PART C: ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

2009 Actual $000		Notes	2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
	REVENUE				
933,613	Crown		1,037,526	1,031,949	1,037,526
8,998	Departmental revenue		10,058	7,529	10,381
32,926	Other revenue	2	37,504	25,998	35,998
52	Dividends		305	–	–
975,589	**Total operating revenue**		**1,085,393**	**1,065,476**	**1,083,905**
	EXPENDITURE				
459,256	Personnel costs	3	502,318	516,651	490,096
246,265	Operating costs	4	273,945	296,843	297,882
124,799	Depreciation and amortisation	5	129,839	108,718	129,704
131,871	Capital charge	6	149,719	143,264	146,855
962,191	**Total output expenses**		**1,055,821**	**1,065,476**	**1,064,537**
13,398	**Net surplus/(deficit) attributable to the Crown**		**29,572**	**–**	**19,368**
	OTHER COMPREHENSIVE INCOME				
245,305	Revaluation gains on land and buildings	18	–	–	–
2,548	Net write-back of revaluation gains/(losses)	18	(2,186)	–	–
247,853	**Total other comprehensive income**		**(2,186)**	**–**	**–**
261,251	**Total comprehensive income attributable to the Crown**		**27,386**	**–**	**19,368**

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

For the year ended 30 June 2010

2009 Actual $000		Notes	2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
1,799,739	**Balance at 1 July**		**2,029,498**	**1,781,645**	**2,029,498**
	Changes in taxpayers' funds during the year				
	Transfers from statement of comprehensive income				
13,398	Add net surplus attributable to the Crown		29,572	–	19,368
245,305	Increase in revaluation reserves	18	–	–	–
2,548	Net write-back of revaluation gains/(losses)	18	(2,186)	–	–
261,251	**Total Comprehensive Income**		**27,386**	–	**19,368**
	Adjustment for flows to and from the Crown				
65,747	Add capital contributions from the Crown during the year	18	281,082	323,348	281,082
(83,841)	Less capital returned to the Crown during the year	18	(179,871)	(66,471)	(169,871)
(13,398)	Provision for payment of surplus to the Crown		(29,572)	–	(19,368)
(31,492)	**Total adjustments for flows to and from the Crown**		**71,639**	**256,877**	**91,843**
2,029,498	**Balance at 30 June**		**2,128,523**	**2,038,522**	**2,140,709**

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

2009 Actual $000		Notes	2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
	ASSETS				
	Current assets				
146,685	Cash and cash equivalents	7	204,297	95,514	136,390
3,019	Prepayments	8	2,381	2,125	3,025
11,279	Debtors and other receivables	9	6,397	5,729	6,976
6,444	Inventories	10	9,920	5,658	6,289
167,427	**Total current assets**		**222,995**	**109,026**	**152,680**
	Non-current assets				
5,695	Investments	11	5,590	6,926	5,563
1,941,272	Property, plant and equipment	12	2,027,537	1,988,258	2,073,816
44,188	Intangible assets	13	40,180	46,637	44,403
37,735	Biological assets	14	41,131	38,304	37,735
2,028,890	**Total non-current assets**		**2,114,438**	**2,080,125**	**2,161,517**
2,196,317	**Total assets**		**2,337,433**	**2,189,151**	**2,314,197**
	LIABILITIES				
	Current liabilities				
67,617	Creditors and other payables	15	89,033	77,779	75,779
64,608	Employee entitlements	16	66,613	62,450	65,723
8,578	Provisions	17	11,280	–	–
13,398	Provision for repayment of surplus to the Crown	18	29,572	–	19,368
154,201	**Total current liabilities**		**196,498**	**140,229**	**160,870**
	Non-current liabilities				
12,618	Employee entitlements	16	12,412	10,400	12,618
12,618	**Total non-current liabilities**		**12,412**	**10,400**	**12,618**
166,819	**Total liabilities**		**208,910**	**150,629**	**173,488**
	TAXPAYERS' FUNDS				
1,501,883	General funds	18	1,603,094	1,758,760	1,613,094
527,615	Reserves	18	525,429	279,762	527,615
2,029,498	**Total taxpayers' funds**		**2,128,523**	**2,038,522**	**2,140,709**
2,196,317	**Total liabilities and taxpayers' funds**		**2,337,433**	**2,189,151**	**2,314,197**

