



**REPORT OF THE MINISTRY FOR THE ENVIRONMENT
FOR THE YEAR ENDED 30 JUNE 2012**



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 2012

Presented to the House of Representatives
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1 Overview of the 2011/12 Year

Introduction from the Chief Executive

The Ministry for the Environment is in the privileged position of playing a major role in the stewardship of New Zealand's environment. This is a crucial role, given New Zealand's economic well-being is heavily dependent on the health of its environment.

Over the past year, the Ministry has focused on achieving progress in the seven priority areas set out in our Statement of Intent 2011–14 (see page 'Our performance highlights for 2011/12').

Broadly speaking, these areas cover the way the country's fresh water, land and Exclusive Economic Zone assets are managed and reported on, as well as how we meet our climate change obligations.

The Ministry's job is a complex one. On the one hand, we work to protect the environment while on the other we work to reverse and deal with negative trends that started decades ago.

Reversing negative environmental trends takes longer than it takes to create the issue. Making progress requires the Ministry to ensure the advice we provide and investments we make have the widespread understanding and support of stakeholders. This is an ongoing challenge, given diverse views on the environment and its intersection with the economy.

Added to the Ministry's focus over the past year was the development of a long-term environmental recovery plan, following the grounding of the Rena off the Tauranga coast in October 2011.

While the Ministry is marked on what we achieve externally, we are well aware of the link between how we operate internally and the progress we make externally.

In the past two years, we have worked hard to embed our strategic direction in an operating environment that requires the organisation to make the very best use of the resources available to it. What is rewarding is the fact the Ministry's strategic direction has never been more relevant and the focus on embedding it is creating an organisation that delivers consistently while being flexible and efficient.



Dr Paul Reynolds
Chief Executive

Our role

Mission

Environmental stewardship for a prosperous New Zealand

Tiakina te taiao kia tōnui a Aotearoa

The Ministry for the Environment is the Government's primary adviser on the New Zealand environment and international matters that affect the environment. The Environment Act 1986, under which the Ministry was established, describes functions that include collecting and disseminating information, providing advice, resolving conflict, and providing an environmental perspective on government proposals.

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.

Many international issues and agreements, especially global action on climate change, are connected to environmental management. We have a significant role in providing advice on international negotiations and ensuring New Zealand meets its obligations under international agreements.

Fresh water and other natural resources are important for New Zealand's economic development and prosperity. Environmental policy and management, therefore, must connect with economic policy. The Ministry works with other natural resources agencies of government to give integrated advice on how resources can be used efficiently within sustainable limits. The Ministry also monitors the activities and performance of the recently established EPA on behalf of the Minister for the Environment.

Legislation administered by the Ministry for the Environment

A number of the Ministry's work programmes include administration of legislation. The Ministry is responsible for the following laws, including amendments and regulations under these laws:

- Soil Conservation and Rivers Control Act 1941
- Environment Act 1986
- 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
- Environment Canterbury (Temporary Commissioners and Improved Water Management) Act 2010
- Environment Protection Authority Act 2011
- Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012.

Our performance highlights for 2011/12

At the start of 2011/12, the Minister for the Environment set out seven priorities for the Ministry for the Environment's work programme. This section outlines some of our achievements in those priority areas, as well as our role in the Rena recovery which (while not an original ministerial priority) became part of the Ministry's work programme for 2011/12.

Improving New Zealand's freshwater management

This year, the Ministry continued to progress several initiatives to support better management of fresh water in New Zealand. These included:

- providing a response to recommendations made by the Land and Water Forum on setting water quantity limits and governance structures
- assisting the Minister for the Environment to implement a Protocol between the Crown and the Iwi Leaders' Group for Fresh Water
- supporting and monitoring progress by third parties of initiatives funded by the Fresh Start for Fresh Water funds, including the Lake Taupo Protection Programme, the Rotorua Lakes Protection and Restoration Action Programme, and the Fresh Start for Fresh Water New Initiatives Fund.

The Fresh Start for Fresh Water New Initiatives Fund was established by Budget 2011. Projects approved for funding to date include the clean-up of Te Waihora/Lake Ellesmere and the remediation of the Manawatu River. Other projects funded include Lake Wairarapa, and the Wainono and Waituna lagoons. These projects are expected to be completed over the next four years.

Improving management of the Exclusive Economic Zone

During 2011/12 significant progress has been made to 'plug the gaps' in the regulatory system for New Zealand's Exclusive Economic Zone and Extended Continental Shelf. In August 2011, the Government introduced legislation to support New Zealand's reputation as a safe and clean environment and to provide certainty for industry on the regulatory processes that may affect investments. The Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act passed its third reading on 28 August 2012 and was enacted on 3 September 2012. The Act will come into force when the first set of regulations is promulgated. This is expected to occur in mid-2013.

Establishing the Environmental Protection Authority

On 1 July 2011, the new Environmental Protection Authority (EPA) began operations as a separate Crown Entity. The EPA was created in October 2010 and was initially located within the Ministry. During the 2011 calendar year 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. The Ministry has continued to maintain a strong working relationship with the new EPA.

The EPA is continuing to embed new functions. In January 2012, the administration of the New Zealand Emissions Trading Scheme (NZ ETS) was successfully transferred from the Ministry to the EPA. The EPA is also preparing itself for new functions established under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012.

Resource management reforms

In 2011/12, the Ministry has continued to develop policy on Phase Two of the resource management reforms. Under Phase Two the Ministry has been looking at some of the more complex issues related to planning and decision-making in the wider resource management system. It also includes an independent review of sections 6 and 7 of the Resource Management Act. Decisions on these recommendations will be considered by the Government in 2012/13.

Improving reporting of New Zealand's environmental performance

During 2011/12, the Ministry has provided advice on options and the merits or otherwise of the options for improving reporting of New Zealand's environmental performance. We have also looked at how our reporting systems can be improved. Specifically we have been working with Statistics New Zealand and the Department of Conservation to develop an *Environment Domain Plan*. This plan seeks to address gaps, overlaps and deficiencies in the current environmental data.

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

During 2011/12, we have continued to contribute to the development of New Zealand's negotiating position and to articulate that position at United Nations Framework Convention on Climate Change meetings and other related forums.

The United Nations Climate Change Conference in Durban resulted in agreement to a second commitment period (CP2) under the Kyoto Protocol. While the outcomes of this conference exceeded expectations and many of New Zealand's objectives were met, the conditions around New Zealand's target range (of reductions of between 10 to 20 per cent below 1990 levels) have only partially been met.

Operation and review of the Emissions Trading Scheme

The independent review of the Emissions Trading Scheme was completed in June 2011. Since then the Ministry has been considering the Review Panel's final report and providing advice to Cabinet on the impact of the recommendations.

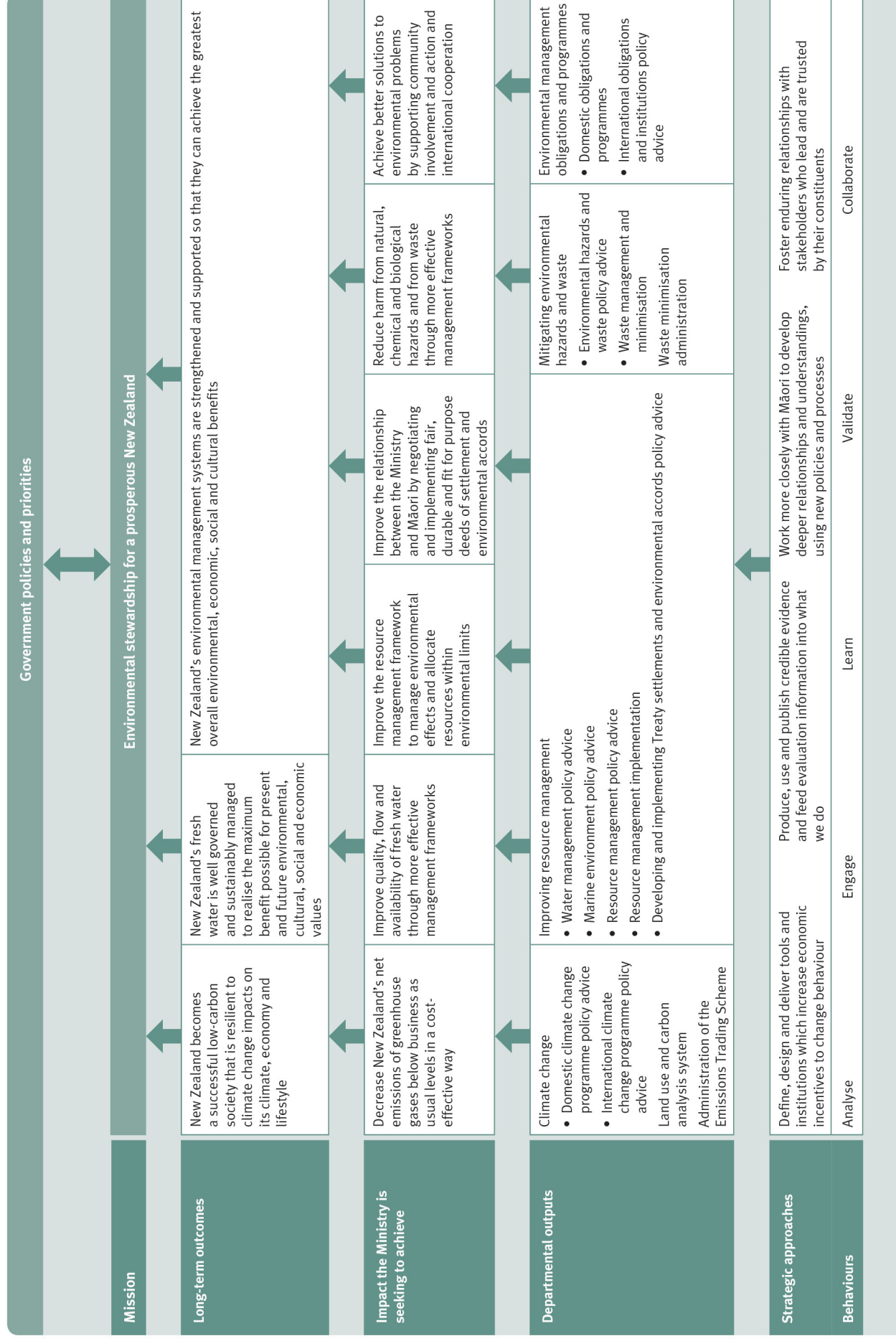
In April 2012, the Ministry invited public consultation on the proposed changes with the release of *Updating the New Zealand Emissions Trading Scheme – a Consultation Document*. Following this consultation, the Government announced the amendments it intends to effect through legislation to be introduced to the House later this year. The announced changes are available on the Government's climate change website: www.climatechange.govt.nz.

Rena Recovery

In October 2011, New Zealand experienced its worst maritime environmental disaster when the Rena struck Otaiti (Astrolabe Reef). Immediately after the grounding, Maritime New Zealand led the emergency response and the Ministry for the Environment began developing a long-term environmental recovery plan. This plan was developed in consultation with iwi from across the region, Bay of Plenty councils, neighbouring councils, and key central government agencies. The plan outlines the known and likely effects on the environment, the key partners involved, the actions that will be undertaken, and the monitoring that is required to track progress in the restoration of the environment.

The Ministry is monitoring the ongoing implementation of the plan through a deed of funding that has been set up with the Bay of Plenty Regional Council.

2 Outcomes Framework



Progress against our impacts

Impact	Impact measure	Target	2011/12 result	2010/11 result
Outcome: New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle				
1. Decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost effective way	i. Trends in greenhouse gas emissions and removals in the annual greenhouse gas inventory	Downward trend in net emissions	Downward trend in net emissions under Kyoto Protocol	Downward trend in net emissions under Kyoto Protocol
	ii. Trends in greenhouse gas intensity of the economy by emissions per unit of GDP and emissions per capita	Downward trends	Downward trend	Downward trend
	iii. Divergence between forecast net position and Kyoto Protocol obligations	Decreasing liability / increasing asset	Decreasing asset due to a fall in carbon price	Increasing asset due to lower projected emissions from agriculture and higher projected net removals
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				
2. Improve quality, flow and availability of fresh water through more effective management frameworks	i. Proportion of water allocated for consumptive purposes that is subject to measurement and reporting	Increasing proportion	Benchmark information provided (one data point only) – 31% of water allocated for consumptive purposes is subject to measuring and reporting (This measure was not remeasured in 2011/12)	Benchmark information provided (one data point only) – 31% of water allocated for consumptive purposes is subject to measuring and reporting
	ii. Number of large surface water catchments that have quantified flow regimes in place that set limits	Increasing number	487 significant catchments are fully covered (up by 23 from 2010/11) 29 significant catchments are partially covered (no change from 2010/11)	Benchmark information provided (one data point only) 464 significant catchments are fully covered 29 significant catchments are partially covered
	iii. Number of significant catchments that have quantified policy for land and water management that sets surface water quality limits	Increasing number	59 significant catchments are fully covered (up by 21 from 2010/11) 38 significant catchments are partially covered (up by 9 from 2010/11)	Benchmark information provided (one data point only) 38 significant catchments are fully covered 29 significant catchments are partially covered

Impact	Impact measure	Target	2011/12 result	2010/11 result
	iv. Number of monitored sites showing maintained or improved water quality	Increasing proportion of monitored sites improving	29% of sites show deteriorating quality / 19% show no significant trend (This measure was not remeasured in 2011/12)	29% of sites show deteriorating quality / 19% show improving quality / 52% show no significant trend
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				
3. Improve the resource management framework to manage environmental effects and allocate resources within environmental limits	i. The national environmental standard for air quality (PM ₁₀ fine particulate pollution) is complied with by the target dates in the standards	100% compliance by 2020	Static level of compliance (49%) overall / 100% compliance against 2011 target	Increasing compliance (50%)
	ii. Trends in EPA and local government compliance with resource consent processing times under the RMA 1991	Upward trend (councils) / 100% (EPA)	Upward trend (councils) / 99% (EPA)	Downward trend (councils) – last survey in 2007/08 100% EPA
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	i. Percentage of Māori partners in deeds of settlement and environmental accords satisfied or very satisfied with Ministry implementation of obligations	80 ¹ % satisfied or very satisfied	100% satisfied or very satisfied	100% satisfied or very satisfied
	ii. Percentage of relevant Ministry obligations under deeds of settlement and environmental accords met	100% compliance	80% compliance	80% compliance
5. Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks	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	10% increase from 2009/10 to 2010/11 in number of incidents (Data for 2011/12 is currently unavailable and will be reported in the 2012/13 annual report)	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	Downward trend (17.7 tonnes per \$1 million GDP (projected) for the year ending 30 June 2012 / 18.7 tonnes per \$1 million GDP for the year ending 30 June 2011)	Upward trend (18.9 tonnes per \$1 million GDP (projected) for the year ending 30 June 2011 / 18.6 tonnes per \$1 million GDP for the year ending 30 June 2010)

¹ The original target as per 2011/12 Estimates was '50 per cent satisfied or very satisfied'. This target was revised in the Ministry's Statement of Intent – 2012–2015. The Ministry has decided to report against this latest target as it is considered a more useful target.

Impact	Impact measure	Target	2011/12 result	2010/11 result
6. Achieve better solutions to environmental problems by supporting community involvement and action and international cooperation	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	Total priority sites identified = 67 Remediated priority sites = 14 Managed priority sites = 10 Percentage remediated/managed = 36%	Total priority sites identified = 61 Remediated priority sites = 13 Managed priority sites = 5 Percentage remediated/managed = 30%
	ii. Level of community involvement in projects funded by the Community Environment Fund	Increasing community involvement	Benchmark information provided (one data point only) –\$2.7 million of in-kind contributions for \$1.3 million worth of government funding (projected for first funding round)	Benchmark information provided (one data point only) –\$1.5 million of in-kind contributions for \$750,000 worth of government funding (projected for first funding round)
	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	100% of objectives met by 97% of projects	100% of objectives met by 85% of projects

For more information about what we did under each impact area; what it cost (and how this compared to budget); and how we performed against our performance targets see Section 3 – Statement of Service Performance.

3 Statement of Service Performance for the Year Ended 30 June 2012

Introduction

In carrying out our mission of ‘environmental stewardship for a prosperous New Zealand’, it is important for the Ministry to take a long-term view, so the capacity of the environment to generate benefits is maintained. The New Zealand economy relies heavily on natural resources. For New Zealanders to be prosperous, resources must be allocated efficiently to generate the most benefit while avoiding pollution and damage to the natural environment or public health.

Section 2 presented the Ministry’s Outcomes Framework which sets out the longer-term outcomes needed to ensure a healthy environment. It also identifies the impacts the Ministry wants to achieve in the shorter term as its contribution to these outcomes.

This section provides detailed information about:

- what the Ministry is aiming to achieve under each of these outcomes
- what progress has been made to date
- what the Ministry has done to achieve its desired impacts
- how much it has cost
- how the Ministry has performed and whether we have met our performance targets in the current financial year.

In 2010/11, we reviewed our output class structure with the objective of simplifying the outcomes we are trying to achieve and ensuring the new structure is well aligned with our strategic direction. The new output class structure aligns with the impacts and result areas the Ministry is trying to achieve and bases output classes on subject matter areas. It also provides improved transparency of the Ministry’s work programmes. For further information please see the Statement of Intent for the Ministry for the Environment 2012–2015, which can be found at www.mfe.govt.nz/publications/about/SOI.

This is the first time the Ministry has reported on our improved output class structure. All performance information presented below is based on the new outcomes and output class structures.

Outcome: New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle

Impact: Decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost effective way

What we are aiming to achieve

Climate change is the most challenging international issue of the 21st Century. New Zealand must both adapt to changes in climate and contribute to coordinated international action to reduce greenhouse gas emissions in the atmosphere.

To become a successful low-carbon society, New Zealand must reduce its emissions in a cost-effective way and manage the risk posed by climate change impacts.

New Zealand's long-term emissions reduction target is '50 by 50' – a 50 per cent reduction of net greenhouse gases from 1990 levels by 2050.

The graph below shows New Zealand's modelled historical net emissions from 1990 to 2007, actual net emissions under the Kyoto Protocol from 2008 to 2010 and projected net emissions from 2011 to 2040.



The trend in net emissions is dominated by our projections of emissions and removals from forestry. In the mid-1990s there were very high levels of forest planting in New Zealand. Net emissions are projected to rise over 2018–2030 as these forests planted in the 1990s are harvested. After 2030, we project that net emissions will fall as harvesting activity decreases and the removals from forests planted since 2012 rises.

In absolute terms, New Zealand's emissions are low compared to its major trading partners. However, New Zealand's emissions intensity by population is amongst the highest.² This is largely due to the importance of the agricultural sector (notably the high number of livestock) and the large contribution of transport (as a result of New Zealand's geography, infrastructure and relatively low use of public transport).

New Zealand is on track to meet its commitments under the first commitment period of the Kyoto Protocol by a combination of emissions reductions and the use of forestry, and is considering what form of international commitment it will make for the period after 2012. The Ministry continues to contribute to negotiations for a global agreement on climate change to replace or update the Kyoto Protocol.

One of the main government policies to help reduce New Zealand's greenhouse gas emissions is the New Zealand Emissions Trading Scheme (NZ ETS). The NZ ETS covers a number of sectors, including energy, and underpins other, sector-specific, measures that are in place to help reduce emissions.

Legislation will be passed this year to implement a number of changes to the scheme.³ The changes will maintain the costs to the economy at current levels. This will ensure businesses and households do not face additional costs during the continued economic recovery; and that, in the opinion of the Ministry, New Zealand continues to do its fair share on climate change. The changes will also improve the operation of the NZ ETS, providing more flexibility for forest landowners and will ensure the scheme is 'fit for purpose' after 2012.

The Government has committed to review the NZ ETS again in 2015, to assess whether its impact needs to be increased in light of progress at the international level.

Scoping work is underway to explore options for measures other than the NZ ETS that will improve productivity and reduce New Zealand's greenhouse gas emissions over the long term. Measures to support the transition to a low-carbon economy can also contribute to improved business growth, export competitiveness, energy security, and health outcomes.

What we did and how we performed this year

Output Class: Domestic Climate Change Programme

Output: Advise on the NZ ETS, including maintaining and developing regulations.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to the domestic climate change work programme completed within agreed timeframes ⁴	100%	85%

Key deliverables for 2011/12 include:

- responding to the review of the NZ ETS, including undertaking any legislative amendments and maintaining and developing regulations
- consulting on the proposed options for the Electricity Allocation Factor by 30 June 2012
- supporting the transfer and amendment of NZ ETS functions to the Environmental Protection Authority

² <http://www.mfe.govt.nz/environmental-reporting/atmosphere/greenhouse-gases/emissions.html>.

³ For more details, see <http://www.climatechange.govt.nz/emissions-trading-scheme/ets-amendments/>

⁴ Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

- providing advice on developments in national and international carbon markets including implications for the Crown position and the potential for links with other trading schemes
- Identifying a suitable compensation package under the *Five Iwi Afforestation Programme*.

Review of the New Zealand Emissions Trading Scheme

While the New Zealand Emissions Trading Scheme (NZ ETS) is operated jointly by the Environmental Protection Authority⁵ and the Ministry for Primary Industries, the Ministry for the Environment provides overall coordination and management of the appropriations on behalf of the Crown, as well as providing advice to enable ministerial decision-making on its shape.

As required under the Climate Change Response Act 2002, a review of the NZ ETS was undertaken in 2011 by an independent panel, chaired by Hon David Caygill. The panel reported in June 2011 and made a number of recommendations which the Government has been considering. In April 2012, the Government invited public consultation on the proposed changes with the release of *Updating the New Zealand Emissions Trading Scheme – a Consultation Document*. Submissions closed in May 2012 and 359 submissions were received. After considering the panel’s recommendations, the Ministry’s advice, and the public feedback, the Government announced a final package of NZ ETS amendments on 2 July 2012. Legislation to implement these amendments will be introduced to the House later this year.

The 2011 annual NZ ETS regulations update was completed in September 2011. There will not be a 2012 update as the policy focus in 2011/12 has been on legislative amendments rather than regulatory ones.

Updated Electricity Allocation Factor

The Electricity Allocation Factor (EAF) is an estimate of the cost impact of the NZ ETS that flows through the electricity market expressed in emission terms per unit of electricity purchased and is an important component of the New Zealand Government’s industrial allocation policy. The current EAF is being reconsidered to ensure that it remains current and reflects any electricity system changes that have occurred since it was originally established.

A contact group comprising affected parties and specialist consultants⁶ was established to provide guidance and advice to the Ministry on the development of a recommended EAF for the 2013–2017 period. A number of options were identified and released for consultation. Consultation was not completed by 30 June 2012, the date agreed with the Minister, but was completed on 20 July 2012. Amendments to regulations are expected to be undertaken by the end of the calendar year.

