



**REPORT OF THE MINISTRY FOR THE ENVIRONMENT  
FOR THE YEAR ENDED 30 JUNE 2011**



*Ministry for the*  
**Environment**  
*Manatū Mō Te Taiao*

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# **Report of the Ministry for the Environment**

**For the Year Ended 30 June 2011**

Presented to the House of Representatives  
pursuant to the Public Finance Act 1989



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# 1 Overview of the 2010/11 Year

## Introduction from the Chief Executive

Giving effect to significant changes to New Zealand's environmental management framework has been an important focus of the Ministry's work for 2010/11.

This year has introduced the most significant change in the environment sector for some years, with the establishment of the Environmental Protection Authority (EPA) as a new Crown entity. The EPA became operational on 1 July 2011. The Ministry for the Environment and ERMA New Zealand put significant effort into the establishment project over 2010/11, with support from the Ministry of Economic Development. Functions and powers from all three agencies have been transferred to the EPA. Administration of the New Zealand Emissions Trading Scheme will transfer on 1 January 2012.

With the entry of the energy, industry and transport sectors into the Emissions Trading Scheme on 1 July 2010, the Ministry and other government agencies worked on ensuring all elements of the scheme are operating as planned. A scheduled review of the Scheme has been undertaken by a panel and a report provided to the Minister.

A major milestone was also reached in our work to improve freshwater management with the announcement of a national policy statement and other initiatives that recognise the strategic value of fresh water to New Zealand's economy and way of life.

We have continued to focus on organisational development and capability building. Through our new strategic direction, we are aiming to make sure that every person working at the Ministry can see how their work contributes to achieving the mission of 'environmental stewardship for a prosperous New Zealand'. The supporting strategies help us to put into practice the approaches we need to take in our work, and the behaviours we need to excel at to help us deliver.

We want to ensure that we are in a strong position to deliver on the Government's priorities for New Zealand's environment and economy. During 2010/11, we have continued to build analytical capability and embed frameworks to help drive improvements to the way in which we provide advice.



**Dr Paul Reynolds**  
Chief Executive

# Our Role

## Mission and vision

Our mission: Environmental stewardship for a prosperous New Zealand –  
Tiakina te taiao kia tōnui a Aotearoa

'Environmental stewardship' requires taking the long-term view, so that the capacity of the environment to generate benefits is maintained. 'Prosperous' means that resources must be allocated efficiently, to generate the most benefit for New Zealanders.

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The Ministry for the Environment is the Government's primary adviser on the New Zealand environment and international matters that affect the environment.

Our role includes advising the Government on the institutions, laws, regulations, policies and economic incentives that set the framework for environment management. These laws, regulations and policy are implemented and enforced mainly through others, especially the Environmental Protection Authority (EPA) and local government.

We work closely with other government agencies that have interests in the environment and resource management, particularly through a network of natural resources agencies which the Ministry chairs and supports. There is a similar forum for collaboration with regional councils.

During 2010/11, the Ministry has been responsible for the establishment of the EPA, which has a Board accountable to the Minister for the Environment. It is a new Crown entity with regulatory and technical functions under a number of environmental laws. We will work closely with the EPA to improve environmental management and advise the Government about any matters related to its functions. We will also monitor its activities and performance on behalf of the Minister for the Environment.

### **Legislation administered by the Ministry for the Environment:**

- Soil Conservation and Rivers Control Act 1941
- Environment Act 1986
- Environment Canterbury (Temporary Commissioners and Improved Water Management) Act 2010
- Environmental Protection Authority Act 2011
- Resource Management Act 1991
- Ozone Layer Protection Act 1996
- Hazardous Substances and New Organisms Act 1996
- Climate Change Response Act 2002
- Aquaculture Reform (Repeals and Transitional Provisions) Act 2004
- Fiordland (Te Moana o Atawhenua) Marine Management Act 2005
- Waste Minimisation Act 2008.

# Our performance highlights for 2010/11

At the start of 2010/11, the Minister for the Environment set out five priorities for the Ministry for the Environment's work programme. This section outlines some of our achievements in those priority areas.

## Improving New Zealand's Freshwater management

The Land and Water Forum presented its final report to government in April 2011. The government subsequently announced a fresh water policy package aimed at growing New Zealand's economy while better caring for lakes, rivers and aquifers. The package included a National Policy Statement for Freshwater management, which was gazetted in May 2011. It sets a consistent national regulatory framework to ensure there are clear limits to govern the allocation of water and management of water quality. The government will make further decisions on the direction of water reform during 2011/12.

The government also announced funding for fresh water clean up, administered by the Ministry for the Environment (\$15 million over the next two years), as well as a water infrastructure fund for supporting the development of new irrigation storage and distribution (administered by the Ministry of Agriculture and Forestry). These funds were established by Budget 2011.

## Developing the Environmental Protection Authority (EPA)

On 1 July 2011, the new EPA began operations. During 2010/11, the Ministry and ERMA New Zealand, supported by the Ministry of Economic Development, worked together to establish the EPA as the government agency responsible for regulatory functions concerning New Zealand's environmental management.

These include national consenting under the Resource Management Act, regulation of hazardous substances and new organisms, ozone depleting chemicals, hazardous waste exports and imports, and assessment of environmental effects in Antarctica. Management of the Emissions Trading Scheme will transfer to the EPA on 1 January 2012.

## Resource Management Reforms

A discussion document, *Building Competitive Cities*, which looked at options for improving the resource management system for urban planning and infrastructure, was released in October 2010 for public feedback by end of December 2010. Since then, the Ministry has continued to develop policy on Phase two of the resource management reforms, with agreement from Cabinet. Broader policy recommendations will be developed for Ministers and Cabinet to consider in 2012.

## Implementation of the Emissions Trading Scheme

During 2010/11, the Ministry focused on the entry of the energy, industry and transport sectors into the Emissions Trading Scheme, in conjunction with the Ministry of Agriculture and Forestry and the Ministry of Economic Development. The early indications contained in the first annual report on the Emissions Trading Scheme show that it is operating as intended, that the implementation has gone smoothly, and that New Zealand is on target to meet its Kyoto obligations.

In 2010/11, the Minister for Climate Change Issues also announced a review of the Emissions Trading Scheme (as required by legislation). The review panel submitted its final report at the end of June 2011 and the Ministry is providing advice on the impact of the Panel's recommendations to Cabinet.

### **Ensuring that New Zealand constructively assists in achieving a successor agreement to the Kyoto Protocol on climate change**

The Ministry for the Environment has a major role in New Zealand's international climate change negotiations. During 2010/11, we have continued to contribute to developing New Zealand's negotiating position and articulating that position at United Nations Framework Convention on Climate Change meetings and other related forums. The focus of international negotiations remains on working towards a comprehensive global agreement developing on the Cancun Agreements.

### **Supporting Canterbury**

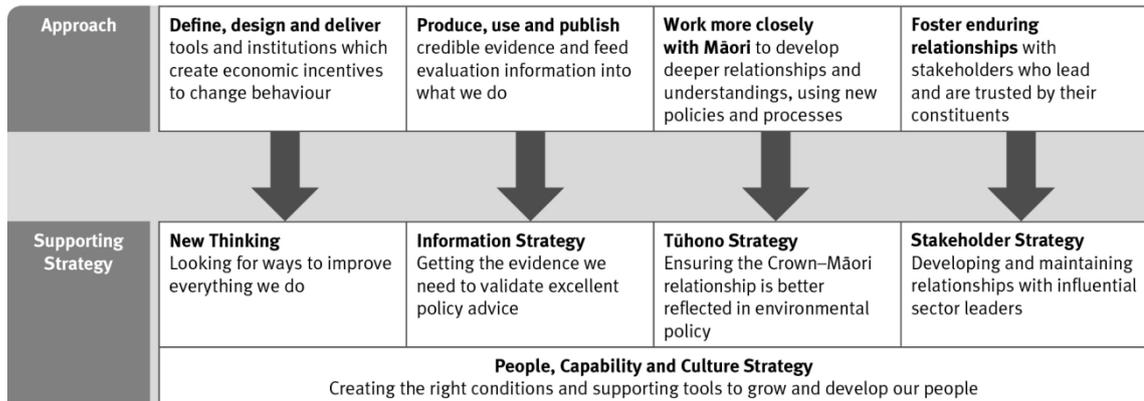
The Ministry has played an important role in supporting the Canterbury region since the first major earthquake on 4 September 2010. We have provided assistance in areas such as resource management practice, urban planning and design, and governance. This has meant helping to develop legislation, Orders in Councils and providing other input into resource management aspects of planning frameworks. The Ministry will continue to advise the Minister and the Canterbury Earthquake Recovery Authority on resource management aspects of the Canterbury Earthquake Recovery Act 2011. This includes input into the government's recovery strategy for Christchurch, recovery plans, and providing general advice and support.

# Our Organisational Health and Capability

## Strategy

During 2010/11, the Ministry launched its strategic direction. This sets out how the Ministry wants to operate in the future; building on our mission statement ('environmental stewardship for a prosperous New Zealand'), so as to drive both organisational development and the strategic thinking that underpins our advice.

For each of the four approaches and organisational behaviours identified as necessary for carrying out the mission statement, there is a supporting strategy. They are all underpinned by a supporting strategy for People, Capability and Culture.



## Objectives and achievements

These measures are designed to show the Ministry's progress on implementing our strategic direction, as articulated by the five strategies above.

What we want to achieve	How we will know if we are achieving these objectives
Create the right conditions and supporting tools to grow and develop our people.	Improvement in staff engagement as measured by the Gallup survey.  Current state: The most recent engagement survey shows a meaningful increase in staff engagement. Areas for improvement were identified and are being worked on. We will continue to measure this by undertaking further surveys.
Look for ways to improve everything we do.	Continuous improvement in policy advice products as measured by the quality policy advice assessment panel and the internal regulatory impact analysis reference panel.  Current state: A new assessment process has been established. For 2010/11 results, see page 25.
Get the evidence we need to validate excellent policy advice.	Improvement in the use of evidence in our policy advice products.  Current state: An interim proxy measure shows that recorded requests for one area of the Information Directorate has increased 66% since implementation of the Information Strategy began in June 2010.

**What we want to achieve****How we will know if we are achieving these objectives**

Ensure the Crown–Māori relationship is better reflected in environmental policy.

Build capacity within the Ministry to develop relationships with Māori through the Pae Ngatahi course, as measured by percentage of staff attending and pre and post course evaluations of attendees' capability.

Current state: At 30 June 2011, 23% of staff had attended at least one module. Our target is 30% of staff by December 2011.

Develop and maintain relationships with influential sector leaders.

Positive views of external stakeholders as measured by a survey of stakeholder perceptions of the Ministry.

Current state: Limited surveys undertaken in 2008 and 2010 showed clear improvements over that period in perceptions of the Ministry's leadership and willingness to engage. A perceptions audit will be undertaken in 2011/12.

## Ministry profile

As at 30 June 2011, the Ministry employed 306.25 full-time equivalent staff, including policy analysts who provide advice to the Government on environmental issues and implement government decisions. Our staff come from a wide range of professional, technical and scientific backgrounds, including resource management, law, engineering and science. Many have previously worked in local government, the private sector, or other central government agencies.

Core unplanned turnover at the Ministry is approximately 16 per cent. The average length of service within the Ministry is approximately 3.8 years which is slightly less than previous years but is expected due to the level of recent recruitment in the policy and consenting areas. We are exploring initiatives that will retain talent.

On 1 July 2011, 34 positions transferred to the EPA. A further six positions are expected to transfer to the EPA later in 2011.

## Equal employment opportunities

The Ministry works on ensuring that procedures for recruitment and selection, career development and progression, training and conditions of employment will provide equal opportunities. A new learning and development framework has been designed and is currently implemented as part of the People, Capability and Culture Strategy.

Currently women make up approximately 45 per cent of the management team at the Ministry. This continues the upward trend of 2009/10 and 2008/09, where women made up 42 and 39 per cent of management, respectively.

## People and culture

In 2010/11, the Ministry launched a People, Capability and Culture Strategy with the intent of creating the right conditions and support to achieve the Ministry's strategic direction. The strategy takes a three-phased, sequential and pragmatic approach, spanning three years. The first phase of the strategy involves being clear about what is expected of staff and improving core processes and systems.

Some of the areas of focus in 2011 were the frequency and quality of informal feedback, a new learning and development framework and an improved induction process. Building capability and staff engagement were also two major areas of focus during 2010/11. This included running a variety of programmes with an emphasis on application within the workplace. While work is ongoing, collaboration across the Ministry and staff feedback received has been encouraging.

During 2010/11, the Ministry also implemented a new remuneration system which will support our intent to recruit, retain and develop a workforce that is motivated, capable and supported in their roles to deliver the Ministry's work programme and strategic direction. Over 2011/12, a new performance management system will be implemented. This supports the Ministry's focus on developing and growing our people in their roles.

Following on from the policy review in 2010, the Ministry focused on building staff capability to advise on strategic, complex policy issues and the institutions and framework for environmental management. This included introducing three new tools in a drive to enhance the quality of our advice on the economy and the environment. The COBRA guide (Cost Opportunity Benefit Risk Analysis) provides staff with the key concepts, frameworks and tools to work through the policy process and deliver high quality advice. The policy professionals' handbook helps staff develop their skills and career in policy analysis. New quality policy advice assessment criteria were also introduced to benchmark our performance and measure our progress. For this year's results, see page 25.

The second phase of the People, Capability and Culture Strategy focuses on expanding our horizons – providing new points of view and new experiences. The final phase of the strategy is about having new tools that allow us to push our ideas further.

Staff engagement surveys continue to be run within the Ministry, with the most recent showing an increase in staff engagement. While there is a strong correlation with higher engagement leading to a higher performing workforce, research suggests our current engagement profile is not optimal. This reflects the Ministry's need to be clear about what is expected of staff. This reinforces the importance of the first phase of our People, Capability and Culture Strategy, as outlined above.

## Relationships

During 2010/11, the Ministry has worked on forging collaborative relationships with those who share the Ministry's mission of environmental stewardship for a prosperous New Zealand. This includes stakeholders in business, the primary sector, industry and science, particularly where there is a shared interest in the Ministry's priorities for fresh water and climate change.

The Ministry also has strategic relationships with the natural resources agencies in central government, regional councils and Māori leaders. An important focus of collaboration with other government departments is the Natural Resources Sector. In 2010/11 the Sector strengthened cross-department collaboration on key pieces of policy such as water, climate change and aquaculture. A set of economy and environment principles was disseminated across the sectors policy areas through a programme of workshops. These provide a consistent framework for analysts to consider the complexity of natural resources policy issues. The Sector has also begun work on initiatives to promote increased effectiveness and efficiency across member departments by identifying areas where systems and processes can be better coordinated.

Ongoing attention has been given this year to continuing to improve the Ministry's engagement with iwi. Our engagement with iwi leaders on fresh water and climate change continues,

showing that the Ministry and iwi have confidence in this engagement. Meetings have been held with a number of iwi groups, in particular with those that the Ministry has Treaty settlement obligations. These meetings have set the building blocks for ongoing positive engagement.

## Processes, technology and physical assets

During 2010/11, the Ministry

- supported the establishment of the EPA by facilitating the transition and separation of systems, networks and records
- worked with Natural Resource Sector agencies to collaborate on a geospatial strategy
- improved internal systems and network security
- established a governance group to set strategy and internal processes.

The Ministry is developing an Information Systems Strategic Plan to provide a road map for future improvements to the Ministry's systems, with a focus on delivering our work more efficiently and effectively. This plan will also consider wider whole of Government initiatives such as Infrastructure as a Shared Service and developing the Ministry's ability to publish accurate and timely open data.

## Internal Audit and Risk Management

The Internal Audit function's primary objective is to provide the Chief Executive and the Environment Leadership Team with an independent assessment and assurance that the design of risk management, internal control and governance processes, are adequate and functioning properly. A total of 12 audits were completed during the year with approximately 90 per cent of results being low to medium risk findings. Management is actively implementing remedial actions identified by internal audit to improve the Ministry's control environment.

The Audit and Risk Committee, consisting of three independent advisors, continues to provide an effective forum, identifying high level strategic risk with the Chief Executive and providing oversight and advice on the effectiveness of our risk management. Risk management is actively used in strategic management of the organisation, based on a clear definition of risk appetite in our current operating context. Risk management principles are being applied more confidently and effectively throughout the operational areas of the organisation, such as project management, funding and other business as usual activities.

## Capital expenditure

The Ministry's main capital expenditure in 2010/11 was in these two programmes:

- Land Use and Carbon Analysis System (LUCAS)

The Land Use and Carbon Analysis System contributes to meeting New Zealand's greenhouse gas reporting obligations under the Kyoto Protocol. The application combines geospatial information (maps) with carbon models and produces calculations and data in the format required for the United Nations Framework Convention on Climate Change. During 2010/11, \$300,000 was spent on LUCAS capital expenditure. The LUCAS infrastructure is now due for reinvestment and is likely to be transitioned to the Infrastructure as a Shared Service initiative led by the Department of Internal Affairs. The initial setup could cost up to \$347,000, but once the transition is made in June 2012, the

infrastructure cost model will become an operating expense resulting in the reduction of future demand for capital expenditure.

- Desktop and server hardware

The second area of capital expenditure is an ongoing amount of approximately \$650,000 per annum, mainly for updating the Ministry's desktop and server infrastructure. It is also allocated to purchasing and developing upgrades to core systems.

## Our Environmental Performance

The Ministry's environmental performance is continually monitored to enable us to demonstrate leadership in this important area. We measured our performance for 2010/11 using waste minimisation, energy efficiency and transportation as performance indicators.

It is pleasing to see that this year yielded significant improvements in all monitored areas. The major outcomes of our environmental performance compared with 2009/10 are decreases in:

- all waste areas (waste to landfill, paper and waste recycling)
- domestic and international air travel per full time equivalent staff member
- distance travelled by ground
- electricity consumption.

The introduction of photocopiers using print management software has contributed to a decrease in paper recycled.

### Benchmarking our performance

		Metric	2010/11	2009/10	2008/09	2007/08	2006/07
Waste Minimisation	Waste to landfill	kg	1,415	1,762	1,917	1,641	2,499
	Waste to landfill per FTE	kg	4.63	6	6	6	8
	Paper recycled	kg	28,585	31,430	19,355	30,180	25,860
	Paper recycled per FTE	kg	93.4	107	63	107	97
	Waste recycled	kg	5,910	6,773	5,580	5,992	8,942
	Waste recycled per FTE	kg	19.3	23	18	21	34
	Total waste	kg	35,910	39,965	26,852	37,812	37,301
	Total waste per FTE	kg	117.3	136	87	134	140
Energy Efficiency	Total electricity usage	mWh	705	760	784	801	706
	Total electricity usage per FTE	kWh	2,303	2,584	2,539	2,846	2,654
Transportation	Domestic flights	km	1,484,373	1,490,000	1,590,000	1,739,000	1,747,000
	Domestic flights per FTE	km	4,850	5,068	5,152	6,175	6,570
	International flights	km	2,144,637	2,736,000	3,318,000	2,685,000	3,683,000
	International flights per FTE	km	7,008	9,306	10,752	9,535	13,851
	Ground transport	km	92,702	96,000	103,000	112,000	130,000
	Ground transport per FTE	km	303	327	334	398	489

Total transportation	km	3,721,712	4,322,000	5,011,000	4,536,000	5,560,000
Total transportation per FTE	km	12,162	14,701	16,238	16,108	20,910

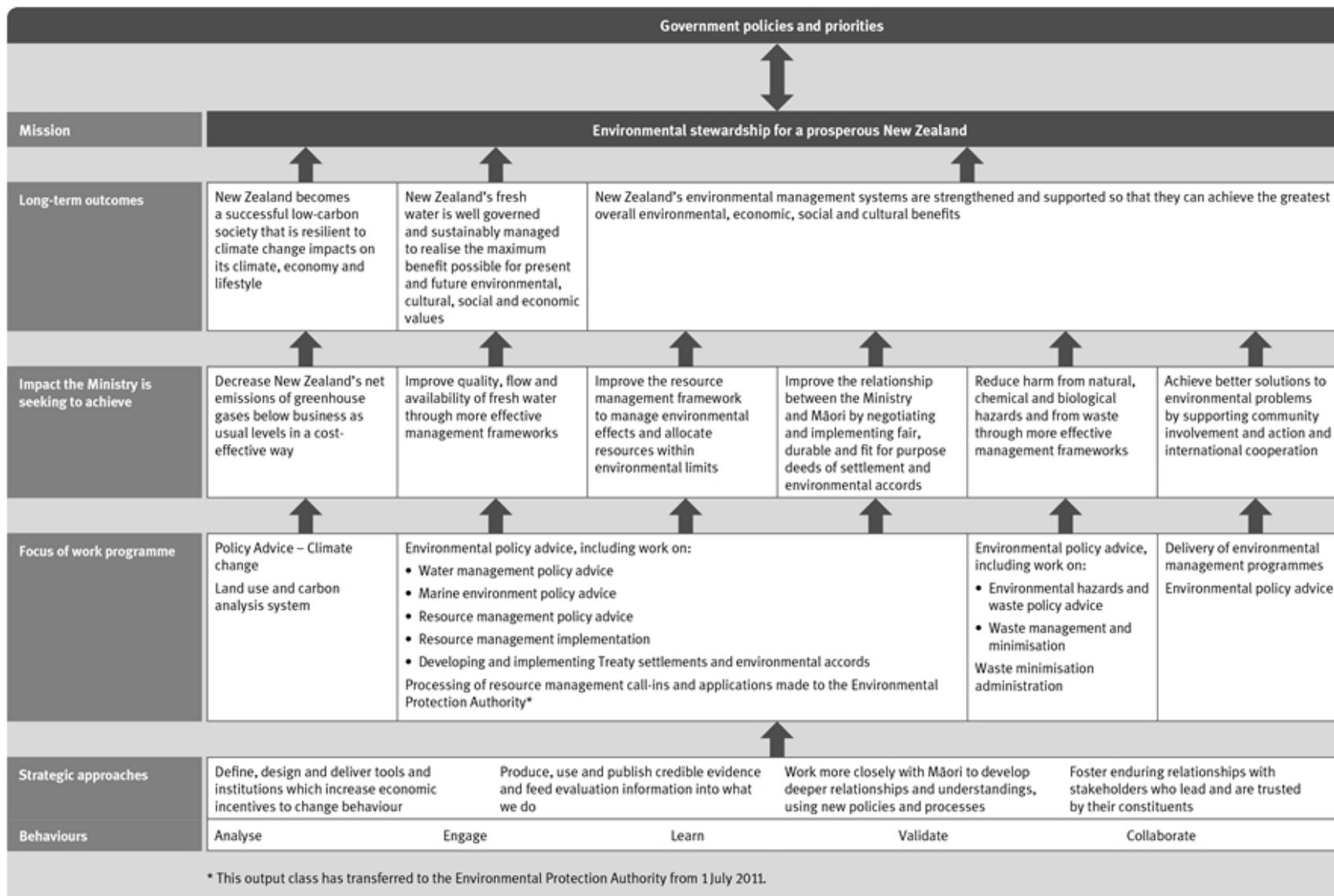
## Crown Entity Monitoring

During 2010/11, the Ministry monitored the performance of the Environmental Risk Management Authority (ERMA New Zealand) on behalf of the Minister for the Environment. We reviewed quarterly reports and drafts of key accountability documents to monitor ERMA New Zealand's progress against its annual objectives. Since January 2011 the Ministry has provided an analysis of ERMA New Zealand's performance, based on their quarterly report, to the State Services Commission and the Treasury. Senior management also met regularly to discuss matters of mutual interest.

