Annual Financial Statements

The Year at a Glance

IN 2015/16 THE DEPARTMENT OF CORRECTIONS:

Stewardship, financial health and sustainability

> revised and updated its financial strategy feeding into Budget 2016

> established an independent advisory board who will be responsible for monitoring and providing oversight of the Department's major outsourced contracts and to provide independent advice and expertise on the management of these contracts

> took over management of the Mount Eden Corrections Facility (MECF) in the short to medium term while allowing for consideration of options for a future, permanent management arrangement of this site to be assessed

> reviewed the performance of offender employment activities and operations

> commenced a Prison Capacity Build Programme, phased over the next four years, to restore the network's essential capacity buffer ensuring sufficient capacity is available to accommodate the continued prison population growth forecast.

Financial improvements

> decommissioned a number of beds across Waikeria, Tongariro and Rimutaka Prisons following the opening of the new Auckland South Corrections Facility. The decommissioned beds were expensive to operate and maintain, presented a range of seismic-related risks and were at the end of their useful life. Remaining beds originally scheduled for decommissioning continue to be used at Waikeria Prison to help us manage the ongoing increase in the prison population while the Prison Capacity Build Programme is undertaken

> realised better value for money through a significant step change in the use of technology, coverage and response times following the consolidation of electronic monitoring contracts into a single supplier

> implemented staffing structure changes within prisons to unify the delivery of services which will drive longer term sustainable efficiencies.

Expenditure

> managed its $1.3 billion operating budget to approximately 1% of appropriation (excluding remeasurements), at a time when the Department was managing significant fiscal pressures associated with operational challenges and disruptions to its operating environment (including the Step-In at MECF, rising prison population etc.)

> reinvested $20 million in initiatives designed to reduce re-offending

> invested $246.7 million of capital spend including property and prison development projects.

Financial pressures

> self-funded the financial impact of the Collective Bargaining Round, incremental facilities costs such as rates increases, and increased depreciation costs related to the revaluation of land and buildings as at 30 June 2014 within the existing budget baseline

> absorbed the impact of volatile commodity prices associated with offender employment activities, in particular the impact that a further reduction in milk prices had on revenue from dairy operations

> self-funded new and mandatory activity across our business following health and safety legislative changes

> managed significant pressure from the continued growth in prison population above that projected by the Justice Sector forecast.

Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2016

2015 Actual $000		Notes	2016 Actual $000	2016 Budget (unaudited) $000	2016 Supp. estimates (unaudited) $000	2017 Forecast* (unaudited) $000
	REVENUE					
1,196,843	Crown		1,256,730 #	1,241,616	1,269,527	1,319,896
215	Departmental revenue		1,329	–	1,384	–
46,777	Other revenue	2	35,857	32,180	36,410	32,888
362	Dividend revenue		430	–	500	–
1,244,197	**Total operating revenue**		**1,294,346**	**1,273,796**	**1,307,821**	**1,352,784**
	EXPENSES					
544,058	Personnel costs	3	558,966	539,916	566,220	585,839
346,787	Operating costs	4	356,698	346,123	364,358	376,149
134,142	Depreciation and amortisation		152,007	157,700	152,342	163,487
201,107	Capital charge	5	195,565	196,057	195,565	194,609
4,067	Finance costs	10	33,350	34,000	34,000	32,700
1,230,161	**Total operating expenses**		**1,296,586**	**1,273,796**	**1,312,485**	**1,352,784**
14,036	**Net operating (deficit)/surplus**		**(2,240) ****	**–**	**(4,664) ****	**–**
	OTHER COMPREHENSIVE REVENUE AND EXPENSE					
	REMEASUREMENTS					
(1,193)	Unrealised (decrease)/increase in fair value of biological assets	12	(586)	–	–	–
(7,714)	Realised (decrease)/increase in fair value of biological assets	12	–	–	–	–
(1,084)	Unrealised increase/(decrease) in fair value of shares		595	–	–	–
(2,071)	Unrealised (decrease)/increase in discount rates for retiring and long service leave		(2,063)	–	–	–
–	Unrealised (decrease)/increase in fair value of derivative financial instruments	17	(28,923)	–	(15,942)	–
(12,062)	**Total remeasurements**		**(30,977)**	**–**	**(15,942)**	**–**
1,974	**Net (deficit)/surplus**		**(33,217)**	**–**	**(20,606)**	**–**
	OTHER COMPREHENSIVE REVENUE AND EXPENSE					
(422)	Revaluation gains /(losses) on land and buildings		24	–	–	–
(422)	**Total other comprehensive revenue and expense**		**24**	–	–	–
1,552	**Total comprehensive revenue and expense**		**(33,193)**	–	**(20,606)**	**–**

Actual Crown revenue was recognised below entitlement (Supp. estimates) reflecting the transfer of funding to 2017 and outyears relating to pre-approved in-principle expense transfers.

* *Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

** *The Department obtained Cabinet approval to run an output class deficit for 2016 as a result of an expected shortfall in offender employment activity revenue, with the expectation that sufficient future surpluses will be retained to cover the deficit.*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 25.

Statement of Changes in Taxpayers' Funds

FOR THE YEAR ENDED 30 JUNE 2016

2015 Actual $000		Notes	2016 Actual $000	2016 Budget (unaudited) $000	2016 Supp. estimates (unaudited) $000	2017 Forecast* (unaudited) $000
2,519,450	**Taxpayers' funds at 1 July**		**2,450,713**	**2,508,450**	**2,450,714**	**2,432,616**
1,974	Net (deficit)/surplus		(33,217)	–	(20,606)	–
	Adjustment for flows to and from the Crown					
–	Add capital Contribution from the Crown	18	4,508	–	4,508	1,654
(63,967)	Less capital cash returned to the Crown	18	(72,000)	–	(2,000)	(72,000)
–	Less capital non-cash returned to the Crown	18	(50)	–	–	–
(422)	Revaluation gains/(losses)	18	24	–	–	–
(6,322)	Provision for payment of surplus to the Crown	16	–	–	–	–
(70,711)	**Total adjustments for flows to and from the Crown**		**(67,518)**	**–**	**2,508**	**(70,346)**
2,450,713	**Taxpayers' funds at 30 June**		**2,349,978**	**2,508,450**	**2,432,616**	**2,362,270**

* *Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 25.

