Annual Financial Statements

THE YEAR AT A GLANCE

IN 2013/14 THE DEPARTMENT OF CORRECTIONS:

Financial health

> received a high score against all nine principles in the Chartered Institute of Public Finance and Accountancy Treasury Internal Controls Knowledge Survey (CIPFA TICK)

> was notified that its Administrative and Support Services spend as a percentage of its Organisational Running Costs (ORC), is in the upper quartile performance of the 2012/13 Benchmarking Administrative and Support Services (BASS) large agency cohort

> initiated a second Expenditure Review programme to assist in enhancing financial sustainability beyond 2013/14 and to continue the Department's focus on lifting its productivity and performance.

Financial improvements

> realised $10.9 million of efficiency savings, principally through optimising the Department's balance sheet and corporate efficiencies

> successfully implemented its Lifting Our Productivity restructure within the National Office.

Expenditure

> managed its $1.2 billion operating budget within two per cent, before expense transfers

> reinvested $15 million in initiatives designed to reduce re-offending

> improved controls around contractors and consultants resulting in a $2.8 million under spend against budget

> achieved a reduction in domestic travel expenditure of $0.9 million compared to budget through careful fiscal management and through the use of advanced AVL technology.

Financial pressures

> absorbed the financial impact of the Collective Bargaining Round and Lifting Our Productivity restructure

> absorbed an increase in the KiwiSaver employer contribution rate from 2 to 3 per cent

> successfully managed the operational and financial impact of the riot at Spring Hill Corrections Facility

> absorbed additional Information Technology (IT) costs to support further capital expansion

> absorbed increased costs arising from legislative and policy changes.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

2013 Actual $000		Notes	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Forecast* (unaudited) $000
	REVENUE					
1,140,554	Crown		1,174,817	1,167,589	1,174,817	1,153,604
290	Departmental revenue		364	146	537	–
38,883	Other revenue	2	41,370	31,102	43,875	31,885
418	Dividend revenue		139	–	–	–
1,489	Gains on biological assets		4,480	–	–	–
3,364	Gains on shares		19	–	–	–
1,184,998	**Total operating revenue**		**1,221,189**	**1,198,837**	**1,219,229**	**1,185,489**
	EXPENDITURE					
516,048	Personnel costs	3	539,484	534,031	535,366	543,065
332,609	Operating costs	4	342,534	349,328	375,700	312,942
124,310	Depreciation and amortisation		122,401	130,631	124,575	145,638
185,184	Capital charge	5	183,588	184,847	183,588	183,844
1,331	Earthquake related		1,118	–	–	–
–	Losses on shares		1,738	–	–	–
1,159,482	**Total operating expenses**		**1,190,863**	**1,198,837**	**1,219,229**	**1,185,489**
25,516	**Net surplus/(deficit)**		**30,326**[15]	–	–	–
	OTHER COMPREHENSIVE INCOME					
(18,623)	Revaluation gains/(losses) on land and buildings		218,644	–	–	–
(18,623)	**Total other comprehensive income**		**218,644**	–	–	–
6,893	**Total comprehensive income**		**248,970**	–	–	–

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 23 (page 120).

15 Net surplus includes $2.761 million net revaluation gains and up to $9.8 million of expense transfers.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

For the year ended 30 June 2014

2013 Actual $000		Notes	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Forecast* (unaudited) $000
2,314,805	**Taxpayers' funds at 1 July**		**2,294,845**	**2,330,086**	**2,298,045**	**2,298,045**
	Changes in taxpayers' funds during the year					
	Transfers from statement of comprehensive income					
25,516	Add/(deduct) net surplus/(deficit)		30,326	–	–	–
(18,623)	Increase/(decrease) in revaluation reserves	16	218,644	–	–	–
6,893	**Total comprehensive income**		**248,970**	–	–	–
	Adjustment for flows to and from the Crown					
–	Add capital contributions from the Crown during the year	16	3,200	–	–	–
(6,190)	Less capital returned to the Crown during the year	16	–	–	–	–
(20,663)	Provision for payment of surplus to the Crown		(27,565)	–	–	–
(26,853)	**Total adjustments for flows to and from the Crown**		**(24,365)**	–	–	–
2,294,845	**Taxpayers' funds at 30 June**		**2,519,450**	**2,330,086**	**2,298,045**	**2,298,045**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 23 (page 120).

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

2013 Actual $000		Notes	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Forecast* (unaudited) $000
	ASSETS					
	Current assets					
123,192	Cash and cash equivalents	6	82,337	180,053	100,000	100,000
4,894	Prepayments		1,973	3,025	3,025	3,025
327,662	Debtors and other receivables	7	388,340	170,995	235,562	182,682
4,305	Inventories	8	4,105	6,231	5,000	5,000
460,053	**Total current assets**		**476,755**	**360,304**	**343,587**	**290,707**
	Non-current assets					
8,837	Investments	9	7,130	5,590	8,838	8,838
1,986,655	Property, Plant and Equipment	10	2,389,128	2,233,373	2,233,621	2,366,135
58,600	Intangible assets	11	67,696	83,079	72,481	71,214
48,628	Biological assets	12	53,223	45,259	48,630	48,630
2,102,720	**Total non-current assets**		**2,517,177**	**2,367,301**	**2,363,570**	**2,494,817**
2,562,773	**Total assets**		**2,993,932**	**2,727,605**	**2,707,157**	**2,785,524**
	LIABILITIES					
	Current liabilities					
98,042	Creditors and other payables	13	119,749	79,101	88,000	88,000
72,267	Employee entitlements	14	75,422	66,721	69,000	69,000
6,655	Provisions	15	6,833	7,779	7,779	7,779
20,663	Provision for repayment of surplus to the Crown	16	27,565	–	–	–
197,627	**Total current liabilities**		**229,569**	**153,601**	**164,779**	**164,779**
	Non-current liabilities					
13,654	Employee entitlements	14	13,580	12,618	13,000	13,000
56,647	Other financial liabilities	21	231,333	231,300	231,333	309,700
70,301	**Total non-current liabilities**		**244,913**	**243,918**	**244,333**	**322,700**
267,928	**Total liabilities**		**474,482**	**397,519**	**409,112**	**487,479**
	TAXPAYERS' FUNDS					
1,753,732	General funds	16	1,759,693	1,771,219	1,756,932	1,756,932
541,113	Reserves	16	759,757	558,867	541,113	541,113
2,294,845	**Total taxpayers' funds**		**2,519,450**	**2,330,086**	**2,298,045**	**2,298,045**
2,562,773			**2,993,932**	**2,727,605**	**2,707,157**	**2,785,524**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 23 (page 120).