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

2009 Actual $000		Notes	2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
	CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash provided from:				
	Supply of outputs to				
929,885	Crown revenue		1,041,254	1,031,949	1,041,254
7,582	Departmental revenue		10,695	7,529	10,527
32,531	Other revenue		37,215	25,998	36,427
(3,858)	Change in GST payable (net)*		(1,714)	–	280
	Cash disbursed to:				
(451,801)	Personnel		(500,656)	(511,051)	(485,132)
(258,024)	Operating		(259,032)	(301,001)	(303,789)
(131,871)	Capital charge		(149,719)	(143,264)	(146,855)
124,444	**Net cash flows from operating activities**	**19**	**178,043**	**110,160**	**152,712**
	CASH FLOWS FROM INVESTING ACTIVITIES				
	Cash provided from:				
28	Interest and dividends		305	–	–
816	Proceeds on sale of property, plant and equipment		1,157	–	2,309
1,510	Proceeds on sale of investments		145	–	–
	Proceeds on sale of biological assets		–	–	–
	Cash disbursed to:				
(108,812)	Purchase of property, plant and equipment		(202,064)	(389,799)	(252,551)
(14,740)	Purchase of intangible assets		(7,787)	(12,672)	(10,578)
–	Purchase of biological assets				
(121,198)	**Net cash flows from investing activities**		**(208,244)**	**(402,471)**	**(260,820)**
	CASH FLOWS FROM FINANCING ACTIVITIES				
	Cash provided from:				
65,747	Capital contribution from the Crown		281,082	323,348	281,082
	Cash disbursed to:				
(83,841)	Capital returned to the Crown		(179,871)	(66,471)	(169,871)
(3,228)	Payment of surplus to the Crown		(13,398)	(6,400)	(13,398)
(21,322)	**Net cash flows from financing activities**		**87,813**	**250,477**	**97,813**
(18,076)	**Net increase/(decrease) in cash and cash equivalents held**		**57,612**	**(41,834)**	**(10,295)**
164,761	Opening total cash and cash equivalents balances at 1 July		146,685	137,348	146,685
146,685	**Closing cash and cash equivalents balances as of 30 June**		**204,297**	**95,514**	**136,390**

During the period, the Department acquired no assets by means of finance leases (2009: nil).

* *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.*

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF COMMITMENTS

As at 30 June 2010

2009 Actual $000		2010 Actual $000
	CAPITAL COMMITMENTS	
	Property, plant and equipment	
126,327	Less than one year	87,909
568	One to five years	–
–	More than five years	–
126,895		**87,909**
	Intangible assets	
1,904	Less than one year	–
–	One to five years	–
–	More than five years	–
1,904		**–**
128,799	**Total capital commitments**	**87,909**
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	Office accommodation	
9,602	Less than one year	11,918
13,200	One to five years	15,731
4,154	More than five years	6,232
26,956		**33,881**
	Office equipment	
231	Less than one year	191
239	One to five years	1
–	More than five years	–
470		**192**
27,426	**Total non-cancellable operating lease commitments**	**34,073**
	COMMITMENTS ARISING FROM OTHER CONTRACTS	
	Offender programmes and services	
19,192	Less than one year	24,472
12,785	One to five years	42,092
–	More than five years	–
31,977		**66,564**
	Facilities management services	
–	Less than one year	19,765
–	One to five years	76,202
–	More than five years	–
–		**95,967**
	Information system support and services	
8,740	Less than one year	18,831
4,796	One to five years	68,720
–	More than five years	2,336
13,536		**89,887**
45,513	**Total commitments arising from other contracts**	**252,418**
201,738	**Total commitments**	**374,400**

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

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 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 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 2010

CONTINGENT LIABILITIES

2009 Actual $000		2010 Actual $000
5,186	Legal proceedings	3,719
904	Personal grievances	1,142
6,090	**Total contingent liabilities**	**4,861**

Legal proceedings

The Department was defending 35 (2009: 32) legal proceedings claims by prisoners and related/external parties as at 30 June 2010. 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 25 (2009: 29) employment-related claims made by staff members.

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 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 Specified 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 2010 (2009: nil).

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2010

2009 Expenditure Actual $000		2010 Expenditure Actual $000	2010 Appropriation Voted $000
	VOTE: CORRECTIONS		
	Departmental output expenditure		
43,816	Information Services	54,132	54,245
–	Management of Third Party Custodial Services	734	1,000
4,859	Policy Advice and Ministerial Services	5,109	5,509
	Prison-based Custodial Services MCOA	688,093	702,973
137,869	– *Custody of Remand Prisoners*	*145,430*	*150,103*
515,779	– *Custody of Sentenced Prisoners*	*542,663*	*552,870*
49,398	Prisoner Employment	57,796	60,398
10,566	Prisoner Transportation and Courtroom Supervision	10,483	12,010
58,638	Rehabilitative Programmes and Reintegrative Services	64,585	67,147
130,396	Sentences and Orders Served in the Community	171,330	174,159
5,930	Services to New Zealand Parole Board	5,832	6,464
2,047	Service Purchase and Monitoring	–	–
959,298	**Total departmental output expenditure**	**1,058,094**	**1,083,905**
2,893	**Re-measurements***	**(2,273)**	**–**
962,191	**Total departmental expenditure**	**1,055,821**	**1,083,905**
65,747	**Capital injections**	**281,082**	**281,082**

Refer to Part B: Statement of Service Performance for detailed performance against each output class (page 25).

* Re-measurements relate to the forestry revaluation gain of $1.460 million (2009: a gain of $1.256 million), the livestock revaluation gain of $0.605 million (2009: a loss of $2.006 million), and the long service and retirement leave valuation gain of $0.208 million (2009: a loss of $2.143 million). As per Section 4(2) of the Public Finance Act, *"Expense does not include an expense that results from (a) a re-measurement of an asset or liability".*

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

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 Policy Advice and Development appropriation (2009) was renamed Policy Advice and Ministerial Services (2010), to better reflect the outputs delivered within this appropriation.