During 2010/11, the Ministry and ERMA New Zealand worked together to establish the new Environmental Protection Authority (EPA), which was operational from 1 July 2011. The new board was appointed in 2010/11.

The monitoring arrangements have been reviewed and the EPA will provide monthly exceptions reports to the Ministry during its first year. Quarterly reports will continue to be provided to the Minister and the Ministry will also continue to provide an analysis of them to the State Services Commission and the Treasury.

# Outcomes Framework



## Progress against our impacts

Impact	Impact measures	Target	Results
<b>Outcome: New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle.</b>			
<b>1. Decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost effective way</b>	i. Trends in greenhouse gas emissions and removals in the annual greenhouse gas inventory.	Downward trend in net emissions	Downward trend (based on two data points)
	ii. Trends in greenhouse gas intensity of the economy by emissions per unit of GDP and emissions per capita.	Downward trends	Downward trend
	iii. Divergence between forecast net position and Kyoto Protocol obligations.	Decreasing liability / increasing asset	Decreasing liability / increasing asset
<b>Outcome: New Zealand's fresh water is well governed and sustainably managed to realise the maximum benefit possible for present and future environmental, cultural, social and economic values.</b>			
<b>2. Improve quality, flow and availability of fresh water through more effective management frameworks</b>	i. Proportion of water allocated for consumptive purposes that is subject to measurement and reporting.	Increasing proportion	Benchmark information provided (one data point only)
	ii. Number of large surface water catchments that have quantified flow regimes in place that set limits.	Increasing number	Benchmark information provided (one data point only)
	iii. Number of significant catchments that have quantified policy for land and water management that sets surface water quality limits.	Increasing number	Benchmark information provided (one data point only)
	iv. Number of monitored sites showing maintained or improved water quality.	Increasing proportion of monitored sites improving	Benchmark information provided (one data point only)
<b>Outcome: New Zealand's environmental management systems are strengthened and supported so that they can achieve the greatest overall environmental, economic, social and cultural benefits.</b>			
<b>3. Improve the resource management framework to manage environmental effects and allocate resources within environmental limits</b>	i. The national environmental standard for air quality (PM <sub>10</sub> fine particulate pollution) is complied with by the target dates in the standards.	100% compliance by 2020	Increasing compliance (50% in 2010)
	ii. Trends in EPA and local government compliance with resource consent processing times under the RMA 1991.	Upward trend (councils) / 100% (EPA)	Downward trend (councils) – last survey in 2007/08. 100% (EPA)
<b>4. Improve the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit for purpose deeds of settlement and environmental accords</b>	i. Percentage of Māori partners in deeds of settlement and environmental accords satisfied or very satisfied with Ministry implementation of obligations.	50% satisfied or very satisfied	100%
	ii. Percentage of relevant Ministry obligations under deeds of settlement and environmental accords met.	100% compliance	80%

Impact	Impact measures	Target	Results
<b>Outcome: New Zealand's environmental management systems are strengthened and supported so that they can achieve the greatest overall environmental, economic, social and cultural benefits.</b>			
<b>5. Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks</b>	i. Changes in the incident data compiled by the Environmental Protection Authority and enforcement agencies under the Hazardous Substances and New Organisms Act.	Reduced number of incidents	New data series begins from 2009/10 – only one year's worth of data is available
	ii. Trends in the tonnage of waste disposed of at waste disposal facilities per unit of GDP.	Downward trend	Upward trend based on two years' worth of data (if Christchurch earthquake waste is included)
<b>6. Achieve better solutions to environmental problems by supporting community involvement and action and international cooperation</b>	i. Progress in investigation, remedial planning or remediation of priority contaminated sites in conjunction with regional councils and/or landowners – increasing percentage managed or remediated. (Also contributes to impact above).	Increasing proportion of priority contaminated sites remediated	Benchmark information provided (one data point only)
	ii. Level of community involvement in projects funded by the Community Environment Fund.	Increasing community involvement	Benchmark information provided (one data point only)
	iii. Percentage of Community Environment Fund and Waste Minimisation Fund projects that report full achievement against objectives.	100% of objectives met by 80% of projects	85% of Waste Minimisation Fund projects met 100% of their objectives. (Community Environment Fund projects only recently began)

During 2010/11, the Ministry undertook further work to improve our outcomes framework, impacts and impact measures. These were introduced in the Statement of Intent 2011–2014 and we report on them below. We are reporting on the new impact measures, rather than those in the Statement of Intent 2010–2014 as they show a clearer picture of the Ministry’s contribution to its outcomes. In the Statement of Intent 2011–2014, the Ministry also aligned appropriations with the outcomes we are seeking to influence. The new output class structure closely aligns with the impacts and result areas below and bases output classes on subject matter areas. We will report on performance on these new appropriations in the Annual Report 2011/12.

The Ministry will continue to develop our monitoring and evaluation processes to ensure that we have a good understanding of what action is being taken in response to government interventions and how effective these interventions have been.

Measurable improvements in the natural environment due to environmental management interventions may take years or even decades to become evident. As the environmental management system is highly devolved, there may also be a lag before changes are made in local government plans or decision making in response to central government interventions. Therefore we have provided the most recent information available for the impact measures below and, where relevant, indicated when new information will become available.

## 1. Climate change

Decreasing greenhouse gas emissions is essential if New Zealand is to become a successful low-carbon society. The measures below help us to understand if New Zealand is on track to meet its international obligations and the level of emissions compared with growth in population and gross domestic product.

### *1.1 Trends in greenhouse gas emissions and removals in the annual green house gas inventory*

The graph below shows the trend in New Zealand’s total (gross) greenhouse gas emissions from 1990–2009 (gross emissions excludes any removals of emissions through land use, land-use change and forestry). This is the latest data as presented in the April 2011 inventory submission to the United Nations Framework Convention on Climate Change secretariat.

In 1990, New Zealand’s total greenhouse gas emissions were 59.1 million tonnes of carbon dioxide equivalent (Mt CO<sub>2</sub>-e). In 2009, total greenhouse gas emissions had increased by 11.5 Mt CO<sub>2</sub>-e (19 per cent growth) to 70.6 Mt CO<sub>2</sub>-e. Between 1990 and 2009, the average annual growth rate in total emissions was 0.9 per cent per year.

The four emission sources that contributed the most to this increase in total emissions were road transport, dairy enteric fermentation (methane emissions produced from ruminant livestock), public electricity and heat production, and agricultural soils.

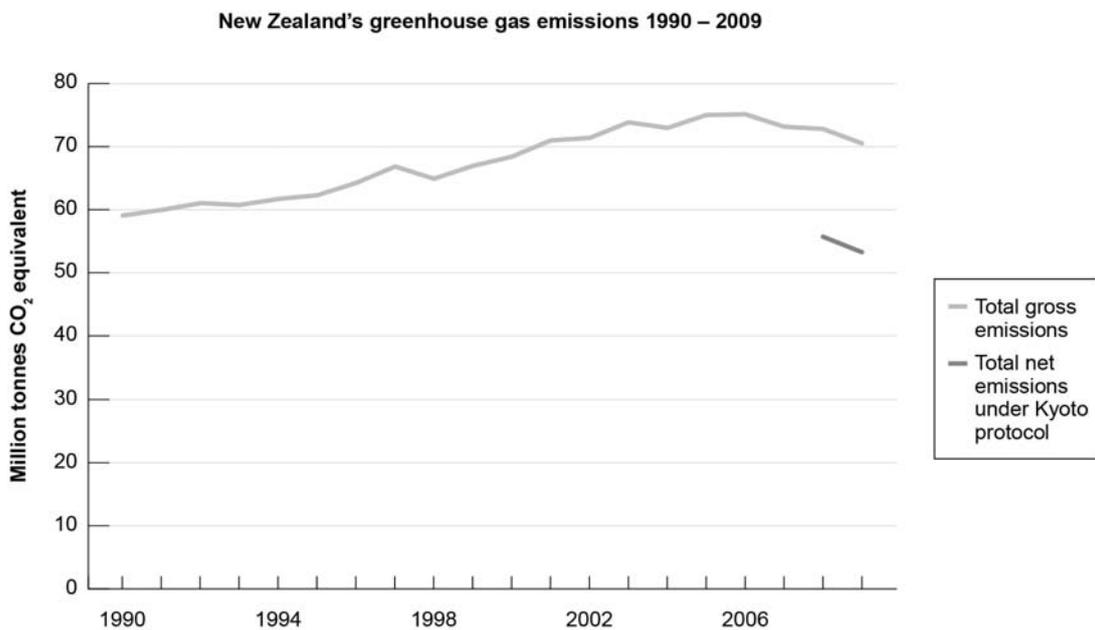
Between 2008 and 2009, New Zealand’s total greenhouse gas emissions decreased 2.3 Mt CO<sub>2</sub>-e (3 per cent). This decrease was due to a greater use of renewable energy for electricity production in 2009, a reduction in road transport emissions, a reduction in the use of nitrogen fertiliser applied to pasture and continuing effects of the 2008 drought (reduced numbers of livestock).

Net emissions reported under the Kyoto Protocol are defined as gross emissions plus emissions and removals from Article 3.3 activities of the Kyoto Protocol. This includes removals from the growth of post-1989 forest, and emissions from the conversion of land to post-1989 forest, the

harvesting of forests planted on non-forestland after 31 December 1989 and the deforestation of all forest types, as well as emissions from liming, biomass burning and soil disturbance associated with land-use conversion to cropland.

The trend between 2008 and 2009 for net emissions is dominated by the trend in total emissions. Emissions and removals from Article 3.3 activities under the Kyoto Protocol were relatively steady (-17.1 Mt CO<sub>2</sub>-e in 2008 and -17.3Mt CO<sub>2</sub>-e in 2009).

Note that net emissions as reported under the Kyoto Protocol have only been reported from 2008 as required under the Protocol so there is currently only two data points available. More trend data will be available as this data is reported in annual inventory submissions throughout the first commitment period.

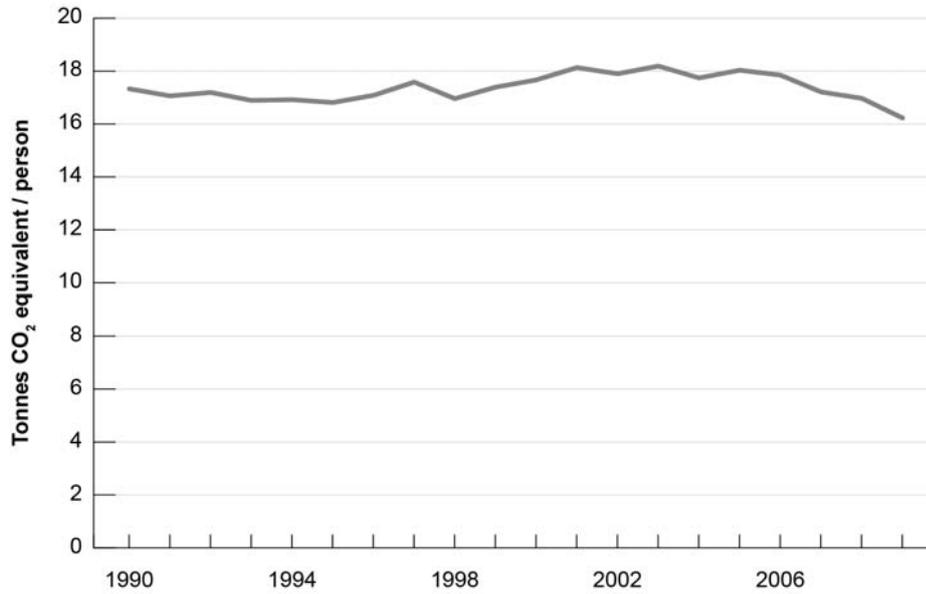


### 1.2 Trends in greenhouse gas intensity of the economy by emissions per unit of GDP and emissions per capita

The graph below shows the trend in New Zealand's per capita greenhouse gas emissions from 1990–2009 (on gross emissions basis).

New Zealand's population has been growing faster than gross greenhouse gas emissions with an increase in population of 27 per cent between 1990 and 2009. New Zealand's population has increased by 27 per cent since 1990, compared with total greenhouse gas emissions increasing by 19 per cent. This has resulted in a decreasing trend in total greenhouse gas emissions per person. In 1990 per capita emissions were 17.3 tonnes carbon dioxide equivalent (t CO<sub>2</sub>-e). In 2009 per capita emissions were 16.2 t CO<sub>2</sub>-e (6 per cent lower than in 1990).

New Zealand's per capita greenhouse gas emissions 1990 – 2009

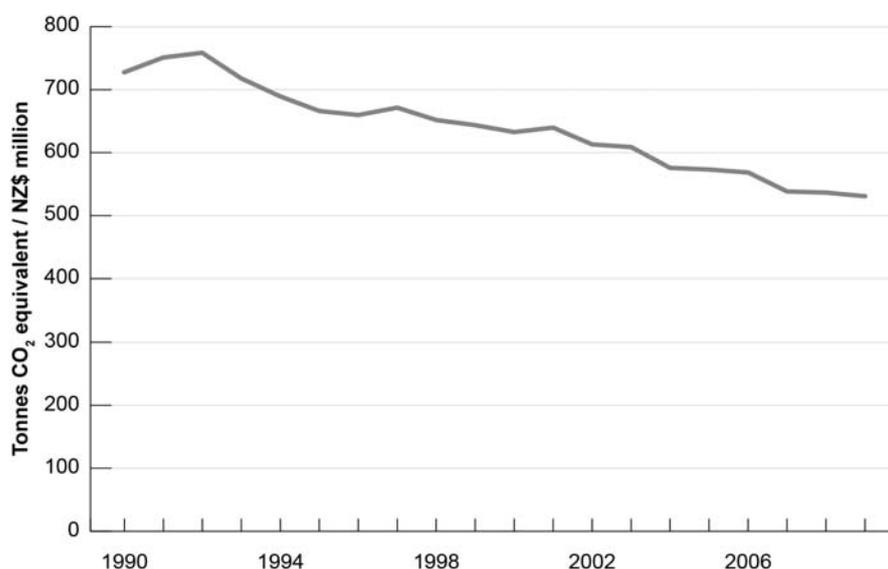


The next graph shows New Zealand's gross greenhouse gas emissions divided by GDP (product measure) from 1990–2009.

Note that the analysis, using population and GDP data, for the above graphs is for comparing New Zealand's domestic progress over time and should not be used for comparisons against other countries. There are other international datasets to be used for that purpose.

New Zealand's GDP has grown over 60 per cent since 1990, at a much greater rate than New Zealand's total greenhouse gas emissions (19 per cent). New Zealand's total greenhouse gas emissions per unit of GDP have decreased 27 per cent from 727.9 tonnes CO<sub>2</sub>-e per million NZ dollars in 1990 to 531.0 tonnes CO<sub>2</sub>-e per million NZ dollars in 2009.

New Zealand's total (gross) greenhouse gas emissions per unit of GDP 1990 – 2009



### 1.3 Divergence between forecast net position and Kyoto Protocol Obligations

The projected balance of Kyoto Protocol emissions units is updated once a year in April. The Kyoto Protocol financial position is updated monthly for exchange rate and emissions units transfers. This updated information is available on the Ministry's website ([www.mfe.govt.nz](http://www.mfe.govt.nz)).

### 1.4 New Zealand's net position under the Kyoto Protocol

Financial Statements Period Ended	2010/11	2009/10	2008/09	2007/08
<b>Net position excluding transfers</b>	25.2	13.5	9.6	(21.7)
<b>Net transfers from the assigned amount in million units</b>	3.3	2.3	0	0
<b>Net position in million units</b>	21.9	11.2	9.6	(21.7)
<b>Carbon price EURO</b>	7.63	10.75	10.00	12.50
<b>Exchange Rate</b>	0.57335	0.5677	0.4628	0.4829
<b>Carbon Price NZD</b>	13.31	18.94	21.61	25.89
<b>Value of the Net Asset/(Liability) NZD</b>	291	212	207	(562)

The projection of the net position changes over time for several reasons. It will change as:

- economic or climatic conditions change significantly (eg, a recession or a drought)
- actual inventory data replaces projections of emissions
- new scientific data improves our ability to estimate emissions
- models are refined to be more accurate
- new policies are enacted that affect emissions.

The difference between the 2011 and 2010 updates can be explained by the following changes. The largest change was to projected emissions from agriculture. Emissions from the agricultural sector are now projected to be 7.5 million tonnes carbon dioxide equivalent lower than projected in 2010 (a drop of 4.2 per cent). This is because the methodology used to calculate agricultural emissions for the national greenhouse gas inventory has changed. An improved methodology based from the latest science research shows emissions from New Zealand livestock excreta is lower than previously estimated.

Net removals for the most likely scenario are projected to be 82.8 million tonnes, about 2.9 million tonnes higher than the 2010 most likely scenario projection of 79.9 million tonnes (a 3.6 per cent increase). This increase is primarily due to new estimates of deforestation from mapping of land-use change by the Land Use and Carbon Analysis System (LUCAS) completed for 2008 and 2009. The LUCAS mapping estimates show less deforestation of post-1989 forest, pre-1990 planted forest, and natural forest area than was previously assumed. The reduction in the estimated deforestation has resulted in emissions decreasing by 2.6 million tonnes.

The Ministry of Economic Development's estimate of energy emissions for the period 2008-2012 is 2.8 million tonnes lower than projected as the effects of the recession have been greater than expected.

Projected waste emissions have increased by 1.7 million tonnes from projections made in 2010. The increase in projected emissions is due to methodology improvements to the estimation of how much landfill gas is recovered at waste disposal sites. These improved methods have come from a better understanding of the management and design of landfills with operational methane recovery systems and the application of nationally consistent assumptions on the composition of solid waste.

There have also been some improvements in the methods to calculate emissions from waste water, inclusion of sludge disposal at wastewater treatment plants and the population serviced by each plant.

Up until 2010/11, the price of an Assigned Amount Unit (AAU) was based on the proxy of Certified Emissions Reduction units (CERs) because data on AAUs was not readily available. In 2010/11, the Ministry commissioned Point Carbon to undertake an assessment of information available to estimate the price of AAUs. This assessment resulted in a change to the valuation methodology to AAUs, which currently trade at a lower price than CERs.

## 2. Fresh water

Freshwater management is the responsibility of local government. Central government direction is provided through legislation, regulations and a national policy statement. The impact measures help us to understand how local government is managing water quality and allocation. We also track the trends in water quality in rivers that have been consistently monitored for some years.

### *2.1 Proportion of water allocated for consumptive purposes that is subject to measurement and reporting*

In 2010 there were more than 20,500 resource consents for taking water, mainly for irrigation, hydro-electricity generation, public drinking water supply, industry and stock watering. The total amount of water allocated for consumptive purposes in 2010 was 27 billion cubic metres.

