

# Financial Statements

# Statement of Accounting Policies: Departmental

## Reporting entity

The Ministry of Social Development (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

The primary objective of the Ministry is to provide services to the public rather than to make a financial return.

Accordingly, the Ministry has designated itself as a public benefit entity for the purposes of applying New Zealand's equivalents to the International Financial Reporting Standards (NZ IFRS).

The financial statements of the Ministry are for the year ended 30 June 2014. The financial statements were authorised for issue by the Chief Executive of the Ministry on 30 September 2014.

In addition, the Ministry has reported on Crown activities and trust monies it administers.

## Basis of preparation

### Statement of compliance

The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirements to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for public benefit entities.

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

### Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, and certain financial instruments (including derivative instruments).

### Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is New Zealand dollars.

### Changes in accounting policies

There have been no changes in accounting policies during the financial year.

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

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

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

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

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

## Significant accounting policies

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

## Budget figures

The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ended 30 June 2014, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates, which includes the transfers made under section 26A of the Public Finance Act 1989.

The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

## Revenue

The Ministry gets revenue from providing outputs to the Crown and for services to third parties. Revenue is recognised when it is earned and is reported in the financial period it relates to.

## Cost allocation

The Ministry accumulates and allocates costs to Departmental output expenses using a three-staged costing system, outlined below.

The first stage allocates all direct costs to output expenses as and when they are incurred. The second stage accumulates and allocates indirect costs to output expenses based on cost drivers, such as full-time equivalent (FTE) staff and workload information obtained from surveys, which reflect an appropriate measure of resource consumption/use. The third stage accumulates and allocates overhead costs to output expenses based on resource consumption/use where possible, such as the FTE staff ratio, or where an appropriate driver cannot be found then in proportion to the cost charges in the previous two stages.

### Criteria for direct and indirect costs

Direct costs are costs that vary directly with the level of activity and are causally related to, and readily assignable to, an output expense. Overhead costs are costs that do not vary with the level of activity undertaken. Indirect costs are costs other than direct costs or overhead costs.

For the year ended 30 June 2014, direct costs accounted for 86.2 per cent of the Ministry's costs (2013: 85.5 per cent).

## Expenses

### General

Expenses are recognised in the period to which they relate.

### Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine the interest expense for each period.

## Foreign currency

Foreign currency transactions (including those for which foreign exchange forward contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Comprehensive Income.

## Financial instruments

### Financial assets

Cash and cash equivalents includes cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from the date of acquisition.

Debtors and other receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties for the debtor, a probability the debtor will enter into bankruptcy, and defaults in payments are considered indicators the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income. Overdue receivables that are renegotiated are reclassified as current (ie, not past due).

### Financial liabilities

The major financial liability types are creditors and other payables. Both are designated at amortised cost using the effective interest rate method. Financial liabilities entered into with a duration of less than 12 months are recognised at their nominal value.

## Property, plant and equipment

Property, plant and equipment consists of land, buildings, furniture and fittings, computer equipment, motor vehicles and plant and equipment.

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

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,000.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable the future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

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

### Disposals

Gains and losses on disposal are determined by comparing the proceeds of disposal with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves for those assets are transferred to general funds.

### Subsequent costs

Costs incurred after the initial acquisition are capitalised only when it is probable the future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset Type	Estimated Life	Estimated Life
Buildings (including components)	10-80 years	1.25%-10%
Leasehold improvements	up to 10 years	>10%
Furniture and fittings	3-5 years	20%-33%
Computer equipment	3-5 years	20%-33%
Motor vehicles	4-5 years	20%-25%
Plant and equipment	3-5 years	20%-33%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter, with a maximum period of 10 years.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

### Revaluation

Land and buildings are revalued at least every three years to ensure the carrying amount does not differ materially from the fair value. Fair value is determined from market-based evidence by an independent valuer. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure those values are not materially different to fair value. Additions to assets between revaluations are recorded at cost.

### Accounting for revaluations

The Ministry accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluations are recorded in the asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, the balance is expensed in the Statement of Comprehensive Income. Any subsequent increase in value after revaluation that offsets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

### Intangible assets

#### Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

#### 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. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

The useful lives and associated amortisation rate of our major class of intangible assets have been estimated as follows:

Asset Type	Estimated Life	Estimated Life
Developed computer software	3-8 years	12.5%-33%

### Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Intangible assets not yet available for use at the balance sheet date are tested for impairment annually.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and 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 are not primarily dependent on the asset's ability to generate net cash inflows and where the Ministry would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

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

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

### Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

Impairment losses for write-downs of non-current assets held for sale are recognised in the Statement of Comprehensive Income.

Increases in fair value (less costs to sell) are recognised up to the level of any impairment losses previously recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

### 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 items in the financial statements, including the appropriation statements, are stated exclusive of GST except for receivables and payables, which are stated inclusive of GST. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of the receivables or payables in the Statement of Financial Position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

### Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Ministry. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether to include renewal options in the lease term, and an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment. With an operating lease no such asset is recognised.

The Ministry has exercised its judgement on the appropriate classification of equipment leases, and has determined the Ministry has no finance leases.

## Provisions

The Ministry recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event. A provision is recognised when it is probable an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

## Commitments

Expenses yet to be incurred on non-cancellable contracts entered into on or before balance date are disclosed as commitments to the extent there are equally unperformed obligations.

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

## Contingent assets and liabilities

Contingent assets and liabilities are disclosed at the point the contingency is evident.

## Employee entitlements

### Short-term employee entitlements

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

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

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

The Ministry recognises a liability and an expense for performance payments where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

### Long-term employee entitlements

Entitlements payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood staff will reach the point of entitlement and contractual entitlements information.
- the present value of the estimated future cash flows.

## Statement of Cash Flows

Cash means cash balances on hand and held in bank accounts.

Operating activities are those activities where the Ministry receives cash from its income sources and makes cash payments for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections or the repayment of capital to the Crown.

## **Taxpayers' funds**

Taxpayers' funds are the Crown's investment in the Ministry and are measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified as general funds and property, plant and equipment revaluation reserves.

## **Revaluation reserves**

These reserves relate to the revaluation of land and buildings to fair value.

## **Critical accounting estimates and assumptions**

In preparing these financial statements the Ministry has made estimates and assumptions about the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Retirement and long service leave**

An analysis of the Ministry's exposure to estimates and uncertainties around its retirement and long service leave liability is contained in the notes (refer Note 14).

## **Critical judgements in applying the Ministry's accounting policies**

In accounting for revaluations of land and buildings the Ministry accepts the judgements of the work performed by our independent registered valuer, Andrew Parkyn ANZIV of Quotable Value Limited (refer Note 8).

There were no other significant items for which management had to exercise critical judgement in applying the Ministry's accounting policies for the year ended 30 June 2014.

# Statement of Comprehensive Income

For the year ended 30 June 2014

Actual 2013 \$000		Notes	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Income</b>				
1,203,636	Revenue Crown		1,253,265	1,189,557	1,253,265
5,310	Revenue other	1	7,857	12,460	7,240
295	Gain on disposal of fixed assets	2	-	-	-
<b>1,209,241</b>	<b>Total income</b>		<b>1,261,122</b>	<b>1,202,017</b>	<b>1,260,505</b>
	<b>Expenditure</b>				
660,842	Personnel costs	3	694,973	655,078	667,239
45,135	Depreciation and amortisation expenses	8, 9	44,251	51,853	50,117
23,742	Capital charge	4	23,422	23,575	23,575
472,476	Other operating expenses	5	486,439	471,511	519,574
-	Loss on disposal of fixed assets	6	433	-	-
<b>1,202,195</b>	<b>Total expenditure</b>		<b>1,249,518</b>	<b>1,202,017</b>	<b>1,260,505</b>
<b>7,046</b>	<b>Net surplus/(deficit)</b>		<b>11,604</b>	<b>-</b>	<b>-</b>
	<b>Other comprehensive income</b>				
-	Gain on property, plant and equipment revaluations		11,069	-	-
<b>7,046</b>	<b>Total comprehensive income</b>		<b>22,673</b>	<b>-</b>	<b>-</b>

Explanations of significant variances against budget are detailed in Note 21. Refer to Note 5 for other operating expenses variances.



# Statement of Financial Position

As at 30 June 2014

Actual 2013 \$000		Notes	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Taxpayers' funds</b>				
256,896	General funds		261,887	256,896	261,887
35,875	Revaluation reserve		46,944	35,875	35,875
<b>292,771</b>	<b>Total taxpayers' funds</b>	<b>15</b>	<b>308,831</b>	<b>292,771</b>	<b>297,762</b>
	<b>Assets</b>				
	<b>Current assets</b>				
32,695	Cash and cash equivalents		31,259	40,701	27,990
11,078	Accounts receivable	7	18,353	7,798	11,078
13,056	Prepayments		13,960	10,205	13,056
93,068	Crown receivable		108,859	53,000	81,411
<b>149,897</b>	<b>Total current assets</b>		<b>172,431</b>	<b>111,704</b>	<b>133,535</b>
	<b>Non-current assets</b>				
297,380	Property, plant and equipment	8	302,813	317,662	312,253
50,756	Intangible assets	9	75,925	57,640	52,930
<b>348,136</b>	<b>Total non-current assets</b>		<b>378,738</b>	<b>375,302</b>	<b>365,183</b>
<b>498,033</b>	<b>Total assets</b>		<b>551,169</b>	<b>487,006</b>	<b>498,718</b>
	<b>Liabilities</b>				
	<b>Current liabilities</b>				
93,955	Accounts payable and accruals	10	120,411	96,731	98,708
2,013	Revenue received in advance	11	2,108	-	-
7,046	Return of operating surplus to the Crown	12	11,604	-	-
56,347	Provision for employee entitlements	14	60,761	53,622	56,347
6,142	Other provisions	13	6,199	6,916	6,142
<b>165,503</b>	<b>Total current liabilities</b>		<b>201,083</b>	<b>157,269</b>	<b>161,197</b>
	<b>Non-current liabilities</b>				
39,759	Provision for employee entitlements	14	41,255	36,966	39,759
<b>39,759</b>	<b>Total non-current liabilities</b>		<b>41,255</b>	<b>36,966</b>	<b>39,759</b>
<b>205,262</b>	<b>Total liabilities</b>		<b>242,338</b>	<b>194,235</b>	<b>200,956</b>
<b>292,771</b>	<b>Net assets</b>		<b>308,831</b>	<b>292,771</b>	<b>297,762</b>

Explanations of significant variances against budget are detailed in Note 21.



Brendan Boyle  
Chief Executive

30 September 2014



Bruce Simpson  
Chief Financial Officer

30 September 2014

# Statement of Changes in Taxpayers' Funds

For the year ended 30 June 2014

Actual 2013 \$000		Note	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
<b>300,771</b>	<b>Balance at 1 July</b>		<b>292,771</b>	<b>292,771</b>	<b>292,771</b>
7,046	Total comprehensive income		22,673	-	-
(7,046)	Return of operating surplus to the Crown	12	(11,604)	-	-
-	Capital injections		4,991	-	4,991
(8,000)	Capital withdrawal		-	-	-
<b>292,771</b>	<b>Balance at 30 June</b>		<b>308,831</b>	<b>292,771</b>	<b>297,762</b>

# Statement of Cash Flows

For the year ended 30 June 2014

Actual 2013 \$000		Note	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Cash flows from operating activities</b>				
1,218,004	Receipts from Crown revenue		1,237,474	1,201,557	1,264,922
3,892	Receipts from other revenue		7,869	12,460	7,240
(475,176)	Payments to suppliers		(472,442)	(472,407)	(518,606)
(655,875)	Payments to employees		(685,581)	(651,782)	(665,467)
(23,742)	Payments for capital charge		(23,422)	(23,575)	(23,575)
(602)	Goods and services tax (net)		938	-	-
<b>66,501</b>	<b>Net cash flow from operating activities</b>	<b>16</b>	<b>64,836</b>	<b>66,253</b>	<b>64,514</b>
	<b>Cash flows from investing activities</b>				
2,276	Receipts from sale of property, plant and equipment		1,844	1,800	1,800
(25,854)	Purchase of property, plant and equipment		(24,743)	(45,175)	(51,129)
(17,659)	Purchase of intangible assets		(41,316)	(17,821)	(17,833)
<b>(41,237)</b>	<b>Net cash flow from investing activities</b>		<b>(64,215)</b>	<b>(61,196)</b>	<b>(67,162)</b>
	<b>Cash flows from financing activities</b>				
-	Capital contribution from the Crown		4,991	-	4,991
(8,000)	Capital withdrawal from the Crown		-	-	-
(14,983)	Return of operating surplus to Crown		(7,048)	(4,000)	(7,048)
<b>(22,983)</b>	<b>Net cash flow from financing activities</b>		<b>(2,057)</b>	<b>(4,000)</b>	<b>(2,057)</b>
2,281	Net increase/(decrease) in cash held		(1,436)	1,057	(4,705)
30,414	Cash and cash equivalents at the beginning of the year		32,695	39,644	32,695
<b>32,695</b>	<b>Cash and cash equivalents at the end of the year</b>		<b>31,259</b>	<b>40,701</b>	<b>27,990</b>

The goods and services tax (GST) (net) component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component is presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

Refer to Note 16 for reconciliation of net surplus/(deficit) to net cash from operating activities. Explanations of significant variances against budget are detailed in Note 21.