Statement of Financial Position

AS AT 30 JUNE 2016

2015 Actual $000		Notes	2016 Actual $000	2016 Budget (unaudited) $000	2016 Supp. estimates (unaudited) $000	2017 Forecast* (unaudited) $000
	ASSETS					
	Current assets					
58,459	Cash and cash equivalents	6	39,852	50,000	50,000	50,000
2,304	Prepayments		2,656	3,025	3,025	3,025
344,202	Debtors and other receivables	7	265,437	134,257	274,817	127,527
3,877	Inventories	8	3,469	5,000	4,000	4,000
408,842	**Total current assets**		**311,414**	**192,282**	**331,842**	**184,552**
	Non-current assets					
6,064	Investments	9	6,662	7,130	6,064	6,064
2,487,607	Property, plant and equipment	10	2,579,685	2,662,683	2,637,521	2,879,111
76,204	Intangible assets	11	76,557	92,833	80,703	87,822
10,093	Biological assets	12	7,283	53,223	10,093	10,093
2,579,968	**Total non-current assets**		**2,670,187**	**2,815,869**	**2,734,381**	**2,983,090**
2,988,810	**Total assets**		**2,981,601**	**3,008,151**	**3,066,223**	**3,167,642**
	LIABILITIES					
	Current liabilities					
104,294	Creditors and other payables	13	83,721	100,001	105,000	105,000
78,965	Employee entitlements	14	83,427	72,000	78,965	78,965
10,562	Other financial liabilities	17	8,777	5,152	5,152	4,245
12,231	Provisions	15	6,983	16,500	7,500	7,500
6,322	Provision for repayment of surplus to the Crown	16	–	–	–	–
212,374	**Total current liabilities**		**182,908**	**193,653**	**196,617**	**195,710**
	Non-current liabilities					
16,025	Employee entitlements	14	18,142	13,000	16,025	16,025
309,698	Other financial liabilities	17	430,573	293,048	420,965	593,637
325,723	**Total non-current liabilities**		**448,715**	**306,048**	**436,990**	**609,662**
538,097	**Total liabilities**		**631,623**	**499,701**	**633,607**	**805,372**
	TAXPAYERS' FUNDS					
1,693,645	General funds	18	1,592,886	1,748,693	1,675,548	1,605,202
757,068	Reserves	18	757,092	759,757	757,068	757,068
2,450,713	**Total taxpayers' funds**		**2,349,978**	**2,508,450**	**2,432,616**	**2,362,270**
2,988,810	**Total liabilities & taxpayers' funds**		**2,981,601**	**3,008,151**	**3,066,223**	**3,167,642**

* *Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

The accompanying notes form part of these financial statements.
For information on major variances against budget refer to Note 25.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

2015 Actual $000		Notes	2016 Actual $000	2016 Budget (unaudited) $000	2016 Supp. estimates (unaudited) $000	2017 Forecast* (unaudited) $000
	CASH FLOWS FROM OPERATING ACTIVITIES					
	Cash provided from:					
1,234,782	Receipts from Crown		1,321,739	1,388,006	1,329,111	1,447,974
1,033	Receipts from departments		2,073	–	1,221	–
46,400	Receipts from other revenue		38,595	32,180	57,927	32,888
4,445	GST payable (net)		7,590	–	313	–
	Cash disbursed to:					
(532,671)	Payments for employees		(559,620)	(539,916)	(563,520)	(583,139)
(363,760)	Payments to suppliers		(373,774)	(347,341)	(397,528)	(378,171)
(201,107)	Payments for capital charge		(195,565)	(196,057)	(195,565)	(194,609)
189,122	**Net cash flows from operating activities**	19	**241,038**	**336,872**	**231,959**	**324,943**
	CASH FLOWS FROM INVESTING ACTIVITIES					
	Cash provided from:					
344	Receipts from interest and dividends		430	–	500	–
55,371	Receipts from sale of physical, biological and intangible assets		1,301	923	888	–
	Cash disbursed to:					
(154,685)	Purchase of physical and biological assets		(130,437)	(273,295)	(178,463)	(191,542)
(22,638)	Purchase of intangible assets		(15,493)	(25,000)	(20,119)	(27,794)
(121,608)	**Net cash flows from investing activities**		**(144,199)**	**(297,372)**	**(197,194)**	**(219,336)**
	CASH FLOWS FROM FINANCING ACTIVITIES					
	Cash disbursed to:					
(63,827)	Return of capital		(72,000)	–	(2,000)	(72,000)
–	Interest payment		(31,933)	(34,000)	(34,000)	(32,700)
(27,565)	Repayment of financial liabilities		(9,699)	–	(5,410)	(907)
–	Return of operating surpluses		(1,814)	(5,500)	(1,814)	–
(91,392)	**Net cash flows from financing activities**		**(115,446)**	**(39,500)**	**(43,224)**	**(105,607)**
(23,878)	**Net decrease in cash**		**(18,607)**	**–**	**(8,459)**	**–**
82,337	Cash at the beginning of the year		58,459	50,000	58,459	50,000
58,459	**Cash at the end of the year**		**39,852**	**50,000**	**50,000**	**50,000**

* *Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

The accompanying notes form part of these financial statements.

Statement of Commitments

AS AT 30 JUNE 2016

2015 Actual $000		2016 Actual $000
	CAPITAL COMMITMENTS	
60,328	Buildings	20,337
26	Motor vehicles	2,042
3,940	Plant and equipment	20
–	Service concession arrangements	236,866
5,739	Intangibles	1,804
70,033	**Total capital commitments**	**261,069**
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
14,092	Less than one year	12,067
36,642	One to five years	34,689
20,265	More than five years	18,575
70,999	**Total non-cancellable operating lease commitments**	**65,331**
141,032	**Total commitments**	**326,400**

Capital commitments

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

The service concession arrangements capital commitment relates to the construction of a new maximum security facility at Auckland Prison. The facility will be designed, financed, built and maintained through a Public Private Partnership (PPP) with Next Step Partners Limited. Construction commenced in October 2015 and is on target for completion in late 2017.

Non-cancellable operating lease commitments

The Department leases premises at many locations throughout New Zealand.

Lease commitments include a lease arrangement for land under the Tongariro prison following the sale under treaty settlement on 30 June 2015. The prison and associated ancillary buildings were not part of the sale agreement and therefore remain owned by the Department.

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 2016

QUANTIFIABLE CONTINGENT LIABILITIES AND ASSETS

2015 Actual $000		2016 Actual $000
1,799	Legal proceedings	939
250	Personal grievances	420
2,049	**Total quantifiable contingent liabilities**	**1,359**
800	Insurance proceeds	–
800	**Total quantifiable contingent assets**	–

Quantifiable contingent liabilities

Legal proceedings

The Department was defending 31 legal claims by prisoners as at 30 June 2016 (2015: 40). 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 11 employment related claims made by staff members as at 30 June 2016 (2015: seven).

Statement of Trust Monies

FOR THE YEAR ENDED 30 JUNE 2016

	As at 1 July 2015 $000	Contribution $000	Distribution $000	As at 30 June 2016 $000
Trust accounts	2,188	13,819	(14,569)	1,438
Total trust accounts	**2,188**	**13,819**	**(14,569)**	**1,438**

Trust Accounts mainly represent funds held in trust on behalf of prisoners, to account for prisoner earnings, reduced by purchases while in prison and other receipts/withdrawals of prisoner funds.

Other trust accounts represent funds held in trust on behalf of the resident subject to an Interim Detention Order, to account for resident earnings and or benefits, reduced by purchases and other receipts/withdrawals of resident funds.