The current state figure for this impact measure is that 31 per cent of the allocation is subject to measurement. This is based on resource consent data collected from regional councils in 2006 (confirmed as accurate in 2008) to inform development of the Resource Management (Measurement and Reporting of Water Takes) Regulations 2010. The regulations apply to resource consents that allow fresh water to be taken at a rate of five litres per second or more.

The first major date for compliance with the regulations is 10 November 2012, when all water take consent holders taking 20 litres/second or more need to start measuring and recording their water takes. Records from these water takes must be provided to regional councils in July 2013.

## **2.2 Number of large surface water catchments that have quantified flow regimes in place that set limits**

The National Policy Statement (NPS) on Freshwater Management was published in May 2011 and took effect on 1 July 2011. The NPS must be fully implemented as soon as reasonably practicable, or no later than 31 December 2030 (whichever is earlier). Measure 2.2 provides a high level measure of regional plan and Water Conservation Order (WCO) provisions as at the end of May 2011, that have flow regimes which set limits that reflect the definitions within the NPS. This is the first year this data has been collected and provides a baseline against which future progress will be reported. The coverage of catchments with provisions with limits for surface water quantity is included in the table below.

## **2.3 Number of significant catchments that have quantified policy for land and water management that sets surface water quality limits**

Similar to measure 2.2, measure 2.3 provides a high level measure of regional plan and WCO provisions as at the end of May 2011 that set surface water quality limits that reflect the definitions within the NPS. This is the first year this data has been collected and provides a baseline which future progress will be reported against. The coverage of catchments with provisions with limits for surface water quality is included in the table below.

Large and significant catchments covered by limits across New Zealand

	<b>Number fully covered</b>	<b>Percentage of catchments fully covered</b>	<b>Number of catchments partially covered</b>	<b>Percentage of catchments partially covered</b>	<b>Number of catchments not covered</b>	<b>Percentage of catchments not covered</b>	<b>Total number of catchments</b>
Quantity limits	464	52%	29	3%	404	45%	897
Quality limits	38	4%	29	3%	830	93%	

Note: Reporting for measures 2.2 and 2.3 only include the areas within New Zealand that are 'large' and 'significant' surface water catchments. This is defined as a fifth tier planning unit in the Freshwater Ecosystems of NZ geo-database and accounts for approximately 85 per cent of New Zealand's total catchment area.

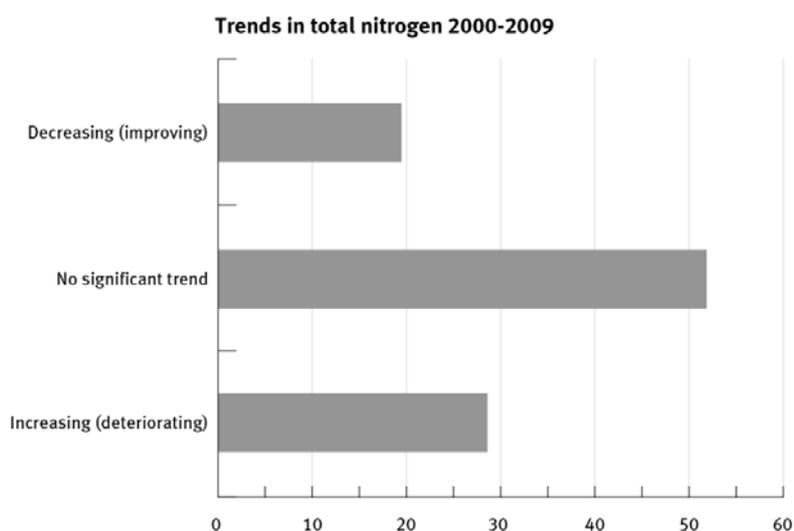
Water catchments have been identified as fully covered where 95 per cent or more of their area is covered by provisions with limits. Partially covered catchments have between 5 to 95 per cent of their area covered by provisions with limits. Catchments not covered have less than 5 per cent of their area covered by provisions with limits. The data reported above does not include information pertaining to lakes and wetlands. Further work is being undertaken to enable this information to be included as part of future reporting.

The coverage of limits in measures 2.2 and 2.3 only represents those limits currently in place that reflect the definitions within the NPS and is not representative of all limits currently used to manage surface water quality or quantity.

#### 2.4 Number of monitored sites showing improved water quality

The chart below (from NIWA data) shows the proportion of the 77 National River Water Quality Network sites that have had significantly improving or deteriorating water quality over the 10 years from 2000 to 2009. Total nitrogen is used as an indicator as it gives an idea of nutrient enrichment in rivers, mainly from contaminants such as sewage and agricultural run-off. More sites are deteriorating (29 per cent) than improving (19 per cent), with the majority of sites (52 per cent) showing no significant trend. A number of reports show strong correlations between deteriorating water quality and land-use intensification.

Please refer to page 24 for information on the Ministry's work programme related to fresh water.



### 3. Resource Management

National environmental standards are a key tool for central government to provide direction to local government. The Ministry will monitor the implementation of national environmental standards to ensure they are effective. The first of these standards dealt with air quality and has been in place long enough for trends to be seen. We also monitor local government performance across a number of RMA processes to ensure they are complying with statutory requirements and recommended good practice. See our website for further information from the biennial surveys.

#### 3.1 The national environmental standard for air quality ( $PM_{10}$ fine particulate pollution) is complied with by the target dates in the standard

Compliance with the national environmental standard will reduce air pollution. Heavily polluted airsheds (that exceed the standard more than 10 times on average over the past five years) will be required to meet the standard by 2020. Airsheds with greater than one exceedance and fewer than 10 exceedances on average over the past five years will need to meet it by 2016. Airsheds that have exceeded the standard less than once on average over the past five years will need to

meet it by 2011. (An airshed is an area identified by a regional council that is known or is likely to have air quality problems.)

The proportion of airsheds complying with the PM<sub>10</sub> standard between 2007 and 2010 remained relatively constant.

Year	Airsheds monitored	Polluted airsheds	Compliant
2010	44	22 (50%)	22 (50%)
2009	44	25 (57%)	19 (43%)
2008	43	26 (60%)	17 (40%)
2007	40	23 (58%)	17 (42%)

All airsheds are required to comply with the standards by 2020. Based on 2010 data, 68 per cent of airsheds will be required to comply with the standards by 2016. This figure is subject to change, depending on annual evaluations and the number of airsheds monitored.

### 3.2 Trends in EPA and local authority compliance with resource consent processing timeframes under the Resource Management Act 1991

Compliance with statutory resource consent timeframes by the EPA statutory office (within the Ministry during 2010/11) was 100 per cent.

The table below shows the trend in local authority compliance with mandatory resource consent processing timeframes under the Resource Management Act. The survey following the 2007/08 one was deferred to a year later than scheduled to capture the effects of the Resource Management (Simplifying and Streamlining) Amendment Bill, which took effect on 1 October 2009. Succeeding surveys will continue to occur every two years until the proposed integrated monitoring framework to monitor the implementation of the RMA is in place. Updated information will be provided on the Ministry's website when survey information for 2010/11 is released, due at the end of 2011.

1997/98	1998/99	1999/00	2001/02	2003/04	2005/06	2007/08
78%	82%	82%	82%	77%	73%	69%

## 4. Treaty commitments

Virtually all Treaty of Waitangi settlements now have some natural resource component. The Ministry has a significant role in negotiating Treaty settlements and environmental accords and in implementing obligations under these agreements. We are monitoring both our progress with implementation and iwi satisfaction our work on these obligations.

### 4.1 Percentage of Māori partners in deeds of settlement and environmental accords satisfied or very satisfied with Ministry implementation of obligations

The Ministry met with all groups with which it has settlement obligations. 100 per cent of the Iwi the Ministry met with in 2010/11 were either satisfied or very satisfied with the implementation of their settlement obligations. No iwi signalled that they were not satisfied with the implementation of the obligations.

#### 4.2 *Percentage of relevant Ministry obligations under deeds of settlement and environmental accords met*

The settled Iwi that the Ministry met with did not indicate any non-compliance with respect to the Ministry meeting its settlement obligations. However, having considered each settlement obligation and work programme, the Ministry considers 80 per cent would be a fair reflection of the obligations met.

## 5. Environmental hazards and waste

The Environmental Protection Authority is responsible for decision making under the Hazardous Substances and New Organisms Act (the Act). The EPA also reports annually on the Act's effectiveness, which also assists with the Ministry's monitoring of the management framework for chemical and biological hazards. The Ministry collects data on waste disposal at facilities subject to the waste disposal levy. This helps us to monitor the effectiveness of the Act in reducing waste.

#### 5.1 *Changes in the incident data compiled by the Environmental Protection Authority (previously by the Environmental Risk Management Authority) and enforcement agencies under the Hazardous Substances and New Organisms Act*

The table below shows a breakdown of incidents involving hazardous substances and new organisms (including genetically modified organisms) and where these incidents had an adverse effect on the environment and human health. The data was compiled and published by the Environmental Risk Management Authority in its ERMA Monitoring Report 2011. The 2010/11 data will be reported next year in the EPA Monitoring Report 2012.

The Environmental Risk Management Authority stated that the data may be unreliable for long-term trend analysis because there have been several changes to data sources and databases in the past two years.

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Number of incidents involving hazardous substances	227	230	216	223	194	237	278	188
Incidents involving hazardous substances where adverse effects to the environment were recorded	60	67	28	63	64	98	129	60
Incidents involving hazardous substances where adverse effects on human health were recorded	59	48	30	22	42	57	71	58
Incidents involving approved new organisms (including GMOs) where adverse effects to the environment were recorded	0	0	0	0	0	0	0	0
Incidents involving	0	1	0	0	2	3	1	6

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
approved new organisms (including GMOs) where adverse effects on human health were recorded								

From 2009/10, new data from the New Zealand Fire Service has been included in this database. This will form the beginning of a new data series.

	2009/10*
Number of incidents involving hazardous substances	1293
Incidents involving hazardous substances where adverse effects to the environment were recorded	437
Incidents involving hazardous substances where adverse effects on human health were recorded	72
Incidents involving approved new organisms (including GMOs) where adverse effects to the environment were recorded	0
Incidents involving approved new organisms (including GMOs) where adverse effects on human health were recorded	4

## 5.2 Trends in the tonnage of waste disposed of at waste disposal facilities per unit of GDP

Since the introduction of the Waste Minimisation Act 2008, the Ministry for the Environment has been collecting data on tonnages of waste disposed of at 'levied facilities'. The intended outcome of the Act is to see a decrease in the amount of waste disposed per unit of GDP over time.

For the year to 30 June 2011, 2,552,344 tonnes of waste were disposed of at facilities required to pay the waste levy. This equates to 18.9 tonnes of waste per \$1 million of GDP (projected), compared to 18.6 tonnes of waste per \$1 million of GDP for the year ending June 2010. The 2,552,344 tonnes of waste disposed of to landfill to 30 June 2011 includes 54,737 tonnes of waste disposed of as a result of the Christchurch earthquake. Excluding the Christchurch earthquake waste, 18.5 tonnes of waste per \$1 million of GDP was disposed of in the year to 30 June 2011.

## 6. Working with others

Central government supports environmental projects led by others. These can leverage significant contributions of funding or community hours of work that achieve more than either party can do alone. This includes cooperation with local government on remediation of priority contaminated sites identified by regional councils, as well as support for a range of community projects. The measures below help us to monitor what was achieved with the Crown funding invested.

**6.1 *Progress in investigation, remedial planning or remediation of contaminated priority sites in conjunction with regional councils and/or land owners – increasing percentage managed or remediated***

Since 2006/07, 33 contaminated sites have received funding from the Contaminated Sites Remediation Fund. Work on four of these is currently in progress, including the remediation of the Tui Mine site at Te Aroha. Further funding will be distributed in November 2011 for the 2011/12 year. The allocation of this funding will be informed by a priority list of contaminated sites that is being developed to ensure that sites of greatest risk are given priority for funding. The list will be completed by February 2012 and will be updated every six months based on information supplied by regional councils. During 2010/11, the Ministry conducted initial investigations that identified 32 sites as priority sites for funding. This is subject to change before the list is completed in February.

**6.2 *Level of community involvement in projects funded by the Community Environment Fund***

The performance against this measure is based on predicted information contained in the 27 approved Community Environment Fund project proposals, as the first funding round did not come into effect until after 30 June 2010. Community involvement is measured by the number of community hours and in-kind contributions made to projects per dollar of government investment. For the first round of funding, \$1.5 million worth of in-kind contributions (50,000 volunteer hours) will be made to projects in 2011/12 for \$750,000 worth of government investment. The actual result may differ from the predicted one and therefore, we will report any changes in the Annual Report 2011/12.

**6.3 *Percentage of Community Environment Fund and Waste Minimisation Fund projects that report full achievement against objectives***

Projects provided funding from the first round of the Community Environment Fund commenced recently; therefore the Ministry is unable to report achievements against objectives at this early stage. For the Waste Minimisation Fund, 85 per cent of projects met 100 per cent of their objectives.

# 2 Statement of Service Performance for the Year Ended 30 June 2011

## Output Performance Reporting

This section provides detailed information about the outputs provided and the achievements made against performance measures during 2010/11.

The outputs and performance measures in this section are those set out in the Estimates 2010/11 (as amended by the Supplementary Estimates for the same year). The Ministry also agreed an Output Plan with the Minister for 2010/11 and where relevant, we have included some reporting of that information to show a more comprehensive view of the Ministry's work during 2010/11.

### Quality standards for policy advice and ministerial servicing

During 2010/11, the Ministry implemented new quality standards for policy advice. These standards are critical for the Ministry to assess what we are doing well and how we need to improve in order to deliver the best quality advice. This, coupled with improvements to the frameworks and guidance for delivering advice, should put the Ministry in a strong position to advise on some of the complex issues facing New Zealand.

The Ministry undertook two formal assessments of policy advice covering the period November 2010 to June 2011. The assessments were based on the quality assessment criteria<sup>1</sup> developed during the year. The assessments followed on from a pilot assessment in late 2010 (covering July to November 2010), which produced similar results, albeit with a different methodology. Results from all three assessments have been included in the table below. The panel is made up of an independent, external chair,<sup>2</sup> and internal staff members. In future, assessments will be carried out at four-monthly intervals by the panel.

Each assessment looked at 15 briefing notes and Cabinet papers randomly selected across all of the Ministry's policy advice. Given that the Ministry is placing particular emphasis on the quality of its policy advice, papers of a more 'transactional nature' (such as those needed for appointments to Boards, or for preparing the Minister for meetings) were excluded from the assessments. The Ministry's performance related to these types of briefing notes is generally subject to other performance measurement criteria, and is reported quarterly to the Minister through regular output reporting. The Ministry is determining the best means of assessing the quality of non-policy advice.

During 2011/12, the Ministry restructured its output classes in the Information Supporting the Estimates 2011/12 to provide greater transparency and clearer links between the Ministry's appropriations and the outcomes it is seeking to influence. These output classes show a clearer delineation between policy advice and implementation. These will allow for reporting

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<sup>1</sup> The criteria fall under the nine headings: customer focus, context, problems and opportunities, analysis and argument, risks, consultation and collaboration, options, conclusions and recommendations, and presentation.

<sup>2</sup> Professor Bob Buckle, Pro Vice-Chancellor and Dean of the Faculty of Commerce and Administration, Victoria University of Wellington.

next year on the Ministry's performance in both its provision of advice and delivery of other types of services.

### All Vote Environment and Vote Climate Change output classes

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
New measure	Percentage of the Ministry's policy advice sampled that meets the Ministry's quality criteria	At least 70% of policy advice papers sampled are of a high quality <sup>3</sup>	49% of papers sampled met the Ministry's external reporting quality standard <sup>4</sup>
New measure	Percentage of Regulatory Impact Statements that are subject to quality assurance processes	100%	92% <sup>5</sup>
New measure	Percentage of all Regulatory Impact Statements that fully meet quality assurance criteria	At least 80%	58% <sup>6</sup>

### Ministerial support for Vote Environment and Vote Climate Change

Actual 2009/10	Performance Measures	Target 2010/11	Actual 2010/11
100%	Percentage of parliamentary questions that are completed within required timeframes	100%	100%
94%	Percentage of ministerial correspondence that are completed within agreed timeframes	95%	85%
89%	Percentage of ministerial drafts provided for the Minister's signature that are accurate	90%	92%
97%	Percentage of responses to Departmental Official Information Act requests sent out within statutory deadlines <sup>7</sup>	100%	95%

<sup>3</sup> High quality is defined as papers marked as 7/10 (or higher) by the assessment panel.

<sup>4</sup> The average score of papers was 6.38 / 10.

<sup>5</sup> Both Regulatory Impact Statement measures include papers related to the Canterbury earthquakes which were developed and progressed under extraordinary circumstances and extremely tight timeframes, which hampered the Ministry's ability to undertake proper regulatory impact assessment and undergo independent quality assurance. If the Ministry subtracts these proposals from our analysis, the percentage of RIS that were subject to quality independent assurance processes lifts from 92 per cent to 100 per cent, and the percentage of RISs that fully met quality assurance criteria lifts from 62 per cent to 74 per cent.

<sup>6</sup> An independent review by NZIER confirmed that the Ministry "has effectively integrated regulatory impact assessment into its policy development processes, tends to do well at both preparing regulatory impact statements and quality assuring regulatory impact statements, and has produced some high quality regulatory impact statements with a good mix of quantitative and qualitative analysis."

<sup>7</sup> This performance measure is included in the Ministry's Output Plan agreed with the Minister. It measures responses to Official Information Act requests sent out within 20 working days (or subject to the terms of an extension to the statutory deadline). "Departmental OIA requests" means the requested information more closely aligns with the work of the Ministry than with the Minister, regardless of where a request was originally directed.

# Vote Environment

## Output Class: Environmental Policy Advice

Through this output class, the Minister purchased advice on environmental policies, issues and the implementation of government decisions.

### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
34,970	Crown	33,248	39,230	35,328
772	Departmental	586	375	375
43	Other	37	5	5
<b>35,785</b>	<b>Total revenue</b>	<b>33,871</b>	<b>39,610</b>	<b>35,708</b>
<b>35,741</b>	<b>Total expenses</b>	<b>33,838</b>	<b>39,610</b>	<b>35,708</b>
<b>44</b>	<b>Net surplus</b>	<b>33</b>	<b>0</b>	<b>0</b>

This output class was provided at a cost that was \$1.940 million less than in the Supplementary Estimates. This was due to transfers of \$1.850 million to 2011/12 for the ongoing costs of establishing the Environmental Protection Authority.

**Output:** Develop and implement (in conjunction with the Ministry of Agriculture and Forestry) the government's 'New Start for Fresh Water' policy programme.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
New measure	Percentage of priority deliverables agreed by Cabinet for the 2010/11 year delivered in accordance with the Ministry's quality policy advice standards.	100%	100% of deliverables agreed by Cabinet for 2010/11 were completed <sup>8</sup>

### Additional performance information

- The Ministry provided advice on engagement and policy options related to the Land and Water Forum process, on final decisions on the National Policy Statement for Freshwater Management 2011, and on the Fresh Start for Fresh Water Clean-up Fund, as well as on the work programme for 2011/12 and 2012/13 on the Fresh Start for Fresh Water programme.<sup>9</sup>
- The Ministry provided support to the Land and Water Forum to the Chair of the Forum's satisfaction.

<sup>8</sup> Assessments of quality were made through the assessments of policy advice reported above.

<sup>9</sup> The work programme 'New Start for Fresh Water' began in 2009. In 2011, the work programme was renamed 'Fresh Start for Fresh Water' to align with the Land and Water Forum's report.

**Output:** Co-ordinate and advise on the 10 work streams that comprise Phase Two of the resource management reforms and on wider work on the future of resource management frameworks.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Annual measure	Advice provided to Cabinet in accordance with Cabinet guidelines.	By 30 August 2010	This measure was replaced by the measure below through the Supplementary Estimates process.
Annual measure <sup>10</sup>	Advice provided to Cabinet in accordance with Cabinet guidelines.	By 31 March 2011	Not achieved by this date – delivered to Minister in March 2011

#### Additional performance information

- The Ministry provided advice to the Minister by 31 March 2011, but it was decided to defer reporting back to Cabinet until May 2011 and Cabinet decisions on policy advice until March 2012.
- As part of the Auckland governance reform, Auckland is to have a spatial plan. The Ministry co-ordinated central government agencies to represent their interests through the Auckland Spatial Plan option development process.

**Output:** Advise on and support the establishment of an expanded Environmental Protection Authority as part of Phase Two of the resource management reforms.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Annual measure	Environmental Protection Authority legislation is prepared for introduction to the House of Representatives and is supported through all stages of the House in accordance with Cabinet directions.	Legislation is passed by 28 February 2011	This measure was replaced by the two measures below through the Supplementary Estimates process.
Annual measure	Environmental Protection Authority legislation is prepared for introduction to the House of Representatives.	30 November 2010	Achieved (introduced 16 November 2010)
Annual measure	Environmental Protection Authority legislation is supported through all stages of the House in accordance with Cabinet directions.	30 June 2011	Achieved (passed on 17 May 2011)

#### Additional performance information

- The Environmental Protection Authority was established by the Environmental Protection Authority Act and became operational on 1 July 2011.