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

2013 Actual $000		Notes	2014 Actual $000	2014 Main Estimates $000	2014 Supp. Estimates $000	2015 Forecast* (unaudited) $000
	CASH FLOWS FROM OPERATING ACTIVITIES					
	Cash provided from:					
918,252	Receipts from Crown		1,124,111	1,167,589	1,254,887	1,242,554
513	Receipts from departments		364	146	575	–
38,944	Receipts from other revenue		38,853	31,102	37,837	31,885
	Cash disbursed to:					
(513,299)	Payments to employees		(536,403)	(531,384)	(531,445)	(545,557)
(334,224)	Payments to suppliers		(318,269)	(351,876)	(377,690)	(294,183)
(32,842)	GST payable (net)		(5,075)	–	3,587	8,560
(185,184)	Payments for capital charge		(183,476)	(184,847)	(183,588)	(183,844)
(107,840)	**Net cash flows from operating activities**	17	**120,105**	**130,730**	**204,163**	**259,415**
	CASH FLOWS FROM INVESTING ACTIVITIES					
	Cash provided from:					
418	Receipts from interest and dividends		139	–	–	–
771	Receipts from sale of physical and intangible assets		332	1,000	1,000	1,000
	Cash disbursed to:					
(56,387)	Purchase of physical assets		(125,656)	(144,680)	(187,322)	(221,076)
(20,129)	Purchase of intangible assets		(18,312)	(26,752)	(23,570)	(20,000)
(75,327)	**Net cash flows from investing activities**		**(143,497)**	**(170,432)**	**(209,892)**	**(240,076)**
	CASH FLOWS FROM FINANCING ACTIVITIES					
	Cash provided from:					
–	Capital injections		3,200	19,500	3,200	–
	Cash disbursed to:					
–	Interest payment		–	–	–	(4,100)
(8,827)	Return of operating surpluses		(20,663)	–	(20,663)	(15,239)
(8,827)	**Net cash flows from financing activities**		**(17,463)**	**19,500**	**(17,463)**	**(19,339)**
(191,994)	**Net increase/(decrease) in cash**		**(40,855)**	**(20,202)**	**(23,192)**	**–**
315,186	Cash at the beginning of the year		123,192	200,255	123,192	100,000
123,192	**Cash at the end of the year**		**82,337**	**180,053**	**100,000**	**100,000**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 23 (page 120).

STATEMENT OF COMMITMENTS

As at 30 June 2014

2013 Actual $000		2014 Actual $000
	CAPITAL COMMITMENTS	
	Property, Plant and Equipment	
189,364	Less than one year	115,261
80,685	One to five years	14,893
270,049	**Total capital commitments**	**130,154**
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	Office accommodation	
12,309	Less than one year	12,037
30,407	One to five years	37,847
21,180	More than five years	20,766
63,896	**Total non-cancellable operating lease commitments**	**70,650**
333,945	**Total commitments**	**200,804**

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 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 above as future commitments are based on current rental rates.

The accompanying notes form part of these financial statements.

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2014

QUANTIFIABLE CONTINGENT LIABILITIES AND ASSETS

2013 Actual $000		2014 Actual $000
1,048	Legal proceedings	1,477
195	Personal grievances	360
1,243	**Total quantifiable contingent liabilities**	**1,837**
–	Insurance proceeds	5,800
–	**Total quantifiable contingent assets**	**5,800**

QUANTIFIABLE CONTINGENT LIABILITIES

Legal proceedings

The Department was defending 40 (2013: 30) legal claims by prisoners as at 30 June 2014. They cover a range of areas, including breach of the *New Zealand 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 defending 10 (2013: 14) employment related claims made by staff members as at 30 June 2014.

QUANTIFIABLE CONTINGENT ASSETS

Insurance proceeds

The Department has two quantifiable contingent assets both relating to insurance claims for the damage caused by the riot at the Spring Hill Corrections Facility which took place on 1 June 2013 and the damage caused by the 2012 Christchurch Earthquake, which took place in February 2012. Both settlements are still being negotiated at 30 June 2014.

The accompanying notes form part of these financial statements.

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2014

2013 Expenditure after remeasurements $000		2014 Expenditure before remeasurements $000	2014 Remeasurements $000	2014 Expenditure after remeasurements $000	2014 Appropriation Voted $000	2015 Forecast* (unaudited) $000
	VOTE: CORRECTIONS					
	Departmental output expenditure					
58,842	Information Services	51,767	–	51,767	54,213	53,277
4,618	Policy Advice and Ministerial Services MCOA	4,406	–	4,406	5,702	5,609
3,621	– *Policy Advice*	*3,071*	–	*3,071*	*4,216*	*4,135*
997	– *Ministerial Services*	*1,335*	–	*1,335*	*1,486*	*1,474*
742,859	Prison-based Custodial Services	759,219	–	759,219	761,520	727,636
145,923	Rehabilitation and Reintegration	163,675	(1,738)	161,937	177,671	178,742
203,233	Sentences and Orders Served in the Community	210,307	–	210,307	217,835	218,470
4,007	Contract Management of Services provided by Third Parties	1,489	–	1,489	2,288	1,755
1,159,482	**Total departmental output expenditure**	**1,190,863**	**(1,738)**	**1,189,125**	**1,219,229**	**1,185,489**
	Appropriation for capital expenditure					
133,163	**Corrections – Permanent Legislative Authority**	**318,858**	**–**	**318,858**	**385,578**	**319,715**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

Refer to Part B: Statement of Service Performance for detailed performance against each output class (pages 59 – 83).

Changes in appropriation structure

There were no changes in appropriation structure during the year.