The establishment of the new Prison-based Custodial Services Multi-Class Output Appropriation (MCOA) from the 2009/10 financial year was structured around two output classes: Custody of Remand Prisoners and Custody of Sentenced Prisoners. Measures relating to health services and crime prevention are shared measures for both remand and sentenced output classes within this MCOA.

The Escort and Custodial supervision appropriation (2009) was renamed Prisoner Transportation and Courtroom Supervision (2010), to better reflect the outputs delivered within this appropriation.

The Community-based Sentences and Orders appropriation (2009) was renamed Sentences and Orders Served in the Community (2010), to include Home Detention sentences.

The Service Purchase and Monitoring appropriation (2009) was disestablished from the 2009/10 financial year. Services to Victims and Inspectorates Services outputs were allocated to other appropriations.

A new output class Management of Third Party Custodial Services (2010) has been established specifically for the implementation cost of Public-Private Partnerships (PPP) project and the contract management of two existing prisons for the provision of custodial services. This will avoid any potential overlaps with other appropriations which currently include contracts with third parties.

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF UNAPPROPRIATED EXPENDITURE

For the year ended 30 June 2010

2009 Unappropriated Expenditure $000		2010 Actual Expenditure $000	2010 Appropriation Voted $000	2010 Unappropriated Expenditure $000
	VOTE: CORRECTIONS			
	Appropriations for output expenditure			
–	Information Services	54,132	54,245	–
–	Management of Third Party Custodial Services	734	1,000	–
–	Policy Advice and Ministerial Services	5,109	5,509	–
–	Prison-based Custodial Services MCOA	688,093	702,973	–
–	– *Custody of Remand Prisoners*	*145,430*	*150,103*	–
–	– *Custody of Sentenced Prisoners*	*542,663*	*552,870*	–
–	Prisoner Employment	57,796	60,398	–
–	Prisoner Transportation and Courtroom Supervision	10,483	12,010	–
–	Rehabilitative Programmes and Reintegrative Services	64,585	67,147	–
–	Sentences and Orders Served in the Community	171,330	174,159	–
–	Services to New Zealand Parole Board	5,832	6,464	–
–	**Total**	**1,058,094**	**1,083,905**	**–**

As at 30 June 2010, the Department had no unappropriated expenditure (2009: Nil).

The accompanying accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

STATEMENT OF TRUST MONIES

For the year ended 30 June 2010

	As at 1 July 2009 $000	Contribution $000	Distribution $000	As at 30 June 2010 $000
Prison Trust Accounts	1,445	15,357	(15,527)	1,275
	1,445	**15,357**	**(15,527)**	**1,275**

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 accounting policies and notes (page 59) form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 88).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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.

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 the Crown activities and trust monies which it administers.

Under the New Zealand equivalents to 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 2010. The financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 24 September 2010.

BASIS OF PREPARATION

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

NEW ACCOUNTING STANDARDS AND INTERPRETATION

The Department has adopted the following revisions to accounting standards during the financial year which have only had a presentational or disclosure effect:

New Zealand equivalents to International Accounting Standards (NZ IAS) 1 Presentation of Financial Statements (revised 2007)

The revised standard replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) effective 1 January 2009.

The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Department has prepared a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Those items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in taxpayers' funds.

NZ IFRS 7 Financial Instruments: Disclosures

The amended standard introduced a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of valuation inputs used. A maturity analysis of financial assets is also required to be prepared if this information is necessary to enable users to evaluate the nature and extent of liquidity risk. The transitional provisions of the amendment do not require disclosure of comparative information in the first year of application. The Department has elected to disclose comparative information.

Standards, amendments, and interpretations issued that are not yet effective and have not been adopted by the Department are outlined in the table below:

Reference	Title	Summary	Application date of standard	Application date*
NZ IFRS 9	Financial Instruments	This standard is part of the International Accounting Standards Board (IASB) project to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurements. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are initially measured at fair value (in the case of a financial asset not at fair value, through surplus or deficit), plus particular transaction costs, and subsequently measured at amortised cost of fair value.	1 January 2013	1 July 2012
NZ IAS 24	Related Party Disclosures (Revised 2009)	This standard makes amendments to New Zealand Accounting Standard 24 – Related Party Disclosures. The amendments simplify the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The effect of the revised standard is that additional information is required to be disclosed about: • transactions between the Department and entities controlled or significantly influenced by the Crown; • transactions between the Department with Ministers of the Crown; and • commitments with entities controlled or significantly influenced by the Crown.	1 January 2011	1 July 2010

**designates the beginning of the applicable annual reporting period unless otherwise stated.*

REPORTING PERIOD

The reporting period covers the 12 months from 1 July 2009 to 30 June 2010. Comparative figures for the year ended 30 June 2009 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.