<sup>10</sup> 'Annual measure' refers to a measure that only applies to 2010/11. Historical information is, therefore, not available.

**Output:** Advise the government on the options to improve the assessment of New Zealand's environmental performance (including but not limited to a proposed Environmental Reporting Act).

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Achieved	Advice provided in accordance with the Ministry's quality policy advice standards.	Achieved	Achieved – Advice was provided according to the Minister's requirements and timeframes. <sup>11</sup>

#### Additional performance information

The Ministry has prepared a draft discussion document for public consultation which outlines the issues with the current national-level environmental monitoring and reporting system, and puts forward a variety of options for improving environmental reporting in New Zealand. This includes outlining a recommended approach via an Environmental Reporting Bill that would

- give the Parliamentary Commissioner for the Environment an explicit role under the Environment Act 1986 by requiring 5-yearly reports on the state of the environment
- expand regulation-making powers under section 360 of the Resource Management Act to improve the consistency of state of the environment monitoring statistics at the local level.
- Environmental reporting:
  - The Ministry produced reports on lake water quality, water allocation and air quality monitoring under the Global Environmental Monitoring Strategy
  - The Ministry also updated information on air quality, lake water quality, fisheries activity, solid waste, greenhouse gases, fresh water recreation quality, coastal recreation quality and fresh water demand. Information produced through this output and the one above is also used to inform policy development.

**Output:** Develop an Environmental Effects (Exclusive Economic Zone and Extended Continental Shelf) Bill<sup>12</sup>

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Annual measure	Cabinet agreement to policy proposals for drafting of the Environmental Effects (Exclusive Economic Zone and Extended Continental Shelf) Bill	By end February 2011	Not achieved

#### Additional performance information

- During the year under review, the measure above was changed to “Advice on drafting of the Environmental Effects (Exclusive Economic Zone and Extended Continental Shelf)

<sup>11</sup> Assessments of quality were made through the assessments of policy advice reported above.

<sup>12</sup> This output originates from the Ministry's Output Plan agreed with the Minister.

Bill provided to Minister by 30 June 2011” in agreement with the Minister. This was achieved.

- Cabinet agreed to policy proposals related to the Exclusive Economic Zone and Continental Shelf in May 2011 and a Bill is now being drafted. It is expected to be introduced during 2011/12.

**Output:** Advise on possible national policy statements and subject to approval, prepare proposed national policy statements and provide advice as required through the approval process<sup>13</sup>

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Annual measure	Advice on a potential National Policy Statement to improve biodiversity management is provided in accordance with the Ministry’s quality policy advice standards	30 November 2010	Achieved
Annual measure	Advice is provided in accordance with the Ministry’s quality policy advice standards on the recommendations of the Board of Inquiry and approval of the Proposal National Policy Statement on Renewable Electricity Generation	30 November 2010	Not achieved by this date – delivered in February 2011

#### Additional performance information

- National Policy Statements
  - A proposed National Policy Statement on Indigenous Biodiversity was released for consultation on 29 January 2011. Submissions closed on 2 May 2011. Cabinet agreed that the proposed National Policy Statement should not be finalised until after the government has considered the Waitangi Tribunal’s report on Wai 262, a Treaty of Waitangi claim relating to indigenous flora and fauna. The Wai 262 report is currently under consideration.
- National Environmental Standards
  - Advice was provided on amendments to the PM<sub>10</sub> component of the National Environmental Standards for Air Quality. The revised standards came into effect on 1 July 2011.
  - The Ministry provided advice on a new National Environmental Standard for Assessing and Managing Contaminants in soil to protect human health. The NES is expected to be gazetted in the last quarter of 2011. A series of workshops will be held and guidance information will be distributed to councils, industry and landowners to assist implementation of the new standard.
  - Cabinet gave approval for the Ministry to begin consulting on a National Environmental Standard for Forestry Harvesting Activities. Submissions on this are now being analysed.
  - The Ministry provided advice on a National Environmental Standard as a potential complementary measure to the National Policy Statement for Freshwater Management. The Ministry is awaiting Cabinet direction on next steps.

<sup>13</sup> This output originates from the Ministry’s Output Plan agreed with the Minister.

**Other outputs undertaken by the Ministry during 2010/11 under the Environmental Policy Advice Output Class:**

- Negotiate and implement environmental cooperation agreements associated with new and existing free trade agreements
  - The Ministry worked on negotiating environmental cooperation agreements associated with free trade agreements, including attending formal negotiations and inter-sessional meetings for the Trans-Pacific Partnership Free Trade Agreement and India. The Ministry also met with Malaysian counterparts about environmental cooperation agreement priorities. The Ministry also delivered 13 environment activities (such as projects and seminars) with partners of environmental cooperation agreements.
- Gather and analyse evidence to identify potential problems with the current risk management framework provided through the HSNO Act.
  - The Ministry provided advice on the Hazardous Substances and New Organisms risk management framework.
- The Ministry completed a review of the effectiveness of the waste disposal levy, with the Minister's approval, before the legislated deadline of 1 July 2011.
- Advise on New Zealand's compliance with its obligations under the Basel and Waigani Conventions, Rotterdam Convention, Stockholm Convention, Montreal Protocol and Cartagena Protocol and ensure that New Zealand's interests are supported in the further development of the multilateral environments agreements.
  - The Ministry completed a review of New Zealand's compliance with its obligations under the Basel and Waigani Conventions, the Rotterdam Convention, the Stockholm Convention, the Montreal Protocol and the Cartagena Protocol.
- Treaty settlement negotiations and implementation
  - The Ministry, as part of treaty settlement implementation, also managed non-departmental appropriations related to the Waikato River clean-up programme. An Independent Scoping Study was completed and payments related to co-governance agreements and clean-up were completed on schedule. The Ministry facilitated the negotiation and agreement of the majority of Crown-iwi Accords according to agreed timeframes (10 out of 11). The Ministry also worked with the Office of Treaty Settlements to advance the natural resource redress components in 19 negotiations throughout the year.
- Canterbury earthquakes
  - Following the 4 September 2010 and 22 February 2011 Canterbury earthquakes, the Ministry for the Environment has assisted and undertaken a lead role in developing legislation, Orders in Council and input into resource management parts of planning frameworks for recovery. This includes supporting the Canterbury Earthquake Recovery Authority (CERA) as required. The Ministry has set up a Canterbury Earthquake response team consisting of staff with expertise in resource management practice, urban planning and design, and governance. One staff member (now transferred to the new EPA) was on secondment to CERA during 2010/11.

# Vote Environment

## Output Class: Delivery of Environmental Management Programmes

Through this output class, the Minister purchased the administration (contracting, managing, monitoring and auditing) of a range of environmental management programmes delivered by third parties.

### Resources employed

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Supplementary estimates 2011 \$000</b>
<b>Revenue:</b>				
1,093	Crown	1,382	1,100	1,400
<b>1,093</b>	<b>Total revenue</b>	<b>1,382</b>	<b>1,100</b>	<b>1,400</b>
<b>1,093</b>	<b>Total expenses</b>	<b>1,382</b>	<b>1,100</b>	<b>1,400</b>
<b>0</b>	<b>Net surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Actual 30 June 2010</b>	<b>Performance measure</b>	<b>Target 2010/11</b>	<b>Actual 2010/11</b>
100%	Percentage of funding allocated according to fund criteria.	100%	100%
100%	Percentage of contracted environmental programmes delivered by third parties that are managed and monitored.	100%	100%

### Additional performance information

- Environmental management programmes administered under the Output Class include the Sustainable Management Fund (which is now closed), the Community Environment Fund (new and an amalgamation of the Sustainable Management Fund and other funds), the Contaminated Sites Remediation Fund, and the Environmental Legal Assistance Fund.
- During 2010/11, 27 projects were successful in securing funding from the first round of the Community Environment Fund.
- 88 per cent of sites of contracted environmental projects delivered by third parties were checked at the project site or via a face-to-face meeting. Three independent financial audits were undertaken.
- On 24 May 2011, the Minister for the Environment announced that the Government would provide funding of \$15.2 million for Phase Two capital costs of the Tui Mine Remediation Project. Waikato Regional Council and Matamata-Piako District Council are also providing funding for the Tui Mine remediation project.
- The Section 32A Report on selected non-departmental appropriations in Vote Environment (published on Parliament's website) contains more information on the performance of projects delivered by third parties, such as the Contaminated Sites Remediation Fund and the Waste Minimisation Fund.

# Vote Environment

## Output Class: Environmental Assistance to the Pacific Islands

Through this output class, the Minister purchased the service of working with the waste sector to assist in the removal of unwanted scrap metal from the Cook Islands.

### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
27	Other	24	51	75
27	<b>Total revenue</b>	<b>24</b>	<b>51</b>	<b>75</b>
27	<b>Total expenses</b>	<b>24</b>	<b>51</b>	<b>75</b>
0	<b>Net surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Not achieved – 223 tonnes removed	Volume of scrap metal removed from the Cook Islands.	920 tonnes	Not achieved – 192 tonnes removed in 2010/11.

### Additional performance information

- This project is now complete. While the project did not meet the agreed target, the environmental risk posed by the stockpiles of legacy scrap metal has been significantly reduced and land previously covered by the stockpiles has been returned to economic use. The project has also resulted in an increased waste management capacity in the Cook Islands.

# Vote Environment

## Output Class: Processing of Resource Management Call-ins and applications made to the Environmental Protection Authority

Through this output class, the Minister purchased the public notification process for considering nationally significant applications under the Resource Management Act, where the Minister for the Environment exercises the call-in powers under the legislation, and where necessary, provides support to boards of inquiry.

### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
1,856	Other	5,588	16,800	11,910
<b>1,856</b>	<b>Total revenue</b>	<b>5,588</b>	<b>16,800</b>	11,910
<b>1,856</b>	<b>Total expenses</b>	<b>5,588</b>	<b>16,800</b>	11,910
<b>0</b>	<b>Net surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>

Costs incurred under this output class are largely influenced by the level of demand for Nationally Significant Proposals. This activity is funded by third party revenue. Actual expenses were lower by \$6.322 million than budgeted at Supplementary Estimates due to lower than anticipated applications received by the Environmental Protection Authority.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
<b>Resource Management Call-ins</b>			
100%	Percentage of applications processed in accordance with statutory timeframes.	100%	100%
0	Number of decisions overturned on judicial review.	0	0
<b>Applications to the Environmental Protection Authority</b>			
100%	Percentage of applications to the Environmental Protection Authority assessed for national significance and a recommendation made to the Minister within 20 working days.	100%	100%
Not applicable	Percentage of applications to the Environmental Protection Authority processed within nine months.	100%	100%
Achieved	Number of decisions overturned on judicial review.	0	0

### **Additional performance information**

- The Turitea windfarm draft decision was released. The comment period was extended from 20 working days to 60 working days. The Hauāuru mā raki windfarm call-in decision was released. Both occurred within statutory timeframes.
- The Tauhara Geothermal Power Station Development Proposal was heard and decided by a Board of Inquiry in less than eight months.
- The Waterview decision was heard and decided in the 9 month time frame.
- The Waterview Connection Proposal, Plan Change for Greater Wellington Regional Fresh Water Plan and the Men's Prison at Wiri Proposal have all had recommendations to the Minister within 10 working days. The Queenstown Airport Extension Notice of Requirement was provided within 18 working days.
- Because this work area has transferred to the Environmental Protection Authority, next year's performance on this output class will appear in their first Annual Report.

## Vote Environment

### Output Class: Waste Minimisation

Through this output class, the Minister purchased the administration of the Waste Minimisation Act 2008, including administering the waste disposal levy and the Waste Minimisation Fund.

#### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
2,097	Crown	1,525	1,714	1,714
<b>2,097</b>	<b>Total revenue</b>	<b>1,525</b>	<b>1,714</b>	<b>1,714</b>
<b>2,097</b>	<b>Total expenses</b>	<b>1,525</b>	<b>1,714</b>	<b>1,714</b>
<b>0</b>	<b>Net surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>

This output class expense was provided at a cost that was \$189,000 less than that in the Supplementary Estimates due to lower administration costs. Under the Waste Minimisation Act the underspend must be transferred to the Contestable Waste Minimisation Fund.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
New measure	Percentage of instances where successful action is taken against disposal facility operators who have outstanding levy payments (over 120 days)	100%	No action required to be taken
New measure	Percentage of funding allocated according to the Waste Minimisation Fund eligibility criteria	100%	100%

#### Additional performance information

- In 2010/11, funding from the first round of the Waste Minimisation Fund was distributed. Twenty-seven funding deeds were signed for various projects including the LoveNZ, Public Place Recycling Scheme.
- The first statutory review of the effectiveness of the waste disposal levy was completed. The waste disposal levy was successfully collected, with no outstanding levy payments requiring action to be taken. The auditing programme for disposal facilities commenced with 12 facilities audited in the year.

## Vote Climate Change

### Output Class: Policy Advice – Climate Change

Through this output class, the Minister purchased climate change policy advice, as well as advice on the resilience and adaptation of New Zealand's economy, society and environment to climate change.

#### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
10,854	Crown	11,590	11,539	12,684
48	Departmental	54	55	55
<b>10,902</b>	<b>Total revenue</b>	<b>11,644</b>	<b>11,594</b>	<b>12,739</b>
<b>10,902</b>	<b>Total expenses</b>	<b>11,624</b>	<b>11,594</b>	<b>12,739</b>
<b>0</b>	<b>Net surplus</b>	<b>20</b>	<b>0</b>	<b>0</b>

This output class was provided at a cost that was \$1.118 million less than in the Supplementary Estimates. This was due to transfers of \$1.050 million to 2011/12 for the ongoing cost of establishing the Environmental Protection Authority.

**Output:** Implement and operate New Zealand's Emissions Trading Scheme in conjunction with the Ministry of Economic Development and the Ministry of Agriculture and Forestry and in accordance with the Climate Change Response Act 2002 (as amended in 2009).

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Annual measure only	Regulations for the waste and synthetic gases sector are completed.	31 October 2010	Achieved – September 2010
New measure	All allocation of emission units to industrial activities and fishing quota owners complete for eligible applicants.	31 May 2011	Fishing: 100% of the eligible applications, that have met all requirements, have been processed by 31 May 2011. <sup>14</sup> This represents 96% of all applications

<sup>14</sup> Some quota owners who were on the national quota register on 24 September 2009, have chosen not to apply to receive their units. There are still a small number of applications that have not yet fulfilled all of the requirements to allow the Ministry to complete their allocation. This is because they have not opened their EUR holding account, therefore the transfer of these units cannot take place. This represents four percent of all fishing applications.

Industrial: 97% of all those who met requirements by 31 May 2011 received their units by this date<sup>15</sup> with 3% being transferred on 1 June 2011. This represents 81% of all applications.<sup>16</sup>

During 2010/11, the Ministry developed new performance measures for the administration of the Emissions Trading Scheme which better reflect our performance. These new measures were based on experience gained in the first operational year of the allocation process. These have not been adjusted via the Supplementary Estimates process, but our performance against them is as follows.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
New measure	Application summaries for allocations are processed within 4 weeks of receiving the signed application summary.	90%	97%
New measure	Number of application decisions revoked or varied on review as requested by applicant.	0	0

### Additional performance information

- During 2010/11, a panel reviewed the Emissions Trading Scheme, as required by the Climate Change Response Act 2002. The panel has submitted its final report to Ministers and the Ministry has provided preliminary advice on various Emissions Trading Scheme options and the impact of the panel's recommendations.
- Implementing and operating the Emissions Trading Scheme:
  - Regulations for all industrial activities gazetted on 1 July 2010 have been made. The final set of regulations was gazetted on 30 June 2011. Twenty-six industrial activities are now eligible to receive an allocation of New Zealand Units. Because of the number and complexity of activities identified for an industrial allocation, and the level of assurance work needed, this process took longer than originally expected.
  - Updates to the regulations for the stationary energy and industrial processes sector were completed and gazetted in September 2010.
  - The Forestry Emissions Unit Trust has been established to receive and distribute New Zealand units to owners of Crown Forest Licence land.
- Developments in national and international carbon markets:

<sup>15</sup> Meeting requirements meant that a signed application summary form and suitable identification were returned to the Ministry.

<sup>16</sup> The remaining 19 per cent of applications were subsequently processed and transferred once all requirements had been met.

- The Ministry provided advice to the Minister for Climate Change Issues and the Minister of Finance about the development of a purchasing strategy for the first Commitment Period of the Kyoto Protocol and on a long-term carbon liability management strategy.
- New Zealand participated in the first two meetings of the World Bank's Partnership for Market Readiness and is developing its bilateral and regional relationships with like-minded countries. New Zealand's carbon markets strategy is developing in response to international developments.
- Other advice
  - Advice has been provided on the gazetting of the government's 2050 emissions target.

**Output:** Advise on New Zealand's policy and negotiating position in relation to an international climate change agreement

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
100%	Percentage of international submissions and negotiating milestones for New Zealand's international position on climate change that are in accordance with Cabinet's negotiating mandate and meet required deadlines.	100%	100%

#### Additional performance information

- The Ministry prepared briefs for negotiations and attended five formal negotiations sessions held 2010/11, including the Conference of the Parties in Cancun. Submissions were made to the United Nations Framework Convention on Climate Change on issues identified at Cancun, consistent with Cabinet mandate.

**Output:** Project and report New Zealand's greenhouse gas emissions and removals for the first commitment period of the Kyoto Protocol and beyond:

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Achieved (measure reworded)	New Zealand's annual greenhouse gas inventory is accepted by international institutions as meeting UNFCCC and Kyoto Protocol reporting requirements.	Achieved	Achieved
Achieved (measure reworded)	Projected emissions meet financial reporting standards.	Achieved	Achieved (no issues raised in Audit New Zealand's management report)

#### Additional performance information

- The New Zealand's Greenhouse Gas Inventory 1990-2009 was released on 15 April 2011 by the United Nations Framework Convention on Climate Change, with only minor recommended improvements given by the international review team coordinated by the United Nations Framework Convention on Climate Change secretariat.

# Vote Climate Change

## Multi-year appropriation: Land Use and Carbon Analysis System

Through this output class, the Minister purchased the development of a national carbon accounting system that will contribute to meeting of New Zealand's greenhouse gas reporting obligations under the Kyoto Protocol and the UNFCCC.

### Resources employed

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Revenue:</b>				
8,119	Crown	6,350	9,300	6,500
<b>8,119</b>	<b>Total revenue</b>	<b>6,350</b>	<b>9,300</b>	<b>6,500</b>
<b>8,119</b>	<b>Total expenses</b>	<b>6,350</b>	<b>9,300</b>	6,500
<b>0</b>	<b>Net surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>

This multi-year appropriation was provided at a cost that was \$2.950 million less than in the Main Estimates. This was due to the long-term nature of the project and the difficulty in forecasting timing of workstreams.

Actual 30 June 2010	Performance measure	Target 2010/11	Actual 2010/11
Achieved	The National Inventory Report is tabled by 15 April each year.	Achieved	Achieved (New Zealand's Greenhouse Gas Inventory 1990-2009 was published on schedule)
New measure	Number of adjustments to the Land Use and Land Use Change and Forestry portion of National Inventory Report recommended by the UNFCCC Expert Review Team.	0 outstanding	There are no adjustments. Three recommendations from the 2010 review were still outstanding as at June 2011. See additional performance information.

### Additional performance information

- The expert review team did not recommend any adjustments. Adjustments are applied to a Party's estimates when an expert review team finds that inventory data are incomplete or are not consistent with good practice guidance. They can only be applied at the end of the accounting period. The expert review team did make 17 recommendations for further improvements (which if not acted on could lead to future expert review teams recommending adjustments), fourteen of which were addressed by the end of June 2011. Three require more work but are expected to be completed by the end of the accounting period.

# 3 Financial Statements for the Ministry for the Environment

## Performance Indicators for the Year Ended 30 June 2011

	Unit	Actual 2011	Supplementary estimates 2011
<b>Operating results</b>			
Revenue: Crown	\$000	54,095	57,626
Revenue: Departmental and other	\$000	6,285	12,420
Output expenses	\$000	60,327	70,046
Gain on sale of assets	\$000	0	5
Net surplus	\$000	53	5
<b>Working capital</b>			
Net current assets	\$000	3,965	4,580
Current ratio	Ratio	1.50	1.44
<b>Resource utilisation</b>			
<b>Plant and equipment</b>			
Plant and equipment at year-end	\$000	1,541	1,135
Value per employee	\$000	5.2	3.8
Additions as % of plant and equipment	%	23.2	19.6
Plant and equipment as % of total assets	%	10.4	6.6
<b>Intangible assets</b>			
Intangible assets at year-end	\$000	1,433	1,198
Value per employee	\$000	4.9	4.0
Additions as % of intangible assets	%	42.1	57.8
Intangible assets as % of total assets	%	9.7	6.9
<b>Taxpayers' funds</b>			
Level at year-end	\$000	5,992	5,992
Level per employee	\$000	20.4	20.0
<b>Net cash flows</b>			
Surplus/(deficit) from operating activities	\$000	2,142	5,293
Surplus/(deficit) from investing activities	\$000	(854)	(699)
Surplus/(deficit) from financing activities	\$000	(44)	(44)
Net increase/(decrease) in cash held	\$000	1,244	4,550
<b>Human resources</b>			
Staff turnover	%	15.8	15.0
Average length of service	Years	3.8	3.8
Total staff	No.	306	320

All statistics include the impact of continuing and discontinuing activities. Revenue Crown includes revenue from continuing activities \$51.043 million and revenue from discontinued activities of \$3.052 million.