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 23 (page 120).

STATEMENT OF UNAPPROPRIATED EXPENDITURE

For the year ended 30 June 2014

There was no un-appropriated expenditure for the year ended 30 June 2014 (2013: nil).

STATEMENT OF TRUST MONIES

For the year ended 30 June 2014

	As at 1 July 2013 $000	Contribution $000	Distribution $000	As at 30 June 2014 $000
Prison Trust Accounts	1,756	15,646	(15,048)	2,354
	1,756	**15,646**	**(15,048)**	**2,354**

Prison Trust Accounts represent funds 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.

Money held in trust is not included in the Department's reported bank balances. Trust money is held on behalf of prisoners in the bank accounts maintained by each prison (one bank account per prison).

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

Note 1: Statement of accounting policies

REPORTING ENTITY

The Department of Corrections (the Department) is a Government Department as defined by Section 2 of the *Public Finance Act 1989*. It is domiciled in New Zealand.

The Department administers New Zealand's corrections system in a way that is designed to improve public safety, reduce re-offending and that contributes to the maintenance of a fair and just society.

Statutory authority

The financial statements for the Department have been prepared in accordance with the requirements of the *Public Finance Act 1989*. For the purposes of financial reporting the Department is classified as a public benefit entity.

Reporting period

The reporting period for these financial statements is the year ended 30 June 2014. Comparative figures are for the year ended 30 June 2013.

The financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 24 September 2014.

Statement of compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to IFRS (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. These financial statements also comply with all Treasury Instructions.

For the purposes of these forecast financial statements, the entity has been designated as a public benefit entity. These forecast financial statements for the year ended 30 June 2014 comply with *Financial Reporting Standard 42: Prospective Financial Statements*.

ACCOUNTING POLICIES AND MEASUREMENT SYSTEM

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

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

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand ($000). The functional currency is New Zealand dollars.

Changes in accounting policies

There were no changes to the Department's accounting policies during the period.

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

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Department is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards have been developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014 and were published in May 2013. This means the Department will transition to the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

The Department anticipates that these standards will have no material impact on the financial statements in the period of initial application. It is likely that the changes arising from this framework will affect the disclosures required in the financial statements. However, it is not practicable to provide a reasonable estimate until a detailed review has been completed.

Standards, amendments and interpretations issued that have been early adopted

The Department has elected to early adopt PBE IPSAS 32 Service Concession Arrangement – Grantor.

CRITICAL JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 discussed below.

Retiring and long service leave

An independent actuarial valuation was undertaken by Aon Consulting New Zealand Ltd as at 30 June 2014 and 2013 to estimate the present value of long service and sick leave liabilities. 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.

Note 14 provides an analysis of the exposure and assumptions in relation to estimates and uncertainties surrounding these liabilities.

Revaluation of land and buildings

Critical judgements in determining the remaining life of land and buildings have been made by the Department. 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, expected period of use by the Department, and expected proceeds from any disposal.

Any property revaluations are certified by an appropriately qualified valuer.

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 2014, 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.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenue – Crown

The Department derives revenue through the provision of outputs to the Crown. Crown Revenue is recognised at fair value of the consideration received or receivable when earned.

Revenue – Department and third party

Revenue earned in exchange for the provision of outputs (products or services) to third parties, is recorded as revenue from operations. Revenue from the supply of services is measured at the fair value of consideration received, recognised on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Interest income

Interest income is recognised using the effective interest rate method.

Dividend income

Dividend income is recognised when the right to receive payment has been established.

Donated or subsidised assets

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue when control of the asset is transferred to the Department.

CAPITAL CHARGE

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

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash held in bank accounts and deposits with a maturity of no more than three months.

DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value. Receivables with a duration of less than 12 months are recognised at their nominal value.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

INVENTORIES

Inventories held for resale are measured at the lower of cost (calculated using the weighted average method) and net realisable value. Inventories consumed in providing a service are measured at cost or replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Items of plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

Land and buildings

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 three years or whenever the carrying amount differs materially to fair value. Additions between revaluations are initially recorded at cost.

Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date. To the extent that a gain reverses a loss previously charged to profit or loss for the asset class, the gain is credited to profit or loss. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the Statement of Comprehensive Income.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Other property, plant and equipment

Other property, plant and equipment, which includes motor vehicles and furniture and fittings, are recorded at cost less accumulated depreciation and accumulated impairment losses.

Disposals

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs. When revalued assets are sold or derecognised, the amounts included in asset revaluation reserves in respect of those assets are transferred to general funds.

Service concession arrangements

Service concession arrangements are recognised as Assets Under Construction within Property, Plant and Equipment. As such, service concession arrangements are accounted for in accordance with the Department's policies, which comply with Property, Plant and Equipment NZ IAS 16 (PBE).

For newly constructed assets, the Department recognises the asset and corresponding liability, as the asset is being progressively constructed. Service concession arrangements, whilst under construction, are measured at amortised cost.

Payments made by the Department under a service concession arrangement reduce the value of the liability, pay for interest on the principal, reimburse the operator for the service provided and reimburse any other additional operational costs.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any residual value, over its estimated useful life. Motor vehicles that have been classified as non-heavy duty have a residual value of 20 per cent.

Typically, the depreciation rates for classes of property, plant and equipment are as follows:

Class of Asset	Useful Life	Residual Value
Land	Not depreciated	Not Applicable
Buildings	3 – 75 years	Nil
Plant and Equipment	5 – 10 years	Nil
Furniture and Fittings	3 – 5 years	Nil
Computer Hardware	3 – 10 years	Nil
Motor Vehicles	5 – 8 years	20%

The useful life of buildings is reassessed following any revaluation.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful life of the leasehold improvement, whichever is the shorter.

INTANGIBLE ASSETS

Software acquisition and development

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

Costs associated with maintaining computer software and training staff 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 the relevant indirect and overhead costs.

Amortisation

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

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

Class of Asset	Useful Life	Residual Value
Acquired/Internally Generated Software	3 – 10 years	Nil

BIOLOGICAL ASSETS

Biological assets are initially recorded at fair value less costs to sell.