Developments in national and international carbon markets

In response to the uncertainty surrounding New Zealand’s access to the international carbon market due to the Kyoto Protocol’s first commitment period coming to an end in 2012 and a new legal agreement not expected to enter into force until 2020 following on from Durban, the Ministry and the Ministry of Foreign Affairs and Trade have developed a carbon markets strategy. The objectives of this strategy are to:

- maintain and maximise access for NZ ETS participants to international markets during the transition phase (2013–2020), primarily through the continued use of the Kyoto Protocol flexible mechanisms and the development of bilateral links

⁵ Responsibility for the administration of the NZ ETS was transferred from the Ministry for the Environment to the Environmental Protection Authority in January 2012. The Ministry has retained responsibility for the development of ETS policy and the monitoring of appropriations.

⁶ For details on the membership of this contact group, see <http://www.climatechange.govt.nz/emissions-trading-scheme/building/groups/eaf-groups/#membership>

- influence the shape of the international carbon market in the post-2020 agreement and more widely, by influencing the design of market mechanisms in other countries.

This strategy is being implemented by pursuing carbon market engagement opportunities simultaneously at a multilateral, regional and bilateral level. As part of its regional engagement approach, the Ministry has organised and hosted the first two workshops of the Asia-Pacific Carbon Markets Roundtable. The purpose of this roundtable is to become the primary forum for linking relationships in the region and to help contribute to the creation of a regional carbon market.

Five Iwi Afforestation Programme

The *Five Iwi Afforestation Programme* is a package offered by the Crown to five iwi who had settled Treaty claims before the NZ ETS was introduced to compensate them for financial loss claimed to have been suffered due to the introduction of the NZ ETS. The five iwi participants are Ngāi Tahu, Waikato-Tainui, Te Uri o Hau, Ngati Awa, and Ngati Tuwharetoa (Bay of Plenty).

The Ministry has been working with the five iwi and the Department of Conservation and Ministry for Primary Industries to identify a suitable compensation package. It was intended that an agreement would be reached by 30 June 2012; however, this work will continue into 2012/13 until agreement is reached.

Green Growth

Outside of the NZ ETS work programme, the Ministry (along with the Ministry of Business, Innovation and Employment and other government agencies) has been supporting an independent advisory group looking at Green Growth topics of particular importance to New Zealand. In particular how exporters can leverage greater value in international markets from our clean, green brand, identifying opportunities for smarter use of existing technologies and innovation, and options for small and medium size businesses to move to a lower-carbon economy while sustaining productive growth.

Output Class: International Climate Change Programme

United Nations Climate Change Conference – Durban 2012

Output: Advise on New Zealand’s international negotiating position on climate change and submissions.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to international negotiating positions and resulting submissions completed within agreed timeframes	100%	100%

The key deliverable for 2011/12 was representing New Zealand at the United Nations Climate Change Conference in Durban.

Representatives from the Ministry were part of a cross-agency delegation, led by Minister Tim Groser, that attended the United Nations Climate Change Conference in Durban. This conference resulted in agreement to a second commitment period (CP2) under the Kyoto Protocol. It also set up a process to negotiate an agreement or an agreed outcome that is legally binding to enter into force by 2020 (the “Durban Platform”) that will bring all Parties, developed and developing, within a common legal framework.

Although the outcomes exceeded expectations and many of New Zealand’s objectives were met, the conditions on New Zealand’s stated target range have only partially been met. For more information on

the conditions associated with the 2020 target please see the Government's climate change website: www.climatechange.govt.nz.

Projecting New Zealand's greenhouse gas emissions and removals

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

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
Achieved	New Zealand's annual greenhouse gas inventory meets agreed deadlines and is accepted by international institutions as meeting UNFCCC and Kyoto Protocol reporting requirements	Achieved	Achieved
Achieved	Emissions projection meet requirements for financial reporting	Achieved	Achieved

New Zealand's Greenhouse Gas Inventory is the official annual report of all human-caused emissions and removals of greenhouse gases. This inventory measures New Zealand's progress against its obligations under the Kyoto Protocol as well as the United Nations Framework Convention on Climate Change (UNFCCC). The National Greenhouse Gas Inventory Report was released on 12 April 2012 and was accepted by international institutions as meeting UNFCCC and Kyoto Protocol reporting requirements.

For more information on what was contained in this report see pages 16 to 18.

Output Class: Administration of the Emissions Trading Scheme

Transfer of NZ ETS functions to the Environmental Protection Authority

In December 2011, the administration of the NZ ETS was successfully transferred from the Ministry to the Environmental Protection Authority (EPA). The Ministry has continued to ensure the effective operation and implementation of the NZ ETS through the establishment of systems for effective coordination across agencies.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
97%	Application summaries for allocations are processed within 4 weeks of receiving the signed application summary	90%	No applications were received during the period the EPA was within the Ministry
0	Number of application decisions revoked or varied on review as requested by applicant	0	

As applications for allocations are received during the second half of the financial year, no applications were received by the Ministry in the period prior to the function transferring to the EPA in December 2011. For actual performance results against these measures as at 30 June 2012 see the 2012 Environmental Protection Authority Annual Report.

Multi-year Appropriation: Land Use and Carbon Analysis System (LUCAS)

Output: Operate and enhance a national carbon accounting system that meets New Zealand's greenhouse gas reporting obligations under the Kyoto Protocol and the UNFCCC.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
Achieved	The land use and land use change forestry portion of the National Inventory Report is accepted as meeting UNFCCC and Kyoto requirements	Achieved	
There are no adjustments. Three recommendations from the 2010 review were still outstanding as at June 2011. ⁷	Number of adjustments to the land use and land use change and forestry portion of the National Inventory Report recommended by the UNFCCC Expert Review Team	None outstanding	These two measures were replaced by the three measures below through the Supplementary Estimates process.
New measure	The LUCAS Programme progresses according to schedule	Achieved	Achieved (Programme scheduled to be completed by 30 June 2015)
New measure	The LUCAS system is available for use by the Ministry for the Environment and the Ministry for Primary Industries (as provided for in the Memorandum of Understanding)	99% during business hours	Achieved (Availability averaged 99% over the year)
New measure	The land use, and land use change and forestry, and Kyoto Protocol portions of the National Inventory Report are completed to quality specifications and submitted on time	Achieved	Achieved

The Ministry completed the 2010 National Inventory Report draft chapters for the LULUCF (Land Use, Land Use Change and Forestry) and Kyoto sections and these were included in the report submitted to the United Nations on 12 April 2012.

When completing the 2010 National Inventory Report draft chapters, the following quality specifications were complied with:

- the completed project plan
- the recalculations table was completed and approved by the Reporting Governance Group
- peer review change forms, peer review checklists and peer review records were completed
- uncertainties were provided
- Tier 1 Quality Control documentation was provided.

Satellite imagery was received for the first part of 2012 land-use mapping. This imagery has been made available to other government agencies under an all-of-government licence with the supplier. The 2012 land-use mapping pilot was completed and work started on 2012 land-use mapping, which will be done in two stages during 2012 and 2013.

Suppliers have been engaged to restart natural forests remeasurement, and have successfully completed their first fieldwork season, with two more seasons planned for summer 2012/13 and summer 2013/14.

⁷ Of the three recommendations outstanding as at June 2011, one has been implemented. Work on the remaining two is underway.

In May–June 2011, Deloitte conducted a post-implementation review of the LUCAS programme, following the implementation of the LUCAS IT system and the delivery of the first National Inventory Report chapters produced using this system. The post-implementation review report was received in September 2011. It concluded that overall the LUCAS programme has been a resounding success.

In September 2011, the State Services Commission, in its capacity as monitoring agency for large IT programmes, reduced its risk rating for LUCAS from ‘medium’ to ‘low’.

For more information on the LUCAS project see the Ministry’s website: www.mfe.govt.nz/issues/climate/lucas.

The LUCAS programme has experienced a delay with the Natural Forest Remeasurement work stream as there were uncertainties as to whether to proceed with this work. The work is now underway and is running to its revised schedule. Also, work on deforestation mapping and analysis of LiDAR⁸ data for the Natural Forest and Planted Forest workstreams have been deferred until 2012/13. The deferral of these workstreams has not impacted on the programme’s schedule. The programme is still scheduled to be completed by 30 June 2015.

Projects to Reduce Emissions (PREs) Programme

The Ministry currently administers 24 projects under the *Projects to Reduce Emissions (PRE) Programme*. The objective of each project is to reduce New Zealand’s total greenhouse gas emissions in the Kyoto Protocol’s first commitment period (2008–2012) in return for Kyoto Protocol emission units. Participants are investing in initiatives such as wind generation, hydro-generation and geothermal generation to achieve their objectives. All PRE projects are tracking according to their agreements.

Quality of Policy Advice

As a policy ministry we take our role as a provider of quality policy advice very seriously. We assess the quality of our advice against a number of measures and our performance against those measures is reported on pages 57 to 59.

Progress we have made towards achieving the outcome

Decreasing the greenhouse gas emissions intensity of the economy 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.

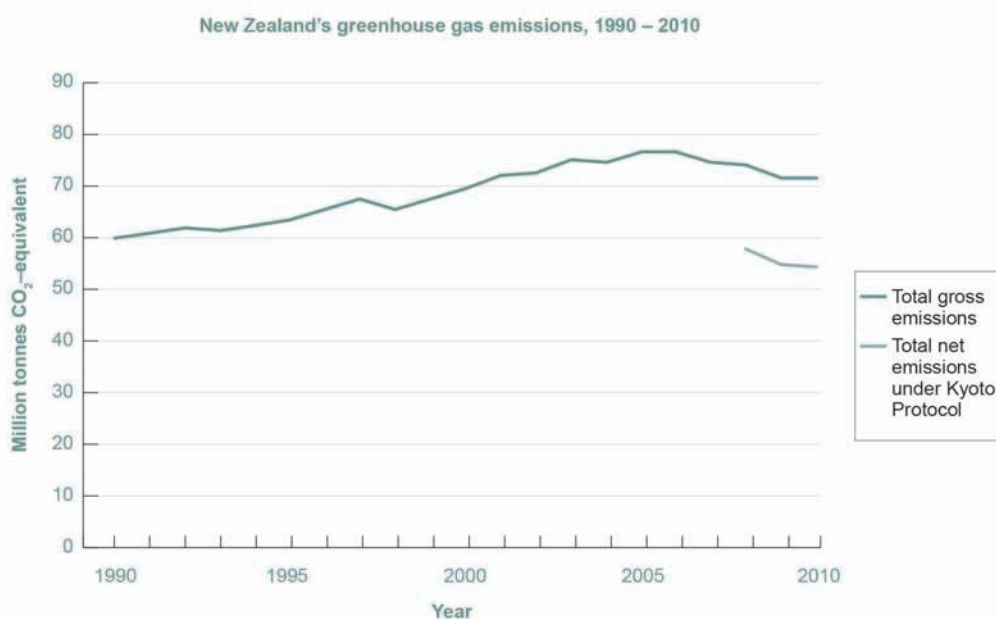
1. Trends in greenhouse gas emissions and removals in the annual greenhouse gas inventory

Target: Downward trend in net emissions
Results: Downward trend in net emissions under Kyoto Protocol
(2011: Downward trend in net emissions under Kyoto Protocol)

Under the Kyoto Protocol New Zealand has obligations to ensure net emissions are no higher than 1990 levels, on average, over the 2008 to 2012 commitment period.

⁸ Light detection and ranging (LiDAR).

The graph below shows the trends in New Zealand's total (gross)⁹ and net¹⁰ greenhouse gas emissions from 1990–2010. This is the latest data as presented in the April 2012 inventory submissions to the United Nations Framework Convention on Climate Change Secretariat.



In 1990, New Zealand's total greenhouse gas emissions were 59.8 million tonnes of carbon dioxide equivalent (Mt CO₂-e). In 2010, total greenhouse gas emissions had increased by 11.9 Mt CO₂-e (19.8 per cent growth) to 71.7 Mt CO₂-e, which represents an average annual growth rate in total emissions of around 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), electricity and heat production, and agricultural soils.

External factors influencing the trend in emissions in recent years have included oil prices, the global financial crisis and growth in key sectors of the economy such as agriculture. Policy impacts on emissions are harder to identify and include initiatives that support energy efficiency and renewable energy as well as, from 2008, the New Zealand emissions trading scheme (NZ ETS).

Net emissions are gross emissions less removals of greenhouse gases by forestry activities. The NZ ETS is estimated to have significantly reduced the potential for emissions from deforestation and land use change since 2008, as well as incentivising small net increases in the area of Kyoto forest.

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 three actual data points available for the first commitment period (2008-2012). More trend data will be available as this data is reported in annual inventory submissions throughout the first commitment period.

⁹ Gross emissions exclude any removals of emissions through land use, land use change and forestry.

¹⁰ 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-forest land 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.

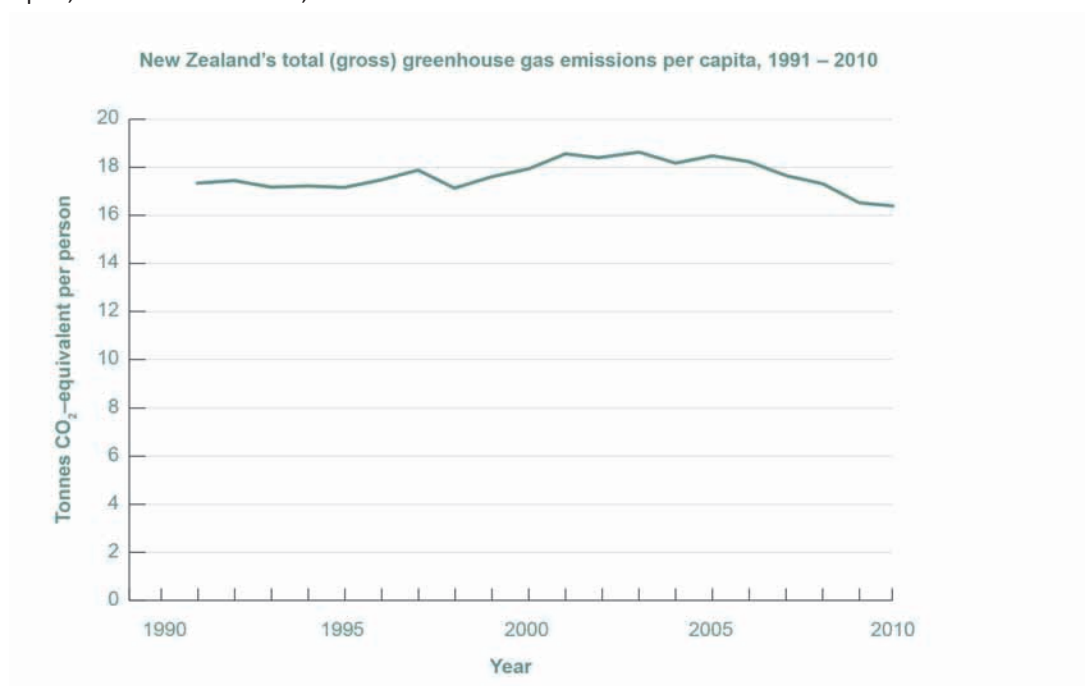
Net emissions under the Kyoto Protocol have decreased slightly over 2008–2010. Net emissions were 57.5 Mt CO₂-e in 2008 and had decreased to 54.2 Mt CO₂-e in 2010. The trend between 2008 and 2010 for net emissions is dominated by the trend in total emissions and a slight increase in removals from Article 3.3 activities under the Kyoto Protocol (-16.7 Mt CO₂-e in 2008 and -17.0 Mt CO₂-e in 2009 and -17.5 Mt CO₂-e in 2010). Removals are projected to remain at similar levels to the end of 2012 and then to increase by a small amount over 2013–2017.

	Gross emissions (Mt CO ₂ -e)	Net emissions (Mt CO ₂ -e)	Removals (Mt CO ₂ -e)
2008	74.2	57.5	16.7
2009	71.5	54.5	17.0
2010	71.7	54.2	17.5

2. Trends in greenhouse gas intensity of the economy by emissions per unit of GDP and emissions per capita

Target: Downward trend
 Results: Downward trend
 (2011: Downward trend)

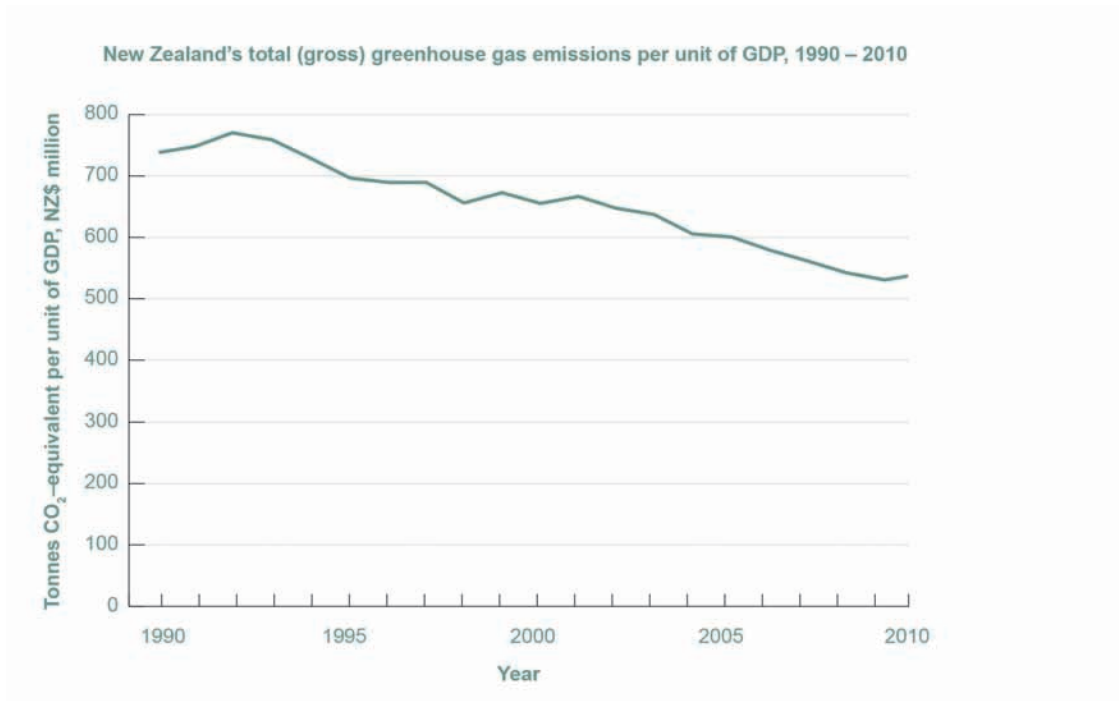
In 2010, New Zealand’s per capita¹¹ emissions were 16.4 tonnes carbon dioxide equivalent per person. New Zealand’s per capita emissions have steadily decreased by 11.4 per cent since 2005, and have decreased by 5.4 per cent between 1991 and 2010. The general trend in decreasing emissions per capita, observed since 2005, continues downwards.



¹¹ Statistics New Zealand – Total estimated resident population, mean year ended 31 December, since 1991.

The next graph shows New Zealand's gross greenhouse gas emissions divided by GDP (product measure)¹² from 1990–2010.

A general trend in reducing the emission intensity per GDP unit continues despite a slight increase in emission intensity value between 2009 and 2010 (approximately 1 per cent). New Zealand's total greenhouse gas emissions per unit of GDP have decreased 27.3 per cent between 1990 and 2010.



3. Divergence between forecast net position and Kyoto Protocol obligations

Target: Decreasing liability / increasing asset
 Results: Decreasing asset due to a fall in carbon price
 (2011: Increasing asset due to lower projected emissions from agriculture and higher projected removals)

The projected balance of Kyoto Protocol emissions units is updated once a year in April. The Kyoto Protocol financial position is updated monthly for changes in the exchange rate and emissions unit transfers.

New Zealand's net position under the Kyoto Protocol

New Zealand's net position is a forecast of the nation's greenhouse gas emissions over the first commitment period of the Kyoto Protocol (2008–2012). Under the Kyoto Protocol, New Zealand has committed to return emissions to 1990 levels on average over the commitment period or otherwise take responsibility for the excess.

The table below presents the forecasted net position as at 30 June of each year within the commitment period. A *Net Asset* means that New Zealand's net emissions are projected to be below our commitment under the Protocol whereas a *Net Liability* means that New Zealand's net emissions are projected to be above our commitment.

¹² SNC (System of National Accounts) – Statistics New Zealand official series – 1995/96 constant prices: 02 April 2012.

Financial statements period ended	2011/12	2010/11	2009/10	2008/09	2007/08
Net position excluding transfers	27.6	25.3	13.5	9.6	(21.7)
Net transfers from the assigned amount in million units	(7.8)	3.5	2.3	0.0	0.0
Net position in million units	35.4	21.8	11.2	9.6	(21.7)
Carbon price EURO	3.60	10.95	10.75	10.00	12.50
Exchange rate	0.63185	0.57335	0.5677	0.4628	0.4829
Carbon price NZD	5.70	19.10	18.94	21.61	25.89
Value of the Net Asset/(Liability) in NZD	202	417	212	207	(562)

The latest projection of New Zealand's net position under the Kyoto Protocol is a surplus of 35.4 million units. The net position has increased by 13.6 million units, from 21.8 million units in June 2011.

The largest contribution (12.3 million units) to the increase is a large amount of Kyoto Units that were surrendered to the Government in 2011/12 by participants under the New Zealand Emissions Trading Scheme (NZ ETS). Kyoto Units surrendered under the NZ ETS contribute to the net position, but New Zealand Units do not.

Other factors include a projected rise in removals from forestry, and increasing projected emissions from the industrial processes and agriculture sectors.

More information on New Zealand's net position under the Kyoto Protocol and changes from year to year is available on the Ministry's website: www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position/index.htm.

What it cost

The Ministry's domestic and international climate change work programme is funded by *Multi-class Output Appropriation: Climate Change* under *Vote Climate Change*.

This Multi-class Output Appropriation was established from 2011/12 as a result of a restructure of *Vote Climate Change*. It comprises two output classes that contribute to the outcome of ensuring New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle. These output classes share a particular focus on decreasing New Zealand's net emissions of greenhouse gases below business as usual levels in a cost-effective way:

- Domestic Climate Change Programme
- International Climate Change Programme.

LUCAS is funded by the Multi-year Appropriation: Land Use and Carbon Analysis System.

The administration of the New Zealand Emissions Trading Scheme (NZ ETS) was transferred to the Environmental Protection Authority in December 2011. While the NZ ETS was administered within the Ministry, it was funded by *Departmental Output Class: Administration of the Emissions Trading Scheme*.