# Statement of Comprehensive Income for the Year Ended 30 June 2011

Actual 2010 \$000		Notes	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Continuing Activities</b>					
<b>Income</b>					
55,644	Crown		51,043	59,831	54,574
878	Other revenue	2	697	486	510
12	Gains	3	0	5	5
56,534	<i>Total income</i>		51,740	60,322	55,089
<b>Expenditure</b>					
26,714	Personnel costs	4	25,433	25,722	26,044
1,278	Depreciation and amortisation expense	8, 9	1,421	1,381	1,470
278	Capital charge	5	449	449	449
28,220	Other operating expenses	6	24,384	32,765	27,121
56,490	<i>Total expenditure</i>		51,687	60,317	55,084
44	<i>Total comprehensive income from continuing activities</i>		53	5	5
<b>Discontinued Activities</b>					
<b>Environment Protection Authority</b>					
3,345	Income	21	8,640	19,852	14,962
3,345	Expenditure	21	8,640	19,852	14,962
0	<i>Total comprehensive income (loss) from discontinued activities</i>		0	0	0
<b>All activities</b>					
59,879	<i>Total income</i>		60,380	80,174	70,051
59,835	<i>Total expenditure</i>		60,327	80,169	70,046
44	<b>Net surplus and total comprehensive income</b>		<b>53</b>	<b>5</b>	<b>5</b>

Explanations of significant variances against budget are detailed in note 20.

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

## Statement of Financial Position as at 30 June 2011

Actual 2010 \$000		Notes	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Assets</b>					
<b>Current assets</b>					
3,080	Cash and cash equivalents		4,324	14,338	7,630
8,003	Debtors and other receivables	7	7,098	500	7,206
225	Prepayments		416	100	100
11,308	<i>Total current assets</i>		11,838	14,938	14,936
<b>Non-current assets</b>					
1,290	Plant and equipment	8	1,541	1,116	1,135
1,938	Intangible assets	9	1,433	1,730	1,198
3,228	<i>Total non-current assets</i>		2,974	2,846	2,333
<b>14,536</b>	<b>Total assets</b>		<b>14,812</b>	<b>17,784</b>	<b>17,269</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
4,906	Creditors and other payables	10	5,422	8,340	8,340
44	Return of operating surplus	11	53	5	5
662	Provisions	12	26	0	0
2,011	Employee entitlements	13	1,999	2,401	2,011
7,623	<i>Total current liabilities</i>		7,500	10,746	10,356
<b>Non-current liabilities</b>					
921	Employee entitlements	13	947	1,036	921
0	Provisions	12	373	0	0
921	<i>Total non-current liabilities</i>		1,320	1,036	921
<b>8,544</b>	<b>Total liabilities</b>		<b>8,820</b>	<b>11,782</b>	<b>11,277</b>
<b>5,992</b>	<b>Net assets</b>		<b>5,992</b>	<b>6,002</b>	<b>5,992</b>
<b>Taxpayers' funds</b>					
5,992	General funds	14	5,992	6,002	5,992
<b>5,992</b>	<b>Total taxpayers' funds</b>		<b>5,992</b>	<b>6,002</b>	<b>5,992</b>

Explanations of significant variances against budget are detailed in note 20.

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

## Statement of Changes in Taxpayers' Funds for the Year Ended 30 June 2011

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>5,101</b>	<b>Balance at 1 July</b>	<b>5,992</b>	<b>5,992</b>	<b>5,992</b>
44	Total comprehensive income	53	5	5
(44)	Return of operating surplus to the Crown	(53)	(5)	(5)
891	Capital injections	0	10	0
<b>5,992</b>	<b>Balance at 30 June</b>	<b>5,992</b>	<b>6,002</b>	<b>5,992</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

# Statement of Cash Flows for the Year Ended 30 June 2011

Actual 2010 \$000		Note	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Cash flows from continuing operating activities</b>					
53,355	Receipts from Crown		52,145	59,831	54,574
386	Receipts from other revenue		48	486	398
(30,075)	Payments to suppliers		(24,634)	(32,765)	(23,745)
(27,220)	Payments to employees		(25,419)	(25,722)	(26,044)
(278)	Payments for capital charge		(449)	(449)	(449)
(98)	Goods and services tax (net)		451	0	559
(3,930)	<i>Net cash flow from continuing operating activities</i>	15	2,142	1,381	5,293
<b>Cash flows from discontinuing operating activities</b>					
1,489	Receipts from Crown		3,052	3,052	3,052
1,856	Receipts from other revenue		5,588	16,800	11,910
(2,796)	Payments to suppliers		(6,836)	(18,048)	(13,158)
(549)	Payments to employees		(1,804)	(1,804)	(1,804)
0	<i>Net cash flow from discontinuing operating activities</i>	0	0	0	0
(3,930)	<i>Net Cash flow from operating activities</i>	15	2,142	1,381	5,293
<b>Cash flows from investing activities</b>					
12	Receipts from sale of plant and equipment		6	5	5
(240)	Purchase of plant and equipment		(291)	(375)	(375)
(852)	Purchase of intangible assets		(569)	(210)	(329)
(1,080)	<i>Net cash (outflow)/inflow from investing activities</i>		(854)	(580)	(699)
<b>Cash flows from financing activities</b>					
891	Capital injections		0	10	0
(998)	Return of operating surplus		(44)	(5)	(44)
(107)	<i>Net cash flow from financing activities</i>		(44)	5	(44)
(5,117)	<b>Net increase/(decrease) in cash</b>		1,244	806	4,550
8,197	Cash at the beginning of the year		3,080	13,532	3,080
<b>3,080</b>	<b>Cash at the end of the year</b>		<b>4,324</b>	<b>14,338</b>	<b>7,630</b>

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

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

# Statement of Commitments as at 30 June 2011

## Capital commitments

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

## Non-cancellable operating lease commitments

The Ministry leases plant and equipment in the normal course of its business. The majority of these are for premises and photocopiers in Wellington and Auckland, which have a non-cancellable leasing period ranging from one to six years. The Christchurch office has closed and the lease of the premises ceased in April 2011. This was planned in the normal course of business and was not the result of the Christchurch earthquakes.

The Ministry's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Ministry by any of its leasing arrangements.

The total amount of future sub-lease payments expected to be received under non-cancellable sub-leases at the balance date are \$38,804 (2010: \$4,667) as a new agreement has been signed during the year.

## Other non-cancellable commitments

The Ministry has entered into non-cancellable contracts for cleaning services, consulting services and other contracts for service. A major on-going commitment, the Lake Taupo Protection Fund was transferred to non-departmental commitments on 1 July 2010, resulting in the significant reduction in other non-cancellable commitments.

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Capital commitments</b>		
191	Intangible assets	95
<b>191</b>	<b>Total capital commitments</b>	<b>95</b>
<b>Non-cancellable operating lease commitments</b>		
2,183	Not later than one year	2,337
8,307	Later than one year but not later than five years	8,083
3,895	Later than five years	1,881
<b>14,385</b>	<b>Total non-cancellable operating lease commitments</b>	<b>12,301</b>
<b>Other non-cancellable commitments</b>		
12,384	Not later than one year	10,212
16,371	Later than one year but not later than five years	3,165
9,115	Later than five years	0
<b>37,870</b>	<b>Total other non-cancellable commitments</b>	<b>13,377</b>
<b>52,446</b>	<b>Total commitments</b>	<b>25,773</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

## Statement of Contingent Liabilities and Contingent Assets as at 30 June 2011

### Contingent liabilities

The Ministry has no contingent liabilities in 2011 (2010: \$2.0 million).

### Contingent assets

The Ministry has no contingent assets as at 30 June 2011 (2010: Nil).

## Statement of Unappropriated Expenditure for the Year Ended 30 June 2011

### Departmental appropriations and net asset schedule

There were no expenses, and capital expenditure incurred without appropriation or other authority, or outside of the scope of appropriation (2010: Nil).

There were no breaches of projected departmental net assets schedules (2010; Nil).

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

# Statement of Departmental Expenses and Capital Expenditure against Appropriations for the Year Ended 30 June 2011

Actual 2010 \$000		Expenditure before re-measurement 2011 \$000	Re-measurement 2011 \$000	Expenditure after re-measurement 2011 \$000	Appropriation <sup>17</sup> 2011 \$000
<b>Vote Environment</b>					
<b>Appropriation for departmental output expenses</b>					
35,741	Environmental Policy Advice	33,838	(10)	33,828	35,708
1,093	Delivery of Environmental Management Fund	1,382	(1)	1,381	1,400
2,097	Waste Minimisation	1,525	0	1,525	1,714
27	Environmental Assistance to the Pacific Islands	24	0	24	75
1,393	Resource Management Act Call Ins	0	0	0	0
463	Applications to the Environmental Protection Authority	0	0	0	0
0	Processing of Resource Management Call Ins and Applications to the Environmental Protection Authority	5,588	0	5,588	11,910
<b>40,814</b>	<b>Total</b>	<b>42,357</b>	<b>(11)</b>	<b>42,346</b>	<b>50,807</b>
<b>Vote Climate Change</b>					
<b>Appropriation for departmental output expenses</b>					
10,902	Policy Advice – Climate Change	11,624	(2)	11,622	12,739
<b>10,902</b>	<b>Total</b>	<b>11,624</b>	<b>(2)</b>	<b>11,622</b>	<b>12,739</b>
<b>Capital expenditure</b>					
1,114	Capital expenditure	853		853	585

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

<sup>17</sup> This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

# Statement of Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2011 (continued)

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## Details of multi-year appropriation

On 1 July 2010, the Ministry established a multi-year appropriation in Vote Climate Change, Departmental output expenses, for developing a national carbon accounting system (the Land Use and Carbon Analysis System) which will contribute to meeting New Zealand's greenhouse gas reporting obligations under the Kyoto Protocol and the UNFCCC. The appropriation expires on 30 June 2014.

	<b>2011 \$000</b>
<b>Vote Climate Change</b>	
<b>Land Use and Carbon Analysis System</b>	
Original appropriations	28,981
Cumulative adjustments	600
<b>Total adjusted appropriations</b>	<b>29,581</b>
Cumulative actual expenditure 1 July	0
Current year actual expenditure	6,350
<b>Cumulative actual expenditure 30 June</b>	<b>6,350</b>
<b>Appropriation remaining 30 June</b>	<b>23,231</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

# Notes to the Financial Statements

## 1. Statement of accounting policies for the year ended 30 June 2011

### Reporting entity

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

In addition, the Ministry has reported on Crown activities, which it administers.

The primary objective of the Ministry is to provide services to the public rather than making a financial return. Accordingly, the Ministry has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

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

### Basis of preparation

#### *Statement of compliance*

These financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with the New Zealand generally accepted accounting practices (NZ GAAP) and Treasury instructions. They comply with NZ IFRSs, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

#### *Measurement base*

The financial statements have been prepared on the basis of historical cost.

#### *Function and presentation of 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.

#### *Accounting policies*

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

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

The accrual basis of accounting has been used unless otherwise stated.

The Ministry has adopted the following revisions to accounting standards, which have had only a presentational or disclosure effect:

- FRS-44 *New Zealand Additional Disclosure* amends the disclosure in respect to audit fees by including the notion of Auditor “network firms”. The Ministry *has elected the early adoption* of the revised standard although the effect is immaterial in that no engagement

other than audit services has been contracted with the Ministry's Auditor. The fees paid to the Auditor are disclosed in Note 6.

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The Ministry has elected the early adoption of the revised standard and the related disclosures are in Note 16.

The revised standard:

- i) Removes the previous disclosure concessions applied by the Ministry for arms-length transactions between the Ministry and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Ministry and entities controlled or significantly influenced by the Crown.
- ii) Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister for the Environment, the Ministry will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in fewer disclosures should there be any related party transactions with Ministers of the Crown.
- iii) Clarifies that related party transactions include commitments with related parties.

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

- NZ IFRS 9 (2010) *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement; Phase 2 Impairment Methodology; and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The only change from NZ IFRS (2009) is an amendment regarding the accounting for financial liabilities. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Ministry has not yet assessed the effect of the new standard and expects it will not be early adopted.

## Significant accounting policies

### *Budget figures*

The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

## Revenue

### *Revenue Crown*

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

### *Revenue other*

The Ministry derives revenue through the provision of services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

### **Expenditure**

#### *Capital charge*

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

#### *Grants/subsidies*

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.

#### *Cost allocation*

The Ministry derives the cost of outputs using a cost allocation system. Direct costs are charged directly to the Ministry's outputs. Indirect costs are charged to outputs based on a primary cost driver of salaried full-time equivalents. There were no material changes to the cost allocation model during the 2010/11 year.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be directly associated with a specific output. For the year ended 30 June 2011, direct costs accounted for 74 per cent of the Ministry's costs (2010: 75 per cent) indirect costs accounted for 26 per cent of the Ministry's costs (2010: 25 per cent).

### **Leases**

#### *Operating leases*

An operating lease is a lease where the lessor does not transfer substantially all the risks and rewards of ownership of an asset. Lease payments under an operating lease are recognised as an expense in a systematic manner over the term of the lease. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

### **Foreign currency**

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction.

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

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and funds on deposit with banks.

### **Debtors and other receivables**

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

## Plant and equipment

Plant and equipment consists of leasehold improvements, furniture and office equipment, and computer hardware. Plant and equipment are recognised and disclosed at cost less accumulated depreciation and impairment losses.

### *Additions*

Individual assets, or group of assets, are capitalised if their cost is greater than \$1,500. The value of an individual asset that is less than \$1,500 and is part of a group of similar assets is capitalised.

### *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses arising from disposal of plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

### *Depreciation*

Depreciation is provided on a straight-line basis on all plant and equipment, at a rate that will write off the cost or valuation of the assets, over their useful lives. The depreciation charge for each period is recognised in the Statement of Comprehensive Income. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

	<b>Depreciation rate (%)</b>	<b>Useful life (years)</b>
Furniture and fittings	12.5 – 20	5 – 8
Office equipment	20	5
Computer hardware	25 – 33.33	3 – 4

Leasehold improvements (included in furniture and fittings) are capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter. Items classified as furniture and fittings but not deemed to be part of leasehold improvements are depreciated over their useful lives.

## Intangible assets

### *Software acquisition and development*

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

Costs that are directly associated with the development of software for internal use by the Ministry are recognised as an intangible asset.

Costs associated with staff training and the maintenance of computer software is 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 and ceases at the date the asset is derecognised. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

Typically, the estimated useful lives and associated amortisation rates of intangible assets have been estimated as follows:

	Amortisation rate (%)	Useful life (years)
Acquired computer software	33.33	3
Acquired computer software licences (Land Use and Carbon Analysis System)	13.33	7.5
Developed computer software	33.33	3

### Impairment of non-financial assets

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

Value in use is 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.

An intangible asset that is not yet available for use at the balance date is tested for impairment annually.

### Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the Statement of Comprehensive Income when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported on an actuarial basis, based on the present value of the expected future entitlements.

#### *Termination benefits*

Termination benefits are recognised in the Statement of Comprehensive Income only when there is a demonstrable commitment to either terminate employment before normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

### Superannuation schemes

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

## Statement of cash flows

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

Operating activities include cash received from all income sources of the Ministry and the cash payments made 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 by, or repayment of capital to, the Crown.

## Provisions

A provision is recognised 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, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

## Goods and Services Tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST except where otherwise stated. Creditors and other payables and debtors and other receivables in the Statement of Financial Position are stated inclusive of GST. Where GST is not recoverable as an input tax, then it is recognised as part of the related asset or expense.

The GST payable or receivable at balance date is included in creditors and other payables or debtors and other receivables in the Statement of Financial Position.

## Taxation

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

## Critical accounting estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in the notes to the financial statements.

Note 12 contains an estimate for restructuring costs which is expected to be paid in the financial year ended 30 June 2012.

Note 13 provides the key assumptions used in determining the estimates for long service leave and retirement leave.

## Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments at the point a contractual obligation arises, to the extent that they are yet to be performed.

## Contingencies

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

## Taxpayers' funds

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

## Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current year.

## 2. Other revenue

Actual 2010 \$000		Actual 2011 \$000
820	Departmental	640
58	Other	57
<b>878</b>	<b>Total other revenue</b>	<b>697</b>

Other revenue previously arose primarily from the recovery of expenses incurred through applications of National significance under the Resource Management Act. As this activity is discontinued from 1 July 2011, the related information is reported separately in Note 21.

## 3. Gains

Actual 2010 \$000		Actual 2011 \$000
12	Net gain on sale of plant and equipment	0
<b>12</b>	<b>Total gains</b>	<b>0</b>

#### 4. Personnel costs

Personnel costs include expenditure and provisions for salaries, wages, annual leave, retirement and long service leave, and redundancies.

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
26,021	Salaries and wages	24,793
714	Employer contributions to defined contribution plans	740
(77)	Decrease in employee entitlements	(143)
56	Other	43
<b>26,714</b>	<b>Total personnel costs</b>	<b>25,433</b>

The reduction in salaries and wages from the previous year relates to the staff of the Environmental Protection Authority now reported under discontinued activities (Refer to note 21).

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, KiwiSaver and Government Superannuation Fund.

#### 5. Capital charge

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

#### 6. Other operating expenses

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
154	Audit fees for the financial statement audit	170
2,162	Operating lease payments	1,873
620	Advertising and publicity	458
2,761	Contributions and sponsorship	285
16,281	Consultancy	15,223
3,437	General and administration	3,528
0	Net loss on disposal of property, plant and equipment and intangibles	72
2,805	Other operating expenses	2,775
<b>28,220</b>	<b>Total other operating expenses</b>	<b>24,384</b>

Other operating costs are lower in 2010/11 due to the completion of the implementation of Emission Trading Scheme and the Waste Act. However, these reductions have been partially offset by costs of establishing the Environmental Protection Authority and the review of the Emissions Trading Scheme. A one-off contribution to the Lake Taupo Protection project in 2010 was not repeated in 2011 due to transfer of appropriation to Non-Departmental Output class expenses from 1 July 2010.

## 7. Debtors and other receivables

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
7,094	Debtors	6,640
0	Less provision for impairment	0
7,094	Net debtors	6,640
909	GST receivable	458
<b>8,003</b>	<b>Total debtors and other receivables</b>	<b>7,098</b>

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

As at 30 June 2011 and 2010, all overdue receivables have been assessed for impairment. No provision has been made for doubtful debts as all debtors are current. There were no indications at balance date that any of these debtors are impaired.

The aging profile of receivables at year end is detailed below:

	<b>Gross \$000</b>	<b>2011 Impairment \$000</b>	<b>Net \$000</b>	<b>Gross \$000</b>	<b>2010 Impairment \$000</b>	<b>Net \$000</b>
Not past due	6,966	0	6,966	7,997	0	7,997
Past due 1 – 30 days	132	0	132	0	0	0
Past due 31 – 60 days	0	0	0	0	0	0
Past due 61 – 90 days	0	0	0	0	0	0
Past due > 91 days	0	0	0	6	0	6
<b>Total</b>	<b>7,098</b>	<b>0</b>	<b>7,098</b>	<b>8,003</b>	<b>0</b>	<b>8,003</b>

## 8. Plant and equipment

	<b>Furniture and fixtures \$000</b>	<b>Office equipment \$000</b>	<b>Computer hardware \$000</b>	<b>Total \$000</b>
<b>Cost</b>				
Balance as at 1 July 2009	1,829	204	1,746	3,779
Additions	0	6	234	240
Add: Closing work in progress	0	71	0	71
Less: Opening work in progress	0	0	(12)	(12)
Disposals	0	(19)	(193)	(212)
Balance at 30 June 2010	1,829	262	1,775	3,866
Balance as at 1 July 2010	1,829	262	1,775	3,866
Additions	378	88	189	655
Add: Closing work in progress <sup>18</sup>	0	4	149	153
Less: Opening work in progress	0	(71)	0	(71)
Disposals	0	0	(287)	(287)
Balance at 30 June 2011	2,207	283	1,826	4,316

<sup>18</sup> The amount of work in progress as at 30 June 2011 consists of: \$103,000 for the purchases of Servers and Blades for servers; \$46,000 for the purchase of Uninterrupted Power Supply unit; \$4,000 for the purchase of other equipment (2010: \$70,500 relates to the Energy Efficient Project for Clean Heating for the Wellington building).