# Statement of Trust Monies

As at 30 June 2014

The Ministry operates trust accounts as the agent under section 66 of the Public Finance Act 1989. The transactions through these accounts and their balances as at 30 June are not included in the Ministry's own financial statements. Movements in these accounts during the year ended 30 June 2014 were as follows:

Actual 2013 \$000		Actual 2014 \$000
	<b>William Wallace Trust</b>	
<b>404</b>	<b>Balance at 1 July</b>	<b>410</b>
(34)	Distributions	(57)
40	Revenue	52
<b>410</b>	<b>Balance at 30 June</b>	<b>405</b>

## William Wallace Trust Account

The William Wallace Awards are held by Child, Youth and Family on an annual basis to celebrate the achievements of young people in care. The awards are in the form of scholarship funding for tertiary study or a contribution to vocational and leadership programmes. The Trust was established in May 1995 to hold funds from an estate for the above purpose.

# Statement of Commitments

As at 30 June 2014

Actual 2013 \$000		Actual 2014 \$000
-	<b>Capital commitments</b> Property, plant and equipment	43,690
-	<b>Total capital commitments</b>	<b>43,690</b>
	<b>Operating commitments</b>	
	<b>Non-cancellable accommodation leases</b>	
41,879	Not later than one year	38,924
74,116	Later than one year and not later than five years	87,477
13,534	Later than five years	188,393
<b>129,529</b>	<b>Total non-cancellable accommodation leases</b>	<b>314,794</b>
<b>129,529</b>	<b>Total operating commitments</b>	<b>314,794</b>
<b>129,529</b>	<b>Total commitments</b>	<b>358,484</b>

## Capital commitments

The Ministry had capital commitments of \$43.7 million as at balance date (2013: nil). This mainly relates to the leasehold improvement costs associated with the relocation of MSD National Office to 56 The Terrace, Wellington.

## Non-cancellable accommodation leases

The Ministry has long-term leases on premises, which are subject to regular reviews. The amounts disclosed above as future commitments are based on the current rental rates.

The Operating and Capital commitments for 2013/2014 include the lease commitment for the new MSD National Office based at 56 The Terrace, Wellington.

In addition to the above costs the Ministry has sub-lease rental recoveries of \$0.543 million expected to be received in the following year, 2014/2015 (2013: \$0.248 million). Refer to Note 1 for sub-lease rental recoveries for 2013/2014.

# Statement of Contingent Liabilities and Contingent Assets

As at 30 June 2014

## Unquantifiable contingent liabilities

There is legal action against the Crown relating to historical abuse claims. At this stage the number of claimants and the outcomes of these cases are uncertain. The disclosure of an amount for these claims may prejudice the legal proceedings.

## Quantifiable contingent liabilities

Actual 2013 \$000		Actual 2014 \$000
65	Personal grievances claims	175
125	Other claims	125
<b>190</b>	<b>Total contingent liabilities</b>	<b>300</b>

### Personal grievances

Personal grievances claims represents amounts claimed by employees for personal grievances cases. There are 15 personal grievances claims (2013: 11 personal grievances claims).

### Other claims

Other claims represents outstanding grievances claims from our clients for unpaid benefit entitlements and Child, Youth and Family disputes. There are three claims (2013: three claims).

## Quantifiable contingent assets

Actual 2013 \$000		Actual 2014 \$000
2,000	Canterbury earthquake claim	5,000
<b>2,000</b>	<b>Total contingent assets</b>	<b>5,000</b>

The Ministry has an unsettled business interruption insurance claim resulting from the 2010/2011 Christchurch earthquakes (2013: \$2.0 million).

# Statement of Departmental Expenses and Capital Expenditure against Appropriations

For the year ended 30 June 2014

Expenditure Including Remeasurements 2013 \$000	Summary By Output Expenses	Expenditure Including Remeasurements 2014 \$000	Remeasurements <sup>93</sup> 2014 \$000	Expenditure Excluding Remeasurements 2014 \$000	Appropriation Voted <sup>94</sup> 2014 \$000
	<b>Appropriations for output expenses</b>				
	<b>Vote Social Development</b>				
443	Administration of Trialling New Approaches to Social Sector Change	1,212	1	1,213	1,382
6,814	Adoption Services	6,521	5	6,526	6,704
344,499	Care and Protection Services	350,019	171	350,190	350,301
1,242	Children's Action Plan	5,554	-	5,554	5,690
13,533	Collection of Balances Owed by Former Clients and Non-beneficiaries	13,429	11	13,440	13,711
8,220	Development and Funding of Community Services	8,229	6	8,235	8,329
34,556	Family and Community Services	35,720	15	35,735	35,892
35,290	Income Support and Assistance to Seniors	37,757	31	37,788	37,828
-	<b>Improved Employment and Social Outcomes Support MCA</b>	<b>277,382</b>	<b>323</b>	<b>277,705</b>	<b>284,064</b>
-	Administering Income Support	147,326	209	147,535	151,291
-	Improving Employment Outcomes - Service Provision	120,953	111	121,064	123,049
-	Improving Work Readiness - Service Provision	9,103	3	9,106	9,724
<b>5,686</b>	<b>Management of Service Cards MCOA</b>	<b>6,176</b>	<b>6</b>	<b>6,182</b>	<b>6,654</b>
4,553	Administration of Community Services Card	5,031	5	5,036	5,251
1,133	Management of SuperGold Card	1,145	1	1,146	1,403
15,844	Management of Student Loans	16,068	12	16,080	16,237
15,743	Management of Student Support, excluding Student Loans	16,749	14	16,763	17,102
5,359	Planning, Correspondence and Monitoring	5,226	4	5,230	5,554
3,505	Prevention Services	3,904	2	3,906	4,020
1,784	Promoting Positive Outcomes for Disabled People	5,309	1	5,310	5,785
2,606	Property Management Centre of Expertise	3,845	1	3,846	3,855
33,616	Services to Protect the Integrity of the Benefit System	34,995	24	35,019	35,139
-	Social Housing Services	9,490	7	9,497	9,545
<b>32,318</b>	<b>Social Policy Advice MCOA</b>	<b>29,086</b>	<b>16</b>	<b>29,102</b>	<b>29,630</b>
6,155	Forecast, Modelling, Information Monitoring and Analysis	6,291	3	6,294	6,450
3,410	Longitudinal Studies	-	-	-	-
17,304	Policy Advice	17,841	11	17,852	18,180
5,449	Research and Evaluation	4,954	2	4,956	5,000
452,860	Tailored Sets of Services to Help People into Work or Achieve Independence	226,604	-	226,604	226,604
54,635	Vocational Skills Training	23,392	-	23,392	23,392
2,714	Youth Development	2,897	2	2,899	2,953
129,540	Youth Justice Services	128,586	77	128,663	128,681
<b>1,200,807</b>	<b>Total Vote Social Development</b>	<b>1,248,150</b>	<b>729</b>	<b>1,248,879</b>	<b>1,259,052</b>

## Responsible Ministers

Minister for Social Development is responsible for all appropriations above except:

- Minister of Health is responsible for Administration of Trialling New Approaches to Social Sector Change
- Minister of Revenue is responsible for Management of Student Loans
- Minister for Disability Issues is responsible for Promoting Positive Outcomes for Disabled People
- Minister of State Services is responsible for Property Management Centre of Expertise
- Minister of Youth Affairs is responsible for Youth Development.

<sup>93</sup> The remeasurement adjustment relates to movements in the unvested long service leave provision due to changes in discount rates. The Ministry is appropriated for expenditure excluding remeasurements.

<sup>94</sup> This includes adjustments made in the Supplementary Estimates and transfers made under section 26A of the Public Finance Act 1989.

The Statement of Accounting Policies: Departmental on pages 85 to 90 and Notes 1 to 21 on pages 101 to 116 form part of these financial statements.

# Statement of Departmental Expenses and Capital Expenditure against Appropriations (continued)

For the year ended 30 June 2014

Expenditure Including Remeasurements 2013 \$000	Summary By Output Expenses	Expenditure Including Remeasurements 2014 \$000	Remeasurements <sup>95</sup> 2014 \$000	Expenditure Excluding Remeasurements 2014 \$000	Appropriation Voted <sup>96</sup> 2014 \$000
979	<b>Vote Senior Citizens</b> Senior Citizens Services	941	-	941	1,013
<b>979</b>	<b>Total Vote Senior Citizens</b>	<b>941</b>	<b>-</b>	<b>941</b>	<b>1,013</b>
409	<b>Vote Veterans' Affairs - Social Development</b> Processing and Payment of Veterans' Pensions	427	-	427	440
<b>409</b>	<b>Total Vote Veterans' Affairs - Social Development</b>	<b>427</b>	<b>-</b>	<b>427</b>	<b>440</b>
<b>1,202,195</b>	<b>Total departmental output expenses</b>	<b>1,249,518</b>	<b>729</b>	<b>1,250,247</b>	<b>1,260,505</b>
	<b>Appropriations for capital expenditure</b>				
43,513	<b>Vote Social Development</b> Ministry of Social Development - Capital Expenditure PLA	66,059	-	66,059	68,962
<b>43,513</b>	<b>Total departmental capital expenditure</b>	<b>66,059</b>	<b>-</b>	<b>66,059</b>	<b>68,962</b>
<b>1,245,708</b>	<b>Total departmental expenditure and capital expenditure</b>	<b>1,315,577</b>	<b>729</b>	<b>1,316,306</b>	<b>1,329,467</b>

## Responsible Ministers

Minister for Social Development is responsible for all appropriations above except:

- Minister for Senior Citizens is responsible for Senior Citizens Services
- Minister of Veterans' Affairs is responsible for Processing and Payment of Veterans' Pensions.

<sup>95</sup> The remeasurement adjustment relates to movements in the unvested long service leave provision due to changes in discount rates. The Ministry is appropriated for expenditure excluding remeasurements.

<sup>96</sup> This includes adjustments made in the Supplementary Estimates and transfers made under section 26A of the Public Finance Act 1989.

The Statement of Accounting Policies: Departmental on pages 85 to 90 and Notes 1 to 21 on pages 101 to 116 form part of these financial statements.



# Statement of Departmental Expenses and Capital Expenditure against Appropriations (continued)

For the year ended 30 June 2014

## Transfers approved under section 26A of the Public Finance Act 1989

The Appropriation Voted includes adjustments made in the Supplementary Estimates and the following transfers made under section 26A of the Public Finance Act 1989.

	Supplementary Estimates 2014 \$000	Section 26A Transfers 2014 \$000	Appropriation Voted <sup>97</sup> 2014 \$000
<b>Vote Social Development</b>			
Adoption Services	6,814	(110)	6,704
Prevention Services	4,040	(20)	4,020
Youth Justice Services	129,546	(865)	128,681
Care and Protection Services	349,306	995	350,301
<b>Total appropriations for output expenses</b>	<b>489,706</b>	<b>-</b>	<b>489,706</b>

# Statement of Unappropriated Departmental Expenses and Capital Expenditure against Appropriations

For the year ended 30 June 2014

The Ministry had no unappropriated departmental operating or capital expenditure in 2013/2014 (2013: nil).

There were no breaches of projected departmental net asset schedules in 2013/2014 (2013: nil).

<sup>97</sup> This includes adjustments made in the Supplementary Estimates and transfers made under section 26A of the Public Finance Act 1989.

The Statement of Accounting Policies: Departmental on pages 85 to 90 and Notes 1 to 21 on pages 101 to 116 form part of these financial statements.