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

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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* (PFA). It is domiciled and operates in New Zealand. The relevant legislation governing the Department's operations include the *Public Finance Act 1989*, the *Corrections Act 2004, Corrections Regulations 2005*, the *State Sector Act 1988,* the *Sentencing Act 2002,* the *Parole Act 2002,* the *Public Safety (Public Protection Orders) Act 2014,* the *Bail Act 2000* and the *Returning Offenders (Management and Information) Act 2015.*

The Department is a wholly owned entity of the New Zealand Crown whose primary objective is to administer 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 (PBE).

Reporting period

The reporting period for these financial statements is the year ended 30 June 2016 with comparative figures for the year ended 30 June 2015.

The financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 30 September 2016.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been consistently applied throughout the period.

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with Public Sector PBE Accounting Standards (PBE accounting standards) – Tier 1. These standards are based on International Public Sector Accounting Standards (IPSAS).

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain non-current assets, actuarial valuations of certain liabilities, and the fair value of certain financial liabilities.

Presentation currency and rounding

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

The Department added an accounting policy for its derivative financial instruments in the form of interest rate swaps to manage its exposure to fluctuating market interest rates as a result of its PPP arrangements.

There were no other 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

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Department will apply these amendments in preparing its 30 June 2017 financial statements.

The Department expects there will be minimal or no change in applying these amendments.

Critical judgements and estimates

The preparation of financial statements in conformity with PBE accounting standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a 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 is undertaken annually to estimate the present value of long service and retiring 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 and forecast figures

The budget figures are for the year ended 30 June 2016 and were published in the 2014/15 annual report. They were included in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2015, 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 forecast figures are for the year ending 30 June 2017, and are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update (BEFU) 2016 for the 2016/17 year.

The forecast financial statements have been prepared as required by the PFA to communicate forecast financial information for accountability purposes.

The budget and forecast figures have been prepared using the accounting policies adopted in preparing these financial statements.

The forecast figures have been prepared in accordance with PBE FRS 42 *Prospective Financial Statements*.

The forecast financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 12 April 2016. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

Significant assumptions used in preparing the forecast financials

The forecast figures contained in these financial statements reflect the Department's purpose and activities and are based on a number of assumptions on what may occur during the 2016/17 year. The forecast figures have been compiled on the basis of existing government policies and ministerial expectations at the time the budget was finalised.

The main assumptions adopted as at 12 April 2016 were as follows:

- the Department's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities
- personnel costs reflect FTE levels consistent with 2015/16
- remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes
- operating costs are based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Department's best estimate of future costs that will be incurred
- no impact of the revaluation of land and buildings has been forecast
- capital commitments will realise as planned
- service concession assets nearly fully constructed
- prison population/demand levels are consistent with the Justice Sector Forecast which projects continued growth at rates consistent with 2015/16
- estimated year-end information for 2015/16 was used as the opening position for the 2016/17 forecast.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenue - exchange transactions

Revenue – Department and third party

Revenue earned in exchange for the provision of outputs (products or services) to third parties, is recorded as operating revenue.

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.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer (usually on delivery of the goods), when the amount of revenue can be measured reliably and it is probable that the economic benefit or service potential associated with the transaction will flow to the entity.

Interest Revenue

Interest revenue is recognised using the effective interest rate method.

Dividend Revenue

Dividend revenue relates to investments arising from the Department's business dealings with companies in the farming industry. Dividend revenue is recognised when the right to receive payment has been established.

Rental Revenue

Rental revenue arising from residential property leases is accounted for on a straight-line basis over the lease terms and included in revenue.

Revenue – non-exchange transactions

Revenue – Crown

Revenue from the Crown is measured based on the Department's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the *Appropriation Acts* for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the *Appropriation (Supplementary Estimates) Act* for the year and certain other funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Department can incur expenses only within the scope and limits of its appropriations.

The fair value of Crown revenue has been determined to be equivalent to the funding entitlement.

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.

Insurance proceeds

Insurance proceeds are recognised when a settlement agreement has been reached which establishes the right to receive payment.

Capital charge

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

Finance costs

Finance costs are incurred in relation to the repayment of the service concession arrangement assets design and construction costs over the contract term. Finance costs are recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised under the allowed alternative treatment method. Finance costs that are directly attributable to the construction of a service concession arrangement asset are capitalised as part of the cost of the asset during the construction period.

Derivative financial instruments

The Department uses derivative financial instruments in the form of interest rate swaps, entered into with the New Zealand Debt Management Office (NZDMO), to manage its exposure to fluctuating market interest rates as a result of its PPP arrangements.

The Department does not hold or issue derivative financial instruments for trading purposes and has not adopted hedge accounting.

These derivatives are measured at fair value determined on a daily basis using the NZD swap curve, which is made up of OCR, bank bill rates and swap rates. Any changes in fair value are recognised in the Statement of Comprehensive Revenue and Expense in the period in which they arise.

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 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.

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition. The amount of any write-down for the loss of service potential or from cost to net realisable value is charged to surplus or deficit in the period of the write-down.

Property, plant and equipment

Items of property, 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 surplus or deficit for the asset class, the gain is credited to surplus or deficit. 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 Revenue and Expense.

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 include 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 Revenue and Expense 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 until the in-service date at which time they are recognised as a separate asset class. As such, service concession arrangements are accounted for in accordance with the Department's policies, which comply with Property, Plant and Equipment PBE IPSAS 17.

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%.

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	–
Plant and equipment	5 – 10 years	–
Furniture and fittings	3 – 5 years	–
Computer hardware	3 – 10 years	–
Motor vehicles	5 – 8 years	20%
Service concession arrangements		
Land	Not depreciated	Not applicable
Buildings	7 – 65 years	–
Plant and equipment	3 – 10 years	–

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.

Direct costs that are 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 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 Revenue and Expense.

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	–

Biological assets

The Department's biological assets consist of sheep, beef and dairy cattle and pigs farmed at various locations throughout New Zealand.

Biological assets are recorded at fair value less costs associated with the sale or disposal of those assets. 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 Revenue and Expense.

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 Revenue and Expense 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

> 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

Cash-generating assets

The Department does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return. The Department holds some commercial assets with the primary objective of providing employment-training opportunities to prisoners as part of rehabilitation and reintegration programmes.

Non-cash-generating 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 held at cost, 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 service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the Statement of Comprehensive Revenue and Expense 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 Revenue and Expense 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 expected to be 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 Revenue and Expense 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 or losses resulting from the settlement of these transactions are recognised in the Statement of Comprehensive Revenue and Expense.

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 Revenue and Expense.

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 Revenue and Expense in which case the transaction costs are recognised in surplus or deficit. Financial assets designated at fair value through surplus or deficit are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Comprehensive Revenue and Expense.

Service concession arrangement 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.

Financial instrument derivatives are measured at fair value determined on a daily basis using the NZD swap curve, which is made up of OCR, bank bill rates, and swap rates. Any changes in fair value are recognised in the Statement of Comprehensive Revenue and Expense in the period in which they arise.

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

Provisions are not recognised for net deficits from future operating activities. 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 ongoing 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 as 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, Inland Revenue at balance date is included in creditors or debtors as appropriate. The net amount of GST paid to, or received from Inland Revenue 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 operating 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.