Vote Climate Change Multi-class Output Appropriation: Climate Change

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
- Total revenue	8,586	10,930	9,023
Expenses			
- Domestic Climate Change Programme	5,123	7,487	5,251
- International Climate Change Programme	3,463	3,443	3,772
- Total expenses	8,586	10,930	9,023
- Net surplus/(deficit)	-	-	-

Departmental Output Class: Domestic Climate Change Programme

This appropriation is limited to policy advice, development, implementation, and review and monitoring of tools, frameworks and institutions, and ministerial servicing in relation to domestic climate change.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	4,900	7,432	4,946
- Departmental	115	55	226
- Other	108	-	79
- Total revenue	5,123	7,487	5,251
- Total expenses	5,123	7,487	5,251
- Net surplus/(deficit)	-	-	-

As 2011/12 was the first year of operation for this appropriation, the mains estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs. During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Departmental Output Class: International Climate Change Programme

This appropriation is limited to developing policy advice on international climate change issues, negotiating positions for climate change agreements and development of carbon markets and ministerial servicing; undertaking implementation, reporting, monitoring and compliance activities in line with existing international obligations and processes for climate change.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	3,322	3,443	3,642
- Departmental	56	-	63
- Other	85	-	67
- Total revenue	3,463	3,443	3,772
- Total expenses	3,463	3,443	3,772
- Net surplus/(deficit)	-	-	-

The Ministry's international climate change work programme for 2011/12 was delivered at a cost that was \$219,000 less than Supplementary Estimates. This underspend is primarily due to lower international travel costs as the Ministry refined the number of officials that attended international meetings and prioritised the meetings that officials attend.

Departmental Output Class: Administration of the Emissions Trading Scheme

This appropriation is limited to undertaking the Emissions Trading Scheme functions in the period prior to the transfer to the Environmental Protection Authority.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	215	487	223
- Departmental	6	-	9
- Other	3	-	4
- Total revenue	224	487	236
- Total expenses	224	487	236
- Net surplus/(deficit)	-	-	-

Multi-year Appropriation: Land Use and Carbon Analysis System

This appropriation is limited to developing 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.

This multi-year appropriation began on 1 July 2010 and expires on 30 June 2014. After this multi-year appropriation expires, the LUCAS programme will be funded from *Departmental Output Class: Carbon Monitoring Programme*.

Appropriations, adjustments and use	\$000
Original appropriation	28,981
Adjustment for 2010/11	600
Adjustment for 2011/12	(15,131)
Total adjusted appropriation	14,450
Actual expenses to 2010/11 year end	6,350
Actual expenses to 2011/12 year end	7,022
Total actual expenses	13,372
Balance of appropriation remaining	1,078

This appropriation has decreased by \$15.131 million in 2011/12 due to the merging of Votes Climate Change and Environment and a transfer of funding to a new Multi-year appropriation under Vote Environment from 2012/13. The total spending across the years remains unchanged.

Non-Departmental Funding

One of the Ministry's functions under this impact is the administering of appropriations for the New Zealand Emissions Trading Scheme (NZ ETS) on behalf of the Crown. It is also responsible for making sure that the Crown's financial obligation to the United Nations Framework Convention on Climate Change is met each year.

Actual 2011 \$000		Actual 2012 \$000	Appropriation ¹³ 2012 \$000
Income			
325,968	Emissions trading	136,489	190,738
205,627	Revision in carbon units	20,287	20,436
-	NZ ETS penalty revenue	4,178	4,500
	Net changes in carbon price of NZUs including foreign exchange movements	507,247	200,621
531,595	Total income	668,201	416,295
Expenditure			
297	Administration of NZ Units held on Trust	128	177
837,524	Allocation of New Zealand Units	334,248	1,558,975
3,484	Impairment of debt relating to the New Zealand Emissions Trading Scheme	4,146	15,000
3,940	Issue of New Zealand Assigned Amount Units to PFSI participants	2,355	10,000
-	Purchase of Units under the New Zealand Emissions Trading Scheme	-	1,000
-	Purchase of PRE Units	969	1,231
-	Indemnity payments	1,807	1,807
-	Emissions Trading Scheme ¹⁴	3,447	4,992
107	Framework Convention on Climate Change	116	127
845,352	Total expenditure	347,216	1,593,309

¹³ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

¹⁴ This is the operating funding provided to the Environmental Protection Authority to administer the NZ ETS from December 2011.

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

Impact: Improve quality, flow and availability of fresh water through more effective management frameworks

What we are aiming to achieve

Freshwater management (both allocation and maintaining quality) is vital to agriculture, tourism, electricity generation, public health, recreation and New Zealanders’ quality of life. Innovative solutions will be needed to deal with the pressures on this natural resource.

To have well governed and sustainably managed fresh water, the development and implementation of more effective management frameworks are vital. Frameworks including laws, regulations, policies and guidance are necessary to help local government and others making decisions about catchments and water use to improve quality, flow and availability.

What we did and how we performed this year

Output Class: Water Management Policy Advice

Fresh Start for Fresh Water Programme

Output: Advise on the development and implementation of initiatives under the Fresh Start for Fresh Water Programme.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of New Start ¹⁵ for Fresh Water agreed deliverables that are completed within agreed timeframes.	100%	100%

In May 2011 the Government announced the Fresh Start for Fresh Water Programme. This was a package of initiatives that recognises the strategic value of fresh water to New Zealand and builds on the policy work done by the Ministry, the Land and Water Forum and Iwi Advisers Group over 2009 to 2011.

The first phase of Resource Management reforms delivered the Fresh Start for Fresh Water Clean-up Fund, the Irrigation Acceleration Fund (which is administered by the Ministry for Primary Industries), and a National Policy Statement for Freshwater Management which came into force in July 2011.

The Fresh Start for Fresh Water Programme includes the stakeholder-led collaborative process run by the Land and Water Forum (LAWF) that is commissioned to generate policy recommendations.

¹⁵ The New Start for Fresh Water Programme is now known as the Fresh Start for Fresh Water Programme.

This year we continued to focus on building the policy advice (including consideration of the recommendations of LAWF) and evidence base for government to make decisions on the laws, regulations and guidance that decision-makers will use in managing fresh water.

Key deliverables for 2011/12 include:

- providing a response to recommendations made by LAWF on setting water quantity and quality limits, and governance structures
- supporting and monitoring progress by third parties of initiatives funded by the Fresh Start for Fresh Water funds, including the Lake Taupo Protection Programme, the Rotorua Lakes Protection and Restoration Action Programme, and the Fresh Start for Fresh Water New Initiatives Fund
- assisting the Minister to implement the Protocol between the Crown and the Iwi Leaders' Group for Fresh Water.

Response to recommendations made by Land and Water Forum

The LAWF initially reported to the Government in March 2011. In August 2011, it was commissioned to work on a further two tranches of advice. One tranche focused on limit-setting, and governance and decision-making and the other focused on managing within limits, allocation and managing the effects of land use on water. The Forum delivered its report on limit-setting and governance on 30 April 2012 and the Ministry is currently advising the Government on a response to these recommendations.

Fresh Start for Fresh Water Clean-up Fund

The Fresh Start for Fresh Water Clean-up Fund was established under tranche one of the water reform package. This fund provides \$15 million over two years (2011/12 and 2012/13) to help communities clean up waterways that are affected by historical water quality issues. The Ministry is responsible for managing this fund on behalf of the Crown by supporting and monitoring the progress of the projects.

In 2011/12, the Ministry administered one funding round to allocate both years of funding. The successful projects are as follows:

- \$6 million was allocated for the Te Waihora/Lake Ellesmere project.
- \$5.2 million was allocated for the remediation of the Manawatu River. This project involves planting, fencing, developing nutrient management plans, and upgrading sewage treatment plants to rapidly improve the River's water quality.
- \$1 million was allocated for the enhancement of wetlands in Wairarapa Moana.
- \$800,000 was allocated for the Wainono Lagoon. This project involves the fencing of riparian buffer zones, installation of culverts, bridges, alternative stock water sources at key sites, and for the planting of native vegetation.
- \$785,000 was allocated for the emergency response of the clean-up at the Waituna Lagoon. The initial stage of this project is to prevent the lagoon from 'flipping' into a permanent eutrophic state.

The Ministry has also been managing a number of the Crown's partnerships with councils and third parties including the following.

- The Crown's partnership with Waikato Regional Council and Taupo District Council for the Lake Taupo Protection Project. The objective of this project is a reduction of manageable nitrogen entering Lake Taupo by a minimum of 20 per cent or 153 tonnes by 2018. This project is on track to meet its target.
- The Crown's partnership with the Rotorua District Council and Bay of Plenty Regional Council for the restoration of four priority lakes – Rotorua, Rotoiti, Rotoehu and Ōkareka.
- The Crown's partnership with the Waikato River Authority who administers the Waikato River Clean-up Trust. This Trust provides \$210 million over 30 years on a contestable basis for the

restoration and protection of the health and well-being of the Waikato River and its catchment for present and future generations. The Authority announced the successful applicants of their first annual funding round, committing nearly \$6 million to over 40 projects.¹⁶ These projects alongside iwi, local authorities and central government working in partnership, herald a new era of co-management and co-governance of the Waikato and Waipa Rivers.

Iwi Leaders' and Iwi Advisors' Groups for Fresh Water

The Ministry has continued to work with the Iwi Leaders' and Iwi Advisors' Groups on advice to Ministers on the Fresh Start for Fresh Water Programme. Recommendations on the role of Māori in freshwater management, and the rights and interests of Māori, will be developed as part of the broader work programme.

Other programmes

Outside of the Fresh Start for Fresh Water Programme, the Ministry has been supporting the Office of Treaty Settlements in negotiating Treaty of Waitangi settlements including developing redress to recognise claimant group interests in specific water bodies and other natural resources.

In response to recommendations from the Office of the Auditor General (OAG) report on freshwater, *Managing Freshwater Quality: Challenges for Regional Councils*, the Ministry has been working with regional councils and unitary authorities to identify further implementation needs for the National Policy Statement for Freshwater Management, and councils themselves are working to identify and share best practice limit-setting processes. The Land and Water Forum is also developing further advice for government, informed by both New Zealand and international experiences, on limit-setting processes and information needs.

The Ministry provided advice to the Minister on two applications for minor amendments to standing Water Conservation Orders. These amendments related to:

- an exemption for the Winchmore-Rakaia stock water scheme resource consent from the low flow restrictions contained in clause 7 of the National Water Conservation (Rakaia River) Order 1988
- an exemption for flood control and soil conservation works in the Shotover River from clause 6 of the Water Conservation (Kawarau) Order 1997.

The Ministry has also been preparing guidance to regional councils on what is expected from them in meeting the requirements of sections 35(2)(b) and 35(2A) of the Resource Management Act. These sections require local authorities to report at least once every five years on the results of monitoring the efficiency and effectiveness of their policy statement or plan. We are also part way through a project to develop an integrated monitoring framework across the RMA. It is anticipated that this project will develop a framework which provides further guidance to regional councils in meeting the requirements of RMA sections 35(2)(b) and 35(2A).

Quality of Policy Advice

As a policy ministry we take our role as a provider of quality policy advice very seriously. We assess the quality of our advice against a number of measures and our performance against those measures is reported on pages 57 to 59.

¹⁶ More information on the successful projects is available on the Waikato River Authority's website: www.waikatoriver.org.nz/projects-and-funding/projects/.

Progress we have made towards achieving the outcome

The work we have done to date has helped to build a constituency for change, the elements required to measure change, and the policy options for more effective management frameworks. We still have a great deal to do to achieve the impact.

The implementation of the National Policy Statement for Freshwater Management recognises that freshwater management is a nationally significant issue that requires central government direction. It provides a consistent national regulatory framework to ensure there are clear limits to govern the allocation of water and management of water quality.

Also the establishment of the Fresh Start for Fresh Water Clean-up Fund provides a more consistent framework for supporting existing river and lake clean-ups as well as new initiatives. Over the next 26 years, \$238.6 million has been allocated to continue the clean-up of historical water quality issues.

The impact measures below will help us over time 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.

1. Proportion of water allocated for consumptive purposes that is subject to measurement and reporting

Target: Increasing proportion

Results: Benchmark information provided (one data point only from 2010/11) – 31 per cent of water allocated for consumptive purposes is subject to measuring 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. Water takes of 20 litres/second account for 92 per cent of the allocated volume of fresh water. Records from these water takes must be provided to regional councils in July 2013. By November 2016, water takes covering 98 per cent of the allocated volume of fresh water will be required to be measured and reported on by consent holders.

2. Number of large surface water catchments that have quantified flow regimes in place that set limits

Target: Increasing number

Results: 487 significant catchments (or 55 per cent) are fully covered (up by 23 from 2010/11)
29 significant catchments (or 3 per cent) are partially covered (no change from 2010/11)

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). This measure provides a high level indication of regional

plan and water conservation order (WCO) provisions as at the end of April 2012, that have flow regimes which set limits that reflect the definitions within the NPS.

This is the second year this data has been collected. The data collected in 2010/11 provided a baseline against which future progress will be reported. The number and change in coverage of catchments with provisions with limits for surface water quantity is included in the table below.

3. Number of significant¹⁷ catchments that have quantified policy for land and water management that sets surface water quality limits

Target: Increasing number

Results: 59 significant catchments (or 7 per cent) are fully covered (up by 21 from 2010/11)

38 significant catchments (or 4 per cent) are partially covered (up by 9 from 2010/11)

Similar to measure 2, this measure provides a high level indication of regional plan and WCO provisions as at the end of April 2012 that set surface water quality limits that reflect the definitions within the NPS. The number and change in coverage of significant catchments with provisions for limits for surface quality across New Zealand from 2011 to 2012 is included in the table below.

	Number fully covered	Percentage of catchments fully covered	Number of catchments partially covered	Percentage of catchments partially covered	Number of catchments not covered	Percentage of catchments not covered	Total number of catchments
Quantity limits	487	55%	29	3%	381	42%	897
Change	+23	+3 pp ¹⁸	0	± 0 pp	-23	-3 pp	
Quality limits	59	7%	38	4%	800	89%	897
Change	+21	+3 pp	+9	+1 pp	-30	-4 pp	

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 applies to limits for rivers and streams and does not include limits for lakes and wetlands. Further work is being undertaken to enable this information to be included as part of future reporting.

Baseline data for the measures was established as of the end of April 2011 and has been updated to reflect relevant plan changes made from 1 May 2011 to 30 April 2012 and a small number of corrections to last year's baseline data. The coverage of limits in measures 2 and 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.

¹⁷ Reporting for measures two and three 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.

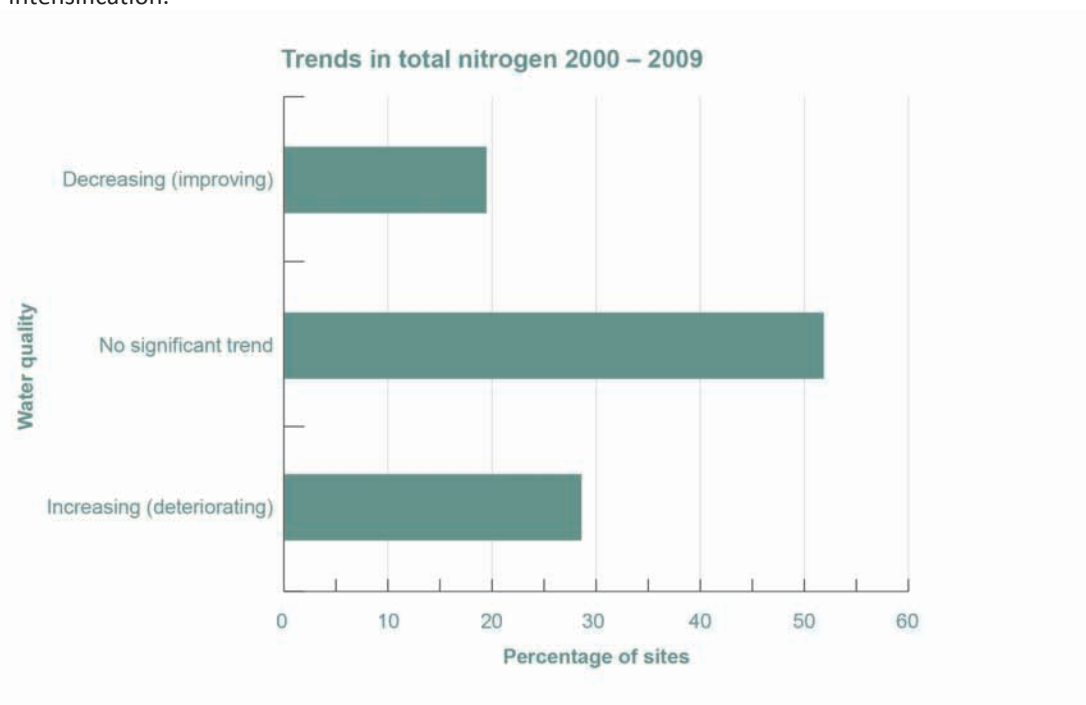
¹⁸ pp = percentage points.

4. Number of monitored sites showing maintained or improved water quality

Target: Increasing proportion

Results: Benchmark information provided (one data point only)
(2011: Benchmark information provided (one data point only))

The graph 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.



The most recent year of data in this measure is 2009. Due to the need for data collectors to process and quality assure their monitoring data, there is a time lag between the time when data are collected and when they are available for data users. Once we have obtained the data, we need to undertake analyses to identify where there are significant trends. This means there will always be a lag in the data that we are able to report.

This lag does not mean that the information we are using is unreliable as a current measure. Trends in river water quality are difficult to discern over short periods (five years and less) due to climatic influences and the amount of data required to establish statistically robust trends. For this reason, we need to use data which spans a number of years to assess trends. Adding only a single year of data is unlikely to have a large impact on a 10 year trend. For this reason we update the measure every three years, rather than on an annual basis. This measure is in the second year of this three-year cycle.

The declining levels of water quality are to be addressed, in part, through implementing the NPS for Freshwater Management (the 'Freshwater NPS'). With little national guidance on how freshwater management should be dealt with in RMA planning documents and decisions, water quality degradation has continued unabated. The Freshwater NPS will give a clear nationally consistent policy framework for councils to implement through their regional plans. Councils are required to implement the Freshwater

NPS by the end of 2014 or, where it is not possible, through a staged programme. It must be fully implemented by 2030.

The improvement of water quality is a long-term objective. Given the timeframes for implementation of the NPS, as well as the natural variability of rivers, means we would have to look at longer-term trends (10 years or more) before we can be confident of a genuine trend.

What it cost

The Ministry's freshwater programme is funded by *Departmental Output Class: Water Management Policy Advice* under *Vote Environment*.

This output class is one of five output classes¹⁹ within *Multi-class Output Appropriation: Improving Resource Management*. This multi-class output appropriation was established from 2011/12 as a result of a restructure of *Vote Environment*. All five output classes contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall environmental, economic and social benefits with a shared focus on improving resource management. However, *Departmental Output Class: Water Management Policy Advice* has a particular focus on improving the quality, flow and availability of fresh water through more effective management frameworks.

Vote Environment

Multi-class Output Appropriation: Improving Resource Management Departmental Output Class: Water Management Policy Advice

This output class is limited to policy advice, development, review and monitoring of tools, frameworks and institutions and ministerial servicing in relation to the quality, flow and availability of fresh water.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	5,687	4,879	5,937
- Departmental	342	-	273
- Other	49	-	12
- Total revenue	6,078	4,879	6,222
- Total expenses	6,078	4,879	6,222
- Net surplus/(deficit)	-	-	-

As 2011/12 was the first year of operation for this appropriation, the main estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs.

¹⁹ The five departmental output classes within Multi-class Appropriation: Improving Resource Management are: Developing and Implementing Treaty Settlements and Environmental Accords; Marine Environment Policy Advice; Resource Management Implementation; Resource Management Policy Advice; and Water Management Policy Advice. Parliamentary authority is given at the multi-class appropriation level rather than at an individual output class level. Refer to 'Statement of Departmental Expenses and Capital Expenditure against Appropriations' on pages 75 to 77 for the total spend against total Appropriation for the 'Improving Resource Management' Multi-class Appropriation.

During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Non-Departmental Funding

One of the Ministry's functions under this impact is the administration of the Fresh Start for Fresh Water Fund on behalf of the Crown. The purpose of this funding is to provide financial assistance to third parties for the remediation of historically contaminated freshwater bodies. This fund was developed in response to the Land and Water Forum's recommendation of how to improve freshwater quality.

The following table highlights the amount of funding the Ministry has distributed on behalf of the Crown during 2011/12 under the *Fresh Start for Fresh Water Programme*.

Actual 2011 \$000		Actual 2012 \$000	Appropriation²⁰ 2012 \$000
	Expenditure		
	- Fresh Start for Fresh Water Fund: New Initiatives	1,430	2,000
10,350	Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme	4,100	4,100
3,884	Fresh Start for Fresh Water: Waikato River Clean-up Fund	10,010	10,137
	- Hawke's Bay Rivers Clean-up Fund	-	2,000
2,667	Lake Taupo Protection Programme	-	-
500	Rangitaiki River Management Framework	-	-
17,401	Total expenditure	15,540	18,237

The first projects to be funded through the New Initiatives Fund are Te Waihora/Lake Ellesmere, Lake Wairarapa, Wainono and Waituna lagoons, and the Manawatu River.

Funding for the Hawkes Bay Rivers Clean-up Fund was not distributed as at 30 June 2012 as the deed of funding between the Ministry, Ngati Pahauwera and the Hawke's Bay Regional Council had not been finalised. The deed is expected to be signed in 2012/13. The purpose of the funding is for the clean-up of the Mohaka, Waikari and Waihua Rivers.

The Lake Taupo Programme is funded through *Multi-year Appropriation: Protecting Lake Taupo Programme*. This multi-year appropriation began 22 September 2010 and expires 30 June 2015. After this multi-year appropriation expires the programme will be funded from *Non-Departmental Output Expense: Lake Taupo Protection Programme*.

Appropriations, adjustments and use	\$000
Total appropriation	10,668
Actual expenses to 2010/11 year end	-
Actual expenses to 2011/12 year end	4,829
Total actual expenses	4,829
Balance of appropriation remaining	5,839

²⁰ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

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

New Zealand's environmental management systems must maintain the environment's capacity to generate benefits for succeeding generations. This does not imply an unaltered environment. It means natural resources should be allocated efficiently, used sustainably, and managed so the environment is not exposed to excessive risk.

As our contribution to this outcome there are four impacts the Ministry wants to achieve in the shorter term. These impacts are:

- improve the resource management framework to manage environmental effects and allocate resources within environmental limits
- improve the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit for purpose deeds of settlement and environmental accords
- reduce harm from chemical and biological hazards and from waste through more effective management frameworks
- achieve better solutions to environmental problems by supporting community involvement and action and international cooperation.

Each impact is reported separately below.

Impact: Improve the resource management framework to manage environmental effects and allocate resources within environmental limits

What we are aiming to achieve

The tools and systems used to manage natural and physical resources are central to our interests and work programmes. As with fresh water, the Ministry does not have a direct role in resource management and needs to focus on how central government can influence the decision-makers.