# Notes to the Financial Statements

## Note 1: Revenue other

Actual 2013 \$000		Actual 2014 \$000
248	Sub-lease rental recoveries	317
5,062	Other recoveries	7,540
<b>5,310</b>	<b>Total revenue other</b>	<b>7,857</b>

The Ministry received revenue from child support receipts on behalf of children in foster care (\$1.813 million), the Property Management Centre of Expertise (PMCoE) property portal (\$2.686 million), Tertiary Education Commission (\$1.901 million) and Strengthening Families interagency support (\$0.662 million). The Ministry received other revenues (\$0.478 million) and revenue from sub-leased premises (\$0.317 million).

## Note 2: Gain on disposal of fixed assets

Actual 2013 \$000		Actual 2014 \$000
295	Gain on disposal of fixed assets	-
<b>295</b>	<b>Total gains</b>	<b>-</b>

During the year, the Ministry disposed of assets including motor vehicles that reached a pre-determined mileage and/or life. The net gain on asset disposals was nil (2013: \$295,235).

## Note 3: Personnel costs

Actual 2013 \$000		Actual 2014 \$000
628,473	Salaries and wages	656,804
5,517	Increase/(decrease) in employee entitlements	5,910
1,653	Increase/(decrease) in restructuring costs	2,195
14,795	Defined superannuation contribution scheme	18,420
10,404	Other personnel expenses	11,644
<b>660,842</b>	<b>Total personnel costs</b>	<b>694,973</b>

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined superannuation contribution schemes and are recognised as an expense in the Statement of Comprehensive Income.

## Note 4: Capital charge

The Ministry pays a capital charge to the Crown on its taxpayers' funds at 31 December and 30 June each financial year. The capital charge rate for the year ended 30 June 2014 was 8 per cent (2013: 8 per cent).

## Note 5: Other operating expenses

Actual 2013 \$000		Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
1,034	Audit fees <sup>98</sup>	931	1,178	1,178
69,482	Rental, leasing and occupancy costs	72,396	70,000	73,000
10	Bad debts written off	58	-	-
80	Impairment of receivables	(195)	-	-
118,182	Client financial plan costs <sup>99</sup>	120,216	120,000	121,000
-	Employment support and subsidies <sup>100</sup>	60,463	-	62,310
22,422	Non-specific client costs <sup>101</sup>	27,605	25,000	28,000
54,635	Vocational Skills Training	23,392	46,784	23,392
32,621	Office operating expenses	32,966	31,000	33,000
107,719	IT related operating expenses	82,088	98,000	92,600
7,313	Travel expenses	8,237	7,100	8,500
6,650	Consultancy and contractors' fees	9,808	7,000	10,000
14,301	Professional fees	7,954	15,000	9,000
38,027	Other operating expenses	40,520	50,449	57,594
<b>472,476</b>	<b>Total operating costs</b>	<b>486,439</b>	<b>471,511</b>	<b>519,574</b>

### Major other operating expenses variances

Employment support and subsidies is a new category of expenditure in 2013/2014 as a result of the implementation of the Improved Employment and Social Outcomes Support MCA from 1 January 2014.

Vocational Skills Training expenses decreased in 2013/2014 mainly due to the transfer of funding to Vote Tertiary Education (\$13.912 million) and the transfer of funding to the Non-departmental other expense Employment Assistance to provide funding for other education, training and employment interventions to support beneficiaries into work (\$16.141 million).

IT related operating expenses decreased in 2013/2014 mainly due to the completion of system changes for Welfare Reform in the prior year.

## Note 6: Loss on disposal of fixed assets

Actual 2013 \$000		Actual 2014 \$000
-	Loss on disposal of fixed assets	433
-	<b>Total losses</b>	<b>433</b>

During the year, the Ministry incurred a loss on disposal of fixed assets. This was mainly from the disposal of leasehold improvements no longer in use (2013: nil).

<sup>98</sup> Audit fees includes statutory audit fees and disbursements.

<sup>99</sup> Client financial plan costs includes monies paid for the provision of the care and protection of children and young persons, and the provision of programmes and services to support the resolution of behaviour and relationship difficulties. A portion of these costs is used to support statutory processes to promote opportunities for family/whānau, hapū/iwi and family groups to consider care and protection and youth justice issues and to contribute to a decision-making process that often removes the need for court involvement.

<sup>100</sup> Employment support and subsidies includes costs related to employment assistance including employment subsidies, training for work, partnership with industry, health interventions and employment placement and job search initiatives.

<sup>101</sup> Non-specific client costs include costs which cannot be attributed to a specific client. It includes costs for maintaining an infrastructure that supports the Ministry to meet its legal and support obligations for the care and protection of children and young persons and the casework resolution process. The costs can be grouped into four main categories:

- Family home costs including bed availability allowances, family home supplies and foster parent resettlement grants
- Residential costs including programmes and client costs
- Costs for Care and Protection resource panels of external advisors mandated by the Children, Young Persons, and Their Families Act 1989 to advise on procedures
- External provider contract costs for specific programmes run by non-government organisations to help children and young people.

## Note 7: Debtors and other receivables

Actual 2013 \$000		Actual 2014 \$000
	<b>By type</b>	
11,078	Trade and other receivables	18,353
<b>11,078</b>	<b>Total receivables</b>	<b>18,353</b>
	<b>By maturity</b>	
11,078	Expected to be realised within one year	18,353
-	Expected to be held for more than one year	-
<b>11,078</b>	<b>Total receivables</b>	<b>18,353</b>
	<b>Trade and other receivables</b>	
12,858	Gross trade and other receivables	19,939
(1,780)	Impairment of trade and other receivables	(1,586)
<b>11,078</b>	<b>Total trade and other receivables</b>	<b>18,353</b>
	<b>Impairment of trade and other receivables</b>	
1,700	Balance at beginning of the year	1,780
372	Impairment losses recognised on receivables	395
(292)	Reversal of impairment losses	(589)
<b>1,780</b>	<b>Balance at end of the year</b>	<b>1,586</b>
1,780	Collective impairment allowance	1,586
-	Individual impairment allowance	-
<b>1,780</b>	<b>Balance at end of the year</b>	<b>1,586</b>

The carrying value of debtors and other receivables approximates their fair value.

### Debtors impairment

As at 30 June 2014 (and 30 June 2013), impairment of trade and other receivables has been calculated based on a review of specific overdue receivables and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs.

As at 30 June 2014, the Ministry had no debtors deemed insolvent (2013: nil).

### Ageing profile of receivables

as at 30 June 2013				as at 30 June 2014		
Gross \$000	Impairment \$000	Net \$000		Gross \$000	Impairment \$000	Net \$000
8,300	-	8,300	Not past due	14,930	-	14,930
2,467	-	2,467	Past due 1-30 days	2,193	-	2,193
97	-	97	Past due 31-60 days	1,036	-	1,036
128	(2)	126	Past due 61-90 days	86	(22)	64
1,866	(1,778)	88	Past due >91 days	1,694	(1,564)	130
<b>12,858</b>	<b>(1,780)</b>	<b>11,078</b>		<b>19,939</b>	<b>(1,586)</b>	<b>18,353</b>

## Note 8: Property, plant and equipment

	Land \$000	Buildings \$000	Furniture & Fittings \$000	Computer Equipment \$000	Motor Vehicles \$000	Plant & Equipment \$000	Total \$000
<b>Cost or revaluation</b>							
<b>Balance as at 1 July 2012</b>	<b>49,983</b>	<b>199,440</b>	<b>72,965</b>	<b>113,612</b>	<b>28,806</b>	<b>16,999</b>	<b>481,805</b>
Additions by purchase	-	5,725	8,496	2,686	3,786	1,576	22,269
Revaluation increase/(decrease)	-	-	-	-	-	-	-
Work in progress movement	-	2,902	-	732	-	(49)	3,585
Asset transfers	-	-	-	-	-	-	-
Other asset movement	-	-	-	-	-	-	-
Disposals	-	-	(2,984)	(1,007)	(5,802)	(17)	(9,810)
<b>Balance as at 30 June 2013</b>	<b>49,983</b>	<b>208,067</b>	<b>78,477</b>	<b>116,023</b>	<b>26,790</b>	<b>18,509</b>	<b>497,849</b>
<b>Balance as at 1 July 2013</b>	<b>49,983</b>	<b>208,067</b>	<b>78,477</b>	<b>116,023</b>	<b>26,790</b>	<b>18,509</b>	<b>497,849</b>
Additions by purchase	-	7,103	7,520	5,725	4,677	576	25,601
Revaluation increase/(decrease)	7,135	(17,300)	-	-	-	-	(10,165)
Work in progress movement	-	(9,906)	431	8,490	-	125	(860)
Asset transfers	-	-	-	(558)	-	-	(558)
Other asset movement	-	-	20	-	-	(19)	1
Disposals	-	-	(6,389)	(11,816)	(5,122)	(243)	(23,570)
<b>Balance as at 30 June 2014</b>	<b>57,118</b>	<b>187,964</b>	<b>80,059</b>	<b>117,864</b>	<b>26,345</b>	<b>18,948</b>	<b>488,298</b>
<b>Accumulated depreciation and impairment losses</b>							
<b>Balance as at 1 July 2012</b>	<b>-</b>	<b>7,027</b>	<b>54,086</b>	<b>97,111</b>	<b>11,824</b>	<b>8,709</b>	<b>178,757</b>
Depreciation expense	-	7,258	8,677	8,008	3,617	1,980	29,540
Eliminate on disposal	-	-	(2,984)	(1,007)	(3,822)	(17)	(7,830)
Eliminate on revaluation	-	-	-	-	-	-	-
Asset transfers	-	-	-	-	-	-	-
Other asset movement	-	-	-	-	-	2	2
<b>Balance as at 30 June 2013</b>	<b>-</b>	<b>14,285</b>	<b>59,779</b>	<b>104,112</b>	<b>11,619</b>	<b>10,674</b>	<b>200,469</b>
<b>Balance as at 1 July 2013</b>	<b>-</b>	<b>14,285</b>	<b>59,779</b>	<b>104,112</b>	<b>11,619</b>	<b>10,674</b>	<b>200,469</b>
Depreciation expense	-	6,949	9,011	6,666	3,415	2,060	28,101
Eliminate on disposal	-	-	(5,742)	(11,816)	(3,494)	(240)	(21,292)
Eliminate on revaluation	-	(21,234)	-	-	-	-	(21,234)
Asset transfers	-	-	-	(558)	-	-	(558)
Other asset movement	-	-	17	-	-	(18)	(1)
<b>Balance as at 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>63,065</b>	<b>98,404</b>	<b>11,540</b>	<b>12,476</b>	<b>185,485</b>
<b>Carrying amounts</b>							
<b>At 1 July 2012</b>	<b>49,983</b>	<b>192,413</b>	<b>18,879</b>	<b>16,501</b>	<b>16,982</b>	<b>8,290</b>	<b>303,048</b>
<b>At 30 June and 1 July 2013</b>	<b>49,983</b>	<b>193,782</b>	<b>18,698</b>	<b>11,911</b>	<b>15,171</b>	<b>7,835</b>	<b>297,380</b>
<b>At 30 June 2014</b>	<b>57,118</b>	<b>187,964</b>	<b>16,994</b>	<b>19,460</b>	<b>14,805</b>	<b>6,472</b>	<b>302,813</b>

### Valuation

The most recent valuation of land and buildings was performed by an independent registered valuer, Andrew Parkyn ANZIV of Quotable Value Limited. The valuation is effective as at 30 June 2014.

The valuation involved a full physical inspection of all the Ministry's land and buildings assets and has been completed in compliance with the New Zealand Institute of Chartered Accountants (NZICA) New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

### Land

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the 'unencumbered' land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

## Buildings

Non-specialised buildings are valued at fair value using market-based evidence. Market rents and capitalisation rate methodologies were applied in determining the fair value of buildings. Residential centres have been valued using market-based evidence where it exists. If there is no active market evidence the optimised depreciated replacement cost has been used.

## Work in progress

The total amount of property, plant and equipment under construction and work in progress is \$20.532 million (2013: \$21.392 million). This includes building works under construction and work in progress as at 30 June 2014 of \$7.179 million (2013: \$16.654 million).