Contingent assets

Contingent assets are disclosed in the Statement of Contingent Assets at the point at which an inflow of economic benefits or service potential is probable.

Cost allocation accounting policies

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

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 allocation accounting policies

There have been no changes in cost allocation accounting policies during the period.

NOTE 2: OTHER REVENUE

2015 Actual $000		2016 Actual $000
35,388	Sale of goods	22,605
3,410	Board and rents	2,905
3,454	Profit on sale of assets	473
4,508	Insurance proceeds	1,654
17	Revenue other	8,220
46,777	**Total other revenue**	**35,857**

Sale of goods mainly comprises revenue from offender employment activities such as farming, distribution and other industries.

Insurance proceeds relate to the settlement of claims for the 2013 Spring Hill Corrections Facility riot (2015: Christchurch earthquake ($3.3 million) and Spring Hill Corrections Facility riot ($1.2 million)).

Revenue other includes revenue received from Serco in full settlement of costs incurred by the Department due to the Step-In clause in the management contract with Serco being activated at MECF.

NOTE 3: PERSONNEL COSTS

2015 Actual $000		2016 Actual $000	2016 Budget (unaudited) $000	2017 Forecast* (unaudited) $000
521,051	Salaries and wages	541,052	524,402	569,283
936	ACC Partnership Programme	(54)	–	–
350	Government Superannuation Fund contribution expense	305	243	271
13,583	State Sector Retirement Savings Scheme and KiwiSaver employer contribution	14,545	13,630	14,602
1,641	Retiring and long service leave	1,998	1,641	1,683
6,497	Termination benefits	1,120	–	–
544,058	**Total personnel costs**	**558,966**	**539,916**	**585,839**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

NOTE 4: OPERATING COSTS

2015 Actual $000		2016 Actual $000	2016 Budget (unaudited) $000	2017 Forecast* (unaudited) $000
16,739	Operating lease rentals	17,241	17,500	17,792
370	Audit fees for annual audit	376	370	385
39	Fees to auditors for other services	5	–	–
71,825	Facilities maintenance	72,859	70,125	72,427
55,506	Offender management costs	49,602	53,693	58,604
32,246	Information technology costs	31,964	33,165	33,686
86,680	Contract management	101,384	107,670	95,938
24,383	Administration	30,469	25,236	27,206
7	Receivables written off during the year	1	–	–
9,104	Inventory expenses	7,904	9,022	8,498
47,492	Other operating costs	43,471	29,342	61,613
2,396	Loss on sale of assets	1,422	–	–
346,787	**Total operating costs**	**356,698**	**346,123**	**376,149**

**Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016.*

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 2016 was 8% per annum (2015: 8% per annum).

NOTE 6: CASH AND CASH EQUIVALENTS

2015 Actual $000		2016 Actual $000
58,459	Cash and bank balances	39,852
58,459	**Total cash and cash equivalents**	**39,852**

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

NOTE 7: DEBTORS AND OTHER RECEIVABLES

2015 Actual $000		2016 Actual $000
	CURRENT PORTION	
	Exchange transactions	
1,554	Trade debtors – external	1,567
207	Employee advances	373
(6)	Less provision for impairment	(38)
1,755	**Trade debtors – external and employees**	**1,902**
1,312	Trade debtors – other government entities	456
1,312	**Trade debtors – other government entities**	**456**
	Non-exchange transactions	
337,839	Debtor Crown	263,079
337,839	**Debtor Crown**	**263,079**
3,296	Trade debtors – external	–
3,296	**Trade debtors – external**	**–**
344,202	**Total debtors and other receivables**	**265,437**

The carrying value of trade debtors approximates their fair value.

The debtor Crown of $263.1 million (2015: $337.8 million) consists 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 debtor Crown 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:

	2016			2015		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	264,866	–	**264,866**	342,255	–	**342,255**
Past due 1-30 days	269	–	**269**	1,164	–	**1,164**
Past due 31-60 days	27	–	**27**	441	–	**441**
Past due 61-90 days	55	–	**55**	151	–	**151**
Past due > 90 days	258	(38)	**220**	197	(6)	**191**
	265,475	**(38)**	**265,437**	**344,208**	**(6)**	**344,202**

As at 30 June 2016 (and 30 June 2015), 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:

2015 Actual $000		2016 Actual $000
24	Balance at 1 July	6
(18)	Provisions made/(released) during the year	32
6	**Balance at 30 June**	**38**

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 2016 the Department had no debtors that were insolvent (2015: Nil).

NOTE 8: INVENTORIES

2015 Actual $000		2016 Actual $000
3,328	Inventory held for the provision of goods and services	3,065
549	Finished goods	404
3,877	**Total inventories**	**3,469**

The Department's inventory consists of supplies that are available for prisoner purchases, operational supplies and inventory held for sale or 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

2015 Actual $000		2016 Actual $000
	Non-current portion	
6,064	Investments	6,662
6,064	**Total investments**	**6,662**

Investments arise from the Department's business dealings with companies in the farming industry, mainly shares in Fonterra Co-operative Group Limited. These investments are classified as financial instruments and valued at fair value through the Statement of Comprehensive Revenue and Expense.

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. Nigel Hoskin B.B.S (VPM), ANZIV certified this valuation. The total fair value of freehold land and buildings valued by Beca Group at 30 June 2014 was $1,998 million. In line with the Department's accounting policy, the next valuation will be effective as at 30 June 2017, until this time the valuation undertaken in 2014 is deemed to be fair and reasonable.

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. There were no assets held for sale as at 30 June 2016 (2015: Nil).

The Department constructs prison buildings, which are classified as assets under construction. Assets under construction are capitalised at the in-service date. Assets under construction includes buildings $131.7 million (2015: $134.4 million), leasehold improvements $10.0 million (2015: $6.3 million) and service concession arrangements $142.1 million (2015: Nil).

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 or for future operational purposes. The rental revenue that is received from these properties is incidental, as opposed to being held for investment purposes. The net carrying amount of these properties is $0.4 million (2015: $1.5 million).

The Department holds the old prison at Mt Eden Corrections Facility as a heritage asset. The Department does not recognise heritage assets within property, plant and equipment. However, it is insured under the Department's material damage policy for an estimated total reinstatement value of $102.1 million (2015: $102.1 million).

There are no other restrictions over the title of the Department's property, plant and equipment, nor are any property, plant and equipment pledged as security for liabilities.

Service concession arrangements

Auckland South Corrections Facility

Operations at the new 960 bed Auckland South Corrections Facility (ASCF) commenced in May 2015. The facility was designed, financed and built through a PPP with SecureFuture Wiri Limited (contractor). Under the agreement, the Department provided existing department owned land, adjacent to the Auckland Region Women's Corrections Facility to the contractor on which to build the prison. The contractor will continue to operate and maintain the prison for a period of 25 years, after which responsibility for on-going maintenance and operations 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.

The service concession arrangements asset relating to ASCF comprises land $8.7 million (2015: $8.7 million), buildings $293.6 million (2015: $300.5 million) and plant and equipment $15.9 million (2015: $19.3 million).