Forestry

Forestry assets are independently revalued on an annual basis. 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 from a change in fair value less costs to sell are recognised in the Statement of Comprehensive Income.

The costs to maintain forestry assets are included in the Statement of Comprehensive Income.

Livestock

Livestock assets are recorded at fair value less costs to sell. Gains or losses due to changes in the per head value of livestock and changes in livestock numbers, are recognised in the Statement of Comprehensive Income.

INVESTMENTS

Investments are initially recognised 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 Statement of Comprehensive Income in the period in which they arise.

Fair value for investments is 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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life 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 when 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 or its 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 Department 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 against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive lncome.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the Statement of Comprehensive lncome, a reversal of the impairment loss is also recognised in the Statement of Comprehensive lncome .

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive lncome.

EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the Statement of Comprehensive lncome when they accrue to employees. Employee entitlements that 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. The liability for long-term employee entitlements is reported as the present value of estimated future cash outflows.

Termination benefits

Termination benefits are recognised in the Statement of Comprehensive lncome only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Termination benefits not expected to be settled within 12 months are reported as the present value of the estimated future cash outflows.

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 Statement of Comprehensive lncome as they are incurred.

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of these transactions are recognised in the Statement of Comprehensive lncome.

Monetary assets and liabilities denominated in foreign currencies at balance date are translated to New Zealand dollars at the foreign exchange rate at balance date. Foreign exchange gains or losses arising from translation of monetary assets and liabilities are recognised in the Statement of Comprehensive lncome.

FINANCIAL INSTRUMENTS

The Department is party to financial instruments as part of its normal operations. These financial instruments consist of cash and cash equivalents, debtors and other receivables, investments, creditors and other payables and other financial liabilities.

All financial instruments are initially measured at fair value plus transaction costs unless they are carried at fair value through the Statement of Comprehensive lncome in which case the transaction costs are recognised in profit or loss. Financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Comprehensive lncome.

Other financial liabilities greater than 12 months are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

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 expenditure 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. Any increases in the provision due to the passage of time would be 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 programme, the Department is liable for the costs of all claims for a period of five years. At the end of the five year period, the Department pays a premium to ACC for the value of residual claims, and the liability for on-going claims passes to ACC from that point.

The liability for the programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely to possible, 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.

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)

All statements are GST exclusive, except for creditors and other payables and debtors and other receivables within the Statement of Financial Position. These amounts are shown as GST inclusive.

The net amount of GST payable to, or recoverable from, the Inland Revenue Department (IRD) at balance date is included in creditors or debtors as appropriate. The net amount of GST paid to, or received from the IRD including GST relating to investing and financing activities is classified as an operating cash flow in the Statement of Cash Flows.

OPERATING LEASES

Leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

COMMITMENTS

Future expenses and liabilities to be incurred on capital contracts and non-cancellable accommodation leases that have been entered into at balance date are disclosed as commitments to the extent they represent unperformed obligations.

CONTINGENT LIABILITIES

Contingent liabilities are disclosed in the Statement of Contingent Liabilities at the point at which the contingency is evident. Contingent liabilities are not disclosed if the possibility of an outflow of resources embodying economic resources is remote.

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.

Changes in cost accounting policies

There have been no changes in cost accounting policies since 30 June 2013.

Note 2: Other revenue

2013 Actual $000		2014 Actual $000
35,301	Sale of goods	37,201
3,208	Board and rents	3,552
374	Profit on sale of assets	143
–	Revenue other	474
38,883	**Total other revenue**	**41,370**

Note 3: Personnel costs

2013 Actual $000		2014 Actual $000
504,821	Salaries and wages	522,218
903	ACC Partnership Programme	1,237
444	Government Superannuation Fund contribution expense	408
10,506	State Sector Retirement Savings Scheme and KiwiSaver employer contribution	13,271
(626)	Retirement and long service leave	1,230
–	Termination benefits	1,120
516,048	**Total personnel costs**	**539,484**

Note 4: Operating costs

2013 Actual $000		2014 Actual $000	2014 Mains $000	2015 Forecast* $000
16,671	Operating lease rentals	17,205	16,375	16,827
361	Audit fees for annual audit	366	366	361
–	Fees to auditors for other services	50	–	–
79,237	Facilities maintenance	76,723	81,750	76,475
52,635	Offender management costs	57,551	58,849	58,161
32,709	Computer costs	34,378	27,844	33,589
66,123	Contract management	66,661	69,887	66,661
31,008	Administration	29,458	34,485	23,148
55	Receivables written off during period	168	–	–
10,062	Inventory expenses	10,069	10,000	9,033
41,911	Other operating costs	46,577	49,772	28,687
200	Donations	–	–	–
1,637	Loss on sale of property, plant and equipment	3,328	–	–
332,609	**Total operating costs**	**342,534**	**349,328**	**312,942**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2014*

Note 5: 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 2014 was 8 per cent per annum (2013: 8%).

Note 6: Cash and cash equivalents

2013 Actual $000		2014 Actual $000
123,192	Cash and bank balances	82,337
123,192	**Total cash and cash equivalents**	**82,337**

The Department is required by the Treasury to maintain a positive balance in its bank accounts at all times. The Department has two departmental bank accounts with Westpac New Zealand Limited.

Note 7: Debtors and other receivables

2013 Actual $000		2014 Actual $000
	CURRENT PORTION	
323,157	Debtor Crown	381,469
323,157	**Debtor Crown**	**381,469**
3,262	Trade debtors – external	4,453
270	Employee advances	189
(71)	Less provision for impairment	(24)
3,461	**Trade debtors – external and employees**	**4,618**
1,044	Trade debtors – other government entities	2,253
1,044	**Trade debtors – other government entities**	**2,253**
327,662	**Total debtors and other receivables**	**388,340**

The carrying value of trade debtors approximates their fair value.

The Crown debtor of $381.469 million (2013: $323.157 million) consists of $47.794 million (2013: $47.794 million) of capital funding (no GST on capital injection) not drawn down and $333.675 million (2013: $275.363 million) of operating funding (GST inclusive) not drawn down as a result of the timing of cash requirements.