	Furniture and fixtures \$000	Office equipment \$000	Computer hardware \$000	Total \$000
<b>Accumulated depreciation and impairment losses</b>				
Balance as 1 July 2009	946	147	1,129	2,222
Depreciation expense	223	19	324	566
Eliminate on disposal	0	(19)	(193)	(212)
Impairment losses	0	0	0	0
Balance at 30 June 2010	1,169	147	1,260	2,576
Balance as 1 July 2010	1,169	147	1,260	2,576
Depreciation expense	222	30	234	486
Eliminate on disposal	0	0	(287)	(287)
Balance at 30 June 2011	1,391	177	1,207	2,775
<b>Carrying amounts</b>				
At 1 July 2009	883	57	617	1,557
At 30 June / 1 July 2010	660	115	515	1,290
At 30 June 2011	816	106	619	1,541

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

## 9. Intangible assets

	Acquired software \$000	Acquired software licences \$000	Internally generated software (others) \$000 <sup>19</sup>	Internally generated software (LUCAS) \$000	Total \$000
<b>Cost</b>					
Balance at 1 July 2009	849	187	149	1,459	2,644
Additions	44	0	453	509	1,006
Add: Closing work in progress	26	0	206	167	399
Less: Opening work in progress	(16)	0	(149)	(425)	(590)
Disposals	(10)	0	0	0	(10)
Balance at 30 June 2010	893	187	659	1,710	3,449
Balance as at 1 July 2010	893	187	659	1,710	3,449
Additions	117	0	293	300	710
Add: Closing work in progress <sup>20</sup>	50	0	147	0	197
Less: Opening work in progress	(26)	0	(206)	(167)	(399)
Disposals <sup>21</sup>	0	(162)	0	0	(162)
Balance at 30 June 2011	1,034	25	893	1,843	3,795

<sup>19</sup> Internally generated software (others) consists of: the Online Waste levy System; Customer Relationship Management System; and Waste Intelligence Database System.

<sup>20</sup> The amount of work in progress as at 30 June 2011 consists of: \$70,000 for the upgrade of the Online Waste Levy System; \$77,000 for the upgrade of the Customer Relationship Management System; and \$50,000 for the Intranet Map Viewer (Uber Map) development for Environmental Policies (2010: \$399,000 for the upgrade of the Financial Management Information System; development of the Customer Relationship Management System; the Waste Intelligence Database System; and the development of Land Use and Carbon Analysis System).

<sup>21</sup> The disposals as at 30 June 2011, \$162,000 relates to the write off of 300 Index Growth Model software no longer in use ( 2010: \$10,000 relates to the write off Vision Enterprise software licences).

	Acquired software \$000	Acquired software licences \$000	Internally generated software (others) \$000 <sup>19</sup>	Internally generated software (LUCAS) \$000	Total \$000
<b>Accumulated amortisation and impairment losses</b>					
Balance as 1 July 2009	475	51	0	283	809
Amortisation expense	204	31	81	396	712
Disposals	(10)	0	0	0	(10)
Balance at 30 June 2010	669	82	81	679	1,511
Balance at 1 July 2010	669	82	81	679	1,511
Amortisation expense	170	27	242	496	935
Disposals	0	(84)	0	0	(84)
Balance at 30 June 2011	839	25	323	1,175	2,362
<b>Carrying amounts</b>					
At 1 July 2009	374	136	149	1,176	1,835
At 30 June / 1 July 2010	224	105	578	1,031	1,938
At 30 June 2011	195	0	570	668	1,433

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

## 10. Creditors and other payables

Actual 2010 \$000	Actual 2011 \$000
1,704 Creditors	1,666
3,073 Accrued expenses	3,614
129 Fixed assets payable	142
4,906 Total creditors and other payables	5,422

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

## 11. Return of operating surplus

Actual 2010 \$000	Actual 2011 \$000
44 Net surplus	53
<b>44 Total return of operating surplus</b>	<b>53</b>

The return of the operating surplus to the Crown is required to be paid by 31 October of each year and includes the operating surplus/deficit from continuing and discontinuing operations.

## 12. Provisions

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Current provisions</b>		
662	Restructuring	26
<b>662</b>	<i>Total current portion</i>	<b>26</b>
<b>Non-current provisions</b>		
0	Restoration costs	373
<b>662</b>	<b>Total provisions</b>	<b>399</b>

	<b>Restoration costs \$000</b>	<b>Restructuring \$000</b>	<b>Mapua contaminated site \$000</b>	<b>Total \$000</b>
Balance at 1 July 2009	0	0	470	470
Additional provisions made	0	662	0	662
Amounts used	0	0	(91)	(91)
Unused amounts reversed	0	0	(379)	(379)
<b>Balance at 30 June 2010</b>	<b>0</b>	<b>662</b>	<b>0</b>	<b>662</b>
Balance at 1 July 2010	0	662	0	662
Additional provisions made	373	0	0	373
Amounts used	0	(522)	0	(522)
Unused amounts reversed	0	(114)	0	(114)
<b>Balance at 30 June 2011</b>	<b>373</b>	<b>26</b>	<b>0</b>	<b>399</b>

Provisions represent:

- the remaining costs from the restructure of the Policy Division, which is part of the Ministry's plan to refine its structure and capability to support the Government's work programme priorities. These remaining costs will be paid in 2011/12 (2010: \$662,000).
- restoration costs in respect of the Ministry's leased premises. The Ministry is required at the expiry of the lease term to make good any damage caused to the premises and to remove any signage, fixtures and fittings installed by the Ministry. The Ministry has the option to renew these leases, which affects the timing of the expected cash outflows to make good the premises.

## 13. Employee entitlements

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Current employee entitlements are represented by:</b>		
495	Salary accrual	576
1,318	Annual leave	1,244
198	Retirement and long service leave	179
2,011	<i>Total current portion</i>	1,999
<b>Non-current employee entitlements are represented by:</b>		
921	Retirement and long service leave	947
<b>2,932</b>	<b>Total employee entitlements</b>	<b>2,946</b>

The retirement and long service leave entitlements depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in the actuarial valuation were:

- discount rates as specified by Treasury for use by Government departments as at 30 June 2011. The rates used range from 2.84 per cent to 6.00 per cent depending on the term of the liability for each employee (30 June 2010: 3.48 per cent to 6.00 per cent)
- a long-term annual salary growth rate of 3.5 per cent (2010: 3.5 per cent).

## 14. Taxpayers' funds

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
5,101	<b>General funds at 1 July</b>	5,992
44	Total comprehensive income	53
891	Capital contribution from the Crown	0
(44)	Return of operating surplus to the Crown	(53)
<b>5,992</b>	<b>General funds at 30 June</b>	<b>5,992</b>

## 15. Reconciliation of net surplus to net cash from operating activities

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>44</b>	<b>Net surplus</b>	<b>53</b>
	<b>Add/(less) non-cash items:</b>	
1,278	Depreciation and amortisation expense	1,421
1,278	Total non-cash items	1,421
	<b>Add/(less) items classified as investing or financing activities:</b>	
(12)	Net (Gains)/losses on disposal of property, plant and equipment, and intangibles	72
	<b>Add/(less) movements in deferrals and accruals:</b>	
(2,880)	(Increase)/decrease in debtors and other receivables	905
(43)	(Increase)/decrease in pre-payments	(191)
(2,004)	Increase/(decrease) in creditors and other payables <sup>22</sup>	503
192	Increase/(decrease) in provisions	(636)
(505)	Increase/(decrease) in employee entitlements	15
(5,240)	Total net movement in working capital items	596
<b>(3,930)</b>	<b>Net cash flow from operating activities</b>	<b>2,142</b>

<sup>22</sup> Creditors and accruals for capital expenditure are excluded when calculating this increase or decrease.

## 16. Related party transactions

The Ministry is a wholly owned entity of the Crown. The Government significantly influences the roles of the Ministry as well as being its major source of revenue.

The Ministry enters into transactions with government departments, Crown entities and state-owned enterprises on an arm's length basis.

### Significant transactions with government-related entities

The Ministry has received funding from the Crown of \$54.095 million (2010: \$57.133 million) to provide services for the year ended 30 June 2011. This includes Debtor Crown funding of \$4.603 million, yet to be received in cash from the Crown (2010: \$5.706 million).

Revenue received from other Departments for the reimbursement of the contribution to the State Sector Retirement Savings Scheme, KiwiSaver and other services amounted to \$5.037 million (2010: \$2.549 million) for the year ended 30 June 2011. Expenditure to other Departments for their services to the Ministry (primarily for Board of Inquiry costs and staff secondments) amounted to \$1.578 million (2010: \$1.807 million) for the year ended 30 June 2011.

### 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 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 2011 totalled \$1.27million (2010: \$0.91million). These purchases included the purchase of air travel from Air New Zealand, and postal services from New Zealand Post.

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

### Key management personnel compensation

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
1,124	Salaries and other short-term employee benefits	1,386
14	Post-employment benefits	15
0	Other long-term benefits	0
0	Termination benefits	0
<b>1,138</b>	<b>Total key management personnel compensation</b>	<b>1,401</b>

Key management personnel include the Chief Executive and the Ministry's five members of the Executive Leadership Team. (2010: The Chief Executive and the four members of the Executive Leadership Team).

Key management personnel compensation excludes the remuneration and other benefits the Minister for the Environment receives. The Minister's remuneration and other benefits are not received only for his role as a member of 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 not paid by the Ministry.

## 17. Events after the balance sheet date

As of 1 July 2011, Environmental Protection Authority, a separate Crown entity was established and the operations of the National Significance Projects team were transferred from Departmental Output Class, Environmental Policy Advice to this entity.

## 18. Financial instruments

### Financial instrument categories

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

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Loans and receivables</b>		
3,080	Cash and cash equivalents	4,324
8,003	Debtors and other receivables	7,098
11,083	Total loans and receivables	11,422
<b>Financial liabilities measured at amortised cost</b>		
4,906	Creditors and other payables	5,422

### Financial instruments' 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 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Ministry has no significant exposure to currency risk on its financial instruments. Accordingly, no sensitivity analysis has been completed.

##### *Interest rate risk*

Interest rate risk is the risk that the return on invested funds will fluctuate due to changes in market interest rates. Under the Public Finance Act 1989, the Ministry cannot raise a loan without Ministerial approval and no such loans have been raised. Accordingly, there is no interest rate exposure on funds borrowed.

The Ministry has no significant exposure to interest rate risk on its financial instruments.

##### *Credit risk*

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

In the normal course of its business, credit risk arises from debtors and deposits with banks.

The Ministry is only permitted to deposit funds with Westpac, a registered bank. Westpac bank has a high credit rating of AA. 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, and net debtors (note 7). 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 that the Ministry will encounter difficulty raising liquid funds to meet 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.

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

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000	6 months - 1 year \$000	1- 5 years \$000	More than 5 years \$000
<b>2010</b>						
Creditors and other payables (note 10)	4,906	4,906	4,906	0	0	0
<b>2011</b>						
Creditors and other payables (note 10)	5,422	5,422	5,422	0	0	0

## 19. Capital management

The Ministry's capital is its equity (or taxpayers' funds), which comprise general funds. 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 compliance with the Government Budget processes and with Treasury instructions.

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, whilst remaining a going concern.

## 20. Explanations of major variances against budget

Explanations for major variances from the Ministry's estimated figures in the 2010/11 Main Estimates are as follows. These include amounts from continuing and discontinuing activities.

(i) *Statement of comprehensive income*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Crown revenue	54,095	62,883	8,788
Other revenue	6,285	17,286	11,001
Contributions and sponsorship	285	1,591	(1,306)
Consultancy	18,114	24,414	(6,300)
General and administration	5,777	10,854	(5,077)
Other operating cost	3,772	10,178	(6,406)

Actual Crown revenue was lower than budget due to:

- a reprioritisation of funding from 2010/11 to 2011/12 for the establishment of the functions of the Environmental Protection Authority
- a transfer of funding from 2010/11 to 2011/12 to a new Non-Departmental Output Expense, multi-year appropriation from work relating to the clean-up of the Tui Mine in Te Aroha
- a transfer of funding in 2010/11 to Vote Science and Innovation to develop capability to deliver the Land Cover Database
- timing differences in the Land Use and Carbon Analysis System. This project is a multi-year appropriation reflecting the longer-term nature of the project and the difficulty in forecasting timing of workstreams.

Other revenue mainly arises from Nationally Significant proposal applications to the Environmental Protection Authority. This is demand driven by the number of applications and call-ins received by the Authority. Lower than anticipated applications were received during 2010/11.

Contributions and sponsorship, consultancy cost (including contractors' fees), general and administration and other operating costs were lower than budget mainly due to:

- Transfer of funds from 2010/11 to 2011/12 as noted above.
- Timing differences in expenditure relating to the Land Use and Carbon Analysis System, a multi-year appropriation.
- Lower than anticipated applications and call-ins received by the Environmental Protection Authority.

(ii) *Statement of financial position*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Bank	4,324	14,338	(10,014)
Debtors and other receivables	7,098	500	6,598
Creditors and other payables	5,422	8,340	2,918

The amount of cash held was lower than forecast due to a higher level of debtors and other receivables at 30 June 2011 as well as a lower level of creditors and other payables. The higher level of debtors and other receivables are related to amounts receivable from the Crown, GST receivable and invoices raised for the recovery of Resource Management Act Call-in costs, applications to Environmental Protection Authority costs and other costs at 30 June 2011. Creditors and other payables were lower due to lower expenditure than anticipated in 2010/11.

(iii) *Statement of cash flows*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Receipts from Crown	55,197	62,883	(7,686)
Receipts from other revenue	5,636	17,286	(11,450)
Payments to suppliers	(31,470)	(50,813)	19,716

Explanations for variances in the Statement of Cash Flows are explained above.

## 21. Discontinued activities

Until 30 June 2011, the Environmental Protection Authority was an activity administered by the Ministry for the Environment.

The Environmental Protection Authority became a separate Crown Entity from 1 July 2011. Its role is to manage the Resource Management Act and the Emissions Trading Scheme. Outlined below is the income and expenditure that related to the Authority's activities for the 30 June 2010 and 2011 years.

### *Statement of Financial Performance for Discontinued Activities*

#### **Environmental Protection Authority**

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
	<b>Income</b>	
1,489	Crown	3,052
1,856	Revenue other	5,588
<b>3,345</b>	<b>Total income</b>	<b>8,640</b>
	<i>Personnel costs</i>	
547	– Salary and wages	1,723
–	– Staff training and development	7
2	– Increase/(decrease) in employee entitlements	74
	<i>Other operating costs</i>	
94	– Rental and operating lease costs	245
166	– Advertising and publicity	454
1,352	– Consultancy	2,891
811	– General and administration	2,249
373	– Other operating costs	997
<b>3,345</b>	<b>Total expenditure</b>	<b>8,640</b>
<b>0</b>	<b>Net (deficit) from discontinued activities</b>	<b>0</b>

Assets of \$9,141 and liabilities of \$242,315 relating to the discontinued operations have been transferred at 30 June 2011. The liabilities are primarily employee benefits.

## 4 Non-Departmental Statements and Schedules for the Year Ended 30 June 2011

The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the Ministry manages on behalf of the Crown.

### Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2011

Actual 2010 \$000		Actual 2011 \$000	Appropriation 2011 \$000 <sup>23</sup>
<b>Vote Environment</b>			
<b>Appropriations for non-departmental output expenses</b>			
2,535	Contaminated Sites Remediation Fund	398	2,523
3,835	Sustainable Management Fund	993	1,042
10,170	Hazardous Substances and New Organisms Assessment and Management	10,170	10,170
400	Promotion of sustainable land management	800	800
0	Lake Taupo Protection Programme	2,667	2,667
0	Community Environment Fund	331	334
<b>16,940</b>	<b>Subtotal</b>	<b>15,359</b>	<b>17,536</b>
<b>Appropriations for non-departmental other expenses</b>			
1,335	Legal and environment centre grants	317	333
274	United Nations Environment Programme	303	393
106	International subscriptions	77	117
1,100	Warm Homes grants and assistance	1,008	1,100
6,675	Rotorua Lakes Restoration Programme	10,350	10,350
78,425	Waikato River Co-management	21,219	20,000
399	Scoping Study for Clean-up Fund	382	406
111,596	Waikato River Clean-up Fund	3,884	800
40,000	Waikato River Initiatives Fund	0	0
0	Contestable Waste Minimisation Fund	3,854	6,814
12,487	Waste disposal levy disbursement to TLA	12,518	13,000
469	Waikato and Waipa River transitional co-governance	331	450
0	Waikato River Co-Governance	1,250	1,250
0	Environmental Legal Assistance	527	552
0	Rangitaiki River Management Framework	500	500
0	Hawke's Bay Rivers Clean-up Fund	0	2,000
<b>252,866</b>	<b>Subtotal</b>	<b>56,520</b>	<b>58,065</b>
<b>269,806</b>	<b>Total for Vote Environment</b>	<b>71,879</b>	<b>75,601</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

<sup>23</sup> This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>	<b>Appropriation 2011 \$000<sup>24</sup></b>
	<b>Vote Climate Change</b>		
	<b>Appropriations for non-departmental output expenses</b>		
0	Admin of NZ Units held on Trust	297	297
<b>0</b>	<b>Subtotal</b>	<b>297</b>	<b>297</b>
	<b>Appropriations for non-departmental other expenses</b>		
123	Framework Convention on Climate Change	107	127
300	Contribution to Climate Change Development Fund	241	300
90,009	Allocation of New Zealand Units	837,524	1,515,005
1,752	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative Participants	3,940	7,500
0	Impairment of Debt Relating to the New Zealand Emissions Trading Scheme	3,484	1,000
0	Purchase of Units under the New Zealand Emissions Trading Scheme	0	1,000
<b>92,184</b>	<b>Subtotal</b>	<b>845,296</b>	<b>1,524,932</b>
	<b>Non-departmental capital expenditure</b>		
500	Purchase of PRE units	0	3,452
<b>500</b>	<b>Subtotal</b>	<b>0</b>	<b>3,452</b>
<b>92,684</b>	<b>Total for Vote Climate Change</b>	<b>845,593</b>	<b>1,528,681</b>

In addition, to the above expenditure, the Crown has incurred costs of \$123.0 million (2010: 29.9 million) in relation to the remeasurement in the provision for the Crown's liability under the Kyoto Protocol.

The Crown also incurred \$22.0 million (2010: (\$5.2) million) in relation to the remeasurement in the provision of the allocation of New Zealand units under the Emission Trading Scheme.

The re-measurements in the provisions take account of the revision in the prices of emission units, the re-estimation of the net emission position, and movements in the EURO/NZ exchange rate.

In accordance with Section 4(2)(a) of Part One of the Public Finance Amendment Act 2004, changes in assets and liabilities due to re-measurements do not require appropriations.

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*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

<sup>24</sup> This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

# Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2011 (continued)

## Details of multi-year appropriations

On 1 July 2010, a multi-year appropriation, Protecting Lake Taupo Programme was established in Vote Environment, Non-Departmental output expenses to reduce the nitrogen levels entering Lake Taupo. This appropriation expires on 30 June 2015.

	<b>Actual 2011 \$000</b>
<b>Vote Environment</b>	
<b>Protecting Lake Taupo Programme</b>	
Original appropriation	10,668
Cumulative adjustments	0
<b>Total adjusted appropriation</b>	<b>10,668</b>
Cumulative actual expenditure 1 July	0
Current year actual expenditure	0
<b>Cumulative actual expenditure 30 June</b>	<b>0</b>
Appropriation remaining 30 June	10,668

## Details of indemnity payments

The Ministry has a liability on behalf of the Crown for the indemnity payments in relation to the Projects to Reduce Emissions and this is authorised under section 65ZG of the Public Finance Act 1989.

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>	<b>Appropriation 2011 \$000</b>
<b>Vote Climate Change</b>			
<b>Appropriations for non-departmental output expenses</b>			
1,233	Indemnity payments	0	N/A
<b>1,233</b>	<b>Total for indemnity payments</b>	<b>0</b>	<b>N/A</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

# Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure for the Year Ended 30 June 2011

In terms of Section 26D of the Public Finance Act 1989, expenses were incurred in excess of appropriation for the year ended 30 June 2011. Vote Environment \$4.303 million (2010: \$158.8 million) and in Vote Climate Change \$2.484 million (2010: \$18.341 million).

	<b>Expenditure after remeasurements 2011 \$000</b>	<b>Appropriation Voted 2011 \$000</b>	<b>Unappropriated expenditure 2011 \$000</b>
<b>Vote Environment</b>			
<b>Appropriations for non-departmental other expenses</b>			
Waikato River Co-management Fund	21,219	20,000	1,219
Waikato River Clean-up Fund	3,884	800	3,084
<b>Total appropriations for non-departmental other expenses: Vote Environment</b>	<b>25,103</b>	<b>20,800</b>	<b>4,303</b>
<b>Vote Climate Change</b>			
Impairment of debt relating to the New Zealand Emissions Trading Scheme	3,484	1,000	2,484
<b>Total appropriation for non-departmental other expenses: Vote Climate Change</b>	<b>3,484</b>	<b>1,000</b>	<b>2,484</b>

## Breach of appropriations

### Vote Environment

The over expenditure is due to changes in accounting treatment of expenditure incurred under the settlement deed with Waikato Tainui and other Iwi concerning the Waikato River. On subsequent discussions with The Treasury and Audit New Zealand it has been confirmed that some of the expenditure is not considered to be a remeasurement under the Public Finance Act 1989 and must be appropriated.

The change in appropriation treatment does not change the cash profile of the payments to be made under the deeds.