No further finance costs were capitalised during the year due to construction being completed in the previous 2014/15 financial year (2015: $18.0 million).

Under this agreement the Department pays a monthly unitary charge to the contractor from service commencement. 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 arrangement liability. Repayment of the service concession arrangement liability will be over a term of 25 years from service commencement at an effective interest rate of 8.79% per annum. Certain major capital expenditure incurred (such as re-roofing, 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 method.

> The service costs – these costs cover operation of the prison as well as 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 five 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.

Auckland Prison

Construction commenced in October 2015 on the new maximum security facility at Auckland Prison. The facility will be designed, financed, built and maintained through a PPP with Next Step Partners Limited (contractor). Under the agreement, custodial operations will continue to be carried out by the Department. While the total maximum prisoner capacity will remain unchanged, the new modern facility will continue to ensure the safe containment of prisoners and allow prisoners who have high and complex needs to receive care in an environment that supports them and the delivery of high quality rehabilitative and reintegrative services.

The land under the new maximum security facility was provided by the Department. The contractor will maintain the prison for a period of 25 years following construction, which is on target for completion in late 2017, after which responsibility for on-going maintenance will revert to the Department. The contractor will also maintain the Auckland West facility which is being integrated with the new facilities via secure links as part of the construction.

The service concession arrangements asset relating to Auckland Prison is comprised of buildings within assets under construction of $142.1 million (2015: Nil).

During the construction period in 2016, $8.2 million of finance costs were capitalised.

Under this agreement the Department pays a monthly unitary charge to the contractor from service commencement. This charge covers, and is allocated between:

> The construction of the facility – these costs are not repriced and are recognised as a reduction against the service concession liability. Repayment of the service concession liability will be over a term of 25 years from service commencement at an effective interest rate of 7.37% per annum. Certain major capital expenditure incurred (such as re-roofing, 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 method.

> The service costs – these costs cover operation of the facility as well as routine repairs and maintenance required to keep the facility operational and in good condition. A portion of these costs is indexed to Consumer Price Index and Labour Cost Index. 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.

	Land	Buildings	Leasehold improvements	Plant & equipment	Furniture & fittings	Computer hardware	Motor vehicles	Service concession arrangements	Assets under construction	Total property, plant and equipment	
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
Cost or valuation											
Balance 1 July 2014	166,852	1,836,892	28,492	57,301	8,291	47,047	49,346	–	329,050	2,523,271	
Additions	–	40,262	155	1,551	561	3,281	3,013	–	191,649	240,472	
Revaluation increase/(decrease)	92	(514)	–	–	–	–	–	–	–	(422)	
Disposals/write-offs	(17,621)	(707)	(295)	(1,232)	(47)	–	(8,089)	–	–	(27,991)	
Transfers	(8,641)	51,360	4,917	1,361	540	562	591	329,309	(379,956)	43	*
Cost or valuation at 30 June 2015	**140,682**	**1,927,293**	**33,269**	**58,981**	**9,345**	**50,890**	**44,861**	**329,309**	**140,743**	**2,735,373**	
Add: Movements											
Additions	–	9,926	283	5,756	430	328	2,124	–	212,211	231,058	
Revaluation increase/(decrease)	(1)	5	–	–	–	–	–	–	–	4	
Disposals/write-offs	(502)	(241)	(60)	(1,216)	–	–	(2,152)	–	(1,230)	(5,401)	
Transfers	–	59,539	5,330	1,822	996	344	–	–	(67,896)	135	*
Cost or valuation at 30 June 2016	**140,179**	**1,996,522**	**38,822**	**65,343**	**10,771**	**51,562**	**44,833**	**329,309**	**283,828**	**2,961,169**	
Accumulated depreciation and impairment losses											
Balance 1 July 2014	–	(548)	(15,407)	(36,961)	(6,535)	(44,070)	(30,622)	–	–	(134,143)	
Depreciation expense	–	(105,902)	(3,253)	(3,938)	(857)	(2,610)	(4,627)	(852)	–	(122,039)	
Disposals/write-offs	–	28	295	1,183	47	–	6,863	–	–	8,416	
Accumulated depreciation and impairment losses at 30 June 2015	**–**	**(106,422)**	**(18,365)**	**(39,716)**	**(7,345)**	**(46,680)**	**(28,386)**	**(852)**	**–**	**(247,766)**	
Add: Movements											
Depreciation expense	–	(109,927)	(4,409)	(4,191)	(1,169)	(2,915)	(4,036)	(10,220)	–	(136,867)	
Disposals/write-offs	–	73	20	1,023	–	–	2,013	–	–	3,129	
Revaluation increase/(decrease)	–	20	–	–	–	–	–	–	–	20	
Accumulated depreciation and impairment losses at 30 June 2016	**–**	**(216,256)**	**(22,754)**	**(42,884)**	**(8,514)**	**(49,595)**	**(30,409)**	**(11,072)**	**–**	**(381,484)**	
Carrying amounts per asset class											
At 30 June 2015	**140,682**	**1,820,871**	**14,904**	**19,265**	**2,000**	**4,210**	**16,475**	**328,457**	**140,743**	**2,487,607**	
At 30 June 2016	**140,179**	**1,780,266**	**16,068**	**22,459**	**2,257**	**1,967**	**14,424**	**318,237**	**283,828**	**2,579,685**	

** The total balance against transfers relates to the transfer of computer hardware assets under construction from intangible assets to property, plant and equipment upon capitalisation.*

NOTE 11: INTANGIBLE ASSETS

	Acquired software $000	Internally generated software $000	Assets under construction $000	Total intangible assets $000
Cost or valuation				
Balance 1 July 2014	32,936	62,025	36,787	131,748
Additions	206	5,702	16,817	22,725
Disposals/write–offs	–	–	(2,071)	(2,071)
Transfers	3,896	22,185	(26,124)	(43) *
Cost or valuation at 30 June 2015	**37,038**	**89,912**	**25,409**	**152,359**
Add: Movements				
Additions	1,037	1,042	13,577	15,656
Disposals/write–offs	–	–	(28)	(28)
Transfers	181	10,688	(11,004)	(135) *
Cost or valuation at 30 June 2016	**38,256**	**101,642**	**27,954**	**167,852**
Accumulated amortisation				
Balance 1 July 2014	(22,480)	(41,572)	–	(64,052)
Amortisation expense	(3,084)	(9,019)	–	(12,103)
Accumulated amortisation at 30 June 2015	**(25,564)**	**(50,591)**	–	**(76,155)**
Add: Movements				
Amortisation expense	(3,204)	(11,936)	–	(15,140)
Accumulated amortisation at 30 June 2016	**(28,768)**	**(62,527)**	–	**(91,295)**
Carrying amounts				
At 30 June 2015	**11,474**	**39,321**	**25,409**	**76,204**
At 30 June 2016	**9,488**	**39,115**	**27,954**	**76,557**

* *The total balance against transfers relates to the transfer of computer hardware assets under construction from intangible assets to property, plant and equipment upon capitalisation.*

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

2015 Actual $000		2016 Actual $000
	Cost or valuation	
53,223	Balance at 1 July	10,093
224	Purchases	283
7,530	Net gain/(loss) due to; regeneration, maturation, and changes in unit values	5,106
(18,044)	Sales/harvest	(8,199)
(32,840)	Disposal of forest crop	–
10,093	**Cost or valuation**	**7,283**
(43,130)	**Net change**	**(2,810)**
(32,840)	Change due to disposal of forest crop	–
(1,383)	Change due to movement in quantity	(2,224)
(8,907)	Change due to movement in fair value	(586)
10,093	**Carrying amounts**	**7,283**

The Department farms sheep, beef and dairy cattle and pigs at various locations throughout New Zealand.