Over the next four years, reforms to the resource management system will involve policy development and decision-making, legislative change, and supporting implementation. There will then be a need to monitor and evaluate the success of the reforms.

What we did and how we performed this year

Output Class: Resource Management Policy Advice

Resource management reforms

Output: Advise on resource management reform, with a focus on infrastructure, urban planning, Māori, and reviewing sections 6 and 7 of the Resource Management Act with respect to the Soil Conservation and Rivers Control Act.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to resource management reform, focusing on infrastructure, urban planning and Māori, that are completed within agreed timeframes	100%	100%

In 2011/12, the Ministry has continued to develop policy on Phase Two of the resource management reforms. Under Phase Two, the Ministry has been looking at some of the more complex issues related to planning and decision-making in the wider resource management system. It also includes an independent review of sections 6 and 7 of the Resource Management Act (RMA).

In October 2011, an independent technical advisory group was established to review sections 6 and 7 of the RMA. Their review was largely focussed on how these sections could be improved to reflect contemporary values and priorities and address current and emerging issues, such as managing natural hazard risks and urban and infrastructure development. Their report was released in July 2012 and the Ministry will be developing policy recommendations for consideration in 2013.

National instruments

Output: Advise on possible national environmental standards and national policy statements and, (subject to Cabinet approval) develop and implement.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to National Instruments under the Resource Management Act 1991 that are completed within agreed timeframes	100%	83%

A draft National Policy Statement (NPS) on Biodiversity was notified for consultation in January 2011, and 426 submissions were received. During 2011/12 the Ministry was to provide the Minister with advice on the draft NPS; however, this advice has been deferred while the Ministry focuses on the resource management reforms.

Following the gazettal of the NPS on Renewable Electricity Generation, the Ministry has released an implementation guide which provides commentary, and where appropriate, examples on the preamble, objective and policies to help councils in giving effect to the NPS. It also includes guidance on the monitoring and review requirements of the NPS.

After extensive public consultation in 2010/11, a revised proposal for a national environment standard (NES) on forestry harvesting activities was released in May 2011. The aim of this NES is to reduce inconsistency in the way councils manage plantation forestry in their plans. In March 2012 the Ministry completed a final cost-benefit analysis of the proposal. The analysis resulted in a negative cost-benefit ratio (costs outweigh benefits) and therefore more work to refine the policy is being undertaken, with particular input from forestry sector representatives, regional councils, and the Ministry of Primary Industries.

The NES for Assessing and Managing Contaminants in Soil to Protect Human Health came into effect in January 2012.

Monitoring of Environmental Protection Authority

Output: Monitor Crown entities by reviewing accountability documents and providing advice to the Minister on those documents, including quarterly reports, statement of intent and annual report.

The Environmental Protection Authority (EPA) began operations as an independent Crown Entity on 1 July 2011. Since then, the Ministry has been supporting the EPA as it develops its new strategic direction and embeds new functions and is monitoring its performance.

In 2011/12, the Ministry has been advising the Minister on the EPA's organisation leadership, capability, financial performance, and progress towards achieving its agreed output measures.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables to support the establishment of the Environmental Protection Authority that are completed within agreed timeframes	100%	100%
New measure	Percentage of agreed deliverables in relation to monitoring relevant Crown entities that are completed within agreed timeframes	100%	100%

Output Class: Resource Management Implementation

Statutory functions under the RMA

Output: Assist Ministers with their statutory functions under the Resource Management Act.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of demand driven requests for Resource Management Act processes that the Ministry has responsibility for that are completed within statutory timeframes	100%	100%

The Ministry assists Ministers with their statutory functions under the Resource Management Act. These statutory functions include the assessment of applications for requiring authority status and heritage protection authority status. It also includes providing advice on nationally significant proposals.

In 2011/12, the Ministry assessed one application for requiring authority status from Water Care Services Ltd. No applications were received for heritage protection authority status.

The Ministry provided advice on board appointments for three nationally significant proposals. These proposals were the MacKays to PekaPeka proposal, the Transmission Gully proposal, and the Reappointment of the Board for the Transmission Gully Plan Change proposal. The Ministry also provided advice on the draft Board of Inquiry decision for the Wiri Men's Prison proposal.

RMA best practice

Output: Provide best practice advice and training for local government, practitioners and iwi, targeted assistance for councils, and guidance for the public and businesses on the Resource Management Act and other priority programmes.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	The Making Good Decisions Programme is delivered in accordance with the licence agreement	Achieved	Achieved

In 2011/12, the Ministry has continued to provide best practice advice and training for local government, practitioners and iwi. This has been provided through a number of ways such the *Making Good Decisions* Programme. This programme provides RMA decision-makers with the skills they need to run fair and effective resource consent, plan change and designation hearings, and to make informed decisions.

Improving environmental reporting

Output: Support drafting and parliamentary process for legislation on improving environmental reporting.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables to support the drafting and parliamentary process for the Environmental Reporting Bill ²¹ that are completed within agreed timeframes	100%	100%
New measure	Percentage of agreed deliverables in relation to producing public information including reports, statistics and surveys are completed within agreed timeframes	100% (8 statistics)	13% 1 statistic released (Greenhouse Gas Emissions)

In 2011/12, the Ministry has been investigating a number of options for improving reporting on New Zealand's environmental performance. We have also been looking at how our current reporting systems can be improved.

The Ministry has been working with Statistics New Zealand and the Department of Conservation to develop an *Environment Domain Plan*. This plan seeks to address gaps, overlaps and deficiencies in current environmental data.

In 2011/12, the Ministry was scheduled to release eight statistics. The annual greenhouse gas inventory report was released in April 2012. The release of a further six statistics - Marine Protected Area, Recreational Water Quality (freshwater and coastal), Stratospheric Ozone, Air Quality (PM₁₀), Household Consumption Expenditure, and Solid Waste Disposal – was delayed and is expected to be released in October 2012 (after the printing of this annual report). The final statistic – Fishing Activity has been further delayed as the required data is not available from the Ministry for Primary Industries.

Output Class: Marine Environment Policy Advice

Exclusive Economic Zone

Output: Advise on the Exclusive Economic Zone (EEZ), including supporting a Bill through the drafting and parliamentary process.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables to support the drafting and parliamentary process for the EEZ Bill completed within agreed timeframes	100%	100%

²¹ The word 'Bill' has been inserted to this output measure. This word was omitted from the Estimates Document in error.

In August 2011, the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Bill was introduced to Parliament. The legislation will support New Zealand's reputation as a safe and clean environment and provide certainty for industry on the regulatory processes that may affect investments.

The Bill passed its first reading in September 2011. In May 2012, the Ministry released a discussion document, *Managing our Oceans*, seeking public feedback on proposed regulations that describe what can and cannot be done in the EEZ without a marine consent, and under what conditions. Approximately 11,700 submissions were received.

The Bill passed its third reading on 28 August 2012 and was enacted on 3 September 2012. The Act will come into force when the first set of regulations, which the Ministry is currently developing, are promulgated. This is expected to occur in mid-2013. These regulations will classify activities as permitted or prohibited based on their environmental effect.

Quality of Policy Advice

As a policy ministry we take our role as a provider of quality policy advice very seriously. We assess the quality of our advice against a number of measures and our performance against those measures is reported on pages 57 to 59.

Progress we have made towards achieving the outcome

National environmental standards (NES) 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. For further information on the biennial survey, see <http://www.mfe.govt.nz/publications/rma/annual-survey/>

1. The National Environmental Standard for Air Quality (PM₁₀ fine particulate pollution) is complied with by the target dates in the standard

Target:	100 per cent compliance by 2020
Results:	Static level of compliance overall / 100 per cent compliance against 2011 target (2011: increasing compliance – 50%)

Compliance with the NESs will reduce air pollution. The revision of the National Environmental Standards in 2011 set three dates for when airsheds²² need to comply with the standards – 2011, 2016 and 2020. In 2011, all 16 airsheds required to comply with the National Environmental Standard by 2011 did so. Of the other 27 airsheds monitored in 2011, 5 airsheds experienced air quality that would have complied with their future standard.

The proportion of non-polluted airsheds (airsheds that complied with the standard, regardless of when they are required to comply) between 2007 and 2011 has remained relatively constant.

²² An airshed is an area identified by a regional council that is known or likely to have air quality problems.

Year	Airsheds monitored	Polluted airsheds	Non-polluted airsheds	Compliant airsheds, as per NES
2011	43	22 (51%)	21 (49%)	16 (100%)
2010	44	22 (50%)	22 (50%)	–
2009	44	25 (57%)	19 (43%)	–
2008	43	26 (60%)	17 (40%)	–
2007	40	23 (58%)	17 (42%)	–

2. Trends in EPA and local government compliance with resource consent processing times under the RMA 1991

Target: Upward trend (councils) / 100 per cent (EPA)
 Results: Upward trend (councils) / 99 per cent (EPA)
 (2011: Downward trend (councils) – last survey in 2007 / 100 per cent EPA)

Compliance with statutory resource consent timeframes by the Environmental Protection Authority (EPA) during 2011/12 was 99 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 carried out in 2010/11 was deferred to a year later than scheduled to capture the effects of the Resource Management (Simplifying and Streamlining) Amendment Act, 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.

1997/98	1998/99	1999/00	2001/02	2003/04	2005/06	2007/08	2010/11
78%	82%	82%	82%	77%	73%	69%	95%

What it cost

The Ministry's resource management and EEZ work programmes are funded by output classes from within *Multi-class Output Appropriation: Improving Resource Management*.

This multi-class output appropriation was established from 2011/12 as a result of a restructure of Vote Environment. It comprises five output classes that contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall environmental, economic and social benefits with a shared focus on resource management. Of these five appropriations, three²³ contribute to the Ministry's aim of improving the resource management framework to manage environmental effects and allocate resources within environmental limits:

²³ The remaining two output classes are:

- *Departmental Output Class: Water Management Policy Advice* which contributes to the 'improving the quality, flow and availability of fresh water through more effective management frameworks' impact. More information on the Ministry's freshwater work programme is available on pages 24 to 31.
- *Departmental Output Class: Developing and Implementing Treaty Settlements and Environmental Accords* which contributes to 'improving the relationship between the Ministry and Māori by negotiating fair, durable and fit for purpose deeds of settlement and environmental accords' impact. More information on the Ministry's Treaty work programme is available on pages 40 to 43.

- Departmental Output Class: Resource Management Policy Advice
- Departmental Output Class: Resource Management Implementation
- Departmental Output Class: Marine Environment Policy Advice.

Vote Environment

Multi-class Output Appropriation: Improving Resource Management

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
- Total revenue	16,144	22,353	16,993
Expenses			
- Resource Management Policy Advice	7,793	7,659	8,239
- Resource Management Implementation	6,650	12,854	7,078
- Marine Environment Policy Advice	1,701	1,840	1,676
- Total expenses	16,144	22,353	16,993
- Net surplus/(deficit)	-	-	-

Departmental Output Class: Resource Management Policy Advice

This output class is limited to policy advice, development, review and monitoring of tools, frameworks and institutions, and ministerial servicing in relation to the management of natural and physical resources in New Zealand.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	7,528	7,659	7,954
- Departmental	174	-	191
- Other	91	-	94
- Total revenue	7,793	7,659	8,239
- Total expenses	7,793	7,659	8,239
- Net surplus/(deficit)	-	-	-

The Ministry's resource management policy advice work programme for 2011/12 was delivered at a cost that was \$446,000 less than Supplementary Estimates. The underspend is primarily due to the Ministry being able to deliver this work programme with fewer internal resources than initially anticipated. Also, advice on the next steps for the proposed National Policy Statement on Indigenous Biodiversity has been temporarily put on hold while resources are being focussed on the wider resource management reforms.

23 continued

Parliamentary authority is given at the multi-class appropriation level rather than at an individual output class level. Refer to 'Statement of Departmental Expenses and Capital Expenditure against Appropriations' on pages 75 to 77 for the total spend against total appropriation for the 'Improving Resource Management' Multi-class Appropriation.

Departmental Output Class: Resource Management Implementation

This output class is limited to the implementation of tools, frameworks and institutions and provision of advice, support, information, and guidance to the public, practitioners and wider natural resource sector in relation to resource management policy and practices.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	6,438	12,854	6,924
- Departmental	142	-	91
- Other	70	-	63
- Total revenue	6,650	12,854	7,078
- Total expenses	6,650	12,854	7,078
- Net surplus/(deficit)	-	-	-

The Ministry's resource management implementation work programme for 2011/12 was delivered at a cost that was \$425,000 less than Supplementary Estimates. This was partly due to a \$191,000 transfer to 2012/13 for the ongoing costs of managing the implementation of the Rena Long-term Environmental Recovery Plan. Also, the Ministry was able to deliver this work programme with fewer internal resources than initially anticipated.

As 2011/12 was the first year of operation for this appropriation, the mains estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs. During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Departmental Output Class: Marine Environment Policy Advice

This output is limited to policy advice, development, review and monitoring of tools, frameworks and institutions, and ministerial servicing in relation to the marine environment.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	1,642	1,840	1,628
- Departmental	38	-	32
- Other	21	-	16
- Total revenue	1,701	1,840	1,676
- Total expenses	1,701	1,840	1,676
- Net surplus/(deficit)	-	-	-

The Ministry's marine policy advice work programme for 2011/12 was delivered at a cost that was \$29,000 greater than Supplementary Estimates. This output class is part of *Multi-class Output Appropriation: Improving Resource Management*. Parliamentary authority is given at multi-class output appropriation level rather than at individual output class level.

Non-Departmental Funding

The Ministry administers a number of non-departmental appropriations on behalf of the Crown that contribute to improving the resource management framework to manage environmental effects and allocate resources within environmental limits through the Environmental Protection Authority. These appropriations are:

Actual 2011 \$000	Actual 2012 \$000	Appropriation ²⁴ 2012 \$000
Expenditure		
- EPA establishment costs (one-off)	2,000	2,000
- Capital contribution to the EPA (one off)	9,594	9,594
- Environmental Protection Authority: Regulatory functions MCOA: Supporting environmental management	4,550	4,920
- Total expenditure	16,144	16,514

Impact: Improve the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit for purpose deeds of settlement and environmental accords

What we are aiming to achieve

Māori have a strong interest in the use and management of natural resources. Virtually all Treaty of Waitangi settlements now have some natural resource component. This requires the Ministry to be involved in negotiating Treaty settlements and environmental accords and to implement obligations under these agreements.

The Ministry's aim is to ensure that settlements provide appropriate redress but do not conflict with or undermine existing natural resources policy objectives. We are also focusing on developing a stronger working relationship with Māori to ensure effective natural resource management.

What we did and how we performed this year

Output Class: Developing and Implementing Treaty Settlements and Environmental Accords

Output: Advise on environment-related aspects of Treaty settlements and the implementation of obligations arising from these.

²⁴ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables relating to Treaty settlements and environmental accords negotiations are completed within agreed timeframes	100%	100%

Output: Meet obligations in accordance with Waikato River Co-management deeds.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of obligations met in accordance with the Waikato River Co-management deeds	100%	100%

The Ministry advises the Office of Treaty Settlements on the natural resource components of treaty settlements, and negotiates relationship agreements between the Ministry and iwi. The work results in the platform upon which the Ministry engages with iwi. At any one time we have about half a dozen active negotiations.

During 2011/12, the Ministry has been involved in reaching Agreements in Principle with the following iwi: Maungaharuru Tangitu Hapu, Ngati Rangiteaorere, Ngati Ranginui, and in reaching a Statement of Position and Intent with Tauranga Moana Iwi Collective. A Deed of Settlement with Tamaki Makaurau Collective was initialled, and Deeds of Settlement were signed with Rongowhakaata, Raukawa, Ngati Ranginui and Te Hiku.

Progress we have made towards achieving the outcome

The Ministry has had a significant role in negotiating several Treaty settlements and environmental accords and in implementing obligations under these agreements. We are monitoring both our progress with implementation and iwi satisfaction regarding our work on these obligations.

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

Target: 80²⁵ per cent satisfied or very satisfied
 Results: 100 per cent satisfied or very satisfied
 (2011: 100 per cent satisfied or very satisfied)

The Ministry met with all groups with which it has settlement obligations. One hundred per cent of the iwi the Ministry met with in 2011/12 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.

2. Percentage of the relevant Ministry obligations under deeds of settlement and environmental accords met

Target: 100 per cent compliance
 Results: 80 per cent compliance
 (2011: 80 per cent compliance)

²⁵ The original target as per 2011/12 Estimates was '50 per cent satisfied or very satisfied'. This target was revised in the Ministry's Statement of Intent – 2012–2015. The Ministry has decided to report against this latest target as it is considered a more useful target.

The settled iwi that the Ministry met with did not indicate any non-compliance with 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. An example of obligations not met includes meetings which were required to be held annually under the deed of settlement which were delayed by mutual agreement between the Ministry and settled iwi.

What it cost

The Ministry's Treaty Settlements and Environmental Accords work programme is funded by *Departmental Output Class: Developing and Implementing Treaty Settlements and Environmental Accords* under *Vote Environment*.

This output class is one of five output classes²⁶ within *Multi-class Output Appropriation: Improving Resource Management*. This multi-class output appropriation was established from 2011/12 as a result of a restructure of *Vote Environment*. All five output classes contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall environmental, economic and social benefits with a shared focus on improving resource management. However, *Departmental Output Class: Developing and Implementing Treaty Settlements and Environmental Accords* has a particular focus on improving the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit for purpose deeds of settlement and environmental accords.

Vote Environment

Multi-class Output Appropriation: Improving Resource Management Departmental Output Class: Developing and Implementing Treaty Settlements and Environmental Accords

This output class is limited to advice on environmental accords with Māori and Treaty settlements involving natural resources; contributing to negotiations with iwi and affected parties on environmental issues as part of developing deeds of settlement and monitoring relevant sections of deeds of settlement.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	2,062	1,629	2,038
- Departmental	49	-	54
- Other	26	-	27
- Total revenue	2,137	1,629	2,119
- Total expenses	2,137	1,629	2,119
- Net surplus/(deficit)	-	-	-

²⁶ The five Departmental output classes within Multi-class Appropriation: Improving Resource Management are: Developing and Implementing Treaty Settlements and Environmental Accords; Marine Environment Policy Advice; Resource Management Implementation; Resource Management Policy Advice; and Water Management Policy Advice. Parliamentary authority is given at the multi-class appropriation level rather than at an individual output class level. Refer to 'Statement of Departmental Expenses and Capital Expenditure against Appropriations' on page 75 to 77 for the total spend against total appropriation for the 'Improving Resource Management' Multi-class Appropriation.

The Ministry's Treaty Settlements and Environmental Accords work programme for 2011/12 was delivered at a cost that was \$18,000 greater than Supplementary Estimates. This output class is part of *Multi-class Output Appropriation: Improving Resource Management*. Parliamentary authority is given at multi-class output appropriation level rather than at individual output class level.

As 2011/12 was the first year of operation for this appropriation, the mains estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs. During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Non-Departmental Funding

The Ministry, as part of treaty settlement implementation, manages non-departmental appropriations related to the Waikato-Tainui Treaty Settlement. These appropriations were established subsequent to the signing of settlement deeds with Waikato-Tainui, Tuwharetoa, Te Arawa, Raukawa, and the Maniapoto Māori Trust Board.

Actual 2011 \$000		Actual 2012 \$000	Appropriation²⁷ 2012 \$000
	Expenditure		
21,219	Waikato River Co-management ²⁸	2,632	2,632
1,250	Waikato River Co-governance	910	910
-	Transitional support for local government and iwi	100	100
331	Waikato and Waipa River Transitional Co-governance	-	-
382	Scoping Study for Clean-up Fund	-	-
10,170	Total expenditure	3,642	3,642

Impact: Reduce harm from chemical and biological hazards and from waste through more effective management frameworks

What we are aiming to achieve

The management framework for chemical and biological hazards is focused on preventing and managing adverse effects on public health and the environment. However, introducing new chemicals, plants and animals to New Zealand is important for industry and agriculture. The management framework must deal with risk without creating barriers to innovation.

²⁷ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

²⁸ In accordance with New Zealand Financial Reporting Standards the Ministry recognised the payment of \$150 million over 30 years to the Waikato River Iwi as an expense in 2009/10 in net present value terms. The expenses recognised annually since represent the unwinding of the discount recognised in 2009/10. It does not represent the cash payments made each financial year. These remain unchanged from what was agreed under the deeds of settlement. The cash payment profile as per the deeds of settlement is: \$5 million in 2011/12 and each year until 2029/30 and then \$1 million from 2030/31 to 2037/38.

What we did and how we performed this year

Output Class: Environmental Hazards and Waste Policy Advice

Hazardous Substances and New Organisms Act 1996

Output: Provide advice on New Zealand's chemical and biological risk management framework.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to the chemical and biological risk management framework that are completed within agreed timelines	100%	50%

In 2011/12, the Ministry has undertaken a range of research projects to build our understanding of the performance of the Hazardous Substances and New Organisms Act 1996 (HSNO Act) and identify any potential for improvement. The research projects are looking at:

- opportunities to improve the framework for monitoring the performance of the hazardous substances components of the HSNO regime
- compliance costs to businesses and households arising from the HSNO regime
- what influences New Zealand businesses' decisions to use new organisms and whether the HSNO Act affects businesses' decisions to innovate using new organisms more than other factors.

The results from this research will guide the Ministry's 2012/13 work programme.

The Ministry has also developed a number of policy initiatives to improve compliance with the HSNO Act including improvements to three sets of HSNO Act Regulations (Personnel Qualifications, Tank Wagons and Transportable Containers, and Compressed Gases). These changes provide businesses with greater access to expertise on HSNO controls, remove duplication, and address unnecessarily onerous requirements.

The Ministry had expected to provide the Minister with advice on the recommendations relating to natural hazards management made by the independent technical advisory group established to review sections 6 and 7 of the Resource Management Act by 30 June 2012.²⁹ However, this was delayed due to a change in Minister. This advice was provided to the new Minister in August 2012.

Output Class: Waste Minimisation Administration

Review of Waste Levy

Output: Advise on and administer the Waste Minimisation Act 2008, including collecting and distributing the Waste Disposal Levy.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
No action required to be taken	Percentage of instances when successful action is taken against disposal facility operators who have outstanding levy payments (over 120 days)	100%	100%
100%	Percentage of funding allocated according to the Waste Minimisation Fund eligibility criteria	100%	100%

²⁹ For more information on the technical advisory group refer to page 33.

The Waste Minimisation Act required the Minister to review the effectiveness of the Waste Disposal Levy by 1 July 2011. This review focused on the progress in implementing the levy and achieving the levy's short-term outcomes. In August 2011, the results from the review were released. The review found the following:

- the levy has been introduced and is operating as intended
- at this stage there is not sufficient evidence to determine the extent to which levy avoidance or perverse outcomes of the levy are occurring
- to date, no evidence was found of an increase in incidence or volumes of illegally dumped waste.