## Restrictions

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

## Note 9: Intangible assets

	Internally Generated Software \$000	Total \$000
<b>Cost or revaluation</b>		
<b>Balance as at 1 July 2012</b>	<b>219,523</b>	<b>219,523</b>
Additions by purchase and internally generated	9,562	9,562
Work in progress movement	8,099	8,099
Asset transfers	-	-
Other asset movement	2	2
Disposals	-	-
<b>Balance as at 30 June 2013</b>	<b>237,186</b>	<b>237,186</b>
<b>Balance as at 1 July 2013</b>	<b>237,186</b>	<b>237,186</b>
Additions by purchase and internally generated	36,518	36,518
Work in progress movement	4,801	4,801
Asset transfers	558	558
Other asset movement	3	3
Disposals	(664)	(664)
<b>Balance as at 30 June 2014</b>	<b>278,402</b>	<b>278,402</b>
<b>Accumulated amortisation and impairment losses</b>		
<b>Balance as at 1 July 2012</b>	<b>170,835</b>	<b>170,835</b>
Amortisation expense	15,595	15,595
Disposals	-	-
Asset transfers	-	-
Other asset movement	-	-
<b>Balance as at 30 June 2013</b>	<b>186,430</b>	<b>186,430</b>
<b>Balance as at 1 July 2013</b>	<b>186,430</b>	<b>186,430</b>
Amortisation expense	16,150	16,150
Disposals	(661)	(661)
Asset transfers	558	558
Other asset movement	-	-
<b>Balance as at 30 June 2014</b>	<b>202,477</b>	<b>202,477</b>
<b>Carrying amounts</b>		
<b>At 1 July 2012</b>	<b>48,688</b>	<b>48,688</b>
<b>At 30 June and 1 July 2013</b>	<b>50,756</b>	<b>50,756</b>
<b>At 30 June 2014</b>	<b>75,925</b>	<b>75,925</b>

### Work in progress

The total amount of intangibles in the course of construction is \$26.499 million (2013: \$21.698 million).

### Restrictions

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

## Note 10: Creditors and other payables

Actual 2013 \$000		Actual 2014 \$000
	<b>By type</b>	
11,565	Trade creditors	15,153
9,695	GST payable	10,633
72,695	Accrued expenses	94,625
<b>93,955</b>	<b>Total payables</b>	<b>120,411</b>

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

## Note 11: Revenue received in advance

Actual 2013 \$000		Actual 2014 \$000
2,013	Revenue received in advance	2,108
<b>2,013</b>	<b>Total revenue received in advance</b>	<b>2,108</b>

The Ministry received revenue in advance for the Property Management Centre of Expertise (PMCoE) property portal (\$1.720 million). The Ministry also received other revenues in advance of (\$0.388 million), mainly from contributions by other government agencies for Social Sector Trials costs.

## Note 12: Return of operating surplus

Actual 2013 \$000		Actual 2014 \$000
7,046	Net surplus/(deficit)	11,604
<b>7,046</b>	<b>Total repayment of surplus</b>	<b>11,604</b>

The repayment of surplus is required to be paid to the Crown by 31 October.

## Note 13: Provisions

Actual 2013 \$000		Actual 2014 \$000
4,381	ACC Partnership programme	4,672
1,322	Restructuring provision	1,076
386	Lease make-good	388
53	Other provisions	63
<b>6,142</b>	<b>Total provisions</b>	<b>6,199</b>

## Provisions by category

	ACC Partnership Programme \$000	Lease Make-Good \$000	Restructure \$000	Others \$000	Total \$000
<b>2013</b>					
<b>Balance as at 1 July 2012</b>	<b>4,894</b>	<b>381</b>	<b>1,569</b>	<b>72</b>	<b>6,916</b>
Additional provisions made	1,640	-	83	1	1,724
Amounts used	(2,153)	-	(330)	(9)	(2,492)
Unused amounts reversed	-	-	-	(11)	(11)
Discount unwind	-	5	-	-	5
<b>Balance as at 30 June 2013</b>	<b>4,381</b>	<b>386</b>	<b>1,322</b>	<b>53</b>	<b>6,142</b>
<b>2014</b>					
<b>Balance as at 1 July 2013</b>	<b>4,381</b>	<b>386</b>	<b>1,322</b>	<b>53</b>	<b>6,142</b>
Additional provisions made	2,929	80	21	10	3,040
Amounts used	(2,638)	-	(267)	-	(2,905)
Unused amounts reversed	-	(90)	-	-	(90)
Discount unwind	-	12	-	-	12
<b>Balance as at 30 June 2014</b>	<b>4,672</b>	<b>388</b>	<b>1,076</b>	<b>63</b>	<b>6,199</b>

### ACC Partnership programme

The Ministry belongs to the ACC Accredited Employer programme, whereby the Ministry accepts the management and financial responsibility of the work-related illnesses and accidents of its employees. The Ministry, under the Full Self Cover Plan (FSCP), has opted for a stop loss limit of 160 per cent of the industry premium and a High Cost Claims Cover (HCCC) limit of \$250,000.

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

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

- implementing and monitoring health and safety policies
- providing induction training on health and safety
- actively managing workplace injuries to ensure employees return to work as soon as possible
- recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions
- identifying workplace hazards and implementing appropriate safety procedures.

The Ministry is not exposed to any significant concentrations of insurance risk as work-related injuries are generally the result of an isolated event to an individual employee.

An external independent actuarial valuer, Melville Jessup Weaver, has calculated the Ministry's liability. The valuation is effective as at 30 June 2014. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuer's report.



### Lease make-good

At the expiry of the lease term for a number of its leased premises, the Ministry is required to make good any damage caused to premises and to remove any fixtures or fittings installed by the Ministry.

At year-end there were eight sites where a make-good provision had been established with a value of \$0.388 million (2013: \$0.386 million). The timing of any future make-good work is currently up to four years in the future.

In many cases the Ministry has the option to renew these leases, which has an impact on the timing of the expected cash outflows to make good the premises.

The value of the provision is based on a professional assessment by the Ministry's property group taking into account the cost and past history of make-good work.

An asset to the value of \$0.856 million was established for the lease reinstatement costs. This is being depreciated on a straight-line basis for each lease term.

### Restructure

Restructure provision is for equalisation allowances for staff members affected by a restructure in 2009, who have been reassigned to positions within the Ministry at lower salary levels. Additional provisions made in this category are as a result of the revaluation of the provision using 10-year Reserve Bank interest rates.

The restructuring provision as at 30 June 2014 is \$1.076 million (2013: \$1.322 million).

### Others

The Ministry has a provision of \$63,167 (2013: \$53,167) for family home resettlement. A \$1,000 a year resettlement grant is paid to resigning or retiring family home caregivers after five or more years of unbroken service (up to a maximum of \$10,000 per couple).

## Note 14: Employee entitlements

Actual 2013 \$000		Actual 2014 \$000
	<b>Current liabilities</b>	
11,549	Retirement and long service leave	13,190
43,499	Provision for annual leave	46,208
1,299	Provision for sickness leave	1,363
<b>56,347</b>	<b>Total current portion</b>	<b>60,761</b>
	<b>Non-current liabilities</b>	
39,759	Retirement and long service leave	41,255
<b>39,759</b>	<b>Total non-current portion</b>	<b>41,255</b>
<b>96,106</b>	<b>Total employment entitlements</b>	<b>102,016</b>

The present value of the retirement and long service leave obligations is determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability are the discount rate and the salary inflation factor. Any changes in these assumptions will have an impact on the carrying amount of the liability.

The Ministry uses the interest rates and the salary inflation factor as supplied and published by the Treasury.

**Discount rates and salary inflation applied:**

as at 30 June 2013			Employee Entitlement Variables	as at 30 June 2014		
2014 %	2015 %	2016 %		2015 %	2016 %	2017 %
2.71	3.14	5.50	Discount rates	3.70	4.04	5.50
3.50	3.50	3.50	Salary inflation	3.50	3.50	3.50

**The financial impact of changes to the discount rates and salary inflation variables:**

Movements	Actual 2014 \$000	Salary + 1% 2014 \$000	Salary - 1% 2014 \$000	Discount + 1% 2014 \$000	Discount - 1% 2014 \$000
Current	13,190	43	(43)	(32)	33
Non-current	41,255	4,049	(3,566)	(3,287)	3,788
<b>Total</b>	<b>54,445</b>	<b>4,092</b>	<b>(3,609)</b>	<b>(3,319)</b>	<b>3,821</b>

**Note 15: Taxpayers' funds**

Actual 2013 \$000		Actual 2014 \$000
264,896	<b>General funds</b>	256,896
7,046	Balance at 1 July	11,604
-	Surplus/(deficit)	4,991
(8,000)	Capital contribution	-
(7,046)	Capital withdrawal	(11,604)
	Repayment of surplus	
<b>256,896</b>	<b>General funds at 30 June</b>	<b>261,887</b>
35,875	<b>Revaluation reserves</b>	35,875
-	Balance at 1 July	11,069
	Revaluations	
<b>35,875</b>	<b>Revaluation reserves at 30 June</b>	<b>46,944</b>
<b>292,771</b>	<b>Total taxpayers' funds</b>	<b>308,831</b>

**Note 16: Reconciliation of net surplus/(deficit) to net cash from operating activities**

Actual 2013 \$000		Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
7,046	<b>Net surplus/(deficit) after tax</b>	11,604	-	-
	<b>Add/(less) non-cash items</b>			
29,540	Depreciation	28,101	38,117	34,456
15,595	Amortisation	16,150	13,736	15,661
<b>45,135</b>	<b>Total non-cash items</b>	<b>44,251</b>	<b>51,853</b>	<b>50,117</b>
	<b>Add/(less) items classified as investing or financing activities</b>			
(295)	(Gains)/losses on disposal of property, plant and equipment	433	-	-
<b>(295)</b>	<b>Total items classified as investing or financing activities</b>	<b>433</b>	<b>-</b>	<b>-</b>
	<b>Add/(less) working capital movements</b>			
11,085	(Increase)/decrease in accounts receivable	(23,065)	12,000	11,657
(2,851)	(Increase)/decrease in prepayments	(903)	-	-
424	Increase/(decrease) in accounts payable	26,453	2,400	2,740
1,213	Increase/(decrease) in revenue received in advance	95	-	-
2,725	Increase/(decrease) in provision for employee entitlements	4,415	-	-
(774)	Increase/(decrease) in other provisions	57	-	-
<b>11,822</b>	<b>Net movements in working capital items</b>	<b>7,052</b>	<b>14,400</b>	<b>14,397</b>
	<b>Add/(less) movements in non-current liabilities</b>			
2,793	Increase/(decrease) in provision for employee entitlements	1,496	-	-
<b>2,793</b>	<b>Net movements in non-current liabilities</b>	<b>1,496</b>	<b>-</b>	<b>-</b>
<b>66,501</b>	<b>Net cash inflow from operating activities</b>	<b>64,836</b>	<b>66,253</b>	<b>64,514</b>

**Note 17: Related party transactions**

The Ministry is a wholly-owned entity of the Crown. The Government significantly influences the role of the Ministry as well as being its major source of revenue. All related party transactions are entered into on an arm's-length basis.

**Significant transactions with government-related entities**

The Ministry received funding from the Crown of \$1.253 billion (2013: \$1.204 billion) to provide services to the public for the year ended 30 June 2014.

**Collectively, but not individually, significant transactions with government-related entities**

In conducting its activities, the Ministry is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Ministry is exempt from paying income tax.

The Ministry also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$52.841 million (2013: \$80.046 million). These purchases included the purchase of electricity from Genesis Energy, air travel from Air New Zealand, legal services from the Crown Law Office, postal services from New Zealand Post and vocational skills training from the Tertiary Education Commission.

### Transactions with key management personnel

Key management personnel compensation includes the remuneration for the Chief Executive and nine members of the Senior Management Team.

Actual 2013 \$000		Actual 2014 \$000
3,024	Salaries and other short-term employee benefits	3,121
62	Post-employment benefits	55
-	Other long-term benefits	-
-	Termination benefits	-
<b>3,086</b>	<b>Total key management personnel compensation</b>	<b>3,176</b>

It excludes the remuneration and other benefits received by the Minister for Social Development. The Minister's remuneration and other benefits are received not only for her role as a member of the key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and are not paid by the Ministry of Social Development.

Related party transactions involving key management personnel (or their close family members):

- Related parties of key management personnel who are in receipt of statutory benefits, pensions or student loans are receiving them based on their own entitlements and eligibility criteria to such benefits, pensions or student loans.
- A member of the Senior Management Team was on the board of Vitae as chair until 27 February 2014. The Ministry had transactions with Vitae to the value of \$36,079.45 during the year for staff support – chaplaincy costs and employee assistance services.