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 and equipment, intangible assets, other than freehold land, forestry 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 – 65 years	(2% to 1.54%)
Buildings – commercial	75 years	(1.3%)
Buildings – wood	25 years	(4%)
Buildings – fit-outs	3 to 20 years	(33.3% to 5%)
Hut complexes – concrete	50 years	(2%)
Hut complexes – wood	25 years	(4%)
Hut fit-outs	3 to 20 years	(33.3% to 5%)
Leasehold Improvements		
Leasehold improvements	10 years	(10%)
Plant and Equipment		
Plant and machinery	10 years	(10%)
Office equipment	5 years	(20%)
Tools and equipment	5 years	(20%)
Furniture and Fittings		
Furniture and fittings – office	5 years	(20%)
Furniture and fittings – prisoner	3 years	(33.3%)
Computer Hardware		
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%)
Motor Vehicles		
Motor vehicles – heavy duty	8 years	(12.5%)
Motor vehicles – other	5 years	(20%)

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.

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 issued 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 assets, 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, 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 pre-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 due to changes in the per head value of the livestock at balance date are taken to the surplus or deficit.

Gains and losses due to changes in livestock numbers are taken directly to the surplus or deficit.

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

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 3.73 percent to 6.15 percent (2009: 3.49 percent to 6.35 percent), and a future salary growth rate of 3.00 percent (2009: 3.00 percent) were used. The discount rates are based on the weighted average of government interest rates for stock with terms to maturity similar to those of the relevant liabilities.

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. The provision is 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 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 has not yet been reported or only partially assessed, 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.

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 in terms of the Income Tax Act 2004. 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 presented in the 2009/10 Main and Supplementary Estimates.

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.

CHANGES IN ACCOUNTING POLICIES

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

COST ACCOUNTING POLICIES

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

COST ALLOCATION

Direct costs are charged to outputs based on actual consumption or activity analysis. Pre-established ratios have been used in some instances. Direct costs are costs that can be identified in an economically feasible manner and are directly attributed to an output.

Indirect costs are allocated to outputs based on appropriate resource consumption and/or activity analysis. Indirect costs are costs that cannot be directly attributed to an output in an economically feasible manner.

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

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
30,006	External revenue – sale of goods	34,207	24,498	34,498
515	External revenue – services	342	–	–
1,706	Board and rents	1,691	1,500	1,500
699	Miscellaneous	1,264	–	–
32,926	**Total other revenue**	**37,504**	**25,998**	**35,998**

NOTE 3: PERSONNEL COSTS

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
446,221	Salaries and wages	482,845	498,595	477,524
527	Government Superannuation Fund contribution expense	484	550	575
7,414	State Sector Retirement Savings Scheme and KiwiSaver employer contribution	11,122	7,409	7,633
–	Restructuring costs	5,731	–	–
5,884	Increase in annual leave	947	2,307	1,187
4,542	Increase in retirement and long service leave	1,092	7,790	3,177
(5,355)	Decrease in common leave	–	–	–
23	Increase in sick leave	97	–	–
459,256	**Total personnel costs**	**502,318**	**516,651**	**490,096**

In 2009 Cabinet rescinded common leave provisions of $5.355 million previously provided for in the 2008 financial year.

The retiring and long service leave includes a remeasurement gain of $0.208 million (2009: a loss of $2.143 million) due to a change in discount rates between 30 June 2009 and 30 June 2010.

NOTE 4: OPERATING COSTS

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
15,319	Operating lease rentals	16,476	17,600	16,300
297	Audit fees for financial statement audit	307	318	328
70	Fees to auditors for other services	130	–	–
63,045	Facilities maintenance	77,003	54,462	59,186
43,147	Offender management costs	40,944	72,963	71,157
11,121	Computer costs	14,020	10,379	11,559
22,282	Contract management	25,127	22,152	26,444
32,048	Administration	36,020	38,247	39,489
106	Receivables written off during period	152	(13)	64
1,636	ACC Partnership Programme	(639)	–	–
9,353	Inventory expenses	14,126	–	–
45,091	Other operating costs	50,507	80,735	73,355
1,013	Biological assets revaluation	(2,812)	–	–
1,231	Investment revaluation	105	–	–
506	Net loss on sale or disposal of property, plant and equipment	2,479	–	–
246,265	**Total operating costs**	**273,945**	**296,843**	**297,882**

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

- the provision of prison transportation;
- the provision of electronic security services;
- the Prison Capacity Development project;
- the facilities management services outsourcing;
- the provision of prison management services for Auckland Central Remand Prison and Mt Eden; and
- the information technology outsourcing process.

Contract management represents contracts with First Security Guard Service Limited, Chubb New Zealand Limited, G4S EM International Ltd and G4S EMS New Zealand Ltd.

NOTE 5: DEPRECIATION AND AMORTISATION

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
	DEPRECIATION			
99,874	Buildings	101,654	86,237	103,640
1,816	Leasehold improvements	2,493	300	585
4,257	Plant and equipment	4,373	3,794	4,262
1,680	Furniture and fittings	1,525	1,336	1,591
4,704	Computer hardware	5,549	2,870	5,445
3,808	Motor vehicles	3,859	4,446	3,832
116,139	**Depreciation charge**	**119,453**	**98,983**	**119,355**
	AMORTISATION			
8,660	Computer software	10,386	9,735	10,349
8,660	**Amortisation charge**	**10,386**	**9,735**	**10,349**
124,799	**Total depreciation and amortisation charge**	**129,839**	**108,718**	**129,704**

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 years ended 30 June 2009 and 2010 was 7.5 percent per annum.