There is minimal credit risk with respect to external receivables. 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.

All debtors are expected to be realised within 12 months and therefore classified as current. The Department classifies Crown Debtor as current because it can be realised in cash within three working days.

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

	2013 $000 Gross	2013 $000 Impairment	2013 $000 Net	2014 $000 Gross	2014 $000 Impairment	2014 $000 Net
past due	327,042	–	**327,042**	386,847	-	**386,847**
Past due 1-30 days	235	–	**235**	1,283	-	**1,283**
Past due 31-60 days	94	–	**94**	65	–	**65**
Past due 61-90 days	29	–	**29**	41	(24)	**17**
Past due > 90 days	333	(71)	**262**	128	–	**128**
	327,733	**(71)**	**327,662**	**388,364**	**(24)**	**388,340**

As at 30 June 2014 (and 30 June 2013), 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:

2013 Actual $000		2014 Actual $000
162	Balance at 1 July	71
(91)	Provisions made/released during the year	(47)
71	**Balance at 30 June**	**24**

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 2014 the Department had no debtors (2013: 1) that were insolvent.

Note 8: Inventories

2013 Actual $000		2014 Actual $000
3,719	Inventory held for the provision of goods and services	3,448
586	Finished goods	657
4,305	**Total inventories**	**4,105**

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

All inventories are expected to be realised within 12 months and are therefore classified as current.

Note 9: Investments

2013 Actual $000		2014 Actual $000
	Non-current portion	
8,837	Investments	7,130
8,837	**Total investments**	**7,130**

Investments arise from the Department's business dealings with companies in the farming industry. These investments are classified as financial instruments and valued at fair value through the Statement of Comprehensive Income.

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

Note 10: Property, plant and equipment

An independent valuer, Beca Group, performed the most recent valuation of freehold land and buildings and the valuation was effective as at 30 June 2014. N Hoskin B.B.S (VPM), ANZIV certified this valuation. The last valuation was performed by Darroch Valuations for year ended 30 June 2011.

The total fair value of freehold land and buildings valued by Beca Group at 30 June 2014 was $1,998 million.

The Department has land holdings that are subject to Treaty of Waitangi claims and therefore there may be restrictions on disposal unless under Treaty claim procedures. No adjustment has been made to the value of the Department land holdings, to reflect these restrictions.

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. At 30 June 2014 the Department's Service Concession Arrangement represents $231.333 million within Assets Under Construction.

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

The Department currently holds residential properties that were purchased in the 1960s. The Department holds these properties so that it is able to provide accommodation to 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 investment purposes. The net carrying amount of these properties is $2.094 million (2013: $7.970 million). There are no restrictions over the title of the Department's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

Service concession arrangements

The Department has entered into a Project Agreement with SecureFuture Wiri Limited (contractor) for the delivery of a new men's prison at Auckland South Corrections Facility (ASCF) through a Public Private Partnership. SecureFuture will design, build, finance, operate and maintain the prison. Under the agreement, the Department has provided existing Department owned land, adjacent to the Auckland Region Women's Corrections Facility to the contractor on which to build the prison. The agreement is for a period of 25 years, after which responsibility for on-going maintenance and operation will revert to the Department. The Chief Executive of the Department of Corrections will be responsible for the safe, secure and humane containment of prisoners on that site. Under this agreement the Department pays a unitary charge to the contractor from the point at which the prison becomes operational. This charge covers, and is allocated between:

- the construction of the prison – these costs are not repriced and are recognised as a reduction against the service concession liability. Certain major capital expenditure incurred (such as reroofing, replacement of heating units) during the term of the agreement is paid for by the Department at the time it is provided by the contractor, and the unitary charge is adjusted at this time for these amounts;
- the finance costs – finance costs are repriced every five years and the amount the Department pays to the contractor is adjusted. Finance charges are recognised as an expense using the effective interest rate; and
- the service costs – these costs cover routine repairs and maintenance required to keep the prison operational and in good condition. A portion of these costs is indexed to Consumer Price Index and Labour Cost Index. This portion can be reset at year 5 and year 15 of the agreement. Any change in these service costs will result in a change to the amount the Department pays to the contractor. Service costs are recognised as an expense in the period incurred.

Termination clauses and penalties are outlined in the Department's Base Agreement and there is no right of renewal after the 25 years.

Construction of the prison is scheduled for completion in June 2015, no payment or operating expenditure is expected to be made and incurred until the prison is in service.

	Land	Buildings	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Computer Hardware	Motor Vehicles	Asset Under Construction	Total Physical Assets
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Cost or valuation									
Balance 1 July 2012	**212,446**	**1,795,551**	**21,631**	**49,483**	**6,501**	**45,693**	**47,848**	**61,932**	**2,241,085**
Additions	–	11,713	2,643	2,155	140	2,883	2,479	91,021	113,034
Revaluation increase/(decrease)	22	(25,488)	–	–	–	–	–	–	(25,466)
Disposals	(5,870)	(1,852)	(329)	(1,820)	(126)	(1,037)	(2,845)	(489)	(14,368)
Transfers	–	36,486	5,073	(46)	–	2	(1)	(41,654)	(140)
Cost or valuation at 30 June 2013	**206,598**	**1,816,410**	**29,018**	**49,772**	**6,515**	**47,541**	**47,481**	**110,810**	**2,314,145**
Add: Movements									
Additions	2,306	55,475	(450)	3,533	1,791	797	2,939	231,449	297,840
Revaluation increase/(decrease)	(42,495)	(41,490)	–	–	–	–	–	–	(83,985)
Disposals	–	–	(424)	(1,371)	(55)	(1,319)	(1,076)	(505)	(4,750)
Transfers	443	6,497	348	5,367	40	28	2	(12,704)	21
Cost or valuation at 30 June 2014	**166,852**	**1,836,892**	**28,492**	**57,301**	**8,291**	**47,047**	**49,346**	**329,050**	**2,523,271**
Accumulated depreciation and impairment losses									
Balance 1 July 2012	–	(116,432)	(8,271)	(31,947)	(5,953)	(38,364)	(24,657)	–	(225,624)
Depreciation expense	–	(98,544)	(3,954)	(3,757)	(229)	(4,284)	(4,858)	–	(115,626)
Disposals	–	1,253	329	1,703	86	1,033	2,395	–	6,799
Transfers	–	–	–	114	–	–	–	–	114
Revaluation increase/(decrease)	–	6,847	–	–	–	–	–	–	6,847
Accumulated depreciation and impairment losses at 30 June 2013	**–**	**(206,876)**	**(11,896)**	**(33,887)**	**(6,096)**	**(41,615)**	**(27,120)**	**–**	**(327,490)**