No provision is required, nor any expense recognised, for the impairment of receivables from related parties.

### Note 18: Events after the balance sheet date

No significant events, which may have had an impact on the actual results, have occurred between year-end and the signing of the financial statements.

### Note 19: Financial instrument risks

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise its exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

#### Market risk

##### Currency risk

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

The Ministry purchases some capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily from the United States and Australian dollars. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.

As at 30 June 2014, there were no significant foreign exchange exposures that required a sensitivity analysis to be prepared (2013: no significant foreign exchange exposures).

### Interest rate risk

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

The Ministry has no interest-bearing financial instruments and, accordingly, has no exposure to interest rate risk.

### Credit risk

Credit risk is the risk a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of the Ministry's business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds with Westpac, a registered bank, and to enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings.

For its other financial instruments, the Ministry does not have significant concentrations of credit risk. The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (refer Note 7), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### Liquidity risk

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

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash draw-downs from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

### Financial instrument risks

Classes and categories of financial assets:

as at 30 June 2013 Designation						as at 30 June 2014 Designation				
Amortised cost \$000	Loans & receivables \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000		Amortised cost \$000	Loans & receivables \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000
-	32,695	-	-	32,695	Cash and cash equivalents	-	31,259	-	-	31,259
-	104,146	-	-	104,146	Trade and other receivables	-	127,212	-	-	127,212
-	<b>136,841</b>	-	-	<b>136,841</b>	<b>Total financial assets by designation</b>	-	<b>158,471</b>	-	-	<b>158,471</b>

Classes and categories of financial liabilities:

as at 30 June 2013 Designation					as at 30 June 2014 Designation			
Amortised cost \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000		Amortised cost \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000
81,700	-	-	81,700	Accounts payable	104,705	-	-	104,705
<b>81,700</b>	-	-	<b>81,700</b>	<b>Total financial liabilities by designation</b>	<b>104,705</b>	-	-	<b>104,705</b>

## Foreign currency risk management:

as at 30 June 2013					as at 30 June 2014			
NZD NZ\$000	AUD NZ\$000	Other NZ\$000	Total NZ\$000		NZD NZ\$000	AUD NZ\$000	Other NZ\$000	Total NZ\$000
32,273	422	-	32,695	Cash and cash equivalents	30,854	405	-	31,259
104,146	-	-	104,146	Trade and other receivables	127,212	-	-	127,212
<b>136,419</b>	<b>422</b>	<b>-</b>	<b>136,841</b>	<b>Total financial assets</b>	<b>158,066</b>	<b>405</b>	<b>-</b>	<b>158,471</b>
81,700	-	-	81,700	Accounts payable	104,705	-	-	104,705
<b>81,700</b>	<b>-</b>	<b>-</b>	<b>81,700</b>	<b>Total financial liabilities</b>	<b>104,705</b>	<b>-</b>	<b>-</b>	<b>104,705</b>

Australian cash and cash equivalents is used to pay Australian creditors directly in Australian dollars.

## Credit risk management:

as at 30 June 2013						as at 30 June 2014				
AAA \$000	AA \$000	A \$000	Non-rated \$000	Total \$000		AAA \$000	AA \$000	A \$000	Non-rated \$000	Total \$000
-	32,645	-	50	32,695	Cash and cash equivalents	-	31,209	-	50	31,259
-	-	-	104,146	104,146	Trade and other receivables	-	-	-	127,212	127,212
<b>-</b>	<b>32,645</b>	<b>-</b>	<b>104,196</b>	<b>136,841</b>	<b>Total financial assets</b>	<b>-</b>	<b>31,209</b>	<b>-</b>	<b>127,262</b>	<b>158,471</b>

The non-rated portion of cash and cash equivalents is the Ministry's petty cash fund.

## Concentration of credit exposure by geographical area:

as at 30 June 2013						as at 30 June 2014				
New Zealand \$000	Australia \$000	Europe \$000	Other \$000	Total \$000		New Zealand \$000	Australia \$000	Europe \$000	Other \$000	Total \$000
32,273	422	-	-	32,695	Cash and cash equivalents	30,854	405	-	-	31,259
104,146	-	-	-	104,146	Trade and other receivables	127,212	-	-	-	127,212
<b>136,419</b>	<b>422</b>	<b>-</b>	<b>-</b>	<b>136,841</b>	<b>Total financial assets</b>	<b>158,066</b>	<b>405</b>	<b>-</b>	<b>-</b>	<b>158,471</b>

## Liquidity risk management:

as at 30 June 2013						as at 30 June 2014				
Carrying Value \$000	Contractual cash flows \$000	0-12 months \$000	1-2 years \$000	>2 years \$000		Carrying value \$000	Contractual cash flows \$000	0-12 months \$000	1-2 years \$000	>2 years \$000
81,700	81,700	81,700	-	-	Accounts payable	104,705	104,705	104,705	-	-
<b>81,700</b>	<b>81,700</b>	<b>81,700</b>	<b>-</b>	<b>-</b>	<b>Total financial liabilities</b>	<b>104,705</b>	<b>104,705</b>	<b>104,705</b>	<b>-</b>	<b>-</b>

## Note 20: Capital management

The Ministry's capital is its equity (or taxpayers' funds), which comprises general funds and revaluation reserves. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and the Ministry's compliance with the Government Budget processes, Treasury Instructions and the Public Finance Act 1989.

The objective of managing the Ministry's equity is to ensure the Ministry effectively achieves its goals and objectives for which it has been established, while remaining a going concern.

## Note 21: Major budget variations

Explanations for major variances from the Ministry's estimated figures in the Forecast Financial Statements 2013/2014 are as follows:

	Notes	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000	Main Estimates vs Actual Variance 2014 \$000
<b>Statement of Comprehensive Income</b>					
<b>Income</b>					
Revenue Crown	(a)	1,253,265	1,189,557	1,253,265	(63,708)
Revenue other	(b)	7,857	12,460	7,240	4,603
<b>Expenditure</b>					
Personnel costs	(c)	694,973	655,078	667,239	(39,895)
<b>Statement of Financial Position</b>					
<b>Taxpayers' funds</b>					
Revaluation reserve	(d)	46,944	35,875	35,875	(11,069)
<b>Assets</b>					
<b>Current assets</b>					
Accounts receivable	(e)	18,353	7,798	11,078	(10,555)
Prepayments	(f)	13,960	10,205	13,056	(3,755)
Crown receivable	(g)	108,859	53,000	81,411	(55,859)
<b>Non-current assets</b>					
Intangible assets	(h)	75,925	57,640	52,930	(18,285)
<b>Statement of Cash Flows</b>					
<b>Cash flows from operating activities</b>					
Receipts from Crown revenue	(i)	1,237,474	1,201,557	1,264,922	(35,917)
Receipts from other revenue	(j)	7,869	12,460	7,240	4,591
Payments to employees	(k)	(685,581)	(651,782)	(665,467)	33,799
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(l)	(24,743)	(45,175)	(51,129)	(20,432)
Purchase of intangible assets	(m)	(41,316)	(17,821)	(17,833)	23,495

### Statement of Comprehensive Income

- Increase in Revenue Crown was mainly due to the transfer of \$62 million from Non-departmental other expense Employment Assistance into the new Multi-Category Expenses and Capital Expenditure (MCA) Improved Employment and Social Outcomes Support from 1 January 2014.
- Revenue other is lower due to the Ministry receiving less in sub-lease rental recoveries, which has reduced significantly over time. The Supplementary budget has been adjusted to reflect the current lower levels of sub-lease recoveries.
- Personnel costs budget variance is mainly due to new funding for Social Housing transfer, Children's Action Plan and Welfare Reform costs for new staff.

### Statement of Financial Position

- d) Revaluation reserve budget variance was due to the change in valuation of the Ministry's land and buildings as a result of the full valuation performed by Quotable Value Limited as at 30 June 2014.
- e) Accounts receivable actual is higher than budget mainly due to the Canterbury Earthquake Recovery Authority (CERA) payments being higher in June than was anticipated. CERA owed the Ministry \$13 million as at 30 June 2014 representing one month's payments made on behalf of CERA.
- f) Prepayments is higher than budget due to the timing of a CURAM software license prepayment transaction of \$3.3 million in June 2014.
- g) Crown receivable relates to funds the Ministry has not drawn down for 2014 and previous years, mainly due to delays with capital projects.
- h) Intangibles are higher than budget with the capitalisation of the major capital project Enhanced Online Services.

### Statement of Cash Flows

- i) Receipts from Crown Revenue is higher than budget mainly due to the changes to Revenue Crown associated with the new MCA Improved Employment and Social Outcomes Support.
- j) Receipts from Revenue other is lower than budget due to the Ministry receiving less funding from sub-lease rental recoveries.
- k) Payments to employees is higher than budget due to the introduction of new funding during the year that has increased personnel costs as explained in Note (c) above.
- l) Purchase of property, plant and equipment is lower than budget in the current year due to timing delays on major capital projects. However, expenditure levels are similar to the previous year.
- m) Purchase of intangible assets is higher than budget due to the work during the year on a number of major IT capital projects including Enhanced Online Services (EOS), Data Centre Migration and CURAM software upgrade.

### Changes in appropriations

The table below summarises the material changes in appropriations between the Main Estimates and the final Supplementary Estimates for the 2013/2014 financial year.

	Notes	Main Estimates 2014 \$000	Appropriation Voted <sup>102</sup> 2014 \$000	Variance 2014 \$000
<b>Vote Social Development</b>				
<b>Appropriations for output expenses</b>				
Administration of Trialling New Approaches to Social Sector Change	(a)	2,832	1,382	(1,450)
Children's Action Plan	(b)	400	5,690	5,290
<b>Improved Employment and Social Outcomes Support MCA</b>				
<i>Administering Income Support</i>	(c)	-	151,291	151,291
<i>Improving Employment Outcomes - Service Provision</i>	(c)	-	123,049	123,049
<i>Improving Work Readiness - Service Provision</i>	(c)	-	9,724	9,724
Property Management Centre of Expertise	(d)	2,755	3,855	1,100
Social Housing Services	(e)	-	9,545	9,545
<b>Social Policy Advice MCOA</b>				
<i>Longitudinal Studies</i>	(f)	3,001	-	(3,001)
Tailored Sets of Services to Help People into Work or Achieve Independence	(g)	441,563	226,604	(214,959)
Vocational Skills Training	(h)	46,784	23,392	(23,392)

102 This includes adjustments made in the Supplementary Estimates under section 26A of the Public Finance Act 1989.



### Variance explanation

- a) This appropriation decreased by \$1.450 million due to a transfer to the Non-departmental output expense, Trialling New Approaches to Social Sector Change, to fund seven Trial locations led by non-government organisations NGOs.
- b) This appropriation increased by \$5.290 million mainly due to a draw-down of funding from the Vulnerable Children's contingency fund.
- c) This is a newly established Multi-Category Appropriation (MCA) from 1 January 2014.
- d) This appropriation increased by \$1.100 million in 2013/2014 due to an increased level of work activity performed by the Property Management Centre of Expertise (PMCoE) on behalf of other agencies.
- e) This is a newly established appropriation in 2013/2014 due to a transfer of the social housing needs assessment and related functions from Housing New Zealand Corporation.
- f) This appropriation was transferred to the Non-departmental output expense Families Commission in 2013/2014 with the Families Commission assuming responsibility for managing the Growing Up in New Zealand Longitudinal study.
- g) This appropriation decreased by \$214.959 million due to the transfer of funds to the Multi-Category Appropriation (MCA) Improved Employment and Social Outcomes Support from 1 January 2014.
- h) This appropriation decreased by \$23.392 million in 2013/2014 due to firstly transferring funding to Vote Tertiary Education as a result of reprioritising Foundation Focused Training Opportunities funding; and secondly, a transfer to Non-departmental other expense Employment Assistance to provide funding for other education, training and employment interventions to support beneficiaries into work.

The Supplementary Estimates of Appropriations and Supporting Information 2013/2014 contains more information on appropriation variances.