The valuation of livestock is based on the active market price and was undertaken by various independent livestock valuers. The overall quantity of livestock decreased during the year primarily due to the continued de-stocking of the Tongariro farm as a result of the sale of land at 30 June 2015.

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

Financial risk management strategies

The Department is exposed to financial risks arising from changes in commodity prices, in particular the price of milk solids. The Department reviews its outlook for livestock and milk prices regularly in considering the need for active financial risk management.

NOTE 13: CREDITORS AND OTHER PAYABLES

2015 Actual $000		2016 Actual $000
	CURRENT PORTION	
	Exchange transactions	
14,119	Trade creditors	12,701
80,863	Accrued expenditure	64,295
	Non-exchange transactions	
9,312	GST payable	6,725
104,294	**Total creditors and other payables**	**83,721**

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

2015 Actual $000		2016 Actual $000
	Current liabilities	
24,572	Retiring and long service leave	26,516
52,066	Annual leave	54,349
2,327	Sick leave	2,562
78,965	**Total current portion**	**83,427**
	Non-current liabilities	
16,025	Retiring and long service leave	18,142
16,025	**Total non-current portion**	**18,142**
94,990	**Total employee entitlements**	**101,569**

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 retiring 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 Marcelo Lardies, a member of the New Zealand Society of Actuaries, from Aon Hewitt, valued retiring and long service leave as at 30 June 2016 and 30 June 2015.

The major assumptions used in the 30 June 2016 valuation are that future salary growth rates are 3.00% (2015: 3.00%) per annum and discount rates ranged from 1.94% to 3.82% (2015: 3.18% 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

2015 Total provisions Actual $000		2016 Restructuring Actual $000	2016 Employee accidents Actual $000	2016 Other provisions Actual $000	2016 Total provisions Actual $000
	CURRENT PORTION				
6,833	Balance at 1 July	5,557	5,942	732	12,231
6,940	Additional provisions made during the year	57	262	557	876
(1,419)	Charged against provision for the year	(4,148)	(624)	(482)	(5,254)
(123)	Provision reversed during the year	(476)	(316)	(78)	(870)
12,231	**Total provisions**	**990**	**5,264**	**729**	**6,983**

Restructuring

The 2016 and 2015 provisions primarily relate to the Lifting Productivity and Performance in New Zealand's Prisons restructure announced in May 2015. The restructure is centred on unifying the prison resources and closing individual facilities at Waikeria, Tongariro and Rimutaka prisons which are no longer fit for purpose.

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, Mark 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 2016 and 30 June 2015.

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

> the Department will remain in the ACC Accredited NZ Employers Programme (ACCEP) for the foreseeable future. If the Department were to exit immediately, a risk margin of 12.8% (2015: 12.8%) per annum would be added by ACC.

The estimated ACCEP outstanding claims liability as at 30 June 2016 included a provision for future claims handling expenses of 9.9% (2015: 10.8%) per annum of expected future claims costs.

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

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

Other provisions

Parental leave

The Department provides an ex-gratia payment to employees (approximating six weeks pay) who return to Corrections for a period of time (as specified in contracts typically three to six 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 one to three years remaining on these leases.

NOTE 16: PROVISION FOR REPAYMENT OF SURPLUS TO THE CROWN

2015 Actual $000		2016 Actual $000
1,974	Net (deficit)/surplus	(33,217)
	Add/(less)	
1,193	Unrealised decrease/(increase) in fair value of biological assets	586
1,084	Unrealised (increase)/decrease in fair value of shares	(595)
2,071	Unrealised decrease/(increase) in discount rates for retiring and long service leave	2,063
–	Unrealised decrease/(increase) in fair value of derivative financial instruments	28,923
6,322	**Total (deficit)/surplus**	**(2,240)**
–	Adjust overall deficit	2,240
6,322	**Provision for repayment of surplus to the Crown**	–

Remeasurements that are reported in the Statement of Comprehensive Revenue and Expense mainly relate to unrealised changes in fair value as a result of revaluation. Under the *Public Finance Act 1989* all remeasurements are exempted from the requirement for appropriation on the basis of a lack of control. Similarly, unrealised remeasurements are not intended to affect the surplus repayable to the Crown.

The return of surplus to the Crown is required to be paid by 31 October of each year.

NOTE 17: OTHER FINANCIAL LIABILITIES

2015 Actual $000		2016 Actual $000
	Current liabilities	
10,562	Service concession arrangements	8,777
10,562	**Total current portion**	**8,777**
	Non-current liabilities	
309,698	Service concession arrangements	401,650
–	Derivative financial instruments	28,923
309,698	**Total non-current portion**	**430,573**
320,260	**Total other financial liabilities**	**439,350**

Service concession arrangements

Other financial liabilities include the Department's liabilities under service concession arrangements, recognised as the asset is being progressively constructed.

Repayment of the liability will be over a term of 25 years from service commencement. Service concession arrangement liabilities that the Department expects to be settled within 12 months of balance date are classified as current.

The Department has no securities against other financial liabilities.

Derivative financial instruments

The Department uses derivative financial instruments in the form of interest rate swaps entered into with the NZDMO to manage its exposure to fluctuating market interest rates as a result of its PPP arrangements.

At 30 June 2016 the total notional principal amount outstanding for the Department's interest rate swaps derivatives was $245.5 million (2015: Nil).

The Department's interest rate swaps derivatives are classified as non-current as the maturity dates range from 2022 to 2041, and are fixed at the rate of 4.8% per annum.

NOTE 18: TAXPAYERS' FUNDS

Taxpayers' funds comprise general funds and revaluation reserves.

2015 Actual $000		Notes	2016 Actual $000
	GENERAL FUNDS		
1,759,693	Balance at 1 July		1,693,645
1,974	Net (deficit)/surplus		(33,217)
2,267	Transfer from fair value through equity reserve		–
–	Capital contribution from the Crown		4,508
(63,967)	Capital cash returned to the Crown		(72,000)
–	Capital non-cash returned to the Crown		(50)
(59,726)	Total movement in general funds		(100,759)
(6,322)	Provision for repayment of surplus to the Crown	16	–
1,693,645	**Balance at 30 June**		**1,592,886**
	REVALUATION RESERVES		
757,490	Balance at 1 July		757,068
(422)	Revaluation gains/(losses)		24
757,068	**Balance at 30 June**		**757,092**
	FAIR VALUE THROUGH EQUITY RESERVE		
2,267	Balance at 1 July		–
(2,267)	Transfer to general funds		–
–	**Balance at 30 June**		**–**
757,068	**Reserves total**		**757,092**
2,450,713	**Total taxpayers' funds at 30 June**		**2,349,978**

The Department has no restricted reserves.