	Land	Buildings	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Computer Hardware	Motor Vehicles	Asset Under Construction	Total Physical Assets
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Add: Movements									
Depreciation expense	–	(96,301)	(3,935)	(4,273)	(490)	(3,773)	(4,413)	–	(113,185)
Disposals	–	–	424	1,199	51	1,318	911	–	3,903
Revaluation increase/(decrease)	–	303,076	–	–	–	–	–	–	303,076
Impairment losses	–	(447)	–	–	–	–	–	–	(447)
Accumulated depreciation and impairment losses at 30 June 2014	**–**	**(548)**	**(15,407)**	**(36,961)**	**(6,535)**	**(44,070)**	**(30,622)**	**–**	**(134,143)**
Carry amounts per asset class									
At 30 June 2013	**206,598**	**1,609,534**	**17,122**	**15,885**	**419**	**5,926**	**20,361**	**110,810**	**1,986,655**
At 30 June 2014	**166,852**	**1,836,344**	**13,085**	**20,340**	**1,756**	**2,977**	**18,724**	**329,050**	**2,389,128**

Note 11: Intangible assets

	Acquired Software $000	Internally Generated Software $000	Asset Under Construction $000	Total Intangible Assets $000
Cost or valuation				
Balance 1 July 2012	23,716	51,299	19,928	94,943
Additions	411	693	19,026	20,130
Disposals	–	–	(688)	(688)
Transfers	832	4,414	(5,246)	–
Cost or valuation at 30 June 2013	**24,959**	**56,406**	**33,020**	**114,385**
Add: Movements				
Additions	1,939	2,001	17,078	21,018
Disposals	(952)	(748)	(1,934)	(3,634)
Transfers	6,990	4,366	(11,377)	(21)
Cost or valuation at 30 June 2014	**32,936**	**62,025**	**36,787**	**131,748**
Accumulated depreciation and impairment losses				
Balance 1 July 2012	(16,676)	(30,425)	–	(47,101)
Amortisation expense	(3,131)	(5,553)	–	(8,684)
Accumulated depreciation and impairment losses at 30 June 2013	**(19,807)**	**(35,978)**	**–**	**(55,785)**
Add: Movements				
Amortisation expense	(3,167)	(6,049)	–	(9,216)
Disposals/transfers	494	455	–	949
Accumulated depreciation and impairment losses at 30 June 2014	**(22,480)**	**(41,572)**	**–**	**(64,052)**
Carrying amounts				
At 30 June 2013	**5,152**	**20,428**	**33,020**	**58,600**
At 30 June 2014	**10,456**	**20,453**	**36,787**	**67,696**

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 12: Biological assets

	Forests $000	Livestock $000	Total Biological Assets $000
Cost or valuation			
Balance at 1 July 2013	37,364	11,264	48,628
Purchases	–	399	399
Net gain/(loss) due to; regeneration, maturation, and changes in unit values	9,848	8,956	18,804
Sales/harvest	(6,658)	(7,950)	(14,608)
Cost or valuation at 30 June 2014	**40,554**	**12,669**	**53,223**
Net change	**3,190**	**1,405**	**4,595**
Change due to movement in quantity	460	(345)	115
Change due to movement in fair value	2,730	1,750	4,480
Carrying amounts			
At 30 June 2013	**37,364**	**11,264**	**48,628**
At 30 June 2014	**40,554**	**12,669**	**53,223**

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	4,512ha
	Land rated as reserve	1,332ha
	Total legal area	**5,844ha**

The valuation of forests was undertaken by an independent registered valuer, PF Olsen and Company Limited, on 30 June 2014. J Schnell, 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 per cent (2013: 7%) 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 2.5 per cent (2013: 3%) 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 for Primary Industries.

Livestock

The Department farms sheep, cattle, deer and pigs at various locations throughout New Zealand. At 30 June 2014, livestock on hand comprised 14,491 sheep (2013: 15,847); 1,692 beef cattle (2013: 1,388); 4,463 dairy cattle (2013: 4,499); 2,740 deer (2013: 3,006) and 7,191 pigs (2013: 7,507).

The valuation of livestock was undertaken by independent registered valuers, Pat Lacy and PGG Wrightson between 16 June and 2 July 2014. The valuation was based on projected fair value less estimates costs as at 30 June 2014 and was based on active market prices.

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 13: Creditors and other payables

2013 Actual $000		2014 Actual $000
	CURRENT PORTION	
26,414	Trade creditors	22,778
60,747	Accrued expenditure	87,117
10,881	GST payable	9,854
98,042	**Total creditors and other payables**	**119,749**

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 14: Employee entitlements

2013 Actual $000		2014 Actual $000
	Current liabilities	
22,001	Retirement and long service leave	23,305
48,270	Annual leave	50,485
1,996	Sick leave	1,632
72,267	**Total current portion**	**75,422**
	Non-current liabilities	
13,654	Retirement and long service leave	13,580
13,654	**Total non-current portion**	**13,580**
85,921	**Total provision for employee entitlements**	**89,002**

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, but not 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 multiple factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability are the discount rates and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

Independent valuer G.R.Lee BSc (FIA), a member of the New Zealand Society of Actuaries, from Aon New Zealand, valued long service leave and retirement leave as at 30 June 2014 and 2013.