# Non-Departmental Financial Statements and Schedules

For the year ended 30 June 2014

Actual 2013 \$000		Actual 2014 \$000
	<b>Summary</b>	
20,328,737	Expenditure against appropriations	20,826,556
11,722	Revenue	12,653
581,230	Capital receipts	610,562
669,929	Assets	722,806
643,867	Liabilities	325,816
437	Trust monies	1,283

Further details of the Ministry's management of these Crown expenses, revenue, assets and liabilities are provided in the Statement of Objectives and Service Performance section of this report.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

# Statement of Accounting Policies: Non-Departmental

## Reporting entity

These non-departmental statements and schedules present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, readers should refer to the Financial Statements of the Government.

## Basis of preparation

The non-departmental statements and schedules have been prepared in accordance with the Government's accounting policies set out in the Financial Statements of the Government, and in accordance with relevant Treasury Instructions and Treasury Circulars.

The measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with the New Zealand Generally Accepted Accounting Practice for public benefit entities.

## Changes in accounting policies

There have been no changes in accounting policies during the financial year.

## Significant accounting policies

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

## Budget figures

The budget figures are consistent with the financial information in the Main Estimates. In addition, these financial statements also present the updated budget information from the Supplementary Estimates.

## Revenues

The Ministry administers revenue on behalf of the Crown. This revenue includes student loan administration fees, interest revenue, maintenance capitalisation and miscellaneous revenue.

Student loan administration fee revenue is recognised when the eligible student loan application has been processed.

Interest revenue is the interest on Major Repairs Advance (MRA), which was advances made for the repairs or maintenance of clients' homes. This programme is no longer current.

Maintenance capitalisation relates to the old child support scheme managed by the Ministry before 1 July 1992. Up until that date, a person who had custody of a child could seek financial support (ie, maintenance) from the non-custodial parent. The maintenance capitalisation revenue is the re-establishment of historical maintenance debt previously written off. The current child support scheme is managed by the Inland Revenue Department.

Miscellaneous revenue is all the other non-departmental revenues received by the Ministry.

## Expenses

Expenses are recognised in the period they relate to.

Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

## Foreign currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Schedule of Non-Departmental Income or in the Schedule of Non-Departmental Expenses. For information on foreign currency risk management, refer Note 4.

## Financial instruments

### Financial assets

Cash and cash equivalents includes cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from the date of acquisition.

Debtors and other receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate less any provision for impairment, except for social benefit debt receivables.

The impairment of a receivable is established when there is objective evidence the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties for the debtor, a probability the debtor will enter into bankruptcy and

defaults in payments are considered indicators the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest rates. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Schedule of Non-Departmental Expenses. When a debt is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (ie, not past due).

### Financial liabilities

The major financial liability type is accounts payable. This is designated at amortised cost using the effective interest rate method. Financial liabilities entered into with a duration of less than 12 months are recognised at their nominal value.

### Derivatives

Foreign exchange forward contracts are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or a net loss position respectively. These derivatives are entered into for risk management purposes.

### Social benefit receivables

Social benefit debt receivables relate to benefit overpayments, advances on benefits and recoverable special needs grants (refer Note 3). They are initially assessed at nominal amount or face value. These receivables are subsequently tested for impairment.

### Goods and Services Tax

All items in the financial statements, including the appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated inclusive of GST. In accordance with Treasury Instructions, GST is returned on revenue received on behalf of the Crown, where applicable. An input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue at the consolidation of the government financial statements.

### Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts entered into at balance date are

disclosed as commitments to the extent there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in their agreements are included in the Statement of Commitments at the value of that penalty or exit cost.

### Contingent assets and liabilities

Contingent assets and liabilities are disclosed at the point the contingency is evident.

### Critical accounting estimates and assumptions

In preparing these financial statements the Ministry has made estimates and assumptions about the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Social benefit receivables

Social benefit receivables are initially measured at nominal amount and are subsequently tested for impairment. Note 3 provides an analysis of the uncertainties relating to the valuation of social benefit receivables.

### Critical judgements in applying the Ministry's accounting policies

In applying the Ministry's social benefit receivables policy requires judgements to determine a value to place on future repayments of benefit overpayments, advances on benefits and recoverable special needs grants. Judgement is required on various aspects that include, but are not limited to, the use of interest rates, mortality rates, allowance for collection costs and calculation of future rates of default on the receivables.

The Ministry has exercised its judgement on the appropriateness of its valuation of the social benefit receivables (refer Note 3).

There were no other significant items for which management had to exercise critical judgement in applying the Ministry's accounting policies for the year ended 30 June 2014.

# Schedule of Non-Departmental Expenses

For the year ended 30 June 2014

Actual 2013 \$000		Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Vote Social Development</b>			
367,877	Non-departmental output expenses	533,145	379,879	540,860
192,392	Non-departmental other expenses	131,722	205,275	162,032
1,709,993	Non-departmental capital expenditure	1,745,998	1,782,330	1,833,993
17,814,340	Benefits and other unrequited expenses	18,182,938	18,600,893	18,317,187
2,925	Loss on foreign exchange	1,027	-	-
70,094	Other operating expenses	66,476	75,654	68,171
<b>20,157,621</b>	<b>Total Vote Social Development</b>	<b>20,661,306</b>	<b>21,044,031</b>	<b>20,922,243</b>
	<b>Vote Veterans' Affairs - Social Development</b>			
171,116	Benefits and other unrequited expenses	165,250	167,008	166,228
<b>171,116</b>	<b>Total Vote Veterans' Affairs - Social Development</b>	<b>165,250</b>	<b>167,008</b>	<b>166,228</b>
<b>20,328,737</b>	<b>Total non-departmental expenses</b>	<b>20,826,556</b>	<b>21,211,039</b>	<b>21,088,471</b>

The Other operating expenses of \$66 million is mainly GST on grants and subsidies paid under Non-departmental output expenses and Non-departmental other expenses. An input tax deduction is not claimed on non-departmental expenditure.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

# Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations

For the year ended 30 June 2014

Actual 2013 \$000	Type of Appropriation	Actual 2014 \$000	Appropriation Voted 2014 \$000
	<b>Vote Social Development</b>		
	<b>Non-departmental output expenses</b>		
1,445	Assistance to Disadvantaged Persons	945	950
2,157	Children's Commissioner	2,157	2,157
14,961	Connected Communities	14,045	14,047
17,789	Counselling and Rehabilitation Services	17,674	17,677
8,677	Education and Prevention Services	8,543	8,562
7,124	Families Commission	10,305	10,305
77,087	Family Wellbeing Services	83,877	84,903
-	Income Related Rent Subsidy for Community Housing Providers	74	2,900
<b>39</b>	<b>Independent Advice on Government Priority Areas MCOA</b>	<b>216</b>	<b>538</b>
39	Other Advice	216	329
-	Policy Advice	-	209
-	Provision of Housing and Related Services for Tenants Paying Income Related Rent	149,573	151,535
6,230	Services for Young People	5,185	5,244
2,290	Strengthening Providers and Communities	2,381	2,382
109,263	Strong Families	108,212	108,496
3,336	Student Placement Services	3,336	3,337
1,729	Trialling New Approaches to Social Sector Change	4,762	4,835
89,213	Vocational Services for People with Disabilities	88,274	88,902
880	Youth Development Partnership Fund	889	889
<b>25,657</b>	<b>Youth Support Services MCOA</b>	<b>32,697</b>	<b>33,201</b>
7,664	Support for Youth Payment and Young Parent Payment recipients	13,410	14,964
17,993	Support to prevent disengaged young people from coming on to benefit at the age of 18	19,287	18,237
<b>367,877</b>	<b>Total non-departmental output expenses</b>	<b>533,145</b>	<b>540,860</b>
	<b>Non-departmental other expenses</b>		
78,776	Debt Write-downs <sup>103</sup>	65,127	93,983
92,876	Employment Assistance	43,900	43,900
3,945	Mainstream Supported Employment Programme	3,290	3,546
16,795	Out of School Care Programmes	19,396	19,603
-	<b>Improved Employment and Social Outcomes Support MCA</b>		
-	Improving Employment Outcomes - Assistance	9	1,000
<b>192,392</b>	<b>Total non-departmental other expenses</b>	<b>131,722</b>	<b>162,032</b>
	<b>Non-departmental capital expenditure</b>		
143,245	Recoverable Assistance	144,967	147,848
1,566,748	Student Loans	1,601,031	1,686,145
<b>1,709,993</b>	<b>Total non-departmental capital expenditure</b>	<b>1,745,998</b>	<b>1,833,993</b>

Explanations of significant variances against budget are detailed in Note 1.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Responsible Ministers

Minister for Social Development is responsible for all appropriations above except:

- Minister of Youth Affairs is responsible for Services for Young People and Youth Development Partnership Fund
- Minister of Health is responsible for Trialling New Approaches to Social Sector Change
- Minister of Revenue is responsible for Student Loans.

<sup>103</sup> Debt Write-downs in 2013/2014 includes \$2.35 million of remeasurement due to changes in interest and collection cost rates.

The Statement of Accounting Policies: Non-Departmental on pages 118 to 119 and Notes 1 to 4 on pages 131 to 137 form an integral part of these financial statements and schedules.

# Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations (continued)

For the year ended 30 June 2014

Actual 2013 \$000	Type of Appropriation	Actual 2014 \$000	Appropriation Voted 2014 \$000
	<b>Benefits and other unrequited expenses</b>		
1,177,315	Accommodation Assistance	1,145,875	1,158,002
21,707	Benefits Paid in Australia	18,560	18,560
185,979	Childcare Assistance	185,596	189,941
384,154	Disability Assistance	379,444	380,701
1,737,972	Domestic Purposes Benefit	62,916	62,916
6,741	Employment Related Training Assistance	5,905	15,262
499	Family Start/NGO Awards	488	705
271,346	Hardship Assistance	270,835	276,401
1,636	Independent Youth Benefit	-	-
1,329,674	Invalid's Benefit	52,355	52,355
-	Jobseeker Support and Emergency Benefit	1,691,007	1,715,984
10,234,977	New Zealand Superannuation	10,913,103	10,920,665
114,474	Orphan's/Unsupported Child's Benefit	121,559	123,053
782,442	Sickness Benefit	29,209	29,209
-	Sole Parent Support	1,221,895	1,242,256
12,328	Special Circumstance Assistance	12,173	13,049
596,333	Student Allowances	539,031	565,359
21,599	Study Scholarships and Awards	15,594	21,467
-	Supported Living Payment	1,421,910	1,432,410
20,681	Transition to Work	25,503	27,600
811,947	Unemployment Benefit and Emergency Benefit	28,546	28,546
70,569	Widow's Benefit	2,223	2,223
31,967	Youth Payment and Young Parent Payment	39,211	40,523
<b>17,814,340</b>	<b>Total benefits and other unrequited expenses</b>	<b>18,182,938</b>	<b>18,317,187</b>
<b>20,084,602</b>	<b>Total Vote Social Development</b>	<b>20,593,803</b>	<b>20,854,072</b>
	<b>Vote Veterans' Affairs - Social Development</b>		
171,116	Benefits and other unrequited expenses		
	Veterans' Pension	165,250	166,228
<b>171,116</b>	<b>Total Vote Veterans' Affairs - Social Development</b>	<b>165,250</b>	<b>166,228</b>
<b>20,255,718</b>	<b>Total non-departmental expenses</b>	<b>20,759,053</b>	<b>21,020,300</b>

Explanations of significant variances against budget are detailed in Note 1.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Responsible Ministers

Minister for Social Development is responsible for all appropriations above except:

- Minister of Veterans' Affairs is responsible for Veterans' Pension.

# Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure

For the year ended 30 June 2014

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

The demand-driven nature of the Benefits and Other Unrequited Expenses (BOUE) and Non-departmental capital expenditure appropriations means they are forecast on a mid-point average basis during the year. Under this method of forecasting, it was expected the actual expenditure on some of the forecast items would be more than the mid-point forecast and on other forecast items the actual expenditure would be less than the mid-point forecast. As an appropriation is a legal upper limit on expenditure, using a mid-point forecast to determine the amount of the appropriation inevitably means there will be unappropriated expenditure for some forecast items requiring separate ministerial approval.

To reduce the likelihood of unappropriated expenditure, each item in the 2013/2014 Supplementary Estimates included forecasts set within reason at the higher end of their forecast range. In addition, the Ministry can seek approval under section 26B of the Public Finance Act 1989 for demand-driven expenditure likely to exceed the forecasts prepared for the 2013/2014 Supplementary Estimates. In 2013/2014, this approval was not required with all expenditure within appropriation voted budget levels.