The transfer from fair value through equity reserve to general funds in 2015 related to an asset disposed of in a prior period.

2015 Actual $000		2016 Actual $000
	Revaluation reserves	
	Land	
92,776	Revaluation reserves at 1 July	92,868
92	Revaluation (losses)/gains	(1)
92,868	**Revaluation reserves at 30 June**	**92,867**
	Buildings	
664,714	Revaluation reserves at 1 July	664,200
(514)	Revaluation gains/(losses)	25
664,200	**Revaluation reserves at 30 June**	**664,225**
757,068	**Total reserves at 30 June**	**757,092**
	Fair value through equity reserve	
2,267	Revaluation reserves at 1 July	–
(2,267)	Transfer to general funds	–
–	**Revaluation reserves at 30 June**	–
757,068	**Total reserves at 30 June**	**757,092**

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

2015 Actual $000		2016 Actual $000
1,974	**Net (deficit)/surplus**	**(33,217)**
	Add/(less) non-cash items	
134,142	Depreciation and amortisation	152,007
(18)	Dividends received	–
–	Derivative financial instrument decrease/(increase)	28,923
2,445	Non-current employee entitlements	2,117
136,569	**Total non-cash items**	**183,047**
	(Increase)/decrease in working capital	
44,138	Debtors and other receivables	78,765
228	Inventories	408
(331)	Prepayments	(352)
(15,455)	Creditors and other payables	(20,573)
5,398	Provisions	(5,248)
3,543	Employee entitlements	4,462
37,521	**Working capital movements – net**	**57,462**
	Add/(less) items classified as investing or financing activities	
10,290	Biological assets revaluation decrease/(increase)	2,810
1,084	Shares fair value decrease/(increase)	(595)
(344)	Interest and dividends received	(430)
2,028	Net loss on sale or disposal of non current assets	28
–	Interest on other financial liabilities	31,933
13,058	**Total investing and financing activity items**	**33,746**
189,122	**Net cash flows from operating activities**	**241,038**

NOTE 20: RELATED PARTY DISCLOSURE

The Department is a wholly owned entity of the New Zealand 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.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Department would have adopted in dealing with the party at arms' length in the same circumstances. Further, transactions with other government agencies (for example, Government Departments and Crown Entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

The Department has determined key management personnel as the Chief Executive and the individual members of the Executive Leadership Team. Remuneration applicable to key management personnel is disclosed under Note 21.

There were no related party transactions or commitments to disclose (2015: Nil).

The Treasury advises that responsible Minister Hon Judith Collins (effective 14 December 2015) and previously Minister Hon Peseta Sam Lotu-Iiga have certified that they have no related party transactions for the year ended 30 June 2016 (2015: Ministers Hon Peseta Sam Lotu-Iiga and Hon Anne Tolley – Nil).

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

The Department's key management personnel are the six members of the Executive Leadership Team (2015: six), which include the Chief Executive, four Deputy Chief Executives and the National Commissioner.

2015 Actual $000		2016 Actual $000
2,195	Executive Leadership Team remuneration	2,330
2,195	**Total key management personnel compensation**	**2,330**

NOTE 22: POST-BALANCE DATE EVENTS

On the 22nd September 2016 the Supreme Court of New Zealand ruled that the Department had incorrectly calculated the period of detention for a claimant offender. Under the *Parole Act 2002* the Department is required to calculate the period of detention, taking into consideration the period of time a prisoner spends on pre-sentence detention. The Supreme Court ruling made no direction as to compensation in respect of the period of unlawful detention for the claimant, nor was any sought.

As the Supreme Court ruling affects the Department's method of calculating the period of detention served by prisoners, and notwithstanding the fact that the Department's existing practice had been supported as lawful by previous Courts, it is likely that other current and past prisoners will have had their period of detention incorrectly calculated.

As at the date these financial statements were approved for issue, no complete assessment of the number of prisoners potentially affected by the ruling had been possible. In addition, as no direction or determination has been made on compensation, or claims filed and served on the Department for compensation, no adjustment to the financial statements or performance information for the period ended 30 June 2016 has been made, or considered appropriate.

There are no other post-balance date events that require consideration or adjustment to the Department's financial statements.

NOTE 23: FINANCIAL INSTRUMENTS

The Department is party to financial instrument arrangements as part of its everyday operations. These include instruments such as cash and cash equivalents, investments, debtors and other receivables, creditors and other payables and other financial liabilities.

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

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

		2016			2015		
	Notes	Quoted market price	Valuation technique observable inputs	Total	Quoted market price	Valuation technique observable inputs	Total
		$000	$000	$000	$000	$000	$000
Financial assets							
Cash and cash equivalents	6	39,852	-	**39,852**	58,459	-	**58,459**
Investments	9	6,662	-	**6,662**	6,064	-	**6,064**
Total financial assets		**46,514**	**-**	**46,514**	**64,523**	**-**	**64,523**
Financial liabilities							
Derivative financial instruments	17	-	28,923	**28,923**	-	-	-
Total financial liabilities		-	**28,923**	**28,923**	-	-	-

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 at balance date (2015: Nil).

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 mainly relate to its service concession arrangements which are interest bearing.

The service concession arrangement entered into with SecureFuture Wiri Limited is calculated at the effective interest rate of 8.79% per annum and there is no interest rate risk exposure at balance date as the interest rate is fixed until August 2019.

For the arrangement with Next Step Partners Limited, the Department has entered into interest rate swaps derivatives to limit its interest rate exposure. These derivatives are calculated at a fixed rate of 4.8% per annum.

The Department has obtained ministerial approval for borrowing in relation to its service concession arrangements and to enter into its interest rate swaps derivatives with the NZDMO.

Sensitivity Analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at balance date.

The table below sets out the difference in net (deficit)/surplus had interest rates been 1% higher or lower than the year-end market rate, with all other variables remaining constant.

Any change in the net (deficit)/surplus for the period would result in a corresponding movement in the financial liability at balance date.

2015 Impact on net (deficit)/surplus $000		Change in interest rate	2016 Impact on net (deficit)/surplus $000
–	Interest rate swaps	+ 1.00 %	20,401
–	Interest rate swaps	– 1.00 %	(25,795)

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 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 and debtors and other receivables 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.

2015 Actual $000		Notes	2016 Actual $000
	Counterparties with credit ratings		
	Cash and cash equivalents		
58,459	AA-	6	39,852
58,459	**Total cash and cash equivalents**		**39,852**
	Investments		
6,064	A+	9	6,662
6,064	**Total investments**		**6,662**
	Counterparties without credit ratings		
344,202	Debtors and other receivables	7	265,437
344,202	**Total debtors and other receivables**		**265,437**

Debtors and other receivables

Debtors and other receivables are mainly comprised of debtor Crown and receivables from other government entities. The Department does not rate its remaining individual debtors as it has a large number of customers with minimal debtor balance.