NOTE 7: CASH AND CASH EQUIVALENTS

2009 Actual $000		2010 Actual $000
146,685	Cash and bank balances	204,297
146,685	**Total cash and cash equivalents**	**204,297**

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

2009 Actual $000		2010 Actual $000
3,019	Prepayments	2,381
3,019	**Total prepayments**	**2,381**

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

NOTE 9: DEBTORS AND OTHER RECEIVABLES

2009 Actual $000		2010 Actual $000
3,728	Debtor Crown	–
3,728	**Crown debtors**	
3,771	Trade debtors – external	3,287
238	Employee advances	154
(95)	Less provision for impairment	(43)
3,914	**Trade debtors – external and employees**	**3,398**
3,637	Trade debtors – other government entities	2,999
3,637	**Trade debtors – other government entities**	**2,999**
11,279	**Total debtors and other receivables**	**6,397**

The carrying value of trade debtors approximates their fair value.

In 2009, the Crown debtor of $3.728 million related to funding provided for the 2009 Bargaining Round which was, at the time, subject to approval from the Minister of Finance.

The Department does not make loans to employees other than minor salary/travel advances and salary overpayments. 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 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.

As at 30 June 2009 and 2010, all overdue receivables have been assessed for impairment and appropriate provisions applied.

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

	2009			2010		
	$000 Gross	$000 Impairment	$000 Net	$000 Gross	$000 Impairment	$000 Net
Not past due	8,955	–	**8,955**	5,374	–	**5,374**
Past due 1-30 days	2,013	–	**2,013**	897	–	**897**
Past due 31-60 days	121	–	**121**	(2)	–	**(2)**
Past due 61-90 days	205	(22)	**183**	171	(43)	**128**
Past due > 91 days	80	(73)	**7**			
	11,374	**(95)**	**11,279**	**6,440**	**(43)**	**6,397**

Movements in the provision for impairment of debtors and other receivables are as follows:

2009 Actual $000		2010 Actual $000
145	Balance at 1 July	95
(48)	Additional provisions made during the year	(52)
(2)	Receivables written off during the year	

95	**Balance at 30 June**	**43**

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 2010 the Department has identified no debtors (2009: Nil) that are insolvent.

NOTE 10: INVENTORIES

2009 Actual $000		2010 Actual $000
4,563	Inventory held for the use in the provision of goods and services	8,488
1,881	Finished goods	1,432
6,444	**Total inventories**	**9,920**

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

2009 Actual $000		2010 Actual $000
5,695	Investments	5,590
5,695	**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 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 2009. 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 2009 totalled $1,782.355 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

$3.782 million (2009: $4.368 million).

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	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 2008	142,097	1,555,779	13,121	40,665	11,580	41,664	39,259	1,844,165
Additions	1,401	19,887	1,616	2,651	720	5,519	4,366	36,160
Revaluation increase/(decrease)	71,892	(18,216)	–	–	–	–	–	53,676
Transfer to assets held for sale	–	–	–	–	–	–	–	–
Disposals/transfers	(14)	9,529	(110)	(1,785)	(403)	(2,715)	(2,278)	2,224
Cost or valuation at 30 June 2009	**215,376**	**1,566,979**	**14,627**	**41,531**	**11,897**	**44,468**	**41,347**	**1,936,225**
Add: Movements								
Additions	658	81,630	907	4,779	1,354	4,964	6,347	100,639
Revaluation increase/(decrease)	–	–	–	–	–	–	–	–
Transfer to assets held for sale	–	–	–	–	–	–	–	–
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**
Accumulated depreciation and impairment losses								
Balance 1 July 2008	–	(92,555)	(5,859)	(23,215)	(7,315)	(29,460)	(22,805)	(181,209)
Depreciation expense	–	(99,874)	(1,816)	(4,257)	(1,680)	(4,704)	(3,808)	(116,139)
Disposals/transfers	–	461	460	1,914	371	486	1,668	5,360

	Land $000	Buildings $000	Leasehold Improvements $000	Plant & Equipment $000	Furniture & Fittings $000	Computer Hardware $000	Motor Vehicles $000	Total $000
Revaluation increase/(decrease)	–	191,629	–	–	–	–	–	191,629
Transfer to assets held for sale	–	–	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–
Accumulated depreciation and impairment losses at 30 June 2009	**–**	**(339)**	**(7,215)**	**(25,558)**	**(8,624)**	**(33,678)**	**(24,945)**	**(100,359)**
Add: Movements								
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
Revaluation increase/(decrease)	–	–	–	–	–	–	–	–
Transfer to assets held for sale	–	–	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–
Accumulated depreciation and impairment losses at 30 June 2010	**–**	**(101,993)**	**(9,043)**	**(28,493)**	**(8,889)**	**(32,940)**	**(25,392)**	**(206,750)**
Carry amounts per asset class								
At 30 June 2009	**215,376**	**1,566,640**	**7,412**	**15,973**	**3,273**	**10,790**	**16,402**	**1,835,866**
At 30 June 2010	**216,011**	**1,600,008**	**8,110**	**17,447**	**1,194**	**11,596**	**18,299**	**1,872,665**
Add: Assets under construction								
At 30 June 2009								**105,406**
At 30 June 2010								**154,872**
Total carrying amounts								
At 30 June 2009								**1,941,272**
At 30 June 2010								**2,027,537**