There were no instances of unappropriated expenditure in excess of section 26B approvals at year-end (2013: nil).



## Schedule of Non-Departmental Income

For the year ended 30 June 2014

Actual 2013 \$000		Note	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
2	Interest revenue		4	-	-
214	Maintenance capitalisation		366	60	450
216	Miscellaneous revenue		1,315	-	-
11,290	Student Loan - administration fee	2	10,968	11,334	11,410
<b>11,722</b>	<b>Total non-departmental income</b>		<b>12,653</b>	<b>11,394</b>	<b>11,860</b>

Explanations of significant variances against budget are detailed in Note 1.

For additional detail on student loan advances refer Note 2.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Schedule of Non-Departmental Capital Receipts

For the year ended 30 June 2014

Actual 2013 \$000		Note	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
219,625	Benefit recoveries - current debt		217,970	232,180	215,638
1,030	Benefit recoveries - liable parent contributions		985	960	607
79,097	Benefit recoveries - non-current debt		86,931	82,861	87,383
184,725	Overseas pension recoveries		214,214	197,943	221,569
96,753	Student Loans - repayment of principal	2	90,462	115,203	96,458
<b>581,230</b>	<b>Total non-departmental capital receipts</b>		<b>610,562</b>	<b>629,147</b>	<b>621,655</b>

Explanations of significant variances against budget are detailed in Note 1.

For additional detail on student loan advances refer Note 2.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Schedule of Non-Departmental Assets

As at 30 June 2014

Actual 2013 \$000		Notes	Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Current assets</b>				
164,848	Cash and cash equivalents		148,805	74,336	164,848
185,282	Social benefit receivables	3	199,460	174,654	199,829
(101,526)	Provision for doubtful debts – social benefit receivables	3	(105,556)	-	-
3,495	Other receivables	3	13,314	7,789	3,495
(1,140)	Provision for doubtful debts – other receivables	3	(834)	(1,065)	(1,140)
435	Prepayments – benefits and allowances		34,012	33,042	34,391
<b>251,394</b>	<b>Total current assets</b>		<b>289,201</b>	<b>288,756</b>	<b>401,423</b>
	<b>Non-current assets</b>				
979,758	Social benefit receivables	3	1,036,790	1,028,399	1,025,861
(561,314)	Provision for doubtful debts - social benefit receivables	3	(603,272)	(740,015)	(742,840)
91	Other advances		87	85	83
-	Foreign exchange forward contracts		-	961	-
<b>418,535</b>	<b>Total non-current assets</b>		<b>433,605</b>	<b>289,430</b>	<b>283,104</b>
<b>669,929</b>	<b>Total non-departmental assets</b>		<b>722,806</b>	<b>578,186</b>	<b>684,527</b>

Explanations of significant variances against budget are detailed in Note 1.

For additional detail on Accounts receivable – benefits and allowances refer Note 3.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Schedule of Non-Departmental Liabilities

As at 30 June 2014

Actual 2013 \$000		Actual 2014 \$000	Main Estimates 2014 \$000	Supplementary Estimates 2014 \$000
	<b>Current liabilities</b>			
556,133	Accruals - other than government departments	156,586	165,000	164,350
84,506	Tax payable	165,493	145,191	152,691
1,373	Other current liabilities	1,076	780	1,374
1,855	Foreign exchange forward contracts	2,661	-	1,854
<b>643,867</b>	<b>Total non-departmental liabilities</b>	<b>325,816</b>	<b>310,971</b>	<b>320,269</b>

Explanations of significant variances against budget are detailed in Note 1.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

## Schedule of Non-Departmental Commitments

As at 30 June 2014

The Ministry has no non-departmental commitments at balance date (2013: nil).

## Schedule of Non-Departmental Contingent Liabilities and Contingent Assets

As at 30 June 2014

### **Unquantifiable contingent liabilities**

The Ministry on behalf of the Crown has no unquantifiable contingent liabilities (2013: nil).

### **Quantifiable contingent liabilities**

There are no quantifiable cases lodged against the Ministry that remain unresolved as at 30 June 2014 (2013: nil).

### **Contingent assets**

The Ministry on behalf of the Crown has no contingent assets (2013: nil).

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

# Statement of Trust Monies

As at 30 June 2014

The Ministry operates trust accounts as the agent under section 66 of the Public Finance Act 1989. The transactions through these accounts and their balances as at 30 June 2014 are not included in the Ministry's own financial statements. Movements in these accounts during the year ended 30 June 2014 were as follows:

Actual 2013 \$000		Actual 2014 \$000
	<b>Australian Debt Recoveries</b>	
<b>2</b>	<b>Balance at 1 July</b>	<b>3</b>
19	Contributions	13
(18)	Distributions	(14)
-	Revenue	-
-	Expenditure	-
<b>3</b>	<b>Balance at 30 June</b>	<b>2</b>
	<b>Australian Embargoed Arrears</b>	
<b>356</b>	<b>Balance at 1 July</b>	<b>379</b>
5,424	Contributions	5,943
(5,401)	Distributions	(5,296)
-	Revenue	-
-	Expenditure	-
<b>379</b>	<b>Balance at 30 June</b>	<b>1,026</b>
	<b>Maintenance</b>	
<b>33</b>	<b>Balance at 1 July</b>	<b>54</b>
514	Contributions	533
(496)	Distributions	(338)
3	Revenue	2
-	Expenditure	-
<b>54</b>	<b>Balance at 30 June</b>	<b>251</b>
	<b>Netherlands Debt</b>	
<b>11</b>	<b>Balance at 1 July</b>	<b>1</b>
69	Contributions	108
(79)	Distributions	(105)
-	Revenue	-
-	Expenditure	-
<b>1</b>	<b>Balance at 30 June</b>	<b>4</b>
<b>437</b>	<b>Total trust monies</b>	<b>1,283</b>

### **Australian Debt Recoveries Trust Account**

An agreement exists between the Australian and New Zealand Governments for the Ministry to deduct monies from customers in receipt of a benefit in New Zealand for debts owing in Australia. The trust account records these transactions and transfers the amounts held in the trust account to the Australian Government on a monthly basis.

### **Australian Embargoed Arrears Trust Account**

Under the reciprocal agreement between the Australian and New Zealand Governments, the New Zealand Government is required to make regular contributions to any former New Zealand residents living in Australia in receipt of a benefit in Australia. The trust account has been established to record any one-off arrears payments.

### **Maintenance Trust Account**

The Ministry is responsible for collecting maintenance arrears owing as at 30 June 1992. Amounts are collected from the non-custodial parent and deposited into the trust account. These amounts are then paid into the custodial parent's bank account.

### **Netherlands Debt Trust Account**

An agreement exists between the Netherlands and New Zealand Governments for the Ministry to deduct monies from customers in receipt of a benefit in New Zealand for debts owing in the Netherlands. The trust account records these transactions and transfers the amounts held in the trust account to the Netherlands Government on a monthly basis.

These non-departmental balances are consolidated into the Financial Statements of the Government, and therefore readers of these statements and schedules should also refer to the Financial Statements of the Government for 2013/2014.

# Notes to the Non-Departmental Financial Statements

## Note 1: Explanation of major variances against budget

Explanations for major variances from the Ministry's non-departmental estimated figures in the Main Estimates are as follows:

### Schedule of income and expenses

Non-departmental output expenses were higher than Mains Estimates mainly due to the introduction of the new appropriation Provision of Housing and Related Services for Tenants Paying Income Related Rent in November 2013.

Non-departmental other expenses were lower than Mains Estimates due to the transfer of funds from Employment Assistance to the new Multi-Category Appropriation (MCA) Improved Employment and Social Outcomes Support from 1 January 2014.

There are no other significant variances against budget.

### Schedule of assets and liabilities

Cash and cash equivalents is higher in 2013/2014 compared with the original budget due to the timing of the cash draw-down from the Treasury.

There are no other significant variances against budget.

## Changes in actual results and Supplementary Estimates<sup>104</sup>

Explanations for major variances from the Ministry's Supplementary Estimates figures are as follows:

	Notes	Actual 2014 \$000	Appropriation Voted 2014 \$000	Variance 2014 \$000
<b>Vote Social Development</b>				
<b>Non-departmental output expenses</b>				
Income Related Rent Subsidy for Community Housing Providers	(a)	74	2,900	2,826
<b>Independent Advice on Government Priority Areas MCOA</b>				
Other Advice	(b)	216	329	113
Policy Advice	(b)	-	209	209
<b>Non-departmental other expenses</b>				
Debt Write-downs	(c)	65,127	93,983	28,856
<b>Improved Employment and Social Outcomes Support MCA</b>				
Improving Employment Outcomes – Assistance	(d)	9	1,000	991
<b>Non-departmental capital expenditure</b>				
Student Loans	(e)	1,601,031	1,686,145	85,114
<b>Benefits and other unrequited expenses</b>				
Employment Related Training Assistance	(f)	5,905	15,262	9,357
Family Start/NGO Awards	(g)	488	705	217
Student Allowances	(h)	539,031	565,359	26,328
Study Scholarships and Awards	(i)	15,594	21,467	5,873

<sup>104</sup> Variances against original budget are detailed in the section 'Changes in appropriations' refer page 132.



## Variance explanation

- a) Income Related Rent Subsidy for Community Housing Providers was lower than budget because the demand has been very low since it was established from 14 April 2014 when the social housing functions were transferred from Vote Housing.
- b) Other Advice and Policy Advice were both underspent because expenditure in this MCOA is dependent on when specific work is commissioned which has been low during 2013/2014.
- c) Debt Write-downs was lower than budget because of the supplementary add-on<sup>105</sup> of \$10 million (10.6 per cent of appropriation voted) and changes to the rates used to calculate the debt write-down provision.
- d) Improving Employment Outcomes – Assistance expenditure has been lower than expected since the establishment of the Improved Employment and Social Support MCA from 1 January 2014. This has been due to lower demand for this service. However the underspend represents only 0.3 per cent of the total budgeted amount for the MCA.
- e) Student Loans was lower than budget mainly because of the supplementary add-on of \$45 million (2.7 per cent of appropriation voted) and lower than expected student loan borrowers during the quarter ended June 2014.
- f) Employment Related Training Assistance is a capped item containing the Training Incentive Allowance and the Course Participation Assistance Grant. The cap is set higher than current demand and underspends are expected.
- g) Family Start/NGO Awards is a capped appropriation of \$705,000. The actual expenditure of \$488,000 was in line with expenditure trends since 2011/2012. As Family Start/NGO Awards is a capped item, underspends are expected.
- h) Student Allowances was lower than budget mainly due to the supplementary add-on of \$24 million (4.2 per cent of appropriation voted).
- i) Study Scholarship and Awards was underspent mainly due to TeachNZ expenditure being below forecast. TeachNZ is a capped item and the cap is set higher than current demand with underspends expected.

## Changes in appropriations

The table below summarises the material changes in appropriations between the Main Estimates and the final Supplementary Estimates for the 2013/2014 financial year.

	Notes	Main Estimates 2014 \$000	Appropriation Voted 2014 \$000	Variance 2014 \$000
<b>Vote Social Development</b>				
<b>Non-departmental output expenses</b>				
Provision of Housing and Related Services for Tenants Paying Income Related Rent	(a)	-	151,535	151,535
<b>Non-departmental other expenses</b>				
Employment Assistance	(b)	102,133	43,900	(58,233)
<b>Improved Employment and Social Outcomes Support MCA</b>				
<i>Improving Employment Outcomes - Assistance</i>	(c)	-	1,000	1,000
<b>Non-departmental capital expenditure</b>				
Student Loans	(d)	1,631,661	1,686,145	54,484
<b>Benefits and other unrequited expenses</b>				
Accommodation Assistance	(e)	1,191,296	1,158,002	(33,294)
Domestic Purposes Benefit	(f)	149,349	62,916	(86,433)
Invalid's Benefit	(f)	116,468	52,355	(64,113)
New Zealand Superannuation	(g)	10,894,365	10,920,665	26,300
Sickness Benefit	(f)	69,833	29,209	(40,624)
Supported Living Payment	(h)	1,391,858	1,432,410	40,552
Unemployment Benefit and Emergency Benefit	(f)	64,589	28,546	(36,043)
Widow's Benefit	(f)	5,996	2,223	(3,773)

<sup>105</sup> The supplementary add-on refers to the budget adjustments that the Ministry makes in the Supplementary Estimates each year to its forecast appropriations to minimise the risk of unappropriated expenditure. These appropriations are demand-driven and are required to be forecast at a mid-point estimate during the normal course of the year. This is to accurately reflect the information and circumstances at the date the forecasts are set. However, as this mid-point method can increase the unappropriated expenditure risk, the Ministry is permitted to make supplementary add-on adjustments to its final year-end budgets.