### Vote Climate Change

The over expenditure is due to a pre-1990 forest participant deforesting and incurring a significant liability to the Crown. The participant is now in receivership and is unlikely to be able to settle its obligation to the Crown which triggers the recognition of a related expense. Under the Climate Change Response Act 2002, the Crown is an unsecured creditor.

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

Approval for these unappropriated expenditures has been sought under Section 26C of the Public Finance Act 1989.

All other expenses in relation to the activities of, or appropriations administered by, the Ministry during 2010/11 were within appropriation.

## Schedule of Non-Departmental Income for the Year Ended 30 June 2011

Actual 2010 \$000		Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
	<b>Income</b>			
533	Royalties	341	400	400
24,973	Levies	25,037	30,000	26,000
0	Emissions trading	325,968	377,539	378,211
64,015	Change in estimate of Kyoto units held	205,627	0	205,702
5,215	Net changes in carbon price of NZUs including foreign exchange movements	0	0	0
<b>94,736</b>	<b>Total non-departmental income</b>	<b>556,973</b>	<b>407,939</b>	<b>610,313</b>

Explanations of significant variances against budget are detailed in note 9.

## Schedule of Non-Departmental Capital Receipts for the Year Ended 30 June 2011

The Ministry on behalf of the Crown has no Capital Receipts (2010: Nil).

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

## Schedule of Non-Departmental Expenses for the Year Ended 30 June 2011

Actual 2010 \$000	Notes	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Expenditure</b>				
245,501		47,298	52,953	55,265
400		800	400	800
803		728	937	937
10,170		10,170	10,170	10,170
29,878	5	122,962	0	0
0	6	22,008	0	0
12,487		12,518	15,000	13,000
1,752		3,940	7,814	7,500
90,009		837,524	1,033,977	1,515,005
6,075		9,278	7,826	8,751
1,808		4,494	0	3,153
<b>398,883</b>		<b>1,071,720</b>	<b>1,129,077</b>	<b>1,614,581</b>

Explanations of significant variances against budget are detailed in note 9.

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

## Schedule of Non-Departmental Assets as at 30 June 2011

Actual 2010 \$000		Notes	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Assets</b>					
<b>Current assets</b>					
12,063	Cash and cash equivalents		4,857	8,763	5,290
6,575	Debtors and other receivables	2	6,809	0	6,575
18,638	<i>Total current assets</i>		11,666	8,763	11,865
<b>Non-current assets</b>					
211,927	Kyoto Protocol units	5	290,651	231,161	444,279
617	PRE units		617	3,453	4,069
212,544	<i>Total non-current assets</i>		291,268	234,614	448,348
<b>231,182</b>	<b>Total non-departmental assets</b>		<b>302,934</b>	<b>243,377</b>	<b>460,213</b>

In addition, the Ministry monitors the Environmental Risk Management Authority which is a Crown entity. The investment in this entity is recorded within the Financial Statements of the Government on a line-by-line basis. No disclosure is made in this schedule. From 1 July 2011, this entity has been merged into the newly created Environmental Protection Authority.

## Schedule of Non-Departmental Liabilities as at 30 June 2011

Actual 2010 \$000		Notes	Actual 2011 \$000	Main estimates 2011 \$000	Supplementary estimates 2011 \$000
<b>Liabilities</b>					
<b>Current liabilities</b>					
10,329	Creditors and other payables	3	29,223	8,200	8,200
141,298	Provisions	6	612,591	744,933	1,073,343
151,627	<i>Total current liabilities</i>		641,814	753,133	1,081,543
<b>Non-current liabilities</b>					
0	Creditors and other payables	3	142,134	0	0
137,429	Provisions	6	0	0	0
137,429	<i>Total non-current liabilities</i>		142,134	0	0
<b>289,056</b>	<b>Total non-departmental liabilities</b>		<b>783,948</b>	<b>753,133</b>	<b>1,081,543</b>

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

## Schedule of Non-Departmental Commitments as at 30 June 2011

The schedule sets out the level of commitments made against out-year appropriations and funding baseline for non-departmental expenditure. The Ministry has entered into non-cancellable deeds of funding and grants that it administers on behalf of the Crown.

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Non-cancellable commitments</b>		
13,633	Not later than one year	28,609
27,052	Later than one year but not later than five years	37,006
24,300	Later than five years	18,846
<b>64,985</b>	<b>Total non-cancellable commitments</b>	<b>84,461</b>

## Schedule of Non-Departmental Contingencies as at 30 June 2011

### Guarantees and indemnities

Guarantees and indemnities are disclosed in accordance with NZ IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*. In addition, guarantees given under Section 65ZD of the Public Finance Act 1989 are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same Act.

### Other quantifiable contingent liabilities

#### Kyoto Protocol

The Ministry has a contingent liability on behalf of the Crown relating to 74.9 million forestry credits. During the first commitment period, the Ministry of Agriculture and Forestry estimate that 89.3 million tonnes of credits will be generated by carbon removals via forests (2010: 89.1 million tonnes). Of this amount, 14.4 million tonnes (2010: 5.1 million tonnes) has been allocated to foresters through the Emissions Trading Scheme as at 30 June 2011. To the extent that these forests are harvested (in subsequent commitment periods) and a future international agreement is negotiated, there will be an associated liability generated that will need to be repaid. As the forestry credits have been incorporated when calculating the current position for the first commitment period, the associated obligation of the Crown in respect of future commitment periods has been reported as a separate contingent liability. Using the carbon price as at 30 June 2011, this contingent liability can be measured at \$NZ997 million (i.e. 74.9 million x \$NZ13.31) (2010: \$1,590 million).

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

## Unquantifiable contingent liabilities and contingent assets

### Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

Liabilities for contaminated sites are recognised in accordance with NZ IAS 37: Provisions, Contingent Liabilities and Contingent Assets. Obligations for the clean-up of contaminated sites expressed in announcements or legislation are not recognised where they are executory in nature or have not created a valid expectation in other parties that the Crown will discharge the obligation.

### Emissions Trading Scheme

#### *Post-1989 forest land*

Owners of post-1989 forest land (or those with a registered interest in the forest on the land) may voluntarily become participants in the Emissions Trading Scheme (ETS), and in so doing are entitled to receive New Zealand Units (NZUs) for the increase in carbon stock in their forests from 1 January 2008.

Landowners have until the end of 2012 (the end of the first commitment period under the Kyoto Protocol) to decide whether to register post-1989 forest land and receive NZUs for that period. If they do, they can claim NZUs for all the carbon stored in their forest from 1 January 2008 to 31 December 2012.

Participants also have various legal obligations including the surrender of units if the carbon stocks in their registered forest areas fall below a previously reported level (for example, due to harvesting or fire). However, the surrender liability is capped at the amount of units previously received by the participant for that area of forest land (if any).

Assets and liabilities relating to the post-1989 forestry sector have only been recognised in these Non-Departmental financial statements and schedules to the extent that participants have registered in the scheme at 30 June 2011.

#### *Pre-1990 forest land*

Pre-1990 forest land is an area that was forest land on 31 December 1989, and that on 31 December 2007 is still forest land and is covered by predominantly exotic forest species.

Landowners have until the 30 November 2011 to decide whether to register Pre-1990 forest land and receive NZUs for that period.

Subject to various exemptions, if an area of more than two hectares of pre-1990 forest land is deforested in any five year period from 1 January 2008, the landowner becomes a mandatory participant in the ETS. The landowner must submit an emissions return and either surrender units or, for liabilities incurred up to the end of 2012, pay cash at a rate of \$25 per NZU for emissions resulting from deforestation.

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

At 30 June 2011, there may be some deforestation which has not yet been reported to the Crown. (30 June 2010: Nil)

The Ministry on behalf of the Crown has no other contingent liability or assets (2010: Nil).

*The notes form an integral part of, and should be read in conjunction with, these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2011.*

# Notes to the Non-Departmental Financial Statements

## 1. Statement of accounting policies for the year ended 30 June 2011

### Reporting entity

These non-departmental schedules and statements 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 the operation and cash flows for the year, reference should also be made to the Financial Statements of the Government.

### Accounting policies

These non-departmental schedules and statements have been prepared in accordance with the Government's accounting policies as set out in the Financial Statements of the Government, and in accordance with relevant Treasury instructions and Treasury circulars.

Measurements and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

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

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

The following particular accounting policies have been applied:

### Revenue

The Ministry collects revenue on behalf of the Crown. This revenue includes the waste disposal levy which is legislated under the Waste Minimisation Act 2008 and from the surrender of units under the Emissions Trading Scheme.

The waste disposal levy revenue is recognised when earned and is reported in the financial period to which it relates.

Revenue arising from the New Zealand Emissions Trading Scheme (ETS) is recognised when a participant makes emissions or a liability to the Crown is incurred.

### Expenditure

#### *Grant expenditure*

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria. They are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Ministry has no obligation to award on receipt of the grant application for example, Environmental Legal Assistance. They are recognised as expenditure when approved by the grants approvals committee and the approval has been communicated to the applicant.

### ***Allocation of New Zealand Units (NZUs) under ETS***

For NZUs issued as one-off compensation (such as the pre-1990 forestry allocation), expenditure is recognised at the point that the participant has provided all relevant information to the Government to show that they have met the criteria and rules for the issue of NZUs and are entitled to them under the ETS. Pre-1990 foresters receive allocation in two separate tranches. For pre-1990 forestry allocation an expense is recognised for both tranches of the allocation.

For NZUs issued for carbon sequestration (such as post-1989 forestry) or as annual compensation for ETS costs (such as the industrial allocation), expenditure is recognised when the carbon is sequestered (based on forecasts of sequestration relating to registered participants in the scheme at each reporting date) or as the emissions compensated by the industrial allocation occur.

Allocation of NZUs are measured at the fair value of the NZUs at the time of the transaction. A six-monthly average price is used to approximate the price at the date of each transaction.

### ***Settlement expenditure***

An expense and an associated provision is recognised for settlement agreements with Waikato River Iwi and other iwi on the initialling of the deeds of settlement by the Crown and the relevant iwi.

### **Foreign exchange**

Foreign currency transactions 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 the monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

### **Goods and services tax**

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. In accordance with the Treasury instructions, GST is returned on revenue received on the behalf of the Crown, where applicable. However, 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 on consolidation of the government financial statements.

### **Debtors and other receivables**

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

## Kyoto Protocol

The Crown has an obligation under the Kyoto Protocol to ensure that New Zealand's average net emissions of greenhouse gases over 2008–2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. If the Crown does not meet its obligations it will be required to make up the difference and will incur additional penalties. To the extent that New Zealand exceeds or betters its emission targets, the Crown will have surplus units which can be used to offset future obligations or be exchanged with other countries.

To the extent that New Zealand is not forecast to meet its target emissions rate, a provision is recognised. To the extent New Zealand is forecast to exceed its target emissions rate, an asset is recognised.

## Provisions

A provision is recognised 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, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

The provision relating to the allocation of NZUs is remeasured using the current carbon price and exchange rate at each reporting date.

## Critical accounting estimates and assumptions

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in the notes to the financial statements.

Notes 5 and 6 provides the key assumptions used in determining the estimates for the Kyoto Net Position and the provision for the allocation of NZUs.

## Commitments

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

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

## Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

## 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.

## 2. Debtors and other receivables

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
6,575	Debtors and other receivables	10,293
0	Less provision for impairment	(3,484)
<b>6,575</b>	<b>Total debtors and other receivables</b>	<b>6,809</b>

The carrying amount of debtors and other receivables approximates their fair value and are all current.

As at 30 June 2011 and 2010, all debtors and other receivables have been assessed for impairment. The Ministry has identified two debtors as impaired \$3,484,000 (2010: nil).

	<b>Gross \$000</b>	<b>2011 Impairment \$000</b>	<b>Net \$000</b>	<b>Gross \$000</b>	<b>2010 Impairment \$000</b>	<b>Net \$000</b>
Not past due	6,809	0	6,809	6,575	0	6,575
Past due 1 – 90 days	168	(168)	0	0	0	0
Past due 90 – 180 days	0	0	0	0	0	0
Past due 180 – 360 days	0	0	0	0	0	0
Past due > 360 days	3,316	(3,316)	0	0	0	0
<b>Total</b>	<b>10,293</b>	<b>(3,484)</b>	<b>6,809</b>	<b>6,575</b>	<b>0</b>	<b>6,575</b>

### 3. Creditors and other payables

Actual 2010 \$000		Actual 2011 \$000
<b>Current creditors and other payables are represented by:</b>		
0	Waikato River Co-management	5,787
0	Waikato River Clean-up Fund	6,702
752	GST payable	350
9,577	Other payables	16,384
10,329	<i>Total current portion</i>	29,223
<b>Non-current creditors and other payables are represented by:</b>		
0	Waikato River Co-management	54,356
0	Waikato River Clean-up Fund	87,778
0	<i>Total non-current portion</i>	142,134
<b>10,329</b>	<b>Total creditors and other payables</b>	<b>171,357</b>

The carrying value of creditors and other payables approximates their fair value.

Creditors and other payables are non-interest bearing and are normally settled within 30 days except for the Waikato River Co-management and the Waikato River Clean-up Fund, these payments are settled on the due dates.

#### *Recognition of future discounted cash flows for the Waikato River Funds*

	Creditors and other payables						Total \$000
	2011–2015 \$000	2016–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	2036–2040 \$000	
Co-management							
Nominal	21,000	25,000	25,000	25,000	5,000	3,000	104,000
Discount	(2,244)	(7,861)	(12,304)	(15,534)	(3,585)	(2,329)	(43,857)
<b>Recognised</b>	<b>18,756</b>	<b>17,139</b>	<b>12,696</b>	<b>9,466</b>	<b>1,415</b>	<b>671</b>	<b>60,143</b>
Clean up							
Nominal	28,000	35,000	35,000	35,000	35,000	21,000	189,000
Discount	(3,141)	(11,005)	(17,225)	(21,747)	(25,097)	(16,305)	(94,520)
<b>Recognised</b>	<b>24,859</b>	<b>23,995</b>	<b>17,775</b>	<b>13,253</b>	<b>9,903</b>	<b>4,695</b>	<b>94,480</b>

In October 2010, the Crown signed a Settlement Deed with Maniapoto Maori Trust Board relating to the Waikato River co-management arrangements (in the previous financial year, the Crown signed Settlement Deeds with Waikato Tainui, Tuwharetoa, Te Arawa and Raukawa).

The Deed requires the Crown to make various payments over the next 19 years in relation to the co-management arrangements.

The total amount of the payments has been provided for at 30 June 2011. The cash outflow has been discounted to recognise the present value of the future payments using the risk-free discount rate provided by the Treasury. The table above reconciles the cash outflows that will occur over the next 20 years.

## 4. Financial instruments

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

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
	<b>Loans and receivables</b>	
12,063	Cash and cash equivalents	4,857
6,575	Debtors and other receivables	6,809
18,638	Total loans and receivables	11,666
	<b>Financial liabilities measured at amortised cost</b>	
10,329	Creditors and other payables	171,357

### *Credit risk*

Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred. Credit risk arises from debtors and deposits with banks. Funds must be deposited with Westpac, a registered bank.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

## 5. New Zealand's obligation under the Kyoto Protocol

<b>Actual 2010 \$ million</b>	<b>Analysis of the Kyoto Protocol obligation</b>	<b>Actual 2011 \$ million</b>
	<b>207 Opening position (provision)</b>	<b>212</b>
(30)	Change in the price of carbon	(123)
35	Change in net projected emission units	202
	<b>212 Closing position (provision)</b>	<b>291</b>
	<b>Emission units</b>	<b>Emission units<sup>25</sup></b>
309.6	Kyoto Target (Assigned Amount Units)	309.6
5.0	Less AAUs allocated to emission reducing projects	3.4
	<b>304.6 Total commitment target</b>	<b>306.2</b>
	<b>Projected emission units</b>	
177.6	Agriculture	170.1
184.9	Energy (including transport) and industrial processes	183.6
8.2	Waste	9.9
0.2	Solvent and other product use	0.1

<sup>25</sup> One emission unit is equivalent to one tonne of greenhouse gas emissions converted to carbon dioxide equivalents by the global warming potential.

<b>Actual 2010 \$ million</b>	<b>Analysis of the Kyoto Protocol obligation</b>	<b>Actual 2011 \$ million</b>
<b>370.9</b>	<b>Total projected emission units</b>	<b>363.7</b>
89.1	Removals via forests	89.3
(9.2)	Deforestation emissions	(6.6)
79.9	Net removals via forests	82.7
<b>291.0</b>	<b>Net projected emission units</b>	<b>281.0</b>
2.4	Less net transfers of AAUs	3.4
11.2	<b>Surplus (deficit) in units</b>	21.8
<b>\$ million</b>		<b>\$ million</b>
212	<b>Surplus (deficit) in \$ millions</b>	291

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008–2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests. New Zealand's Kyoto Protocol compliance over the first commitment period will not be finalised until 2015 when the annual submission covering the period 1990 to 2012 is submitted and internationally reviewed. These financial statements report on the New Zealand Government's obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

New Zealand's net Kyoto position as at 30 June 2011 of \$NZ291 million (2010: \$NZ212 million) is based on the projected surplus of 21.8 million Kyoto Protocol emission units and a carbon price of €7.63 per unit. The carbon price in New Zealand dollars equates to \$NZ13.31 (2010: \$NZ18.94), using the 30 June 2011 exchange rate of €0.57335 = \$NZ1 (30 June 2010: €0.5677 = \$NZ1, and a carbon price of €10.75 per unit).

The Ministry for the Environment took over the role of estimating the carbon price in mid 2010, and has reviewed the methodology used to calculate the carbon price. The carbon price used is based on report dated 21 July 2011, by Point Carbon on the AAU market and a recommendation of fair value of AAUs as at 30 June 2011.

The projected balance of Kyoto Protocol units (the net position) is compiled by the Ministry for the Environment using sectoral projection reports from across government. This includes reports on Agriculture emissions and net removals from eligible forests from the Ministry of Agriculture and Forestry; energy emissions (including transport) and industrial processes emissions from the Ministry of Economic Development, and emissions from the waste sector from the Ministry for the Environment. This year for the first time New Zealand's Kyoto Position was estimated using the Land Use and Carbon Analysis System, (LUCAS). Details of the net position can be found on the Ministry for the Environment's website: <http://www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position/index.html>. The sectoral reports from other departments can also be found by following links on this website. The projections use the latest information from the national inventory of greenhouse gas emissions and removals submitted to the United Nations Framework Convention on Climate Change secretariat on 15 April 2011.

No liability for periods beyond 2012 has been recognised, as New Zealand currently has no specific obligations beyond the first commitment period. However, a view about the outcome of negotiations for future periods is intrinsic to the market price for carbon that has been used to measure the position.

Beyond 2012, the financial impact of New Zealand's climate change response will depend on the global stabilisation goal, the global cap/emission reducing strategy, the rules regarding which activities can be used to achieve emission reductions and the target that New Zealand signs up to.

Within New Zealand, the Emissions Trading Scheme (NZ ETS) will transfer a price of carbon through the economy. Determinations as to when sectors are covered under the NZ ETS and how much free allocation is made to these sectors therefore also impact the financial statements of government.

The measurement of the Kyoto position is, by its nature, more uncertain than a number of other items in the statement of financial position. Fluctuations in the value of the estimate may occur through changes in the assumptions underlying the quantum, movements in the price of carbon and the exchange rate with the European currency unit, and government policy changes.

## 6. Provisions

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Current portion</b>		
20,294	Waikato River Clean-up Fund	0
40,000	Waikato River Initiatives Fund	0
5,798	Waikato River Co-management Fund	0
1,132	Indemnity payments	535
74,074	Allocation of New Zealand Units	612,056
141,298	Total current portion	612,591
<b>Non-current portion</b>		
91,303	Waikato River Clean-up Fund	0
46,126	Waikato River Co-management Fund	0
137,429	Total non-current portion	0
<b>278,727</b>	<b>Total provisions</b>	<b>612,591</b>

	<b>Waikato River Clean-up Fund \$000</b>	<b>Waikato River Initiatives Fund \$000</b>	<b>Waikato River Co- management Fund \$000</b>	<b>Indemnity \$000</b>	<b>Allocation of New Zealand Units \$000</b>	<b>Total \$000</b>
Balance at 1 July 2009	0	0	0	504	16,421	<b>16,925</b>
Additional provisions made	111,596	40,000	51,925	1,233	84,794	289,548
Amounts used	0	0	0	(605)	(27,141)	(27,746)
Unused amounts reversed	0	0	0	0	0	0
<b>Balance at 30 June 2010</b>	<b>111,596</b>	<b>40,000</b>	<b>51,925</b>	<b>1,132</b>	<b>74,074</b>	<b>278,727</b>
Balance at 1 July 2010	<b>111,596</b>	<b>40,000</b>	<b>51,925</b>	<b>1,132</b>	<b>74,074</b>	<b>278,727</b>

Additional provisions made	0	0	0	0	859,532 <sup>26</sup>	859,532
Amounts used	(21,000)	(40,000)	(13,000)	(597)	(321,550) <sup>27</sup>	(396,147)
Amounts transferred <sup>28</sup>	(90,596)	0	(38,925)	0	0	(129,521)
Unused amounts reversed	0	0	0	0	0	0
<b>Balance at 30 June 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>535</b>	<b>612,056</b>	<b>612,591</b>

Indemnity payments relate to the Projects to Reduce Emissions and this is authorised under section 65ZG of the Public Finance Act 1989.