NOTE 13: INTANGIBLE ASSETS

	Acquired Software $000	Internally Generated Software $000	Total Intangible Assets $000
Cost or valuation			
Balance 1 July 2008	31,963	45,845	77,808
Additions	551	2,947	3,498
Disposals/transfers	(541)	7,104	6,563
Cost or valuation at 30 June 2009	**31,973**	**55,896**	**87,869**
Add: Movements			
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**
Accumulated depreciation and impairment losses			
Balance 1 July 2008	(24,315)	(23,309)	(47,624)
Amortisation expense	(2,848)	(5,812)	(8,660)
Disposals/transfers	294	(40)	254
Impairment losses	–	–	–
Accumulated depreciation and impairment losses at 30 June 2009	**(26,869)**	**(29,161)**	**(56,030)**
Add: Movements			
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)**
Carrying amounts			
At 30 June 2009	**5,104**	**26,735**	**31,839**
At 30 June 2010	**8,140**	**31,404**	**39,544**
Add: Assets under construction			
At 30 June 2009	**4,668**	**7,681**	**12,349**
At 30 June 2010	**385**	**251**	**636**
Total carrying amounts			
At 30 June 2009	**9,772**	**34,416**	**44,188**
At 30 June 2010	**8,525**	**31,655**	**40,180**

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 2008	26,373	11,931	38,304
Purchases	–	221	221
Gains/(losses) arising from changes in fair value less estimated point of sale costs	4,355	3,128	7,483
Sales/harvest	(2,691)	(5,582)	(8,273)
Cost or valuation at 30 June 2009	**28,037**	**9,698**	**37,735**
Add: Movements			
Purchases	–	717	717
Gains/(losses) 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**
Carrying amounts			
At 30 June 2009	**28,037**	**9,698**	**37,735**
At 30 June 2010	**30,442**	**10,689**	**41,131**

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	4,512.29 ha
	Land rated as reserve	1,332.40 ha
	Total legal area	**5,844.69 ha**

The valuation of forests was undertaken by an independent registered valuer, PF Olsen and Company Limited, on 31 March 2010. 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 7.0 percent (2009: 7.0 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 3.0 percent (2009: 3.0 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 2010, livestock on hand comprised 16,261 sheep (2009: 16,753); 1,749 beef cattle (2009: 1,848); 4,329 dairy cattle (2009: 4,296); 2,542 deer (2009: 2,610) and 6,752 pigs (2009: 5,950).

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

2009 Actual $000		2010 Actual $000
18,867	Trade creditors	30,816
44,030	Accrued expenses	55,211
4,720	GST payable	3,006
67,617	**Total creditors and other payables**	**89,033**

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

2009 Actual $000		2010 Actual $000
	Current liabilities	
45,055	Annual leave	46,027
1,153	Sick leave	1,250
18,400	Retirement and long service leave	19,336
64,608	**Total current portion**	**66,613**
	Non-current liabilities	
12,618	Retirement and long service leave	12,412
12,618	**Total non-current portion**	**12,412**
77,226	**Total provision for employee entitlements**	**79,025**

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 2010 was conducted by an 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 2010 valuation are that future salary growth rates are 3.00 percent (2009: 3.00 percent) per annum and discount rates ranged from 3.73 percent to 6.15 percent (2009: 3.49 percent to 6.35 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 to possible, the estimated future cash outflows. The salary growth assumption is consistent with the results of the Aon Economists' Survey.

NOTE 17: PROVISIONS

2009 Total Provisions Actual $000		2010 Restructuring Actual $000	2010 Employee Accidents Actual $000	2010 Total Provisions Actual $000
7,745	Balance at 1 July	–	8,578	8,578
5,172	Additional provisions	3,072	2,922	5,994
(4,339)	Charged against provision	–	(3,292)	(3,292)
8,578	**Total provisions**	**3,072**	**8,208**	**11,280**

RESTRUCTURING

The restructure provision has arisen from the changes to the Department's organisational structure. The restructuring is expected to be completed in the 2010/11 financial year. The provision reflects the estimated cost for redundancy payments arising from the restructure.

EMPLOYEE ACCIDENTS

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

2009 Actual $000		2010 Actual $000
4,371	Outstanding claims liability	3,732
4,207	ACC levies	4,476
8,578	**Total outstanding claims liability and ACC levies**	**8,208**

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 2010. 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 2010 is $3.732 million, compared to a result as at 31 May 2009 of $4.257 million and the roll-forward estimate as at 30 June 2009 of $4.371 million. This is a significant reduction, primarily due to a change in valuation methodology, which places more emphasis on the Department's own claims experience than was previously the case.