The Ministry is responsible for the management and delivery of the Contestable Waste Minimisation Fund. While the administration functions associated with this fund contributes to this impact, the work being undertaken by third parties to minimise waste contributes to the 'Achieve better solutions to environmental problems by supporting community involvement and action and international cooperation' impact.

Collection of the Waste Disposal Levy

The Ministry is responsible for collecting the Waste Disposal Levy imposed on all landfill operators under the Act. The purpose of the levy is to create funding opportunities for waste minimisation initiatives and provide an economic incentive to polluters to change their behaviour. In 2011/12, \$26.189 million of levy funding was collected.

Contestable Waste Minimisation Fund

The latest funding round for the Waste Minimisation Fund closed on 19 June 2012. There are approximately 60 waste minimisation projects currently being funded. For more information on the projects being funded please see the Ministry's website: www.mfe.govt.nz/issues/waste/waste-minimisation-fund/.

Examples of significant projects being funded by the Waste Minimisation Fund are:

- *Waste 2 Gold: Deconstruction Technologies for Organic Waste Utilisation.* Scion Research is using a patented process to take biosolids and organic waste processing technology out of the lab and into a pilot scale project. Using a thermal deconstruction process, the amount of biosolids and organic waste going to landfill will be reduced. Successful completion of the project will lead to the development of a full-scale reference plant at the Rotorua District Council Wastewater Treatment Plant.
- *Burwood Resource Recovery Park.* Canterbury Material Recovery Facilities Ltd has received funding to install a state of the art recycling facility at Burwood Resource Recovery Park which will process the demolition waste resulting from the Canterbury earthquakes.

Output Class: Waste Management and Minimisation

Territorial authority waste management and minimisation plans

Output: Review territorial authorities' waste management and minimisation plans.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of territorial authorities' waste management and minimisation plans reviewed by 1 July 2012	95%	100%

Territorial authorities receive 50 per cent of the total waste levy that is collected from disposal facilities. This funding must be spent on promoting or achieving waste minimisation and in accordance with waste

management and minimisation plans. These plans were required to have been reviewed by 1 July 2012. The Ministry has been supporting territorial authorities as they develop and review these plans.

Product stewardship

Output: Advise on product stewardship schemes including an investigation of mandatory product stewardship for e-waste.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of advice to the Minister on accreditation of product stewardship schemes completed within agreed timelines	100%	0%

Product stewardship is a tool that encourages producers, brand owners, importers, retailers, consumers and other parties to accept responsibility for the environmental effects of their products – from the time they are produced until they are disposed of. Under the Waste Minimisation Act 2008 product stewardship schemes can apply for formal accreditation. The Ministry is responsible for managing these applications. To date seven schemes have received accreditation. More information on these product stewardship schemes is available on the Ministry’s website: www.mfe.govt.nz/issues/waste/product-stewardship/.

In 2011/12, the Ministry has also been investigating options for mandatory product stewardship for electronic waste (or e-waste). The Ministry intended to provide advice to the Minister on options for mandatory product stewardship by 30 June 2012. However, due to a change in Minister, this advice was provided to the new Minister in July 2012.

Quality of Policy Advice

As a policy ministry we take our role as a provider of quality policy advice very seriously. We assess the quality of our advice against a number of measures and our performance against those measures is reported on pages 57 to 59.

Progress we have made towards achieving the outcome

The Environmental Protection Authority (EPA) is responsible for decision-making under the Hazardous Substances and New Organisms Act (the HSNO 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.

1. Changes in the incident data compiled by the EPA and enforcement agencies under the Hazardous Substances and New Organisms Act

Target: Reduced number of incidents
 Results: 10 per cent increase in number of incidents
 (2011: New data series begins from 2009/10 – only one year’s worth of data is available)

The tables below show a breakdown of incidents involving hazardous substances and new organisms 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 2012. The 2011/12 data will be reported next year in the EPA Monitoring Report 2013.

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

	2009/10	2010/11
Number of incidents involving hazardous substances	1,293	1,416
Incidents involving hazardous substances where adverse effects to the environment were recorded	437	599
Incidents involving hazardous substances where adverse effects on human health were recorded	72	43
Incidents involving approved new organisms (including genetically modified organisms) where adverse effects to the environment were recorded	0	0
Incidents involving approved new organisms (including genetically modified organisms) where adverse effects on human health were recorded	4	5

The 10 per cent increase in the number of incidents from 2009/10 to 2010/11 is partly due to a doubling of firework incidents in 2010/11 from 2009/10. This doubling is possibly due to under-reporting of the number of firework incidents in 2009/10. Between July and December 2009 there was industrial action (relating to administrative tasks) in the New Zealand Fire Service and it is possible that a number of firework incidents were not recorded.

More information on these incidents is available from the 2011 ERMA Annual Report and past benchmarks excluding Fire Service data is available in the Ministry 2010/11 Annual Report.

2. Trends in the tonnage of waste disposed of at waste disposal facilities per unit of GDP

Target: Downward trend
 Results: Downward trend (17.7 tonnes per \$1 million GDP for the year ending June 2012 versus 18.7 tonnes per \$1 million GDP for the year ending 30 June 2011)

For the year to 30 June 2012, 2.5 million tonnes of waste were disposed of at facilities required to pay the Waste Disposal Levy. This equates to 17.7 tonnes of waste per \$1 million of GDP (projected), compared to 18.7 tonnes of waste per \$1 million of GDP for the year ending June 2011. The 2.5 million tonnes of waste disposed of to landfill to 30 June 2012 includes 21,680 tonnes of waste disposed of as a result of the Christchurch earthquake. Excluding the Christchurch earthquake waste, 17.6 tonnes of waste per \$1 million of GDP was disposed of in the year to 30 June 2012.

What it cost

The Ministry's environmental hazards and waste work programme is funded by the *Multi-class Appropriation: Mitigating Environmental Hazards and Waste* under *Vote Environment*.

This multi-class output appropriation was established from 2011/12 as a result of a restructure of *Vote Environment*. It comprises two output classes that contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall environmental, economic and social benefits. These output classes share a particular focus on reducing harm from natural, chemical and biological hazards and from waste through more effective management frameworks:

- Environmental Hazards and Waste Policy Advice
- Waste Management and Minimisation.

The costs of administering the Waste Minimisation Act 2008 are funded by *Departmental Output Class: Waste Minimisation Administration* under *Vote Environment*. Administration activities include the collection of the Waste Disposal Levy from disposal facility operators; the payment of levy revenue to territorial authorities and monitoring that territorial authorities are using the funds for the intended purposes; and administration of the Waste Minimisation Fund. These costs are recovered from the Waste Levy collected from disposal facility operators as permitted under the Act.

Vote Environment

Multi-class Output Appropriation: Mitigating Environmental Hazards and Waste

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
- Total revenue	3,871	5,626	4,198
Expenses			
- Environmental hazards and waste policy advice	2,293	2,435	2,503
- Waste management and minimisation	1,578	3,191	1,695
- Total expenses	3,871	5,626	4,198
- Net surplus/(deficit)	-	-	-

Departmental Output Class: Environmental Hazards and Waste Policy Advice

This output class is limited to policy advice, ministerial servicing, development, review and monitoring of tools, frameworks and institutions including international agreements, conventions and obligations in relation to the risks posed by environmental hazards and waste.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	2,232	2,435	2,443
- Departmental	38	-	40
- Other	23	-	20
- Total revenue	2,293	2,435	2,503
- Total expenses	2,293	2,435	2,503
- Net surplus/(deficit)	-	-	-

The Ministry's environmental hazards and waste work programme for 2011/12 was delivered at a cost that was \$210,000 less than Supplementary Estimates. The Ministry had expected to carry out a study investigating how prevalent the use of Brominated Diphenyl Ether or BDE (which is a Persistent Organic Pollutant banned under the Stockholm Convention) was in New Zealand. However, this work is currently on hold as a similar study is being undertaken in Australia. The findings of this study will help inform the scope and breadth of the Ministry's study.

Departmental Output Class: Waste Management and Minimisation

This output class is limited to operational advice, ministerial servicing, implementation of tools, frameworks and institutions, and support, information and guidance to stakeholders in relation to waste management and minimisation.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	1,525	3,191	1,643
- Departmental	38	-	35
- Other	15	-	17
- Total revenue	1,578	3,191	1,695
- Total expenses	1,578	3,191	1,695
- Net surplus/(deficit)	-	-	-

The Ministry's waste management and minimisation work programme was delivered at a cost \$117,000 less than Supplementary Estimates due to lower internal resources being required than initially anticipated.

As 2011/12 was the first year of operation for this appropriation, the mains estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs. During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Vote Environment

Departmental Output Class: Waste Minimisation Administration

This output class is limited to the collection and administration of the Waste Disposal Levy and assessing and monitoring costs relating to projects considered or approved for funding from the waste levy.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
1,525 Crown	1,663	1,714	1,714
- Departmental	23	-	28
- Other	12	-	14
1,525 Total revenue	1,698	1,714	1,756
1,525 Total expenses	1,698	1,714	1,756
- Net surplus/(deficit)	-	-	-

In 2011/12, the Ministry was able to deliver the functions under the Waste Minimisation Act at a cost that was \$58,000 lower than Supplementary Estimates due to lower administration costs. Under the Waste Minimisation Act the underspend must be returned to the Contestable Waste Minimisation Fund.

Non-Departmental Funding

The Ministry administers a number of non-departmental appropriations on behalf of the Crown that contribute to reducing harm from chemical and biological hazards and from waste through more effective management frameworks. These appropriations are:

Actual 2011 \$000		Actual 2012 \$000	Appropriation ³⁰ 2012 \$000
Income			
25,037	Waste Disposal Levy collected from disposal facility operators	26,189	26,000
25,037	Total income	26,189	26,000
Expenditure			
12,518	Waste Disposal Levy disbursement to Territorial Local Authorities	12,194	13,000
3,854	Contestable Waste Minimisation Fund ³¹	9,975	12,500
	Environmental Protection Authority: Regulatory functions MCOA:		
	- Compliance and enforcement	5,944	6,428
	- Decision-making	3,006	3,252
10,170	Hazardous substances and new organisms assessment and management	-	-
26,542	Total expenditure	31,119	35,180

The Ministry is also responsible for providing funding to the Bay of Plenty Regional Council to implement the Rena Long-term Environmental Recovery Plan. The total funding is \$2.872 million over four years to 30 June 2015. No funding was distributed as at 30 June 2012.

Appropriations, Adjustments and Use	\$000
Total appropriation	2,872
Actual expenses to 2010/11 year end	-
Actual expenses to 2011/12 year end	-
Total actual expenses	-
Balance of appropriation remaining	2,872

³⁰ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

³¹ Part 5.2 of the *Environment Sector – Information Supporting the Estimates 2011/12* states that Non-Departmental Other Expense: Contestable Waste Minimisation Fund contributes to the impact seeking to ‘achieve better solutions to environmental problems by supporting community involvement and action, and international cooperation’. However, the departmental function of administering this Fund is funded from Departmental Output Class: Waste Minimisation Administration which contributes to the impact within this section of the annual report. Therefore, to provide a better link between non-departmental and departmental functions, the Ministry is including the Fund under this impact.

Impact: Achieve better solutions to environmental problems by supporting community involvement and action and international cooperation

What we are aiming to achieve

The Ministry contributes to this impact in two distinct ways.

First, central government support of environmental projects led by others can leverage significant contributions of funding or community hours of work that achieves more than either party could do alone.

Secondly, cooperation with other countries through environmental agreements can realise benefits for both countries, as well as opportunities for New Zealand agencies, institutions and firms.

What we did and how we performed this year

Output Class: Domestic Obligations and Programmes

Administration of grants schemes

Output: Contract, manage, monitor and audit government funding and grant schemes.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of funding allocated according to Community Environment Fund eligibility and assessment criteria within agreed timeframes	100%	100%
New measure	Percentage of contracted Community Environment Fund projects that are managed and monitored appropriately	100%	100%
New measure	Percentage of Sustainable Management Fund projects that are managed and monitored appropriately	100%	100%
New measure	Percentage of funding allocated according to Environmental Legal Assistance Fund criteria	100%	100%

The Ministry is responsible for the management and delivery of a number of environmental grant schemes. The management and delivery of these programmes includes the administration of funding rounds and ongoing support for successful projects.

The grant schemes that contribute to this impact are the Community Environment Fund, the Sustainable Management Fund, the Environmental Legal Assistance Fund, and the Contestable Waste Minimisation Fund.³²

³² The other grant scheme the Ministry administers is the Fresh Start for Fresh Water Fund which contributes to the 'Improve quality, flow and availability of fresh water through more effective management frameworks' impact – see pages 25 and 26.

Administration of the Contaminated Sites Remediation Fund

Output: Contract, manage, monitor and audit contaminated site 'clean-up' projects delivered by third parties.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of contestable funding allocated according to Contaminated Sites Remediation Fund eligibility and assessment criteria within agreed timeframes	100%	100%
New measure	Percentage of Contaminated Sites Remediation Fund projects that are managed and monitored appropriately	100%	100%

The Ministry is responsible for the management and delivery of the Contaminated Sites Remediation Fund. In 2011/12, the Ministry developed a *National Register of Priority Sites* to ensure that funding is being allocated to sites that pose the highest risk. The register currently identifies 40 priority sites for funding. The register will be updated every six months.

While the administration functions associated with this fund contribute to this impact and is funded from this output class, the work being undertaken by third parties to clean up contaminated sites contributes to the 'Reduce harm from chemical and biological hazards and from waste through more effective management frameworks' impact.

Strategic agreements

In April 2012, the Youth EnviroLeaders Forum was run in partnership with the Sir Peter Blake Trust. The Forum is hands on, youth driven and is designed to inspire and build the capability of young environmental leaders.

Green Ribbon Awards

The 2012 Green Ribbon Awards were held on 5 June 2012. The awards recognise the outstanding contributions of individuals, organisations, businesses and communities to protecting and enhancing New Zealand's environment. Awards were given in various categories such as 'Caring for our water', 'Minimising our waste', 'Improving our air quality', and 'Community Leadership'. The awards attracted more than 280 nominations this year, an increase of 68 on last year. Villa Maria Estate was named the 2012 Supreme Winner. A full list of the 2012 winners is available on the Ministry's website: www.mfe.govt.nz/withyou/awards/green-ribbon.html.

Output Class: International Obligations and Institutions

Multilateral environmental agreements

Output: Advise on New Zealand's compliance with obligations under the Basel and Waigani Conventions, Rotterdam Convention, Stockholm Convention, Montreal Protocol and Cartagena Protocol.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
New measure	Percentage of agreed deliverables in relation to international obligations completed within agreed timeframes ³³	100%	100%

³³ Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

The Ministry provided advice on, and ensured that New Zealand met, obligations arising from the following multilateral environment agreements: the Basel, Waigani, Rotterdam and Stockholm Conventions and the Montreal and Cartagena Protocols. The Ministry participated in the development of these multilateral environment agreements by actively contributing to the Conferences of the Parties, Meetings of the Parties and Open Ended Working Groups, ensuring that New Zealand's interests are protected and promoted in these fora. The Ministry also:

- conducted a review of the policy framework around the export of Used Lead Acid Batteries (ULABs) in regard to New Zealand's international obligations under the Basel Convention
- amended domestic regulation to reflect international obligations under the Rotterdam Convention
- advised on New Zealand's interests in relation to developing a new United Nations multilateral environment agreement on mercury and actively participated in two rounds of the intergovernmental negotiating committee to ensure that New Zealand's interests will be supported and reflected in the draft agreement.

Environment Cooperation Agreements (ECAs)

In 2012, 16 cooperation activities under seven ECAs (with China, Thailand, Chile, Indonesia, Malaysia, Philippines and Hong Kong) were successfully completed. The majority of activities were undertaken with China covering water quality in rural areas, chemicals management and contaminated sites, and invasive species and biodiversity.

The third Coordinator Meeting of the NZ-China ECA was held in Wellington in March 2012 where coordinators agreed to proceed with a major project on water quality involving effluent management on a Fonterra farm in China.

Activities with Thailand and Chile largely focused on climate change (in particular carbon markets) and integrated river management.

The ECAs with Indonesia, Malaysia and the Philippines came into force in 2011/12 and first meeting of parties were held with all three countries. No cooperation activities were undertaken under the NZ-Hong Kong ECA.

Quality of Policy Advice

As a policy ministry we take our role as a provider of quality policy advice very seriously. We assess the quality of our advice against a number of measures and our performance against those measures is reported on pages 57 to 59.

Progress we have made towards achieving the outcome

Central government supports environmental projects led by others. The types of projects supported are varied. They include 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 monitor what was achieved with the Crown funding invested.

1. Progress in investigation, remedial planning or remediation of priority contaminated sites in conjunction with regional councils and/or landowners – increasing percentage managed or remediated³⁴

Target ³⁵ :	Increasing proportion of priority contaminated sites remediated ³⁶ and/or managed ³⁷
Results:	30 June 2012: Total priority sites ³⁸ identified = 67 sites; Remediated priority sites = 14; Managed priority sites = 10; Percentage remediated/managed = 36% 30 June 2011: Total priority sites identified = 61 sites; Remediated priority sites = 13; Managed priority sites = 5; Percentage remediated/managed = 30%

Since 2003/04, 39 contaminated sites have received funding from the Contaminated Sites Remediation Fund (CSRF). Work on 10 of these sites is currently in progress, including the remediation of the Tui Mine site at Te Aroha. Further funding will be distributed in November 2012 for the 2012/13 year. The allocation of this funding will be informed by a priority list of contaminated sites that has been developed so sites of greatest risk are given priority for funding. During 2011/12, the Ministry's investigations identified 40 sites as priority sites for funding of which eight received funding. This list is subject to change, as it will be updated every six months based on information supplied by regional councils.

The Ministry's ability to meet this measure is dependent on regional councils submitting applications to the CSRF and their willingness to provide the Ministry with details of their priority sites.

2. Level of community involvement in projects funded by the Community Environment Fund

Target:	Increasing community involvement
Results:	Benchmark information provided - \$2.7 million of in-kind contributions for \$1.3 million worth of government funding (projected for first funding round of 2011/12) (2011: Benchmark information provided - \$1.5 million of in-kind contributions for \$750,000 worth of government funding (projected for first funding round of 2011/12) ³⁹

The performance against this measure is based on predicted information contained in the 43 approved Community Environment Fund project proposals. Community involvement is measured by the number of community hours and in-kind contributions made to projects per dollar of government investment. \$2.7 million of in-kind contributions is projected to be made to projects in 2011/12 for \$1.3 million worth of government funding. Many of these projects were scheduled to be completed by 30 June 2012 and the Ministry is still processing the final returns so the actual level of community involvement cannot be reported yet.

³⁴ Also contributes to impact: Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks.

³⁵ The impact target has been amended to include 'and/or managed' to make it more consistent with the impact measure.

³⁶ Remediated sites are sites where the contamination has been remediated or is subject to site management procedures to ensure that the site is suitable for its intended use.

³⁷ Managed sites are sites that are currently subject to detailed site investigations, remedial planning and/or remediation

³⁸ Total priority sites is the sum of the priority sites previously addressed by the CSRF and the priority sites on the Ministry's current priority list.

³⁹ By the time the 2010/11 annual report was printed approximately 50 per cent of the projects approved under the first funding round had finalised project plans and funding agreements. The projected in-kind contributions per dollar of government funding reported in that financial year was based on the finalised funding agreements.

3. Percentage of Community Environment Fund (CEF) and Waste Minimisation Fund (WMF) projects that report full achievement against objectives

Target:	100 per cent of objectives met by 80 per cent of projects
Results:	100 per cent of objectives met by 97 per cent of projects (2011: 100 per cent of objectives met by 85 per cent of projects)

Ninety-seven per cent of projects from the CEF and WMF (Rounds One and Two of WMF, Round One of CEF) finished and completed their milestones successfully. This is based on a total of 32 projects that finished during the 2011/12 financial year; 31 completed successfully, and one did not.

What it cost

The Ministry's domestic and international obligations work programme is funded by *Multi-class Output Appropriation: Environmental Management Obligations and Programmes* under *Vote Environment*.

This multi-class output appropriation was established from 2011/12 as a result of a restructure of *Vote Environment*. It comprises two output classes that contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall environmental, economic and social benefits. These output classes share a particular focus on achieving better solutions to environmental problems by supporting community involvement and action, and international cooperation:

- Domestic Obligations and Programmes
- International Obligations and Institutions.

Vote Environment

Multi-class Output Appropriation: Environmental Management Obligations and Programmes

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
- Total revenue	5,102	4,380	5,241
Expenses			
- Domestic Obligations and Programmes	3,331	2,670	3,300
- International Obligations and Institutions	1,771	1,710	1,914
- Total expenses	5,102	4,380	5,214
- Net surplus/(deficit)	-	-	-

Departmental Output Class: Domestic Obligations and Programmes

This output class is limited to contributing to and monitoring of domestic environmental management programmes and educational programmes promoting awareness of environmental issues.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	3,212	2,286	3,172
- Departmental	87	379	99
- Other	32	5	29
- Total revenue	3,331	2,670	3,300
- Total expenses	3,331	2,670	3,300
- Net surplus/(deficit)	-	-	-

This output class is part of *Multi-class Output Appropriation: Environmental Management Obligations and Programmes*. Parliamentary authority is given at multi-class output appropriation level rather than at individual output class level.

As 2011/12 was the first year of operation for this appropriation, the mains estimates budget was developed using a broad set of assumptions for the costs and resources required to deliver the outputs. During the year the Ministry has collected more information on those costs and the levels of resources required and as a consequence refined the external budget.

Departmental Output Class: International Obligations and Institutions

This output class is limited to advice on international environmental arrangements, agreements and partnerships; contributing to negotiations with international parties on environmental issues; and undertaking implementation, reporting, monitoring and compliance activities in line with international arrangements, agreements and partnerships.

Actual 2011 \$000	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Revenue			
- Crown	1,732	1,710	1,830
- Departmental	25	-	72
- Other	14	-	12
- Total revenue	1,771	1,710	1,914
- Total expenses	1,771	1,710	1,914
- Net surplus/(deficit)	-	-	-

The Ministry's international obligations work programme for 2011/12 was delivered at a cost that was \$241,000 less than Supplementary Estimates. This underspend is due to lower international travel costs. The Ministry had forecast to undertake some cooperation activities under the NZ-Hong Kong Environmental Cooperation Agreement but these did not occur. Also, the Ministry has refined the number of officials that attend international meetings and prioritised the meetings that officials attend.