## Variance explanation

- a) This is a new appropriation in 2013/2014 to provide for the transfer of functions related to the assessment of eligibility for social housing and the calculation of Income Related Rent subsidies from Vote Housing.
- b) This appropriation decreased by \$58.233 million to \$43.900 million in 2013/2014 mainly due to the transfer of funds to the Multi-Category Appropriation (MCA) Improved Employment and Social Outcomes Support from 1 January 2014.
- c) This is part of the newly established Multi-Category Appropriation (MCA) Improved Employment and Social Outcomes Support from 1 January 2014.
- d) Student Loans appropriation increased by \$54.484 million in 2013/2014 mainly due to the supplementary add-on of \$45 million which reduced the likelihood of overspending.
- e) This appropriation decreased by \$33.294 million mainly due to fewer Accommodation Assistance recipients, which was a result of fewer main benefit recipients.
- f) This appropriation decreased in 2013/2014 because the Appropriation Voted is two weeks of actual spending compared with a whole forecast month of expenditure in the Main Estimates. This appropriation ceased on 14 July 2013 and was replaced by new appropriations under Welfare Reform.
- g) This appropriation increased by \$26.300 million in 2013/2014 mainly due to a higher number of recipients because of demographic trends offset by higher than expected overseas pension recoveries.
- h) This appropriation increased by \$40.552 million in 2013/2014 mainly due to a higher number of recipients and a supplementary add-on of \$10 million to reduce the likelihood of overspending.

The Supplementary Estimates of Appropriations and Supporting Information 2013/2014 contains more information on appropriation variances.

## Note 2: Student loan advances

### Carrying value of student loans

As at 30 June 2014

Actual 2013 \$000		Actual 2014 \$000
-	<b>Vote Social Development</b>	
	<b>Student loans</b>	
-	<b>Opening nominal balance</b>	-
1,566,796	New lending	1,601,031
(96,753)	Repayment	(90,462)
(1,481,333)	Loan balance transfer to IRD	(1,521,537)
11,290	Administration fee	10,968
-	<b>Closing nominal balance</b>	-
-	<b>Net carrying value of student loans</b>	-

The Student Loan Scheme is administered by the Ministry of Social Development in conjunction with the Ministry of Education and the Inland Revenue Department (IRD). The Ministry's role is to assess and make payments to students undertaking tertiary education. Student loans are transferred to the IRD on a daily basis for collection. The interest rate risk and the credit risk on student loans are held by the IRD.

### Note 3: Accounts receivable – benefits and allowances

Balances owed to the Ministry are made up of benefits and allowances overpayments, recoverable assistance and fraud repayments. Interest is not charged on benefit recovery and demands for repayment are restricted to prevent client hardship.

The carrying value and the fair value are the same for these amounts. Since there is no market comparison, the fair value is determined by discounting the expected future cash flows by the appropriate interest rates at year-end. The effective interest rates applied at year-end were between 4.85 per cent and 5.73 per cent (3.86 per cent and 6.37 per cent at 30 June 2013).

The fair value of the portfolio as at 30 June 2014 is \$540 million (\$505 million at 30 June 2013).

#### Social benefit and Other receivables

As at 30 June 2014

Actual 2013 \$000		Actual 2014 \$000
	<b>Account receivables</b>	
1,165,040	Gross social benefit receivables	1,236,250
(662,840)	Impairment of social benefit receivables <sup>106</sup>	(708,828)
3,495	Other receivables	13,314
(1,140)	Provision for doubtful debts – other receivables	(834)
<b>504,555</b>	<b>Total receivables</b>	<b>539,902</b>
	<b>Impairment of social benefit receivables</b>	
(602,015)	Opening balance	(662,840)
(78,702)	Impairment losses recognised on receivables	(65,434)
17,877	Amounts written off as uncollectible	19,446
<b>(662,840)</b>	<b>Balance at end of the year</b>	<b>(708,828)</b>
(662,840)	Collective impairment allowance	(708,828)
-	Individual impairment allowance	-
<b>(662,840)</b>	<b>Balance at end of the year</b>	<b>(708,828)</b>
	<b>Ageing of social benefit receivables past due but not impaired</b>	
29,562	Less than six months	31,232
67,008	Between six months and one year	61,094
-	Greater than one year	-
<b>96,570</b>	<b>Total social benefit receivables past due but not impaired</b>	<b>92,326</b>
	<b>Significant assumption behind the carrying value is:</b>	
3.86%-6.37%	Effective interest rate	4.85%-5.73%
	<b>The estimated fair value of the Social Benefit Debt and Other receivables portfolio and key assumptions underpinning the fair valuation are:</b>	
504,555	Fair value	539,902
(17,768)	Impact on fair value of a 1% increase in discount rate	(19,651)
19,907	Impact on fair value of a 1% decrease in discount rate	22,193

Impairment is calculated on a collective basis, not on an individual basis. There was a net movement in impairment losses of \$46 million during the 2013/2014 year (2013: \$61 million).

The fair value is sensitive to the discount rate and the expected future cash flows. An increase in the discount rate of 1 per cent would decrease fair value by approximately \$20 million. A decrease in the discount rate of 1 per cent would increase fair value by approximately \$22 million. Since there are no contractual repayment terms, future cash flows assume existing cash flow receipts will continue. These are adjusted for likely negative future events such as death.

<sup>106</sup> Impairment of social benefit receivables includes \$2.35 million of remeasurement due to changes in interest and collection cost rates.

Interest rate risk is the risk the fair value will fluctuate due to changes in interest rates. The effective interest rate range applied to determine the fair value has moved by between (0.64) per cent and 0.99 per cent from 1 July 2013 to 30 June 2014 (2013: (0.03) per cent and 0.93 per cent).

Credit risk is the risk the benefit debt is not repaid before the borrower dies. Benefit policy does not require recipients to provide any collateral or security to support advances made. As the total benefit debt is dispersed over a large number of borrowers, there is no material individual concentration of credit risk. The credit risk is reduced by compulsory deductions from benefit and superannuation payments, provided hardship is not caused.

## Note 4: Financial instrument risks

### Financial instrument risks

#### Classes and categories of financial assets:

as at 30 June 2013 Designation						as at 30 June 2014 Designation				
Amortised cost \$000	Loans & receivables \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000		Amortised cost \$000	Loans & receivables \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000
-	164,848	-	-	164,848	Cash and cash equivalents	-	148,805	-	-	148,805
-	2,355	-	-	2,355	Trade and other receivables	-	12,480	-	-	12,480
-	-	-	-	-	Foreign exchange contract	-	-	-	-	-
-	<b>167,203</b>	-	-	<b>167,203</b>	<b>Total financial assets by designation</b>	-	<b>161,285</b>	-	-	<b>161,285</b>

#### Classes and categories of financial liabilities:

as at 30 June 2013 Designation					as at 30 June 2014 Designation			
Amortised cost \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000		Amortised cost \$000	Held for trading \$000	Fair value through P&L \$000	Total \$000
557,506	-	-	557,506	Accounts payable	157,662	-	-	157,662
-	1,855	-	1,855	Foreign exchange contract	-	2,661	-	2,661
<b>557,506</b>	<b>1,855</b>	-	<b>559,361</b>	<b>Total financial liabilities by designation</b>	<b>157,662</b>	<b>2,661</b>	-	<b>160,323</b>

**Foreign currency risk management:**

as at 30 June 2013					as at 30 June 2014			
NZD NZ\$000	AUD NZ\$000	Other NZ\$000	Total NZ\$000		NZD NZ\$000	AUD NZ\$000	Other NZ\$000	Total NZ\$000
146,222	18,626	-	164,848	Cash and cash equivalents	146,899	1,906	-	148,805
2,355	-	-	2,355	Trade and other receivables	12,480	-	-	12,480
-	-	-	-	Foreign exchange contract	-	-	-	-
<b>148,577</b>	<b>18,626</b>	<b>-</b>	<b>167,203</b>	<b>Total financial assets</b>	<b>159,379</b>	<b>1,906</b>	<b>-</b>	<b>161,285</b>
557,506	-	-	557,506	Accounts payable	157,662	-	-	157,662
1,855	-	-	1,855	Foreign exchange contract	2,661	-	-	2,661
<b>559,361</b>	<b>-</b>	<b>-</b>	<b>559,361</b>	<b>Total financial liabilities</b>	<b>160,323</b>	<b>-</b>	<b>-</b>	<b>160,323</b>

The Ministry needs to reimburse the Australian Government for income support assistance provided to New Zealanders eligible under the 1994 Reciprocal Agreement. The reimbursement is paid in Australian dollars. The Ministry has bought foreign exchange forward contracts with the New Zealand Debt Management Office (NZDMO) to hedge the currency risk. At balance date, the Ministry had a series of foreign exchange forward contracts which entitles the Ministry to exchange NZ\$20.002 million with the NZDMO for AUD\$15.996 million. On 30 June 2014, the market value of these contracts was a liability of NZ\$2.661 million (2013: liability of NZ\$1.855 million).

**Credit risk management:**

as at 30 June 2013						as at 30 June 2014				
AAA \$000	AA \$000	A \$000	Non-rated \$000	Total \$000		AAA \$000	AA \$000	A \$000	Non-rated \$000	Total \$000
-	164,848	-	-	164,848	Cash and cash equivalents	-	148,805	-	-	148,805
-	-	-	2,355	2,355	Trade and other receivables	-	-	-	12,480	12,480
-	-	-	-	-	Foreign exchange contract	-	-	-	-	-
<b>-</b>	<b>164,848</b>	<b>-</b>	<b>2,355</b>	<b>167,203</b>	<b>Total financial assets</b>	<b>-</b>	<b>148,805</b>	<b>-</b>	<b>12,480</b>	<b>161,285</b>

Credit risk is the risk a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of the Ministry's business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.

The Ministry is only permitted to deposit funds with Westpac, a registered bank, and to enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings.

For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

**Concentration of credit exposure by geographical area:**

as at 30 June 2013						as at 30 June 2014				
New Zealand \$000	Australia \$000	Europe \$000	Other \$000	Total \$000		New Zealand \$000	Australia \$000	Europe \$000	Other \$000	Total \$000
146,222	18,626	-	-	164,848	Cash and cash equivalents	146,899	1,906	-	-	148,805
2,355	-	-	-	2,355	Trade and other receivables	12,480	-	-	-	12,480
-	-	-	-	-	Foreign exchange contract	-	-	-	-	-
<b>148,577</b>	<b>18,626</b>	<b>-</b>	<b>-</b>	<b>167,203</b>	<b>Total financial assets</b>	<b>159,379</b>	<b>1,906</b>	<b>-</b>	<b>-</b>	<b>161,285</b>

## Liquidity risk management:

as at 30 June 2013						as at 30 June 2014				
Carrying value \$000	Contractual cash flows \$000	0-12 months \$000	1-2 years \$000	>2 years \$000		Carrying value \$000	Contractual cash flows \$000	0-12 months \$000	1-2 years \$000	>2 years \$000
557,506	557,506	557,506	-	-	Accounts payable	157,662	157,662	157,662	-	-
1,855	-	-	-	-	Foreign exchange contract	2,661	-	-	-	-
<b>559,361</b>	<b>557,506</b>	<b>557,506</b>	-	-	<b>Total financial liabilities</b>	<b>160,323</b>	<b>157,662</b>	<b>157,662</b>	-	-

## Fair value hierarchy risk management:

as at 30 June 2013					as at 30 June 2014			
Quoted market price NZ\$000	Observable inputs NZ\$000	Significant non-observable inputs NZ\$000	Total NZ\$000		Quoted market price NZ\$000	Observable inputs NZ\$000	Significant non-observable inputs NZ\$000	Total NZ\$000
-	-	-	-	Foreign exchange contract	-	-	-	-
-	-	-	-	<b>Total financial assets</b>	-	-	-	-
-	1,855	-	1,855	Foreign exchange contract	-	2,661	-	2,661
-	<b>1,855</b>	-	<b>1,855</b>	<b>Total financial liabilities</b>	-	<b>2,661</b>	-	<b>2,661</b>

There were no transfers between the different levels of the fair value hierarchy.