The new valuation methodology, the actuarial Bornheutter-Fergusson (BF) method, was used on a quarterly basis to derive the estimated cost of claims payments.

An actuarial BF method uses the weighted average of past claims development applied to an estimate of the ultimate claims costs to project future claims development. The estimated ultimate claims costs are derived for each loss period using some measure of exposure and an assumed loss ratio. It can be applied to claims paid, incurred claims and also to claims counts. The methodology used liable earnings as the measure of exposure and the graduated weighted average of past claim payments development to project future claim payments development. The graduated weighted average BF development factors were derived from the Department's own past payments pattern.

This differs from the methodology used for previous valuations which used generic ACC factors to estimate the incurred but not reported claims (IBNR) and reopen claims costs. The change in valuation methodology has been due to ACC advising the actuary that the method previously used by ACC, and for which ACC regularly updated factors, was considered to be no longer applicable.

The principal assumptions made were:

- under the BF method, 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 0.60 percent of liable earnings was determined by considering the observed loss ratios for developed loss quarters;
- a discount rate of 6.0 percent was chosen to be consistent with the ACC 2010/11 Work Account Consultation Document; 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 11.7 percent would be added by ACC.

The estimated ACCPP outstanding claims liability as at 30 June 2010 included a provision for future claims handling expenses of 7.5 percent of expected future claims costs.

The Department's largest ever claim was incurred in May 2010 with an estimated total cost of $898,000 (discounted $560,000) almost all of which is outstanding. This claim has no precedent in the Department's experience in terms of size. As such, the 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.

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
	GENERAL FUNDS			
1,519,977	Balance at 1 July	1,501,883	1,501,883	1,501,883
13,398	Net surplus/(deficit) attributable to the Crown	29,572	–	19,368
65,747	Capital contribution from the Crown	281,082	323,348	281,082
(83,841)	Capital returned to the Crown	(179,871)	(66,471)	(169,871)
(4,696)	Total movement in general funds	130,783	256,877	130,579
(13,398)	Provision for repayment of surplus to the Crown	(29,572)	–	(19,368)
1,501,883	**Balance at 30 June**	**1,603,094**	**1,758,760**	**1,613,094**
	REVALUATION RESERVES			
279,762	Balance at 1 July	527,615	279,762	527,615
245,305	Revaluation gains/(losses)	–	–	–
2,548	Net write-back of revaluation gains/(losses)	(2,186)	–	–
527,615	**Balance at 30 June**	**525,429**	**279,762**	**527,615**
2,029,498	**Total Taxpayers' Funds at 30 June**	**2,128,523**	**2,038,522**	**2,140,709**

The net surplus attributable to the Crown must be repaid by 31 October each year.

The Department has no restricted reserves.

REVALUATION RESERVES

2009 Actual $000		2010 Actual $000
	Asset Revaluation Reserves	
	Land	
65,488	**Balance at 1 July**	**137,380**
71,892	Revaluation gains/(losses)	–
–	Net write-back of revaluation gains/(losses)	–
137,380	**Balance at 30 June**	**137,380**
	Buildings	
212,007	**Balance at 1 July**	**387,968**
173,413	Revaluation gains/(losses)	–
2,548	Net write-back of revaluation gains/(losses)	(2,186)
387,968	**Balance at 30 June**	**385,782**
525,348	**Total Asset Revaluation Reserves at 30 June**	**523,162**
	Fair Value Through Equity Reserve	
2,267	**Balance at 1 July**	**2,267**
–	Revaluation gains/(losses)	–
–	Net write-back of revaluation gains/(losses)	–
2,267	**Balance at 30 June**	**2,267**
527,615	**Total Revaluation Reserves at 30 June**	**525,429**

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

2009 Actual $000		2010 Actual $000	2010 Main Estimates $000	2010 Supp. Estimates $000
13,398	**Net surplus/(deficit) attributable to the Crown**	**29,572**	–	**19,368**
	Add/(less) non-cash items			
124,799	Depreciation and amortisation	129,839	108,718	129,704
–	Impairment charges	–	–	–
(3,189)	Non-current employee entitlements	(208)	–	–
58	Other non-cash items	91	–	–
121,668	**Total non-cash items**	**129,722**	**108,718**	**129,704**
	(Increase)/Decrease in Working capital			
(5,645)	Debtors and other receivables	4,781	–	3,874
(533)	Inventories	(3,476)	(58)	155
(1,031)	Prepayments	638	–	3,912
(15,313)	Creditors and other payables	13,890	1,500	(3,502)
833	Provisions	2,702	–	–
8,345	Current employee entitlements	2,007	–	(799)
(13,344)	**Working capital movements – net**	**20,542**	**1,442**	**3,640**
	Add/(less) items classified as investing or financing activities			
(28)	Dividends	(305)	–	–
1,013	Biological assets revaluation loss	(3,396)	–	–
1,231	Investments revaluation loss	(40)	–	–
(156)	Net loss/(gain) on sale or disposal of investments	34	–	–
662	Net loss/(gain) on sale or disposal of property, plant and equipment	1,914	–	–
2,722	**Total investing activity items**	**(1,793)**	–	–
124,444	**Net cash flow from operating activities**	**178,043**	**110,160**	**152,712**

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 enters into numerous transactions with other government departments, Crown agencies and state-owned enterprises on an 'arm's length' basis. Where those parties are acting in the course of their normal dealings with the Department, related party disclosures have not been made for transactions of this nature.