Non-Departmental Funding

The Ministry administers a number of Non-departmental Appropriations on behalf of the Crown that contribute to achieving better solutions to environmental problems by supporting community involvement and action and international cooperation. These appropriations are:

Actual 2011 \$000		Actual 2012 \$000	Appropriation ⁴⁰ 2012 \$000
	Expenditure		
993	Sustainable Management Fund	316	488
800	Promotion of Sustainable Land Management	800	800
331	Community Environment Fund	1,340	2,000
527	Environmental Legal Assistance Fund	769	800
398	Contaminated Sites Remediation Fund ⁴¹	2,031	2,156
317	Legal and Environment Centre Grants	-	-
214	Climate Change Development Fund	300	300
1,008	Warm Homes Grants and Assistance	-	-
303	United Nations Environment Programme	278	393
77	International Subscriptions	102	117
4,968	Total expenditure	5,936	7,054

The clean-up of the Tui Mine in Te Aroha is funded through *Multi-year Appropriation: Tui Mine Remediation*.⁴² This multi-year appropriation began 1 July 2011 and expires 30 June 2014.

Appropriations, adjustments and use	\$000
Total appropriation	15,200
Actual expenses to 2010/11 year end	-
Actual expenses to 2011/12 year end	10,000
Total actual expenses	10,000
Balance of appropriation remaining	5,200

Quality standards for policy advice and ministerial servicing

The Ministry for the Environment is the Government's primary adviser on the New Zealand environment and international matters that affect the environment. We take very seriously our role of providing quality policy advice to help decision-makers make decisions.

⁴⁰ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁴¹ and ⁴² Part 2.2 of the *Environment Sector – Information Supporting the Estimates 2011/12* states that Non-Departmental Output Expense: Contaminated Sites Remediation Fund and Non-Departmental Output Expense: Tui Mine Remediation (MYA) contribute to the impact seeking to 'reduce harm from chemical and biological hazards and from waste through more effective management frameworks'. However, the departmental functions associated with the administration of this funding is funded from Departmental Output Class: Domestic Obligations and Programmes which contribute to the impact within this section of the annual report. Therefore, to provide a better link between non-departmental and departmental functions, the Ministry is including these non-departmental output expenses appropriations under this impact.

In 2010/11, the Ministry implemented new quality standards for policy advice and made improvements to the frameworks and guidance for delivering advice. We set ourselves a very high standard to aspire towards. We also set a target that the large majority of papers meet that high standard. As an example, a common benchmark used by NZIER implies a target of only 50 per cent of papers meeting the quality standard versus our target of 70 per cent.

Because we want to continue to improve, during 2011/12, we also:

- raised the profile of our quality criteria and signalled their importance
- analysed the papers which were assessed and identified particular weaknesses and opportunities for improvement
- ran workshops with managers to calibrate expectations of required standards, identify barriers, and propose solutions to these barriers
- rolled out staff sessions targeting areas where work can be improved, including strengthening commissioning and the peer reviewer role.

The Ministry undertook three formal assessments of policy advice during the year from July 2011 to June 2012. The internal panel is chaired by an external independent chair, initially Professor Bob Buckle, and then for the second and third panel assessments, Howard Fancy, a former public sector Chief Executive. The quality assessment criteria and the methodology for randomly sampling papers remained the same as those used since November 2010, which enables year-on-year comparison.

Each assessment looked at 15⁴³ 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 measured and reported in the table below on ministerial support.

The number of papers meeting the standard improved for each assessment, with a significant lift for the last assessment. The last assessment covered the period after the manager workshops on the quality of advice were held.

All Vote Environment and Vote Climate Change output classes

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
49% of papers sampled met the Ministry's external reporting quality standard ⁴⁴	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 ⁴⁵	59% of papers sampled met the Ministry's external reporting quality standard

⁴³ During the assessment round for papers from November – February, one paper was incorrectly selected and was then excluded from the assessment. This means that only 14 papers were considered in that round. In total then for the year, 44 papers were assessed, not 45.

⁴⁴ The average score of papers was 6.38 out of 10 for the year 2010/11. The average score was 6.78 out of 10 for the year 2011/12.

⁴⁵ High quality is defined as papers marked as 7 out of 10 (or higher) by the assessment panel.

Actual 30 June 2011	Performance measure	Target 2011/12	Actual 2011/12
58% ⁴⁶ [Note 1 – The performance measure for 2010/11 stated ‘fully meet quality assurance criteria’.]	Percentage of all regulatory impact statements that fully or partially meet quality assurance criteria [See note 2]	At least 90%	100% of the RIS assessed fully or partially met the quality assurance criteria. Of these, 71% fully met the criteria and 29% partially met the criteria.
92%	Percentage of regulatory impact statements that are subject to quality assurance processes	100%	This measure was removed through the Supplementary Estimate process.

Note 2: The Government wants to ensure that proposals involving regulatory options are subject to careful and robust analysis. To help ensure the regulatory process is open and transparent, regulatory impact statements (RISs) are prepared to support the consideration of regulatory proposals, including the potential introduction of new legislation (bills or regulations), changes to/the repeal of existing legislation, and discussion documents which propose legislative or regulatory change.

Depending on the significance of the proposal, RISs are assessed by the Ministry’s Regulatory Impact Analysis Panel or The Treasury to ascertain the quality of the analysis underpinning the proposal and recommendations. The criteria for assessment are:

- complete
- convincing
- consulted
- clear and concise.

Where all criteria are fully met, a RIS is deemed to ‘meet’ the quality assurance criteria. A ‘partially meets’ is given where the RIS does not meet one of the criteria (eg, there has been no/limited consultation). A ‘does not meet’ is given where the RIS is weak in multiple areas.

⁴⁶ 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”.

The regulatory impact statement (RIS) measure in 2010/11 included 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 RISs that fully met quality assurance criteria lifted from 62 per cent to 74 per cent.

Ministerial support for Vote Environment and Vote Climate Change

Actual 30 June 2011	Performance measures	Target 2011/12	Actual 2011/12
100%	Percentage of parliamentary questions that are completed within required timeframes	100%	100%
85% ⁴⁷	Percentage of responses to Ministerial correspondence submitted to the Minister within agreed timeframes	95%	94%
92% ⁴⁸	Percentage of responses to ministerial correspondence accepted first time by the Minister	90%	84%
95%	Percentage of responses to departmental Official Information Act requests sent within statutory deadlines	100%	90%
New measure	Percentage of ministerial drafts provided for the Minister's signature that are accurate	90%	This measure was replaced by the measure immediately below through the Supplementary Estimate process
New measure	Percentage of briefing notes accepted first time by the Minister	90%	94%
New measure	Overall Ministerial satisfaction as surveyed quarterly	Average 4 out of 5	3.25 out of 5

⁴⁷ The performance measure for 2010/11 measured whether correspondence was completed within agreed timeframes. The new measure introduced via Supplementary Estimates for Budget 2012 more clearly reflects the Ministry's role.

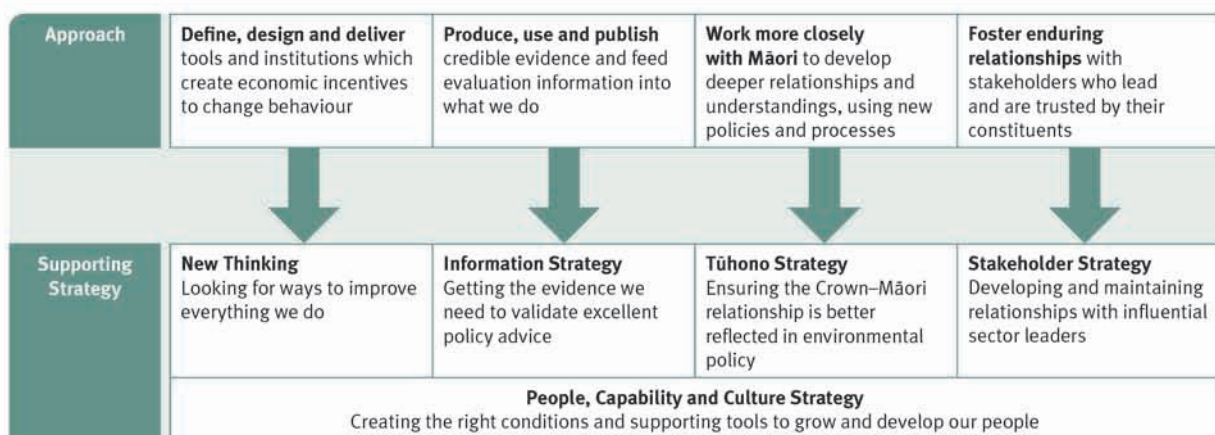
⁴⁸ The performance measure for 2010/11 measured whether drafts provided for the Minister's signature were accurate. The new measure introduced via Supplementary Estimates for Budget 2012 is a more widely encompassing measure of the Ministry's performance.

4 Our Organisational Health and Capability

Strategy

Our strategic direction describes how we want to operate in the future. It drives organisational development, as well as the strategic thinking that underpins our advice.

We have identified four approaches and organisational behaviours critical to carrying out our mission statement of ‘environmental stewardship for a prosperous New Zealand’. Each of these has a supporting strategy, set on the foundation of the strategy for People, Capability and Culture.



Objectives and achievements

These measures show the Ministry’s progress on implementing each supporting strategy.

What we want to achieve	How will we know if we are achieving these outcomes	Most recently reported (Statement of Intent 2012–15)	Current state
Create the right conditions and supporting tools to grow and develop our people.	Improvement in staff engagement as measured by the Gallup survey.	The most recent Gallup engagement results ⁴⁹ show we have improved our results from near the bottom of all New Zealand state sector to the 73rd percentile. Over this same four-year time period we have also tripled our ratio of engaged to disengaged staff. This ratio is two times greater than the New Zealand norm. We will continue to target activities to improve engagement, with a particular focus on the areas we score lowest on.	No change to results - the next survey takes place in September 2012. To ensure we continue improving staff engagement we have developed a two-year programme to help support our next challenge, ‘Good to Great’. This programme focuses strongly on sharing stories of our successes and lessons learned. It puts all our work in the context of the strategic direction

⁴⁹ The last engagement survey was conducted in August and September 2011.

What we want to achieve	How will we know if we are achieving these outcomes	Most recently reported (Statement of Intent 2012–15)	Current state
			<p>and engages staff overtly and subtly in understanding our new goals.</p> <p>Please see the People and Culture section for additional context.</p>
<p>Look for ways to improve everything we do.</p>	<p>Continuous improvement in policy advice products as measured by the quality policy advice assessment panel and the internal regulatory impact analysis reference panel.</p>	<p>Quality of policy advice:</p> <p>As at quarter two of 2011/12, 53% of papers sampled were assessed as high quality, up from 49% in the 2010/11 Annual Report.</p> <p>Regulatory impact analysis:</p> <p>The Ministry has over the last year instituted a rigorous assessment process including an independently-chaired panel and a high benchmark.</p> <p>We have used the results of the assessment panel to identify specific areas where improvements can be made in the quality of our advice. We have instituted a plan which targets authors, peer reviewers, and managers to help shift a proportion of papers from just below the benchmark to surpassing it.</p>	<p>Of the papers sampled in 2011/12, 59% of papers were assessed as high quality.</p> <p>Significant effort has gone into improving regulatory impact statements (RIS) processes over the past year. This has included a greater emphasis on ensuring authors are aware of the requirements and providing coaching early in the process.</p> <p>Consequently the number of RIS that fully meet the quality assurance criteria has improved (71% in 2011/12 compared with 58% in 2010/11).</p> <p>Additionally, over the past 12 months the Treasury has asked us to speak with a number of other Ministry's about our RIS polices and processes. Ministry's spoken to include the Ministry of Education, Ministry for Primary Industries, and Ministry of Economic Development.</p>
<p>Get the evidence we need to validate excellent policy advice.</p>	<p>Improvement in the use of evidence in our policy advice products.</p>	<p>A survey in 2011 indicated that the major limitations in our use of information were a lack of awareness of what information exists (47% of staff) and the relevance of the information to the advice (43% of staff).</p> <p>Four separate work plans will be developed to ensure we produce and use information well, publish information that inspires trust, and use evaluation</p>	<p>A number of projects were undertaken in 2011/12 to improve the quality and accessibility of environmental information. These included Phase 2 of the Freshwater National Environmental Monitoring and Reporting Project, which has delivered recommendations from experts on all three workstreams (indicators, variables</p>

What we want to achieve	How will we know if we are achieving these outcomes	Most recently reported (Statement of Intent 2012–15)	Current state
		<p>information in our work. We will do another survey and develop additional measures as part of developing the work plans for the strategy.</p>	<p>and network design) and the YouMap project, which produced a map viewer allowing Ministry users to explore, use and share maps via the Ministry's intranet.</p> <p>The Information Strategy was reviewed and launched in August 2012.</p> <p>This phase of the strategy is more user-focused than the previous one. It is about understanding and helping define user needs, prioritising investment to meet high priority needs, and helping and encouraging people to use information well.</p> <p>We are currently developing a medium-term work programme to meet specific objectives in four areas – Produce, Use, Publish and Evaluation.</p>
<p>Ensure the Crown–Māori relationship is better reflected in environmental policy.</p>	<p>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.</p>	<p>As at December 2011, 39% of staff had attended at least one module. Our target was 30% of staff by December 2011. Our new target is 45% of staff by December 2012.</p>	<p>We estimate that 45% of staff had attended Pae Ngatahi training as at 30 June 2012 (not including staff on parental or long-term leave without pay).</p>
<p>Develop and maintain relationships with influential sector leaders.</p>	<p>Positive views of external stakeholders as measured by a survey of stakeholder perceptions of the Ministry.</p>	<p>Current state: A perception audit of key strategic stakeholders conducted in October 2011 has given the Ministry a baseline measure.</p> <p>Fifty-five per cent of stakeholders surveyed believe that the Ministry has effective relationships with them.</p> <p>The Stakeholder Strategy is driving initiatives to ensure the Ministry's relationships with stakeholders continue to improve.</p>	<p>No change to results – the next survey takes place in October 2012.</p>

Ministry profile

As at 30 June 2012, the Ministry employed 258.27 full-time equivalent (FTE) staff (2011: 306.25 FTE) . This is lower than previous years because some staff were transferred to the Environmental Protection Authority following its establishment on 1 July 2011. 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 12.5 per cent (in 2010/11 it was 16 per cent). The average length of service is approximately 4.3 years (2010/11: 3.8 years).

Equal employment opportunities

We pay careful attention to ensuring that procedures for recruitment and selection, career development and progression, training and conditions of employment will provide equal opportunities. We recently reviewed recruitment and selection practices to test our alignment to best practice and ensure that candidates continue to be treated and assessed equally.

Currently women make up approximately 46 per cent of the management team at the Ministry. This is a similar level to 2011/12 but slightly higher than previous years when women represented around 39–42 per cent of the management team.

People and culture

The intent of the People Capability and Culture Strategy, launched in 2010/11, was to create the right conditions and supporting tools to grow and develop our people. In 2011/12, we focused on the first phase of the three-phased strategy: being clear about what is expected of staff and improving core systems and processes. 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.

During Phase One we:

- implemented an online induction service to give our new staff consistent, timely and context-rich information to help them find their feet quickly
- implemented a new recruitment process, based on best practice, to help us find the staff we need and reduce our time to hire
- continued to improve our core processes and policies to provide clarity and eliminate paperwork barriers
- developed a series of in-house seminars, short sessions and joint Natural Resources Sector leadership development programmes for staff development
- implemented our new performance management system that focuses on clarity, regular feedback and conversations, is fair, transparent, simple and supports personal growth
- laid the foundation for a culture of strengths-based informal feedback, which we know has the biggest impact on reaching high performance.

As we enter Phase Two ('expanding horizons') in 2012/13, we will be focusing more on stretching individuals and teams in their thinking, outputs and how they work internally and externally and placing less emphasis on tools and resources as we move out of Phase One.

We continue to run staff engagement surveys, with the most recent showing an increase in staff engagement (see pages 61 and 62 for more detailed information). While there is a strong correlation between higher engagement and 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

The Ministry has continued to work 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 2011/12 the Sector continues to strengthen cross-department collaboration on key pieces of policy such as water, resource management and climate change. We furthered our thinking on the economy and the environment resulting in the Sector Briefing to Incoming Ministers. This work has since evolved into the Sector leading work through the Business Growth Agenda on balancing the economic potential and environmental values of our natural resource base. The Sector has also made good progress on initiatives to promote increased effectiveness and efficiency across member departments by identifying areas where systems and processes can be better coordinated. In particular, we have focused on joint commissioning and delivery of leadership and management development opportunities with 79 staff from across the Sector attending six courses, two of which are run by the Ministry of Social Development.

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, Exclusive Economic Zone regulations, 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 with whom the Ministry has Treaty settlement obligations. These meetings have set the building blocks for ongoing positive engagement.

Processes, technology and physical assets

During 2011/12, the Ministry established an Information Systems Strategic Plan, including detailed operational plans to support it. The plan will be reviewed bi-annually. It has five strategic work areas:

- developing Natural Resource Sector shared services in particular geo-spatial
- delivering 'open data' and supporting robust data management practices
- improving information management governance and maturity
- delivering business-aligned applications
- aligning the Ministry to the whole of government information technology strategy.

The Ministry also:

- established a grants portal so that stakeholders can apply for funding grants online
- adopted the whole of government Infrastructure as a service to host and support the LUCAS infrastructure
- improved infrastructure and security as per the Government Communications Security Bureau requirements

Internal audit and risk management

The Internal Audit function independently assesses the design of risk management, internal control and governance processes to assure the Chief Executive and the Environment Leadership Team that they are adequate and functioning properly. We completed 15 audits during the year and over 80 per cent received low to medium risk ratings. Audit follow-up actions occur monthly and we have a programme in place to ensure audit recommendations are implemented.

The Audit and Risk Committee has three independent advisors who meet quarterly. We are confirming a replacement for one of the advisors, whose second term has ended. The Audit and Risk Committee 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. We actively use risk management based on a clear definition of risk appetite in our current operating context when managing our organisation. Risk management principles continue to be applied more confidently and effectively throughout the operational areas of the organisation, such as project management, funding and other business as usual activities.

Ministry budget and assets

Funding

We want to provide efficient and effective services that represent good value for money. To this end, the Ministry has focused on improving its efficiency and effectiveness over several years, including introducing a new strategic direction in 2010. To deliver the most effective high quality advice and support, the Ministry has undertaken reviews of management, communications, policy functions, and administrative support while using savings to fund priorities for the Government, including establishing the Environmental Protection Authority and funding the clean-up of Tui Mine.

This reprioritisation of funding meant the Ministry reduced the 2011/12 baseline to levels similar to when the efficiency dividend begins in 2012/13. The Ministry will continue to prioritise funding to meet ongoing pressures without seeking additional funding.

Part of this relates to work on examining the planning, budgeting and reporting information required to help us make effective prioritisation decisions. This complements the work already completed on the Ministry's outcomes framework and the restructure of our output classes in 2010/11. Our aim is to better focus on the impact funding is having in the medium term and to provide a transparent prioritisation framework, beginning with improved medium-term planning in time for Budget 2013.

Capital expenditure

The Ministry's main capital expenditure in 2011/12 was in two programmes:

- Desktop and server hardware
The first 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.
- 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; and other standard capital items such as hardware, software and other equipment. 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. The LUCAS infrastructure is now due for reinvestment and is to be transitioned to the Infrastructure as a Shared Service initiative led by the Department of Internal Affairs.

Our environmental performance

The Ministry's environmental performance is continually monitored to enable us to demonstrate leadership in this important area. Our environmental performance for 2011/12 is measured using waste minimisation, energy efficiency, and transportation as performance indicators.

In general terms, our waste minimisation and energy consumption has stabilised over the past two years, the increase per FTE is largely due to fluctuations in staff numbers over the course of the year (including a decrease in staff numbers when Ministry functions moved to the newly established Environmental Protection Authority). Overall transportation (kilometres travelled) has decreased from the 2010/11 year.

Benchmarking our performance

		Metric	2011/12	2010/11	2009/10	2008/09	2007/08
Waste minimisation	Waste to landfill	kg	1,404	1,415	1,762	1,917	1,641
	Waste to landfill per FTE	kg	5.44	4.63	6	6	6
	Paper recycled	kg	29,250	28,585	31,430	19,355	30,180
	Paper recycled per FTE	kg	113.3	93.4	107	63	107
	Waste recycled	kg	5,989	5,910	6,773	5,580	5,992
	Waste recycled per FTE	kg	23.2	19.3	23	18	21
	Total waste	kg	36,643	35,910	39,965	26,852	37,812
	Total waste per FTE	kg	141.9	117.3	136	87	134
Energy efficiency	Total electricity usage	mWh	700	705	760	784	801
	Total electricity usage per FTE	kWh	2,710	2,303	2,584	2,539	2,846
Transportation	Domestic flights	km	1,021,033	1,484,373	1,490,000	1,590,000	1,739,000
	Domestic flights per FTE	km	3,953	4,850	5,068	5,152	6,175
	International flights	km	2,355,694	2,144,637	2,736,000	3,318,000	2,685,000
	International flights per FTE	km	9,121	7,008	9,306	10,752	9,535
	Ground transport	km	89,937	92,702	96,000	103,000	112,000
	Ground transport per FTE	km	348	303	327	334	398
	Total transportation	km	3,466,664	3,721,712	4,322,000	5,011,000	4,536,000
	Total transportation per FTE	km	13,423	12,162	14,701	16,238	16,108

Crown entity monitoring

During 2011/12, the Ministry monitored the performance of the new Environmental Protection Authority (EPA) on behalf of the Ministers for the Environment and for Climate Change Issues. This was the EPA's first year as a new Crown entity. We reviewed quarterly reports and drafts of key accountability documents to monitor the EPA's progress against its annual objectives.

The Ministry has provided an analysis of the EPA's performance, based on their quarterly report, to the Minister, the State Services Commission and the Treasury. No significant issues were raised.

5 Financial Statements for the Ministry for the Environment

Performance Indicators for the Year Ended 30 June 2012

	Unit	Actual 2012	Supplementary estimates 2012
Operating results			
Revenue: Crown	\$000	49,180	52,194
Revenue: Departmental and other	\$000	1,682	1,667
Output expenses	\$000	50,862	53,861
Gain on sale of assets	\$000	1	5
Net surplus	\$000	1	5
Working capital			
Net current assets	\$000	4,986	4,924
Current ratio	Ratio	1.98	1.73
Resource utilisation			
Plant and equipment			
Plant and equipment at year-end	\$000	1,151	1,323
Value per employee	\$000	4.5	4.6
Additions as % of plant and equipment	%	14.2	28.3
Plant and equipment as % of total assets	%	9.3	9.4
Intangible assets			
Intangible assets at year-end	\$000	1,162	1,046
Value per employee	\$000	4.5	3.7
Additions as % of intangible assets	%	60.2	19.1
Intangible assets as % of total assets	%	9.4	7.5
Taxpayers' funds			
Level at year-end	\$000	5,992	5,992
Level per employee	\$000	23.2	21.0
Net cash flows			
Surplus/(deficit) from operating activities	\$000	(2,055)	1,131
Surplus/(deficit) from investing activities	\$000	(925)	(1,087)
Surplus/(deficit) from financing activities	\$000	(53)	(53)
Net increase/(decrease) in cash held	\$000	(3,033)	(9)
Human resources			
Staff turnover	%	12.5	11.0
Average length of service	Years	4.3	4.0
Total staff	No.	258	285

All statistics include the impact of continuing and discontinuing activities. Revenue Crown includes revenue from continuing activities \$48.965 million and revenue from discontinued activities of \$215,000.