The New Zealand Emissions Trading Scheme (NZ ETS) was established to encourage reduction in greenhouse gas emissions. The NZ ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely or sell to entities. The allocation of NZ Units creates a provision. An expense is recognised in relation to the allocation of free units. The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto units to settle their emission obligation, which will not impact on the provision balance.

The Government has adopted a phased approach for sectoral entry in the NZ ETS. As at 30 June 2011 the forestry, stationary energy, industrial process and liquid fossil fuels sector had entered into the NZ ETS. There was a one off allocation to fishing sector. In the ETS transition period to the end of 2012, emitters can also use the \$NZ25 price option to settle their emission obligation.

The carbon price of €11.63 (2010: €10.75) has been used to value NZUs which equates to NZ\$20.28 (2010: NZ\$18.94). This price is determined as the average (mean) of the offer and bid price for category 3 primary certified emissions reduction (pCER) units which is available from Point Carbon. Due to lack of transparency for NZUs in New Zealand markets, this has been used as a proxy for the carbon price to value the NZUs liability. The pCER price has shown strong correlation with the European Unit Allowance (EUA) price and these units are accepted into the European Union Emissions Trading Scheme (EU-ETS).

Details of current climate change policies are listed at: [www.mfe.govt.nz/issues/climate/policies-initiatives](http://www.mfe.govt.nz/issues/climate/policies-initiatives).

## 7. Events after the balance sheet date

As of 1 July 2011, Environmental Protection Authority, a Crown entity was established and all functions of the Environmental Risk Management Authority have been merged into this newly created entity.

<sup>26</sup> The additional provision for the allocation of NZ Units in 2011 reflects an allocation of 43,144,000 NZ Units. In monetary terms, the additional provision made comprises of \$837.524 million for the allocation of NZ units plus \$22,008,000 for change in the carbon price and exchange rate movements (2010: Allocation of 4,456,000 units; \$90.009 million additional provision made less \$5.215 million for change in the carbon price and exchange rate movements).

<sup>27</sup> The amount of provision used represents 16,663,000 units surrendered by emitters (2010: nil). In monetary terms, provision used comprises of \$325.968 million less use of the fixed price cash option \$1.102 million less surrenders due but not received \$3.316 million. There were no conversions of NZUs to Assigned Amount Units (AAUs) during the year (2010: 1,237,000 units representing \$27.141 million).

<sup>28</sup> Transfer from provisions to the Creditors and other payables for the Waikato River Co-management and the Waikato River Clean-up Fund which are now more certain in timing and amount.

Apart from those described above, no other significant events which may impact on the results have occurred between year end and the signing of these financial statements.

## 8. Notional account for the Waste Minimisation Fund

<b>Actual 2010 \$000</b>		<b>Actual 2011 \$000</b>
<b>Provision for statutory information</b>		
0	Balance at 1 July	10,389
24,973	Revenue from waste levy collection	25,037
(14,584)	Expenses	(17,864)
<b>10,389</b>	<b>Balance at 30 June</b>	<b>17,562</b>

The notional account records the accumulated surpluses and deficits incurred in maintaining the Waste Minimisation Fund. The revenue represents the levy that is collected by waste disposal facilities. The expenses represent the disbursement of the received levy to territorial authorities, the Waste Minimisation Fund and the administration cost incurred by the Ministry. These transactions are included as part of the Non-Departmental Schedules of Income and Expenses.

## 9. Explanations of major variances against budget

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

### (i) *Schedule of non-departmental income*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Levies	25,037	30,000	4,963
Emissions trading	325,968	377,539	51,571
Change in estimate of Kyoto units held	205,627	0	(205,627)

Waste disposal levy collection estimates were based on the information gathered from waste disposal facilities, the actual net waste disposal was less than estimated. Revisions were made to these forecasts after the first year of actual collection.

The Revenue from surrendering of NZ/international Units from emitters was lower than budget. This is due the fact that this was the first year of actual receipts of Emissions Trading Scheme revenue and it was difficult to forecast.

The variance between the Mains estimate and the actual revenue for change in estimate of Kyoto units held relates to the release of Kyoto Protocol (the Net Position) report which occurs in April each year. These changes are considered as remeasurement under the Public Finance Act 1989 and do not require appropriation.

There were no other significant variances to budget.

(ii) *Schedule of non-departmental expenses*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Grants and settlements	47,298	52,953	(5,655)
Levy disbursement	12,518	15,000	(2,482)
Issue of NZ AAU's to PFSI Participants	3,940	7,814	(3,874)
Allocations of New Zealand Units	837,524	1,033,977	(196,453)

Grants and settlements were lower than budget due to:

- transfer of funds from 2010/11 to 2011/12 for Contaminated Sites Remediation Fund \$3.2 million and Hawke's Bay River Clean-up Fund \$2.0 million
- Contestable Waste Minimisation Fund grants payments were lower than anticipated due to timing differences. This is offset by an unappropriated amount in Waikato River Clean-up Fund.

Levy disbursements to the territorial authorities depend entirely upon the waste disposal levy collections. Since 50 per cent of the levy collected is distributed to the territorial authorities, the levy disbursements were lower than budget due to the actual net waste disposal levy collected being less than estimated (Refer Notional account for expenditure).

The Ministry issued lower than anticipated NZ AAU's in the financial year ended 30 June 2011 due to a lower level of uptake by Permanent Forest Sink Initiative (PFSI) Participants.

The allocations of New Zealand Units were lower than budget due to:

- The reduction in forecast for the Post 89 forestry allocation after the forestry participants survey undertaken by the Ministry of Agriculture and Forestry, and
- Movements in the carbon price per unit and the Euro/NZ exchange rate.

(ii) *Statement of assets*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Cash and cash equivalents	4,857	8,763	(3,906)
Debtors and other receivables	6,809	0	6,809
Kyoto Protocol units	290,651	231,161	59,490
PRE units	617	3,453	(2,836)

Due to timing differences in Crown payments of certain grants and settlements funding, the Ministry drew less funding from the Crown, and this resulted in lower than the budgeted cash and cash equivalents.

Debtors and other receivables relates to the waste disposal levy collection from waste disposal facility operators and refund from Energy Efficiency and Conservation Authority for the underspend of Warm Homes Grants funding.

Kyoto Protocol units are higher than budget due to the change in the projected net position of Kyoto units which occurs with the release of Kyoto Protocol (the Net Position) report in April each year. This asset is also affected by the movement carbon price per unit and exchange rates.

The purchase of PRE units was lower than budget due to:

- uncertainty of timing under the committed contracts
- a subsequent decision to terminate some contracts.

*(iii) Statement of liabilities*

	<b>Actual 2011 \$000</b>	<b>Main estimates 2011 \$000</b>	<b>Variance \$000</b>
Creditors and other payables	171,358	8,200	(163,157)
Provisions	612,591	744,933	132,342

Creditors and other payables are higher than budget due to the Waste disposal levy disbursement to Territorial Local Authorities and other increases in accounts payable. Transfers from provisions for the Waikato River Co-management Fund and the Waikato River Clean-up Fund which are now more certain in timing and amount have also increased the balance.

Provisions include Indemnity payments and the Allocation of New Zealand Units. Provisions relating to the Allocation of New Zealand Units were lower than budget due to:

- the reduction in forecast for Post 89 forestry allocation after the forestry participants survey under taken by the Ministry of Agriculture and Forestry
- movements in the carbon price per unit and the Euro/NZ exchange rate.

# Statement of Responsibility

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry for the Environment, for the preparation of the Ministry's financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility of establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Ministry for the year ended 30 June 2011.

A handwritten signature in black ink, appearing to read 'Paul Reynolds', followed by a long horizontal line extending to the right.

Paul Reynolds  
Chief Executive  
30 September 2011

Countersigned by:

A handwritten signature in black ink, appearing to read 'Glenn Phillips'.

Glenn Phillips  
Chief Financial Officer  
30 September 2011

## Independent Auditor's Report

**To the readers of the  
Ministry for the Environment's  
financial statements, non-financial performance information and  
schedules of non-departmental activities  
for the year ended 30 June 2011**

The Auditor-General is the auditor of the Ministry for the Environment (the Ministry). The Auditor-General has appointed me, Robert Cox, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Ministry on her behalf.

We have audited:

- the financial statements of the Ministry on pages 42 to 67, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in taxpayers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the non-financial performance information of the Ministry that comprises the statement of service performance on pages 25 to 40 and the report about impacts on pages 12 to 24; and
- the schedules of non-departmental activities of the Ministry on pages 68 to 89 that comprise the schedule of assets, schedule of liabilities, schedule of commitments and schedule of contingencies as at 30 June 2011, the schedule of expenses, schedule of expenditure and capital expenditure against appropriations, schedule of unappropriated expenditure and capital expenditure, schedule of income and schedule of capital receipts, for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Ministry on pages 42 to 67:
  - comply with generally accepted accounting practice in New Zealand; and

- fairly reflect the Ministry's:
  - financial position as at 30 June 2011;
  - financial performance and cash flows for the year ended on that date;
  - expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2011; and
  - unappropriated expenses and capital expenditure for the year ended 30 June 2011.
- the non-financial performance information of the Ministry on pages 25 to 40 and 12 to 24:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Ministry's service performance and impacts for the year ended 30 June 2011, including for each class of outputs:
    - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- the schedules of non-departmental activities of the Ministry on pages 68 to 89, fairly reflect:
  - the assets, liabilities, contingencies and commitments as at 30 June 2011 managed by the Ministry on behalf of the Crown; and
  - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Ministry on behalf of the Crown.

Our audit was completed on 30 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

## **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Ministry's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the appropriateness of the reported non-financial performance information within the Ministry's framework for reporting performance;
- the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Ministry's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflect its service performance and impacts; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions 2010 that fairly reflect those activities managed by the Ministry on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

## Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Ministry.



Robert Cox  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

## Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Ministry for the Environment for the year ended 30 June 2011 included on the Ministry for the Environment's web site. The Chief Executive is responsible for the maintenance and integrity of the Ministry for the Environment's web site. We have not been engaged to report on the integrity of the Ministry for the Environment's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 September 2011 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 5 Contact Information

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# Appendix A: Advisory Bodies 2010/11

## Environmental Legal Assistance Fund Advisory Panel

Purpose	<p>The Environmental Legal Assistance Fund including the Panel has been in operation since 2001. The Panel provides independent and expert evaluations and recommendations to the Secretary for the Environment on applications for funding assistance. The fund meets expenses of legal counsel and expert witnesses appearing before courts and boards of inquiry considering resource management issues. The Panel is chaired by Dr Royden Somerville QC. The Panel's members are appointed for their knowledge of environmental law, resource management issues and of community groups and iwi.</p> <p>The Panel met fewer times than usual during the year under review because there were more large cases than usual funded in the early months of the financial year. That resulted in a shortfall of funds to allocate in the second half of the year.</p>
Number of members	7
Number of meetings held from 1 July 2010 to 30 June 2011	10

## Waste Advisory Board

Purpose	The Waste Advisory Board was established under the Waste Minimisation Act 2008 to provide advice to the Minister on request, on such matters as the declaration of priority products, product stewardship scheme guidelines, funding criteria, effectiveness of the waste levy, and regulations under the Act.
Number of members	8 members throughout the period
Number of meetings held from 1 July 2010 to 30 June 2011	3

## Emissions Trading Scheme Review Panel

Purpose	The ETS Review Panel was established in December 2010 to undertake a review of the New Zealand Emissions Trading Scheme. The Climate Change Response Act requires this review to be completed before the end of 2011.
Number of members	7
Number of meetings held from 1 July 2010 to 30 June 2011	14

## Fiordland Marine Guardians

Purpose	The functions of the Fiordland Marine Guardians include advising and making recommendations to management agencies (the Ministry for the Environment, the Department of Conservation, the Ministry of Agriculture and Forestry, the Ministry of Fisheries, and Southland Regional Council), and Ministers about the effectiveness of management measures in the Fiordland (Te Moana o Atawhenua) Marine Area and likely threats to the area.
Number of members	8
Number of meetings held from 1 July 2010 to 30 June 2011	5

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**Land and Water Forum**

Purpose	The Land and Water Forum has been asked to advise the Minister of Agriculture and the Minister for the Environment on how water should be managed in New Zealand. The Land and Water Forum comprises a range of primary industry groups, iwi, environmental and recreational non-governmental organisations, as well as other organisations with an interest in fresh water and land management. The Forum reported to Ministers in September 2010, undertook a period of public engagement throughout New Zealand on its recommendations from October 2010 to March 2011, and provided further advice to Ministers in April 2011.
Number of members	Plenary organisations: Approximately 57 Small group organisations: 22 Central and local government organisations as active observers: 6
Number of meetings held from 1 July 2010 to 30 June 2011	Plenary: 3 meetings Small group: 9 meetings over 13 days Public engagement meetings: 18

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**Board of Inquiry for the Proposed Men's Prison at Wiri Project**

Purpose	This Board of Inquiry was established under section 146 of the Resource Management Act 1991 (the RMA), to hear and decide the alterations to a Designation to provide for a Men's Prison at Wiri, deemed by the Minister for the Environment a proposal of national significance.
Number of members	5
Number of meetings held from 1 July 2010 to 30 June 2011	Hearing days: 17 Board meetings: 8

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**Board of Inquiry for the Tauhara II Geothermal Development Project**

Purpose	This Board of Inquiry was established under section 149J of the Resource Management Amendment Act 2009 to hear and decide the matters lodged by Contact Energy Ltd for its geothermal power station development proposal of national significance.
Number of members	5
Number of meetings held from 1 July 2010 to 30 June 2011	Hearing days: 6 Board meetings: 7

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**Board of Inquiry for the Turitea Wind Farm Project**

Purpose	This Board of Inquiry was established under Section 146 of the Resource Management Amendment Act 2005 to hear and decide the wind farm proposal lodged by Mighty River Power and called-in by the Minister for the Environment.
Number of members	5
Number of meetings held from 1 July 2010 to 30 June 2011	Board meetings: 3

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**Board of Inquiry for the Hauāuru mā raki Wind Farm Project**

Purpose	This Board of Inquiry was established under Section 146 of the Resource Management Amendment Act 2005 to hear and decide the matters called-in by the Minister for the Environment, deemed a proposal of national significance, for a proposed wind farm located between Port Waikato and Raglan.
Number of members	4
Number of meetings held from 1 July 2010 to 30 June 2011	Hearing days: 25 Board meetings: 8

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**Board of Inquiry for the Plan Change Transmission Gully**

Purpose	The Board was established under section 142 of the Resource Management Amendment Act 2010 to hear and decided the New Zealand Transport Agency's (NZTA) request for changes to policies, the addition of a new policy and two new definitions to the Greater Wellington Regional Freshwater Plan (the plan change request). NZTA has indicated that the plan change request is designed to better enable the consideration of the subsequent matters that will be lodged with the EPA relating to the NZTA's Transmission Gully Project which is considered a Road of National Significance.
Number of members	5
Number of meetings held from 1 July 2010 to 30 June 2011	Hearing days: 6 Meetings: 7

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**Board of Inquiry for the Waterview Connection Proposal**

Purpose	This Board of Inquiry was established under section 149J of the Resource Management Amendment Act 2009 to hear and decide the matters lodged by the NZTA to complete the Western Ring Route around Auckland by connecting SH20 to the Northwestern Motorway (SH16).
Number of members	5
Number of meetings held from 1 July 2010 to 30 June 2011	Pre-Hearing Conferences: 2 Board Meetings: 7 Hearing days: 16

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**Special Tribunal appointed to hear the proposed amendment to the Kawarau Water Conservation Order**

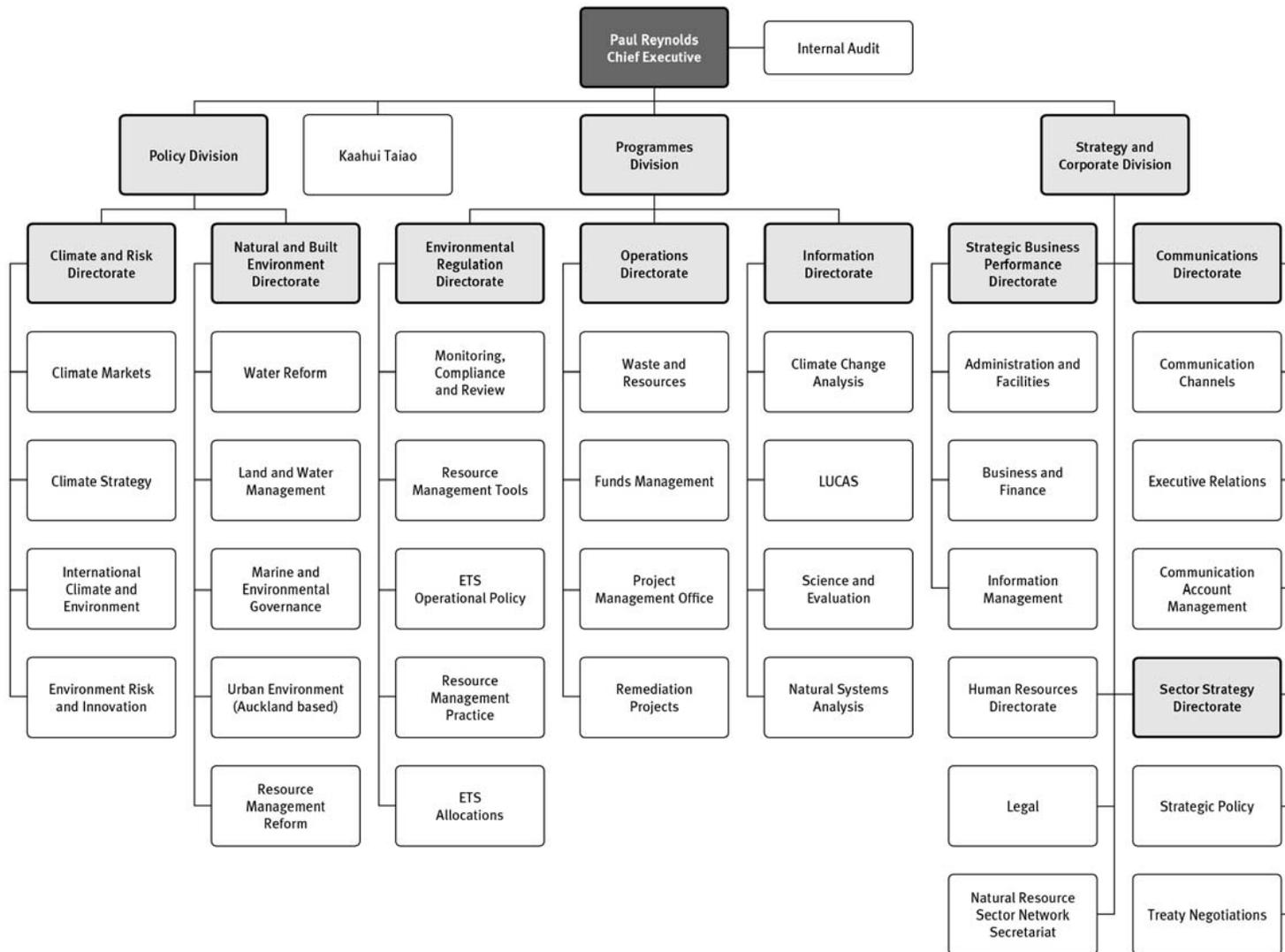
The Tribunal was appointed in August 2008 to consider the application and prepare a decision report to the Minister. While it reported to the Minister on 24 August 2010, hearings were completed on 25 May 2010.

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# Appendix B: Organisational Chart

Below is brief overview of the services we perform, followed by the Ministry's organisational chart, as at 1 July 2011:

- |                                 |  |
|---------------------------------|--|
| Policy Division                 | <ul style="list-style-type: none"><li>• policy thinking</li><li>• problem definition scoping</li><li>• options development and analysis</li><li>• regulatory impact</li></ul>  |
| Programmes Division             | <ul style="list-style-type: none"><li>• technical design</li><li>• delivery and review of the national instruments/tools or operational functions that give effect to the policies and legislation</li><li>• provision of information on a range of environmental data</li></ul> |
| Strategy and Corporate Division | <ul style="list-style-type: none"><li>• internal / external strategy</li><li>• organisational performance</li><li>• strategic policies</li><li>• Treaty negotiations</li><li>• governance related relationships</li><li>• corporate services.</li></ul>                          |



# Environmental stewardship for a prosperous New Zealand – a dashboard approach

This diagram provides a summary of key measures that have direct or indirect links to the Ministry for the Environment's end outcomes. Some measures intersect more than one outcome. The measures and indicators include the Ministry's core set of environmental indicators and other measures that have a direct or indirect link to the Ministry's work. Two supporting files provide the reasoning for each indicator and data.

The colour coding applies to **trends** (normally over the last 4-5 years) and not to the status quo in absolute terms. 'Green', for example, means that the situation is improving and does not necessarily mean that it is 'good' (or sufficient).