The major assumptions used in the 30 June 2014 valuation are that future salary growth rates are 3 per cent (2013: 3%) per annum and discount rates ranged from 3.42 to 5.50 per cent (2013: 2.71% to 5.50%) 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 15: Provisions

2013 Total Provisions Actual $000		2014 Restructuring Actual $000	2014 Employee Accidents Actual $000	2014 Other Provisions Actual $000	2014 Total Provisions Actual $000
	Current provisions				
16,668	Balance at 1 July	1,452	5,203	–	6,655
184	Additional provisions made during the year	758	1,183	577	2,518
(10,197)	Charged against provision for the year	(572)	(903)	–	(1,475)
–	Provision reversed during the year	(865)	–	–	(865)
6,655	**Current provisions**	**773**	**5,483**	**577**	**6,833**
6,655	**Total provisions**	**773**	**5,483**	**577**	**6,833**

RESTRUCTURING

The restructuring provision arises from the Lifting our Productivity Programme ($0.758 million) and the 2012 organisation realignment ($0.15 million) which resulted in disestablished positions. The provision relates to the cost of expected redundancies anticipated to be paid to employees as a result of these redundancies as agreed and communicated prior to balance date. Management anticipates that the restructuring will be completed within 12 months of balance date and the amount of the liability is considered reasonably certain.

EMPLOYEE ACCIDENTS

The provision relates to the estimation of the Department's outstanding claims liability under the ACC Partnership Programme. An external independent actuarial valuer, M.Weaver (Fellow of the New Zealand Society of Actuaries) from Melville Jessup Weaver provided an estimate of the outstanding claims liability as at 30 June 2014 and 2013. The estimated claims liability at 30 June is $5.483 million (2013: $5.203 million).

Key assumptions

The key assumptions used in determining the value of outstanding claims are:

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

> the assumed loss ratios were 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 (ACCPP) for the foreseeable future. If the Department were to exit immediately, a risk margin of 12 per cent (2013: 12%) would be added by ACC.

The estimated ACCPP outstanding claims liability as at 30 June 2014 included a provision for future claims handling expenses of 11.2 per cent (2013: 10%) of expected future claims costs.

OTHER PROVISIONS

Parental Leave

The Department provides an ex-gratia payment to employees (approximating 6 weeks pay) who return to Corrections for a period of time (as specified in contracts typically 3 – 6 months) after being on parental leave. The Department anticipates that this provision will be realised within 12 months.

Onerous Leases

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. The Department has a number of operating lease contracts. This provision represents the future estimated irrecoverable expenses for vacant leased premises. The Department has between two to four years remaining on these leases..

Note 16: Taxpayers' funds

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

2013 Actual $000		2014 Actual $000
	GENERAL FUNDS	
1,755,069	Balance at 1 July	1,753,732
25,516	Net operating surplus/(deficit)	30,326
–	Capital contribution from the Crown	3,200
(6,190)	Capital returned to the Crown	–
19,326	Total movement in general funds	33,526
(20,663)	Provision for repayment of surplus to the Crown	(27,565)
1,753,732	**Balance at 30 June**	**1,759,693**
	REVALUATION RESERVES	
557,469	Balance at 1 July	538,846
(18,623)	Revaluation gains/(losses)	218,644
538,846	**Balance at 30 June**	**757,490**
	FAIR VALUE THROUGH EQUITY RESERVE	
2,267	Balance at 1 July	2,267
2,267	**Balance at 30 June**	**2,267**
541,113	**Revaluation total**	**759,757**
2,294,845	**Total taxpayers' funds at 30 June**	**2,519,450**

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.

2013 Total Actual $000		2014 Total Actual $000
	Asset Revaluation Reserve	
	Land	
135,249	**Revaluation reserves at 1 July**	**135,271**
22	Revaluation gains/(losses)	(42,495)
135,271	**Revaluation reserves at 30 June**	**92,776**
	Buildings	
422,220	**Asset revaluation reserves at 1 July**	**403,575**
(18,645)	Revaluation gains/(losses)	261,139
403,575	**Asset revaluation reserves at 30 June**	**664,714**
538,846	**Total Asset revaluation reserves at 30 June**	**757,490**
	Fair Value Through Equity Reserve	
2,267	**Asset revaluation reserves at 1 July**	**2,267**
2,267	**Asset revaluation reserves at 30 June**	**2,267**
541,113	**Asset revaluation reserves at 30 June**	**759,757**

Note 17: Reconciliation of net surplus to net cash flow from operating activities

2013 Actual $000		2014 Actual $000
25,516	**Net surplus/(deficit) before other comprehensive income**	**30,326**
	Add/(less) non-cash items	
124,310	Depreciation and amortisation	122,401
(1,465)	Non-current employee entitlements	(74)
122,845	**Total non-cash items**	**122,327**
	(Increase)/decrease in working capital	
(253,949)	Debtors and other receivables	(60,678)
667	Inventories	200
(2,851)	Prepayments	2,921
10,773	Creditors and other payables	24,739
(11,465)	Provisions	(2,849)
4,214	Current employee entitlements	3,155
(252,611)	**Working capital movements – net**	**(32,512)**
	Add/(less) items classified as investing or financing activities	
(1,489)	Biological assets revaluation loss/(gain)	(4,940)
(3,364)	Fair value loss/(gain) on shares	1,719
1,263	Net loss/(gain) on sale or disposal of property, plant and equipment	3,185
(3,590)	**Total investing activity items**	**(36)**
(107,840)	**Net cash flow from operating activities**	**120,105**

Note 18: 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 2013/14 fiscal year:

> received Crown Revenue of $1.175 million (2013: $1,140.554 million) (excluding GST) to fund the Department's operating activities;

> paid capital charge of $183.588 million (2013: $185.194 million) to the New Zealand Government;

> purchased goods and services totalling $12.678 million (2013: $12.788 million) on normal commercial terms on an arm's length basis from other government entities: electricity from Contact, Meridian, Genesis and Mercury Energy, travel from Air New Zealand, legal services from Crown Law Office and postal services from New Zealand Post;

> paid employer ACC levies to Accident Compensation Corporation totalling $3.394 million (2013: $2.507 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:

> 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. The partner was not involved in providing any advice to the Department. Purchases during the year totalled $0.003 million (2013: $0.131 million). There is a nil balance (2013: $0.022 million) outstanding at 30 June 2014;

> a second hand vehicle was purchased from the Department by a member of the Department's Executive Team for $0.019 million (2013: nil).