Statement of Comprehensive Income for the Year Ended 30 June 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Continuing activities					
Income					
51,043	Crown		48,965	63,372	51,971
697	Other revenue	2	1,673	439	1,654
-	Gains	3	1	5	5
51,740	<i>Total income</i>		50,639	63,816	53,630
Expenditure					
25,433	Personnel costs	4	25,780	25,867	26,488
1,421	Depreciation and amortisation expense	9, 10	1,523	1,499	1,555
449	Capital charge	5	479	479	479
-	Finance cost	6	24	-	-
24,384	Other operating expenses	7	22,832	35,966	25,103
51,687	<i>Total expenditure</i>		50,638	63,811	53,625
53	<i>Total comprehensive income from continuing activities</i>		1	5	5
Discontinued activities					
Environment Protection Authority					
8,640	Income	22	224	21,977	236
8,640	Expenditure	22	224	21,977	236
-	<i>Total comprehensive income (loss) from discontinued activities</i>		-	-	-
All activities					
60,380	<i>Total income</i>		50,863	85,793	53,866
60,327	<i>Total expenditure</i>		50,862	85,788	53,861
53	Net surplus and total comprehensive income		1	5	5

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

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 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Assets					
Current assets					
4,324	Cash and cash equivalents		1,291	9,554	4,315
7,098	Debtors and other receivables	8	8,457	6,556	7,153
416	Prepayments		336	100	200
11,838	<i>Total current assets</i>		10,084	16,210	11,668
Non-current assets					
1,541	Plant and equipment	9	1,151	901	1,323
1,433	Intangible assets	10	1,162	508	1,046
2,974	<i>Total non-current assets</i>		2,313	1,409	2,369
14,812	Total assets		12,397	17,619	14,037
Liabilities					
Current liabilities					
5,422	Creditors and other payables	11	3,115	8,690	4,740
53	Return of operating surplus	12	1	5	5
26	Provisions	13	50	-	-
1,999	Employee entitlements	14	1,932	2,011	1,999
7,500	<i>Total current liabilities</i>		5,098	10,706	6,744
Non-current liabilities					
947	Employee entitlements	14	910	921	928
373	Provisions	13	397	-	373
1,320	<i>Total non-current liabilities</i>		1,307	921	1,301
8,820	Total liabilities		6,405	11,627	8,045
5,992	Net assets		5,992	5,992	5,992
Equity					
5,992	Taxpayer's funds	15	5,992	5,992	5,992
5,992	Total equity		5,992	5,992	5,992

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

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

Statement of Changes in Equity for the Year Ended 30 June 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
5,992	Balance at 1 July		5,992	5,992	5,992
	<i>Comprehensive income</i>				
53	Surplus for the year		1	5	5
53	Total comprehensive income		1	5	5
(53)	Return of operating surplus to the Crown	12	(1)	(5)	(5)
5,992	Balance at 30 June		5,992	5,992	5,992

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 2012

Actual 2011 \$000	Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Cash flows from continuing operating activities				
52,145		45,437	63,372	49,971
48		3,582	1,439	3,492
(24,634)		(24,971)	(35,966)	(25,453)
(25,419)		(25,884)	(25,867)	(26,507)
(449)		(479)	(479)	(479)
451		260	0	107
2,142	16	(2,055)	2,499	1,131
Net cash flow from continuing operating activities				
Cash flows from discontinuing operating activities				
3,052		215	487	223
5,588		9	21,490	13
(6,836)		(147)	(18,630)	(155)
(1,804)		(77)	(3,347)	(81)
-	-	-	-	-
2,142	16	(2,055)	2,499	1,131
Net Cash flow from operating activities				
Cash flows from investing activities				
6		1	5	5
(291)		(226)	(375)	(375)
(569)		(700)	(200)	(717)
(854)		(925)	(570)	(1,087)
Net cash (outflow)/inflow from investing activities				
Cash flows from financing activities				
(44)		(53)	(5)	(53)
(44)		(53)	(5)	(53)
Net cash flow from financing activities				
1,244		(3,033)	1,924	(9)
3,080		4,324	7,630	4,324
4,324		1,291	9,554	4,315
Cash at the end of the year				

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 2012

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 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 \$34,405 (2011: \$38,804).

Actual 2011 \$000		Actual 2012 \$000
	Capital commitments	
95	Intangible assets	27
95	<i>Total capital commitments</i>	27
	Non-cancellable operating lease commitments	
2,337	Not later than one year	2,187
8,083	Later than one year but not later than five years	8,324
1,881	Later than five years	-
12,301	<i>Total non-cancellable operating lease commitments</i>	10,511
12,396	Total commitments	10,538

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 2012

Contingent liabilities

The Ministry has no contingent liabilities (2011: \$nil).

Contingent assets

The Ministry has no contingent assets (2011: \$nil).

Statement of Unappropriated Expenditure for the Year Ended 30 June 2012

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 (2011: \$nil).

There were no breaches of projected departmental net assets schedules (2011: \$nil).

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

Statement of Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2012

Actual 2011 \$000		Expenditure before re- measurement 2012 \$000	Re- measurement 2012 \$000	Expenditure after re- measurement 2012 \$000	Appropriation ⁵⁰ 2012 \$000
Vote Environment					
Departmental Output Expenses					
33,838	Environmental Policy Advice	-	-	-	-
1,382	Delivery of Environmental Management Fund	-	-	-	-
24	Environmental Assistance to the Pacific Islands	-	-	-	-
5,588	Processing of Resource Management Call Ins and Applications to the Environmental Protection Authority	-	-	-	-
1,525	Waste Minimisation Administration	1,698	-	1,698	1,756
42,357	Total Departmental Output Expenses	1,698	-	1,698	1,756
Departmental Output Expenses: Multi-class Output Appropriation					
-	<i>Environmental Management Obligations and Programmes MCOA</i>	5,102	(30)	5,072	5,214
-	Domestic Obligations and Programmes	3,331	(8)	3,323	3,300
-	International Obligations and Institutions Policy Advice	1,771	(22)	1,749	1,914
-	<i>Improving Resource Management MCOA</i>	24,359	(62)	24,297	25,334
-	Water Management Policy Advice	6,078	(3)	6,075	6,222
-	Marine Environment Policy Advice	1,701	(9)	1,692	1,676
-	Resource Management Policy Advice	7,793	(12)	7,781	8,239
-	Resource Management Implementation	6,650	(40)	6,610	7,078
-	Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice	2,137	2	2,139	2,119

⁵⁰ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

Actual 2011 \$000		Expenditure before re- measurement 2012 \$000	Re- measurement 2012 \$000	Expenditure after re- measurement 2012 \$000	Appropriation ⁵⁰ 2012 \$000
-	<i>Mitigating Environmental Hazards and Waste MCOA</i>	3,871	5	3,876	4,198
-	Environmental Hazards and Waste Policy Advice	2,293	2	2,295	2,503
-	Waste Management and Minimisation	1,578	3	1,581	1,695
	- Total Departmental Output Expense: Multi-class Output Appropriation	33,332	(87)	33,245	34,746
42,357	Total for Vote Environment	35,030	(87)	34,943	36,502
	Vote Climate Change Departmental Output Expenses				
11,624	Policy Advice – Climate Change	-	-	-	-
-	Administration of the Emissions Trading Scheme	224	-	224	236
11,624	Total Departmental Output Expenses	224	-	224	236
	Departmental Output Expenses: Multi-class Output Appropriation				
-	<i>Climate Change MCOA</i>	8,586	(2)	8,584	9,023
-	Domestic Climate Change Programme Policy Advice	5,123	(12)	5,111	5,251
-	International Climate Change Programme Policy Advice	3,463	10	3,473	3,772
	- Total Departmental Output Expense: Multi-class Output Appropriation	8,586	(2)	8,584	9,023
11,624	Total for Vote Climate Change	8,810	(2)	8,808	9,259
	Capital Expenditure				
853	Capital expenditure	863	-	863	950

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

Statement of Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2012 (continued)

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.

2011 \$000		2012 \$000
	Vote Climate Change	
	Land Use and Carbon Analysis System	
28,981	Original appropriations	28,981
600	Adjustments to 2010/11	600
-	Adjustments to 2011/12	(15,131)
29,581	Total adjusted appropriations	14,450
-	Cumulative actual expenditure 1 July	6,350
6,350	Current year actual expenditure	7,022
6,350	Cumulative actual expenditure 30 June	13,372
23,231	Appropriation remaining 30 June	1,078

This appropriation has decreased by \$15.131 million in 2011/12 due to the merging of Votes Climate Change and Environment and a transfer of funding to a new Multi-year appropriation under Vote Environment from 2012/13. The total spending across the years remains unchanged.

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 2012

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 2012. The financial statements were authorised for issue by the Chief Executive of the Ministry on 30 September 2012.

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 during the financial year, which have had only a presentational or disclosure effect:

- Amendment to NZ IAS 1 *Presentation of Financial Statements*. The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item. The Ministry has decided to present this analysis in note 15.

Amendments to NZ IFRS 7 Financial Instruments: Disclosures – The amendment reduces the disclosure requirements relating to credit risk. Note 19 have been updated for the amendments.

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

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 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 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 approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

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

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

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 2012, 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 recipient.

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 2011/12 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 2012, direct costs accounted for 61 per cent of the Ministry's costs (2011: 74 per cent) and indirect costs accounted for 39 per cent of the Ministry's costs (2011: 26 per cent). The primary reason for the reduction in direct costs relates to the discontinued activities of the Environmental Protection Authority.

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:

	Depreciation rate (%)	Useful life (years)
Furniture and fittings	8.39 – 20	5 – 13
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 13 contains an estimate for restructuring costs which is expected to be paid in the financial year ended 30 June 2013.

Note 14 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 reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Equity

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

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 2011 \$000		Actual 2012 \$000
640	Departmental	1,127
57	Other	546
697	Total other revenue	1,673

3. Gains

Actual 2011 \$000		Actual 2012 \$000
-	Net gain on sale of plant and equipment	1
-	Total gains	1

4. Personnel costs

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

Actual 2011 \$000		Actual 2012 \$000
24,115	Salaries and wages	24,471
678	Termination benefits	543
740	Employer contributions to defined contribution plans	720
(143)	Net employee entitlements	1
43	Other	45
25,433	Total personnel costs	25,780

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 2012 was 8.0 per cent (2011: 7.5 per cent).

6. Finance costs

Actual 2011 \$000	Actual 2012 \$000
- Discount unwind on provisions (note 13)	24
- Total finance costs	24

7. Other operating expenses

Actual 2011 \$000	Actual 2012 \$000
170 Audit fees for the financial statement audit	178
1,873 Operating lease payments	2,246
489 Advertising and publicity	358
300 Contributions and sponsorship	531
<i>External resources:</i>	
1,002 Statutory advisory boards	2,216
1,440 Services provided by other government agencies	1,393
2,854 Land Use and Carbon Analysis System	3,444
596 Waste minimisation administration	573
8,477 Other professional fees	4,991
3,770 General and administration	3,364
72 Net loss on disposal of property, plant and equipment and intangibles	-
3,341 Other operating expenses	3,538
24,384 Total other operating expenses	22,832

8. Debtors and other receivables

Actual 2011 \$000	Actual 2012 \$000
4,603 Debtor Crown	8,131
2,037 Debtor other	128
- Less provision for impairment	-
6,640 Net debtors	8,259
458 GST receivable	198
7,098 Total debtors and other receivables	8,457

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

As at 30 June 2012 and 2011, all overdue receivables have been assessed for impairment. No provision has been made for doubtful debts as 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:

	Gross \$000	2012 Impairment \$000	Net \$000	Gross \$000	2011 Impairment \$000	Net \$000
Not past due	8,429	-	8,429	6,966	-	6,966
Past due 1 – 30 days	9	-	9	132	-	132
Past due 31 – 60 days	-	-	-	-	-	-
Past due 61 – 90 days	19	-	19	-	-	-
Past due > 91 days	-	-	-	-	-	-
Total	8,457	-	8,457	7,098	-	7,098

9. Plant and equipment

	Furniture and fixtures \$000	Office equipment \$000	Computer hardware \$000	Total \$000
Cost				
Balance at 1 July 2010	1,829	262	1,775	3,866
Additions	5	88	189	282
Add: Closing work in progress	373	4	149	526
Less: Opening work in progress	-	(71)	-	(71)
Disposals	-	-	(287)	(287)
Balance at 30 June 2011	2,207	283	1,826	4,316
Balance at 1 July 2011	2,207	283	1,826	4,316
Additions	373	24	257	654
Add: Closing work in progress	-	-	33	33
Less: Opening work in progress	(373)	(4)	(149)	(526)
Disposals	-	-	(266)	(266)
Balance at 30 June 2012	2,207	303	1,701	4,211
Accumulated depreciation and impairment losses				
Balance at 1 July 2010	1,169	147	1,260	2,576
Depreciation expense	222	30	234	486
Eliminate on disposal	-	-	(287)	(287)
Balance at 30 June 2011	1,391	177	1,207	2,775
Balance at 1 July 2011	1,391	177	1,207	2,775
Depreciation expense	251	30	270	551
Eliminate on disposal	-	-	(266)	(266)
Balance at 30 June 2012	1,642	207	1,211	3,060
Carrying amounts				
At 1 July 2010	660	115	515	1,290
At 30 June / 1 July 2011	816	106	619	1,541
At 30 June 2012	565	96	490	1,151

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.

10. Intangible assets

	Acquired software \$000	Acquired software licences \$000	Internally generated software (others) \$000	Internally generated software (LUCAS) \$000	Total \$000
Cost					
Balance at 1 July 2010	893	187	659	1,710	3,449
Additions	117	-	293	300	710
Add: Closing work in progress	50	-	147	-	197
Less: Opening work in progress	(26)	-	(206)	(167)	(399)
Disposals	-	(162)	-	-	(162)
Balance at 30 June 2011	1,034	25	893	1,843	3,795
Balance at 1 July 2011	1,034	25	893	1,843	3,795
Additions	327	-	426	-	753
Add: Closing work in progress	54	-	90	-	144
Less: Opening work in progress	(50)	-	(147)	-	(197)
Disposals	(11)	-	-	-	(11)
Balance at 30 June 2012	1,354	25	1,262	1,843	4,484
Accumulated amortisation and impairment losses					
Balance at 1 July 2010	669	82	81	679	1,511
Amortisation expense	170	27	242	496	935
Disposals	-	(84)	-	-	(84)
Balance at 30 June 2011	839	25	323	1,175	2,362
Balance at 1 July 2011	839	25	323	1,175	2,362
Amortisation expense	122	-	346	503	971
Disposals	(11)	-	-	-	(11)
Balance at 30 June 2012	950	25	669	1,678	3,322
Carrying amounts					
At 1 July 2010	224	105	578	1,031	1,938
At 30 June / 1 July 2011	195	-	570	668	1,433
At 30 June 2012	404	-	593	165	1,162

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

11. Creditors and other payables

Actual 2011 \$000	Actual 2012 \$000
1,666 Creditors	250
3,614 Accrued expenses	2,788
142 Fixed assets payable	77
5,422 Total creditors and other payables	3,115

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.

12. Return of operating surplus

Actual 2011 \$000	Actual 2012 \$000
53 Net surplus	1
53 Total return of operating surplus	1

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.

13. Provisions

Actual 2011 \$000	Actual 2012 \$000
Current portion	
26 Restructuring	50
26 Total current portion	50
Non-current portion	
373 Restoration costs	397
399 Total provisions	447

	Restoration costs \$000	Restructuring \$000	Total \$000
Balance at 1 July 2010	-	662	662
Additional provisions made	373	-	373
Amounts used	-	(522)	(522)
Unused amounts reversed	-	(114)	(114)
Balance at 30 June 2011	373	26	399
Balance at 1 July 2011	373	26	399
Additional provisions made	24	543	567
Amounts used	-	(519)	(519)
Unused amounts reversed	-	-	-
Balance at 30 June 2012	397	50	447

Provisions represent:

- the remaining costs from a review of core administrative functions within the Ministry to streamline the processes while delivering more effective services. These remaining costs will be paid in 2012/13 (2011: \$26,000).
- 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.

14. Employee entitlements

Actual 2011 \$000		Actual 2012 \$000
Current employee entitlements are represented by:		
576	Salary accrual	613
1,244	Annual leave	1,177
179	Retirement and long service leave	142
1,999	<i>Total current portion</i>	1,932
Non-current employee entitlements are represented by:		
947	Retirement and long service leave	910
2,946	Total employee entitlements	2,842

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 2012. The rates used range from 2.43 per cent to 6.00 per cent depending on the term of the liability for each employee (2011: 2.84 per cent to 6.00 per cent)
- a long-term annual salary growth rate of 3.5 per cent (2011: 3.5 per cent).

15. Equity

Actual 2011 \$000		Actual 2012 \$000
Taxpayers' funds		
5,992	Balance at 1 July	5,992
53	Total comprehensive income	1
(53)	Return of operating surplus to the Crown	(1)
5,992	Balance at 30 June	5,992

16. Reconciliation of net surplus to net cash from operating activities

Actual 2011 \$000		Actual 2012 \$000
53	Net surplus	1
Add/(less) non-cash items:		
-	Restoration costs	24
1,421	Depreciation and amortisation expense	1,522
1,421	<i>Total non-cash items</i>	1,546

Actual 2011 \$000		Actual 2012 \$000
	Add/(less) items classified as investing or financing activities:	
72	Net (gains)/losses on disposal of property, plant and equipment, and intangibles	(1)
	Add/(less) movements in deferrals and accruals:	
905	(Increase)/decrease in debtors and other receivables	(1,359)
(191)	(Increase)/decrease in pre-payments	80
503	Increase/(decrease) in creditors and other payables ⁵¹	(2,242)
(636)	Increase/(decrease) in provisions	24
15	Increase/(decrease) in employee entitlements	(104)
596	<i>Total net movement in working capital items</i>	(3,602)
2,142	Net cash flow from operating activities	2,055

17. 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 \$49.180 million (2011: \$54.095 million) to provide services for the year ended 30 June 2012. This includes Debtor Crown funding of \$8.131 million (2011: \$4.603 million), yet to be received in cash from the Crown.

Revenue received from other departments for the reimbursement of the contribution to the State Sector Retirement Savings Scheme, KiwiSaver and other services amounted to \$1.130 million (2011: \$5.037 million) for the year ended 30 June 2012. Expenditure to other departments for their services to the Ministry including legal advice from Crown Law Office, staff secondments, and external resources to support LUCAS amounted to \$4.103 million (2011: \$1.578 million) for the year ended 30 June 2012.

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 2012 totalled \$829,000 (2011: \$1.27 million). 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.

⁵¹ Creditors and accruals for capital expenditure are excluded when calculating this increase or decrease.

Key management personnel compensation

Actual 2011 \$000		Actual 2012 \$000
1,386	Salaries and other short-term employee benefits	1,353
15	Post-employment benefits	17
1,401	Total key management personnel compensation	1,370

Key management personnel include the Chief Executive and the Ministry's four members of the Environment Leadership Team as at 30 June. (2011: The Chief Executive and the five members of the Environment Leadership Team).

Key management personnel compensation excludes the remuneration and other benefits received by the Minister for the Environment and the Minister for Climate Change Issues. The Ministers' remuneration and other benefits are not received only for their role as a member of key management personnel of the Ministry. The Ministers' 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.

18. Events after the balance sheet date

No significant events which may impact on the results have occurred between year end and the signing of these financial statements.

19. Financial instruments

Financial instrument categories

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

Actual 2011 \$000		Actual 2012 \$000
	Loans and receivables	
4,324	Cash and cash equivalents	1,291
7,098	Debtors and other receivables	8,457
11,422	<i>Total loans and receivables</i>	9,748
	Financial liabilities measured at amortised cost	
5,422	Creditors and other payables	3,115

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 8). 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
2011						
Creditors and other payables (note 11)	5,422	5,422	5,422	-	-	-
2012						
Creditors and other payables (note 11)	3,115	3,115	3,115	-	-	-

20. Capital management

The Ministry's capital is its equity, which comprise taxpayers' 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 and the Public Finance Act 1989.

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

21. Explanations of major variances against budget

Explanations for major variances from the Ministry's estimated figures in the 2011/12 Main Estimates are as follows. These include amounts from continuing and discontinuing activities.

(i) Statement of comprehensive income

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Crown revenue	48,965	63,372	14,407
External resources	12,617	17,007	(4,390)
General and administration	3,364	13,969	(10,605)

Actual Crown revenue was lower than budget due to:

- a transfer of funding to non-departmental appropriations for the establishment of the functions of the Environmental Protection Authority (EPA)
- timing differences in the Land Use and Carbon Analysis System (LUCAS). This project is a multi-year appropriation reflecting the longer-term nature of the project and the difficulty in forecasting timing of workstreams.

Consultancy cost (including contractors' fees) and general and administration expenses were lower than budget mainly due to:

- transfer of Resource Management Call-in and Applications to the EPA and administration of the Emissions Trading Scheme functions to the EPA
- timing differences in expenditure relating to Land use and Carbon Analysis System, a multi-year appropriation.

(ii) Statement of financial position

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Bank	1,291	9,554	(8,263)
Debtors and other receivables	8,457	6,556	1,901
Creditors and other payables	3,115	8,690	5,574

The amount of cash held was lower than budget due to a higher level of debtors and other receivables at 30 June 2012 and the transfer of Resource Management Call-in and Applications functions to the Environment Protection Authority. The higher level of debtors and other receivables relate to amounts receivable from the Crown and GST receivable from the Inland Revenue Department.

Creditors and other payables were lower than budget due to the transfer of Resource Management Call-in and Applications functions to the Environment Protection Authority.

(iii) Statement of cash flows

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Receipts from Crown	45,437	63,372	(17,935)
Receipts from other revenue	3,582	1,439	2,143
Payments to suppliers	(24,971)	(35,966)	10,995

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

22. Discontinued activities

In December 2011, the Ministry transferred its Administration of Emissions Trading Scheme Appropriation to the Environmental Protection Authority. This appropriation was established on 1 July 2011. The income and expenditure that related to the above activity up to the date of transfer were: Crown revenue \$214,642; Other revenue \$9,325; and expenditure \$223,967 (2011: Activities relating to the Environmental Protection Authority were transferred, which had a Crown revenue \$3.052 million; Other revenue \$5.588 million; and expenditure \$8.640 million).

