAPITAL MANAGEMENT

The Department's capital is its taxpayers' funds, which comprise general funds and revaluation reserves. Taxpayers' funds are represented by net assets.

The Public Finance Act 1989 (The Act) requires the Department to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the New Zealand public. Taxpayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The Department has in place asset management plans for major classes of assets, detailing renewal and maintenance programmes.

The Act requires the Department to make adequate and effective provision in its long-term capital expenditure and that the Department acts in accordance with financial delegations from Cabinet to the Chief Executive through the Responsible Minister. The Act also requires that the Department complies with the requirements of the State Sector Act 1988, Treasury Instructions, and any other legislation governing its operations, when incurring any capital expenditure.

The objective of managing the taxpayers' funds is to ensure the Department effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

NOTE 26: EFFECTS OF THE CANTERBURY EARTHQUAKES

The Department has decided to adjust the fair value of property, plant and equipment to reflect the estimated cost of repairs to put the buildings back in the state that existed prior to the September earthquake.

ASSUMPTIONS MADE

The Department has had professional engineers and qualified trades people complete assessments on each of the 22 locations (7 owned by the Department) in Christchurch. Most buildings suffered minor to moderate damage. Two buildings owned by the Department suffered more extensive damage and will be demolished. The Department has not received definite estimates for all of the damage incurred. The Department has based it's fair value adjustment estimate on the damage identified to date, the costs incurred to date, the available estimates of the likely costs to 'make good' and the total carrying amount of the buildings involved.

INSURANCE

Insurers have been notified of potential claims. Financial claims for material damage will follow as a detailed assessment of buildings is completed throughout 2011/12 by structural engineers. There will be further claims for business interruption which have not yet been quantified. Insurers are being briefed as assessments are completed. Once the deductible excess is reached the Department will receive progress payments from insurers on a regular basis. The Department treats an insurance recovery as a receivable when its receipt is considered virtually certain.

NATURE OF ASSETS AFFECTED

Land

There has been impairment to the land owned by the Department, particularly in Pages Road, where there is ongoing ground deformation.

Buildings

Most of the buildings occupied by the Department's staff were cleared for use within days. Some buildings within the central business district exclusion zone suffered extensive damage. An initial assessment of the buildings was undertaken by professional consultants and further assessments are continuing as stated above. Buildings most affected were the Community Probation Services facilities in Pages Road, Peterborough Street and Armagh Street. Only the building in Pages Road is owned by the Department, and the rest of the buildings are leased premises. The three prisons in Christchurch remained operational throughout the three earthquakes except for an old medical building and extensive damage to the water infrastructure at the Department's Mens' and Womens' prisons at an estimated replacement cost of $2.5 million.

Treatment

Expenditure incurred to 30 June 2011 relating to the costs of remediating the damage caused by the earthquake has been recognised as an expense and separately disclosed in the Statement of Comprehensive Income. The net book value of derecognised assets were written off as an expense. The total earthquake related expenditure of $11.103 million includes $3.572 million of assets damaged beyond repair that have been written off and other business continuity expenditure, such as the temporary relocation of prisoners to allow assessments by structural engineers of prison building damage.

The Department received $0.011 million insurance revenue in respect of a van damaged during the earthquake.

NOTE 27: MAJOR BUDGET VARIATIONS

Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, and Statement of Departmental Expenditure and Appropriations

Explanations for major variances from the 2010/11 Main and Supplementary Estimates are as follows:

The increase in Crown Revenue compared with the Main Estimates relates to additional funding for:

- The replacement of Prison Services uniforms
- Increased KiwiSaver employer contributions

This was partly offset by a reduction in capital charge relating to lower than expected capital expenditure for Community Probation Services.

The increase in other revenue compared with the Main Estimates is due to higher than expected external revenue and associated expenditure from new or expanded Corrections Inmate Employment activities. This includes $8.406 million of biological asset revaluation gains, unbudgeted revenue of $1.9 million from forestry and dairy related activities and additional revenue from Board and Rents of $1.2 million.

Personnel costs were lower than expected in the Supplementary Estimates as a result of the Department carrying vacancies through the year. This was largely due to a number of positions kept open during the transition of prison management services to a private provider and the Christchurch earthquakes.

Offender Management and Other Operating costs were lower than budgeted due to actual costs being more widely distributed across "Operating Costs" category (note 4).

Debtors and receivables are higher compared with the Supplementary Estimates because the Department did not draw down all Crown Revenue during the year and has recognised a Crown debtor for the amount that was not drawn down.

The Supplementary Estimates assumed that the Department would not have a surplus at year end; however this was not the case as a number of projects expected to be undertaken by year end were deferred, partly as a result of the Christchurch earthquakes.

The increase in cash compared to the Main and Supplementary Estimates is due to the delay in and reprioritisation of capital projects. This funding will be carried forward to the 2011/12 financial year.

Spending on Property, Plant and Equipment and net cash flows from investing activities are lower compared with the Supplementary Estimates because of the rephasing and reprioritisation of capital projects.

Spending in the Information and Administrative Services to the Judiciary and the New Zealand Parole Board output class was lower than appropriation primarily due to the lower volume of written probation reports provided than was anticipated.

Spending in the Prison-based Custodial Services-Custody of Remand Prisoners multi class output appropriation (MCOA) was lower than appropriation and was mainly volume driven. The average remand prisoner population was seven percent lower than budget. The lower than expected remand population also resulted in less expenditure on drug tests and health screens in remand prisons.

Spending in the Prison-based Custodial Services-Custody of Sentenced Prisoners MCOA was lower than appropriation. The under spend was largely due to staff vacancies throughout the year.