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 individual members of the Executive Leadership Team.

The Treasury advises that responsible Minister Anne Tolley has certified that she has no related party transactions for the year ended 30 June 2014 (2013: nil).

Remuneration applicable to key management personnel is disclosed under note 19.

Note 19: Key management personnel compensation

Currently there are six key management personnel, which include the Chief Executive, four Deputy Chief Executives and the National Commissioner.

Last financial year there were six key management personnel, which included the Chief Executive, one Deputy Chief Executive, one National Commissioner and four General Managers.

During the year the General Managers positions were renamed to Deputy Chief Executives.

2013 Actual $000		2014 Actual $000
2,469	Salary and other short term benefits	2,010
54	Other long-term benefits	55
185	Termination benefits	–
2,708	**Total key management personnel compensation**	**2,065**

Note 20: Post-balance date events

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

Note 21: 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, trade creditors and other financial liability.

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:

	Quoted market price $000	Total $000
As at 30 June 2014		
Local currency financial assets		
Cash and cash equivalents	82,337	82,337
Investments	7,130	7,130
Total local currency financial assets	**89,467**	**89,467**
As at 30 June 2013		
Local currency financial assets		
Cash and cash equivalents	123,192	123,192
Investments	8,837	8,837
Total local currency financial assets	**132,029**	**132,029**

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 business dealings with the farming industry and, as such, are not expected to be traded and are not used to support 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.

The Department has no assets or liabilities that are denominated in foreign currency.

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.

The Department's Other Financial Liabilities relates to its service concession arrangement which is interest bearing at the effective interest rate of 6.13% per annum. There is no interest rate risk exposure at balance date as the interest rate is fixed until August 2019.

The Department has obtained Ministerial approval for borrowing in relation to its service concession arrangement.

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 is exposed to 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 6), debtors and other receivables (note 7) 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:

2013 Actual $000		2014 Actual $000
	Counterparties with credit ratings	
	Cash and cash equivalents	
123,192	AA-	82,337
123,192	**Total cash and cash equivalents**	**82,337**
	Investments	
8,837	A+	7,130
8,837	**Total investments**	**7,130**
	Counterparties without credit ratings	
	Debtors and other receivables	
327,662	Existing counterparty with no defaults in the past	388,340
327,662	**Total debtors and other receivables**	**388,340**

LIQUIDITY RISK

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

In meeting its liquidity requirements, the Department closely monitors its forecast cash requirements with expected cash 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 shows 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.

2013 Actual $000		2014 Actual $000
	Creditors and other payables (note 13)	
98,042	Less than six months	119,749
	Other financial liabilities	
–	Less than one year	300
22,300	One to five years	25,800
34,347	More than five years	205,233
154,689		**351,082**

Other financial liabilities represent the Departments service concession arrangement with SecureFuture Wiri Limited. No payment is expected to be made until construction is complete which is scheduled for June 2015 with the payment terms over 25 years at an effective interest rate of 6.13% per annum. The Department has no securities against other financial liabilities.

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

CATEGORIES OF FINANCIAL INSTRUMENTS

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

2013 Actual $000		2014 Actual $000
	FINANCIAL ASSETS	
	Loans and receivables	
123,192	Cash and cash equivalents (note 6)	82,337
327,662	Debtors and other receivables (note 7)	388,340
450,854	**Total cash and receivables**	**470,677**
	Fair value through total comprehensive income	
8,837	Investments (note 9)	7,130
8,837	**Total investments**	**7,130**
459,691	**Total financial assets**	**477,807**
	FINANCIAL LIABILITIES	
	Measured at amortised cost	
98,042	Creditors and other payables (note 13)	119,749
56,647	Other financial liabilities	231,333
154,689	**Total financial liabilities**	**351,082**

Note 22: Capital management

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

In accordance with the *Public Finance Act 1989* (the Act) the Department manages 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.

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 plans 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 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 23: Explanation of significant variances against budget

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 2013/14 Main and Supplementary Estimates are as follows:

Crown revenue was higher than Main Estimates due to:

> a transfer of funding from Vote Police to Vote Corrections for Electronically Monitored Bail (EM Bail)

> receiving funding from the Justice Sector for the implementation of Alcohol and Drug Testing of Offenders and Bailees in the Community; and

> a one-off transfer of funding from 2012/13 to the 2013/14 for project related activities.

These increases were off set by efficiency savings which the Department transferred to the Justice Sector Fund as part of the 2014 March Baseline Update.

Other revenue was higher than Main Estimates due to increases in rental income, insurance proceeds and Offender Employment income.

Personnel costs were higher than Main Estimates due to the transfer of EM Bail operations from Vote Police to Vote Corrections and an increase in the retiring leave provision.

Operating costs were lower than Main Estimates and Supplementary Estimates mostly due to deferred projects and efficiency savings identified by the Department that were transferred to the Justice Sector Fund.

Depreciation was lower than Main Estimates as a result of the reprioritisation of capital projects.

Cash and cash equivalents were significantly lower than Main Estimates due to the reprioritisation of capital projects resulting in the Department requiring less cash. In addition, the Department has further minimised its cash surpluses in line with Treasury's best practice.

Cash and cash equivalents were lower than Supplementary Estimates due to a further reduction in cash surpluses agreed in June 2014 (after the Supplementary Estimates was completed).

Debtors and other receivables were higher than Mains Estimates and Supplementary Estimates as a consequence of the Department requiring less cash, the Crown Debtors has increased.

Property, Plant and Equipment was higher than Mains Estimates, Supplementary Estimates and Forecast due to the revaluation gains on buildings. The gains on buildings were due to increases in construction costs and re-assessment of useful lives, offset by a decrease in the value of land and residential buildings.

Creditors and other payables were significantly higher than Mains Estimates and Supplementary Estimates due to the timing of capital accruals.

Reserves were higher than Mains Estimates and the Forecast due to the revaluation of the Department's land and buildings which resulted in a significant net gain. The gains on buildings were due to increases in construction costs and re-assessment of useful lives, offset by a decrease in the value of land and residential buildings.