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

As no related party transactions occurred, 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 note. The Department has determined key management personnel as the Chief Executive and the Executive Team.

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include the Chief Executive, the Deputy Chief Executive and seven General Managers (2009: eight General Managers).

2009 Actual $000		2010 Actual $000
2,516	Salary and other short term benefits	2,731
–	Post employment benefits	–
22	Other long-term benefits	26
–	Termination benefits	381
2,538	**Total key management personnel compensation**	**3,138**

The Deputy Chief Executive commenced in the role on 1 July 2009. On 14 December 2009, the Chief Executive announced the new Executive Team, which reduced the number of general managers from eight to seven.

NOTE 23: POST-BALANCE DATE EVENTS

The Department's three prisons in Christchurch (Christchurch Men's, Christchurch Women's and Rolleston) have sustained damage as a result of the Canterbury earthquake on 4 September 2010. The Department is still evaluating the extent of the damage and is unable to quantify the value of any impairment to assets at this point in time.

There were no other post-balance sheet events that required adjustments 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, accounts receivable 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 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**	–
As at 30 June 2009				
Local Currency Financial Assets				
Cash and Cash Equivalents	146,685	146,685	–	–
Investments	5,695	5,438	257	–
Total Local Currency Financial Assets	**152,380**	**152,123**	**257**	–

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:

2009 Actual $000		2010 Actual $000
	Counterparties with Credit Ratings	
	Cash and Cash Equivalents	
146,685	AA	204,297
–	Non-rated	–
146,685	**Total cash and cash equivalents**	**204,297**
	Investments	
5,418	AA	5,272
277	Non-rated	318
5,695	**Total investments**	**5,590**
	Counterparties without Credit Ratings	
	Debtors and other receivables	
6,168	Existing counterparty with no defaults in the past	6,326
68	Existing counterparty with defaults in the past	72
6,236	**Total debtors and other receivables**	**6,398**
	Prepayments	
3,019	Existing counterparty with no defaults in the past	2,381
–	Existing counterparty with defaults in the past	–
3,019	**Total prepayments**	**2,381**

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.

2009 Actual $000		2010 Actual $000
	Creditors and other payables (note 15)	
67,617	Less than six months	89,033
–	Between six to twelve months	–
67,617		**89,033**

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 Instrument: Disclosures* does not prescribe the format for presenting sensitivity analysis, the Department has chosen to make the following disclosures.

Categories of Financial Instruments

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.

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

2009 Actual $000		2010 Actual $000
	FINANCIAL ASSETS	
	Cash and receivables	
146,685	Cash and cash equivalents (note 7)	204,297
11,279	Debtors and other receivables (note 9)	6,397
157,964	**Total cash and receivables**	**210,694**
	Fair value through surplus or deficit	
5,695	Investments (note 11)	5,590
5,695	**Total investments**	**5,590**
163,659	**Total financial assets**	**216,284**
	FINANCIAL LIABILITIES	
67,617	Creditors and other payables (note 15)	89,033
67,617	**Total financial liabilities**	**89,033**

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: 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 2009/10 Main and Supplementary Estimates are as follows:

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

- restoring Community Probation and Psychological Services capacity to manage increases in demand, enhancing the quality of Parole and Home Detention management, and mitigating waiting times in Auckland's Criminal Courts;
- provision of double bunking facilities at five prisons and the 60 bed modular units at Rimutaka Prison;
- additional capital charge payable due to the revaluation of land and buildings as at 30 June 2009.

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 Prisoner Employment activities.

The increase in cash compared to the Main and Supplementary Estimates is due to the delay in and re-prioritisation of capital projects. This funding will be carried forward to the 2010/11 financial year. It is also as a result of the double bunking project being completed significantly under budget.

Physical assets and net cash flows from investing activities are lower compared with the Supplementary Estimates because of delay in and re-prioritisation of capital projects, as well as the double bunking project being completed under budget.

The increase in inventories compared with the Supplementary Estimates is mainly due to the Engineering Sector, within Corrections Inmate Employment, which is carrying 31 vehicles requiring further refurbishment works for the Prisoner Escort Transportation Project. These vehicles are expected to be delivered in the first quarter of the 2010/11 financial year.

Creditors and other payables are higher compared with the Main and Supplementary Estimates mainly due to the 2009 Collective Bargaining Round, unpaid capital expenditure and timing arising from when operational payments were made at the end of the financial year.

The increase in provisions compared with the 2008/09 financial year is mainly due to a provision of $3.1 million for redundancy costs arising from the Department's organisational changes.