There is minimal credit risk with respect to external receivables and the incidence of default is insignificant.

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.

2015 Actual $000		Notes	2016 Actual $000
	Creditors and other payables		
94,982	Less than six months	13	76,996
	Other financial liabilities	17	
10,562	Less than one year		8,777
29,502	One to five years		52,350
280,196	More than five years		378,223
415,242			**516,346**

The liability for the repayment of surplus to the Crown is not a financial liability as defined by PBE IPSAS 28 *Financial Instruments: Presentation*, as the obligation to pay arises from statute.

2015 Actual $000		Notes	2016 Actual $000
	FINANCIAL ASSETS		
	Cash and receivables		
58,459	Cash and cash equivalents	6	39,852
344,202	Debtors and other receivables	7	265,437
402,661	**Total cash and receivables**		**305,289**
	Fair value through total comprehensive revenue and expense		
6,064	Investments	9	6,662
6,064	**Total investments**		**6,662**
408,725	**Total financial assets**		**311,951**
	FINANCIAL LIABILITIES		
	Fair value through total comprehensive revenue and expense		
–	Derivative financial instruments	17	28,923
	Measured at amortised cost		
104,294	Creditors and other payables	13	83,721
320,260	Service concession arrangements	17	410,427
424,554	**Total financial liabilities**		**523,071**

NOTE 24: 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* (PFA) the Department manages its revenue, 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 PFA 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 PFA 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, while remaining a going concern.

NOTE 25: EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

Explanations for significant variances from the Department's budget are as follows:

Statement of Comprehensive Revenue and Expense

Crown revenue was higher than budget by $15.1 million mainly due to the additional funding the Department received to continue to manage the rising prison population.

Personnel costs were higher than budget by $19.1 million mainly due to the impact of the Step-In at MECF and increasing prison population including higher overtime costs and increased annual leave liability.

Other operating costs were higher than budget by $10.6 million including costs driven by increased prison population, offenders returning to NZ and electronic monitoring enhancements.

Statement of Financial Position

Cash and cash equivalents were lower than budget by $10.1 million due to the timing of vendor payments.

Debtors and other receivables were higher than budget by $131.2 million mainly due to an increase in debtor Crown, as a consequence of the Department requiring less cash.

Property, plant and equipment and intangible assets were $83.0 million and $16.3 million lower than budget respectively mainly due to the sale of the Tongariro/Rangipō land at 30 June 2015 and the reprioritisation and deferral of planned expenditure.

Biological assets were lower than budget by $45.9 million due to the sale of the Tongariro/Rangipō forest crop at 30 June 2015 and the associated de-stocking of livestock.

Creditors and other payables were $16.3 million lower than budget due to the timing of accruals.

Employee entitlements were higher than budget by $16.6 million due to changes in actuarial valuations and higher rates of remuneration.

Other financial liabilities were higher than budget by $141.2 million. This mainly relates to the Department's service concession arrangement liability with Next Step Partners Limited that was signed in July 2015 and the interest rate swaps derivatives entered into with the NZDMO in September 2015 to manage the Department's interest rate risk under our service concession arrangement.

General funds were lower than budget by $155.8 million mainly due to capital withdrawals and re-measurement losses.

Statements of Expenses and Capital Expenditure

Statement of Departmental Expenditure and Capital Expenditure Against Appropriations

FOR THE YEAR ENDED 30 JUNE 2016

2015 Expenditure after remeasurements $000		2016 Expenditure before remeasurements $000	2016 Remeasurements $000	2016 Expenditure after remeasurements $000	2016 Supp. estimates (unaudited) $000	2017 Forecast* (unaudited) $000
	VOTE: CORRECTIONS					
	Departmental output expenditure					
51,672	Information and Administrative Services to the Judiciary and New Zealand Parole Board	57,747	(75)	57,672	59,156	–
4,340	Policy Advice and Ministerial Services MCA	3,126	–	3,126	3,284	2,687
3,332	*– Policy Advice***	*1,785*	–	*1,785*	*1,644*	*1,646*
1,008	*– Ministerial Services*	*1,341*	–	*1,341*	*1,640*	*1,041*
789,299	Prison-based Custodial Services#	883,310	(30,217)	853,093	858,858	–
169,122	Rehabilitation and Reintegration	176,704	(396)	176,308	180,300	182,187
213,723	Sentences and Orders Served in the Community	206,676	(289)	206,387	210,887	–
2,005	Contract Management of Services Provided by Third Parties#	–	–	–	–	–
–	Public Safety is Improved MCA	–	–	–	–	1,167,910
–	*– Information and Administrative Services to the Judiciary and New Zealand Parole Board*	–	–	–	–	*59,196*
–	*– Prison-based Custodial Services*	–	–	–	–	*899,610*
–	*– Sentences and Orders Served in the Community*	–	–	–	–	*209,104*
1,230,161	**Total departmental output expenditure**	**1,327,563**	**(30,977)**	**1,296,586**	**1,312,485**	**1,352,784**
	Appropriation for capital expenditure					
263,197	**Corrections – Permanent Legislative Authority**	**246,714**	**–**	**246,714**	**307,645**	**412,195**

* *Forecast financial statements have been prepared using Budget Economic Fiscal Update (BEFU) 2016. The 'Information Services to the Judiciary and New Zealand Parole Board', 'Prison-based Custodial Services' and 'Sentences and Orders Served in the Community' appropriations were disestablished and replaced with a Multi-Category Appropriation called 'Public Safety is Improved' for 2017 in order to align the appropriations with the Department's strategic outcomes.*

** *Policy Advice is part of a Multi-Category Appropriation (MCA), whereby a single appropriation covers more than one output class. As such, the Department is permitted to reallocate resources between output classes within an MCA without seeking further parliamentary approval. Despite this output class incurring a net deficit for the year, the MCA was within approved levels.*

\# *From 2016 the Contract Management of Services Provided by Third Parties appropriation has been integrated into the Prison-based Custodial Services appropriation.*

Refer to Part B: Statement of Performance for detailed performance against each output class.

Changes in appropriation structure

There were no changes in the Department's appropriation structure in 2015/16.

Statement of Capital Injections

FOR THE YEAR ENDED 30 JUNE 2016

2015 Actual $000		2016 Actual $000	2016 Budget (unaudited) $000	2016 Supp. estimates (unaudited) $000
	VOTE: CORRECTIONS			
–	Capital injections	4,508	–	4,508

Capital injections relate to the retention of insurance proceeds from the 2012 Christchurch earthquake and the 2013 Spring Hill Corrections facility riot.

Statement of Capital Injections Without, or in Excess of, Authority

FOR THE YEAR ENDED 30 JUNE 2016

The Department has not received any capital injections during the year without, or in excess of, authority (2015: Nil).

Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Authority

FOR THE YEAR ENDED 30 JUNE 2016

The Department has no expenses and capital expenditure incurred without appropriation or other authority or in excess of an existing appropriation or other authority, in relation to the activities of the Department (2015: Nil).