6 Non-Departmental Statements and Schedules for the Year Ended 30 June 2012

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 2012

Actual 2011 \$000		Actual 2012 \$000	Appropriation 2012 \$000 ⁵²
Vote Environment			
Non-Departmental output expenses			
331	Community Environment Fund	1,340	2,000
398	Contaminated Sites Remediation Fund	2,031	2,156
3,854	Contestable Waste Minimisation Fund	9,975	12,500
-	- Fresh Start for Fresh Water: New Initiatives	1,430	2,000
10,350	Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme	4,100	4,100
10,170	Hazardous Substances and New Organisms assessment and management	-	-
2,667	Lake Taupo Protection Programme	-	-
800	Promotion of sustainable land management	800	800
993	Sustainable Management Fund	316	488
29,563	Total non-departmental output expenses	19,992	24,044
Non-Departmental output expenses – Multi-class output appropriation			
Environmental Protection Authority: Regulatory functions			
-	- Compliance and enforcement	3,006	3,252
-	- Decision making	5,944	6,428
-	- Supporting environmental management	4,550	4,920
-	Total non-departmental output expenses – Multi-class output appropriation	13,500	14,600
Non-Departmental other expenses			
527	Environmental Legal Assistance	769	800
-	- Environmental Protection Authority establishment costs	2,000	2,000
3,884	Fresh Start for Fresh Water: Waikato River Clean-up Fund	10,010	10,137
-	- Hawke's Bay Rivers Clean-up Fund	-	2,000
77	International subscriptions	102	117
317	Legal and environment centre grants	-	-
500	Rangitaiki River Management Framework	-	-

⁵² This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

Actual 2011 \$000		Actual 2012 \$000	Appropriation 2012 \$000 ⁵²
382	Scoping Study for Clean-up Fund	-	-
-	- Transitional support for local government and iwi	100	100
303	United Nations Environment Programme	278	393
331	Waikato and Waipa River transitional Co-governance	-	-
1,250	Waikato River Co-governance	910	910
21,219	Waikato River Co-management	2,632	2,632
1,008	Warm Homes grants and assistance	-	-
12,518	Waste Disposal Levy disbursement to TLA	12,194	13,000
42,316	Total non-departmental other expenses	28,995	32,089
	Non-Departmental capital expenditure		
-	- Capital contribution to the Environmental Protection Authority	9,594	9,594
-	Total non-departmental capital expenditure	9,594	9,594
71,879	Total for Vote Environment	72,081	80,327

Actual 2011 \$000		Actual 2012 \$000	Appropriation 2012 \$000 ⁵³
	Vote Climate Change		
	Non-Departmental output expenses		
297	Administration of New Zealand Units held on Trust	128	177
-	- New Zealand Emissions Trading Scheme	3,447	4,992
297	Total non-departmental output expenses	3,575	5,169
	Non-Departmental other expenses		
837,524	Allocation of New Zealand Units	334,248	1,558,975
241	Climate Change Development Fund	300	300
107	Framework Convention on Climate Change	116	127
3,484	Impairment of debt relating to the New Zealand Emissions Trading Scheme	4,146	15,000
3,940	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants	2,355	10,000
-	- Purchase of Units under the New Zealand Emissions Trading Scheme	-	1,000
845,296	Subtotal	341,165	1,585,402
	Non-Departmental capital expenditure		
-	- Purchase of PRE Units	969	1,231
-	Subtotal	969	1,231
845,593	Total for Vote Climate Change	345,709	1,591,802

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 2012.

⁵³ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

Remeasurements

In addition, to the above expenditure, the Crown has incurred costs of \$177 million (2011: \$123 million) in relation to the remeasurement in the provision for the Crown's position under the Kyoto Protocol.

The remeasurement of the provisions take account of the revisions 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 remeasurements do not require appropriations.

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 2012.

Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2012 (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.

Actual 2011 \$000		Actual 2012 \$000
	Vote Environment	
	Protecting Lake Taupo Programme	
10,668	Original appropriation	10,668
-	Cumulative adjustments	-
10,668	Total adjusted appropriation	10,668
-	Cumulative actual expenditure 1 July	-
-	Current year actual expenditure	4,829
-	Cumulative actual expenditure 30 June	4,829
10,668	Appropriation remaining 30 June	5,839

On 1 July 2011, a multi-year appropriation, Tui Mine Remediation, was established in Vote Environment, Non-Departmental output expenses to help fund the remediation and clean-up of the Tui Mine site in Te Aroha. This appropriation expires on 30 June 2014.

Actual 2011 \$000		Actual 2012 \$000
	Vote Environment	
	Tui Mine Remediation	
-	Original appropriation	15,200
-	Cumulative adjustments	-
-	Total adjusted appropriation	15,200
-	Cumulative actual expenditure 1 July	-
-	Current year actual expenditure	10,000
-	Cumulative actual expenditure 30 June	10,000
-	Appropriation remaining 30 June	5,200

Further details for above appropriations is provided in the non-financials part of this annual report and the section 32A report published on Parliament's website.

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 2012.

On 7 March 2012, a multi-year appropriation, Rena Long-term Environment Recovery, was established in Vote Environment, Non-Departmental output expenses for the implementation of the Rena Long-term Environmental Recovery Plan. This appropriation expires on 30 June 2015. As at 30 June 2012, a deed of funding had been signed with Bay of Plenty Regional Council but no expenditure had been incurred.

Actual 2011 \$000	Actual 2012 \$000
Vote Environment	
Rena Long-term Environment Recovery	
- Original appropriation	2,872
- Cumulative adjustments	-
- Total adjusted appropriation	2,872
- Cumulative actual expenditure 1 July	-
- Current year actual expenditure	-
- Cumulative actual expenditure 30 June	-
- Appropriation remaining 30 June	2,872

Details of indemnity payments

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

Actual 2011 \$000	Actual 2012 \$000
- Indemnity payments	1,807
- Total for indemnity payments	1,807

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 2012.

Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure for the Year Ended 30 June 2012

There has been no unappropriated expenditure in Votes Environment and Climate Change for the year ended 30 June 2012 (2011: Vote Environment \$4.303 million and Vote Climate Change \$2.484 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 2012.

Schedule of Non-Departmental Income for the Year Ended 30 June 2012

Actual 2011 \$000	Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Income				
341	Royalties	701	400	600
25,037	Levies	26,189	26,000	26,000
325,968	Emissions trading	136,489	379,130	190,738
	Emissions Trading Scheme penalty			
	- revenue	4,178	-	4,500
205,627	Change in estimate of Kyoto units held	20,287	-	20,436
	Net changes in carbon price of NZUs			
	- including foreign exchange movements	507,247	-	200,621
556,973	Total non-departmental income	695,091	405,530	442,895

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

Schedule of Non-Departmental Capital Receipts for the Year Ended 30 June 2012

The Ministry on behalf of the Crown has no Capital Receipts (2011: \$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 2012.

Schedule of Non-Departmental Expenses for the Year Ended 30 June 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Expenditure					
47,298	Grants and settlements		48,442	54,472	59,908
800	Promotions		800	800	800
728	Subscriptions and contributions to international forums		796	937	937
10,170	Crown entity funding		18,947	10,170	21,592
122,962	Net changes in carbon price of Kyoto units including foreign exchange movements	5	177,062	-	118,612
22,008	Net changes in carbon price of NZUs including foreign exchange movements		-	-	-
12,518	Levy disbursement		12,194	13,000	13,000
837,524	Allocations of New Zealand Units		334,248	909,005	1,558,975
3,940	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants		2,355	10,000	10,000
9,278	GST input expense		10,863	9,915	12,050
4,494	Other		6,081	2,177	16,177
1,071,720	Total non-departmental expenditure		611,788	1,010,476	1,812,051

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 2012.

Schedule of Non-Departmental Assets as at 30 June 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Assets					
Current assets					
4,857	Cash and cash equivalents		6,481	5,290	4,435
6,809	Debtors and other receivables	2	8,366	6,575	6,809
11,666	<i>Total current assets</i>		14,847	11,865	11,244
Non-current assets					
290,651	Kyoto Protocol	5	201,812	444,279	189,454
617	PRE units		1,586	2,448	1,848
291,268	<i>Total non-current assets</i>		203,398	446,727	191,302
302,934	Total non-departmental assets		218,245	458,592	202,546

In addition, the Ministry monitors the Environmental Protection 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.

Schedule of Non-Departmental Liabilities as at 30 June 2012

Actual 2011 \$000		Notes	Actual 2012 \$000	Main estimates 2012 \$000	Supplementary estimates 2012 \$000
Liabilities					
Current liabilities					
29,223	Creditors and other payables	3	33,231	24,424	27,000
612,591	Provisions	6	376,403	1,240,250	889,081
641,814	<i>Total current liabilities</i>		409,634	1,264,674	916,081
Non-current liabilities					
142,134	Creditors and other payables	3	141,181	117,457	135,459
142,134	<i>Total non-current liabilities</i>		141,181	117,457	135,459
783,948	Total non-departmental liabilities		550,815	1,382,131	1,051,540

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 2012.

Schedule of Non-Departmental Contingencies as at 30 June 2012

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 61.3 million forestry credits. During the first commitment period, the Ministry of Agriculture and Forestry estimated that 92.2 million tonnes of credits will be generated by carbon removals via forests (2011: 89.3 million tonnes). Of this amount, 30.9 million tonnes (2011: 14.4 million tonnes) has been allocated to foresters through the Emissions Trading Scheme as at 30 June 2012. 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 2012, this contingent liability can be measured at \$NZ349 million (ie, 61.3 million x \$NZ\$5.70) (2011: \$997 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 2012.

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.

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.

New Zealand 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 New Zealand Emissions Trading Scheme (NZ 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 2012.

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.

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 NZ 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.

At 30 June 2012, there may be some deforestation which has not yet been reported to the Crown. (30 June 2011: Nil)

The Ministry on behalf of the Crown has no other contingent liability or assets (2011: 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 2012.

Notes to the Non-Departmental Financial Statements

1. Statement of accounting policies for the year ended 30 June 2012

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 New Zealand Emissions Trading Scheme (NZ ETS).

The Waste Disposal Levy revenue is recognised when earned and is reported in the financial period to which it relates.

Revenue arising from the NZ 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 relevant committee or body and the approval has been communicated to the applicant.

Allocation of New Zealand Units (NZUs) under the NZ 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 NZ 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 NZ 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 monthly average spot 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

Actual 2011 \$000		Actual 2012 \$000
10,293	Debtors and other receivables	12,512
(3,484)	Less provision for impairment	(4,146)
6,809	Total debtors and other receivables	8,366

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

As at 30 June 2012 and 2011, all debtors and other receivables have been assessed for impairment. The Ministry has identified one debtor as impaired \$4.146 million (2011: \$3.484 million).

	Gross \$000	2012 Impairment \$000	Net \$000	Gross \$000	2011 Impairment \$000	Net \$000
Not past due	8,463	(97)	8,366	6,809	-	6,809
Past due 1 – 90 days	88	(88)	-	168	(168)	-
Past due 90 – 180 days	-	-	-	-	-	-
Past due 180 – 360 days	3,961	(3,961)	-	-	-	-
Past due > 360 days	-	-	-	3,316	(3,316)	-
Total	12,512	(4,146)	8,366	10,293	(3,484)	6,809

3. Creditors and other payables

Actual 2011 \$000		Actual 2012 \$000
Current creditors and other payables are represented by:		
5,787	Waikato River Co-management	5,762
6,702	Waikato River Clean-up Fund	8,321
350	GST payable	340
16,384	Other payables	18,808
29,223	<i>Total current portion</i>	33,231
Non-current creditors and other payables are represented by:		
54,356	Waikato River Co-management	52,013
87,778	Waikato River Clean-up Fund	89,168
142,134	<i>Total non-current portion</i>	141,181
171,357	Total creditors and other payables	174,412

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
	2012–2015 \$000	2016–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	2036–2040 \$000	
Co-management							
Nominal	16,000	25,000	25,000	25,000	5,000	3,000	99,000
Discount	(1,454)	(7,098)	(11,739)	(15,113)	(3,522)	(2,299)	(41,225)
Recognised	14,546	17,902	13,261	9,887	1,478	701	57,775
Clean up							
Nominal	23,332	36,665	36,665	36,665	36,665	22,008	192,000
Discount	(2,116)	(10,376)	(17,192)	(22,148)	(25,817)	(16,862)	(94,511)
Recognised	21,216	26,289	19,473	14,517	10,848	5,146	97,489

In October 2011, the Crown agreed to provide an additional \$10 million to the Waikato River Clean-up Fund administered by the Waikato River Authority. This funding relates to the clean-up of the Upper Waipa River which requires the Crown to make various payments over the next 26 years (in the previous financial year, the Crown signed a Settlement Deed with Maniapoto Māori Trust Board relating to the Waikato River Co-management arrangements).

The total amount of the payments has been provided for as at 30 June 2012. 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 includes the additional payments and reconciles the cash outflows that will occur over the next 26 years.

4. Financial instruments

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

Actual 2011 \$000		Actual 2012 \$000
Loans and receivables		
4,857	Cash and cash equivalents	6,481
6,809	Debtors and other receivables	8,366
11,666	Total loans and receivables	14,847
Financial liabilities measured at amortised cost		
171,357	Creditors and other payables	174,412

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.

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, on behalf of the Crown, has no significant exposure to currency risk on its financial instruments. Accordingly, no sensitivity analysis has been completed.

5. New Zealand's obligation under the Kyoto Protocol

Actual 2011 \$ million	Analysis of the Kyoto Protocol obligation	Actual 2012 \$ million
212	Opening position (provision)	291
(123)	Change in the price of carbon	(177)
202	Change in net projected emission units	18
	- Kyoto compliant units surrendered under NZ ETS	70
291	Closing position (provision)	202
Emission units		Emission units⁵⁴
309.6	Kyoto Target (Assigned Amount Units)	309.6
3.4	Less AAUs allocated to emission reducing projects	4.5
306.2	Total commitment target	305.1
	Projected emission units	
170.1	Agriculture	170.5
183.6	Energy (including transport) and industrial processes	184.9
9.9	Waste	10.0
0.1	Solvent and other product use	0.2
363.7	Total projected emission units	365.6
89.3	Removals via forests	92.2
(6.6)	Deforestation emissions	(6.4)
82.7	Net removals via forests	85.8
281.0	Net projected emission units	279.8
3.4	Less net transfers of AAUs	2.2
	- Add Kyoto compliant units surrendered under NZ ETS	12.3
21.8	Surplus units	35.4

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

⁵⁴ One emission unit is equivalent to one tonne of greenhouse gas emissions converted to carbon dioxide equivalents by the global warming potential.

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 2012 of \$NZ202 million (2011: \$NZ291 million) is based on the projected surplus of 35.4 million Kyoto Protocol emission units. This surplus includes 12.3 million Kyoto compliant units surrendered by the emitters under the New Zealand Emissions Trading Scheme. The carbon price of €3.60 per unit has been used. The carbon price in New Zealand dollars equates to \$NZ5.70 (2011: \$NZ13.31), using the 30 June 2012 exchange rate of €0.63185 = \$NZ1 (30 June 2011: €0.57335 = \$NZ1, and a carbon price of €7.63 per unit).

The carbon price has been determined by the Ministry for the Environment based on a report commissioned from Point Carbon on the international market transactions that have occurred in the AAU markets.

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 by the Ministry for Primary Industries; energy emissions (including transport) and industrial processes emissions by the Ministry of Economic Development, and emissions from the waste sector by the Ministry for the Environment. 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 that web page. 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 2012.

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 New Zealand 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 will 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, the exchange rate with the European currency unit, and government policy changes.

6. Provisions

Actual 2011 \$000		Actual 2012 \$000
	Current portion	
535	Indemnity payments	1,019
612,056	Allocation of New Zealand Units	375,384
612,591	Total provisions	376,403

The total provisions are all considered to be current as at 30 June 2012.

	Indemnity \$000	Allocation of New Zealand Units \$000	Total \$000
Balance at 1 July 2010	1,132	74,074	75,206
Additional provisions made	-	837,524	837,524
Amounts used	(597)	(321,550)	(322,147)
(Gains)/losses	-	22,008	22,008
Unused amounts reversed	-	-	-
Balance at 30 June 2011	535	612,056	612,591
Balance at 1 July 2011	535	612,056	612,591
Additional provisions made	1,807	334,247	335,266
Amounts used	(1,323)	(63,671)	(64,206)
(Gains)/losses	-	(507,248)	(507,248)
Unused amounts reversed	-	-	-
Balance at 30 June 2012	1,019	375,384	376,403

Provision for NZ ETS credits

	30 June 2012	30 June 2012	30 June 2011	30 June 2011
	Units in million	Amount in \$ million	Units in million	Amount in \$ million
Opening provision	30.2	612	3.9	74
New provision recognised during the period	39.8	334	43.1	838
Provision used during the period	(16.8)	(134)	(16.8)	(322)
Gains and losses	-	(507)	-	22
Transfer of units to Kyoto provision	12.3	70	-	-
Closing provision	65.5	375	30.2	612

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. In the NZ ETS transition period to the end of 2012, emitters can also use the \$NZ25 price option to settle their emission obligation. Emitters can also use Kyoto compliant units to settle their emission obligations. The Kyoto compliant units are recognised as part of the Kyoto Protocol position (refer to note 5).

The carbon price of €3.62 (2011: €11.63) has been used to value NZUs which equates to NZ\$5.73 (2011: NZ\$20.28). This price is determined based on international market transactions and spot prices that have occurred in the secondary certified emissions reduction (sCER) market as published by Point Carbon. Currently, the secondary CER market has been determined to be the most relevant market for determining the carbon price of NZ Units in calculation of the provision for NZ ETS credits. As the market for NZ Units develops the basis for determining this carbon price will be reviewed. For the prior year period, the monthly average price for primary certified emissions reduction (pCER) was used.

Details of current climate change policies are listed at: <http://www.mfe.govt.nz/issues/climate/policies-initiatives>.

7. Events after the balance sheet date

After the balance date, the price of NZUs and AAUs is \$4.51 per unit based on the August monthly average spot price of sCERs. At this price, the ETS provision is valued at \$296 million and the Net position is valued at \$160 million.

No other significant events which may impact on the results have occurred between year end and the signing of these financial statements.

8. Memorandum account for the Waste Minimisation Fund

Actual 2011 \$000		Actual 2012 \$000
Provision for statutory information		
10,389	Balance at 1 July	17,562
25,037	Revenue from waste levy collection	26,189
(17,864)	Expenses	(23,867)
17,562	Balance at 30 June	19,884

The memorandum account records the Waste Disposal Levy collected which has not been spent to date. As at 30 June 2012, the Fund has \$8.67 million commitments to be paid on delivery of projects. 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. The disbursements of the levy to the territorial authorities and the Waste Minimisation Fund 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

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Emissions trading	136,489	379,130	242,641
Change in estimate of Kyoto units held	20,287	-	(20,287)
Net changes in carbon price of NZUs including foreign exchange movements	507,247	-	(507,247)

The Revenue from surrendering units under the NZ ETS from emitters was lower than budget. This is primarily due to the decrease in the carbon price and increase in EURO/NZ exchange rate.

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.

At the finalisation of the Mains Estimates, the NZ ETS provision is based on information at April 2011. Due to uncertainty, no forecast of changes in the provision was made.

There were no other significant variances to budget.

(ii) Schedule of non-departmental expenses

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Movement in the Kyoto Protocol position	177,063	-	177,062
Allocations of New Zealand Units	334,248	909,005	(574,757)

The variance between the Main Estimates and the actual expense for the movement in the Kyoto Protocol position relates to the reduction in price per carbon unit and movement in EURO/NZ exchange rate. These changes are considered to be a remeasurement under the Public Finance Act 1989 and do not require appropriation.

The expense for allocations of New Zealand Units was lower than budget due to:

- the lower level of uptake by the post-1989 forestry sector
- a decrease in the carbon price per unit and increase in the EURO/NZ exchange rate.

(ii) Statement of assets

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Kyoto Protocol units	201,812	444,279	(242,467)

Kyoto Protocol units were lower than budget primarily due to the reduction in carbon price per unit and increase in EURO/NZ exchange rates. This was partially offset by the transfer of international units and NZ –Assigned Amount Units surrendered under the New Zealand Emissions Trading Scheme.

(iii) Statement of liabilities

	Actual 2012 \$000	Main estimates 2012 \$000	Variance \$000
Provisions	376,403	1,240,250	863,847

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

- the lower level of uptake by the post-1989 forestry sector
- a decrease in the carbon price per unit and increase in the EURO/NZ exchange rate reflecting the movements outlined in non-departmental revenue and expenses.

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 2012.



Paul Reynolds
Chief Executive
28 September 2012

Countersigned by:



Glenn Phillips
Chief Financial Officer
28 September 2012

Independent Auditor's Report

To the readers of the Ministry of the Environment's financial statements, non-financial performance information and schedules of non-departmental activities for the year ended 30 June 2012

The Auditor-General is the auditor of the Ministry of 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 68 to 95, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2012, the statement of comprehensive income, statement of changes in equity, statement of departmental expenditure and capital expenditure against appropriations, statement of unappropriated 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 9 to 60 and the statement of progress against impacts on pages 6 to 8; and
- the schedules of non-departmental activities of the Ministry on pages 96 to 116 that comprise the schedule of assets, schedule of liabilities and schedule of contingencies as at 30 June 2012, 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 68 to 95:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Ministry's:

- financial position as at 30 June 2012;
 - 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 2012; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2012.
- the non-financial performance information of the Ministry on pages 9 to 60 and 6 to 8:
 - 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 2012, 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 96 to 116:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the assets, liabilities, contingencies and commitments as at 30 June 2012 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 28 September 2012. 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 2011 that:
 - comply with generally accepted accounting practice in New Zealand; and
 - 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

Appendix A: Advisory Bodies 2011/12

Environmental Legal Assistance Fund Advisory Panel

Purpose	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.
Number of members	7
Number of meetings held from 1 July 2011 to 30 June 2012	9

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 for Primary Industries, 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 2011 to 30 June 2012	5

Land and Water Forum

Purpose	Following receipt of the Land and Water Forum's first report of September 2010, in August 2011 the Government asked the Forum to provide further advice to the Minister for Primary Industries and the Minister for the Environment on matters that still need reconciling between key stakeholders. 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's second report, covering limit-setting and governance, was provided to Ministers at the end of April 2012. The final deliverable is due in September 2012.
Number of members	Plenary organisations: Approximately 62 Small group organisations: 21 Central and local government organisations as active observers: 11
Number of meetings held from 1 July 2011 to 30 June 2012	Plenary: 4 meetings Small group: 10 meetings over 14 days Public engagement meetings: Approximately 60

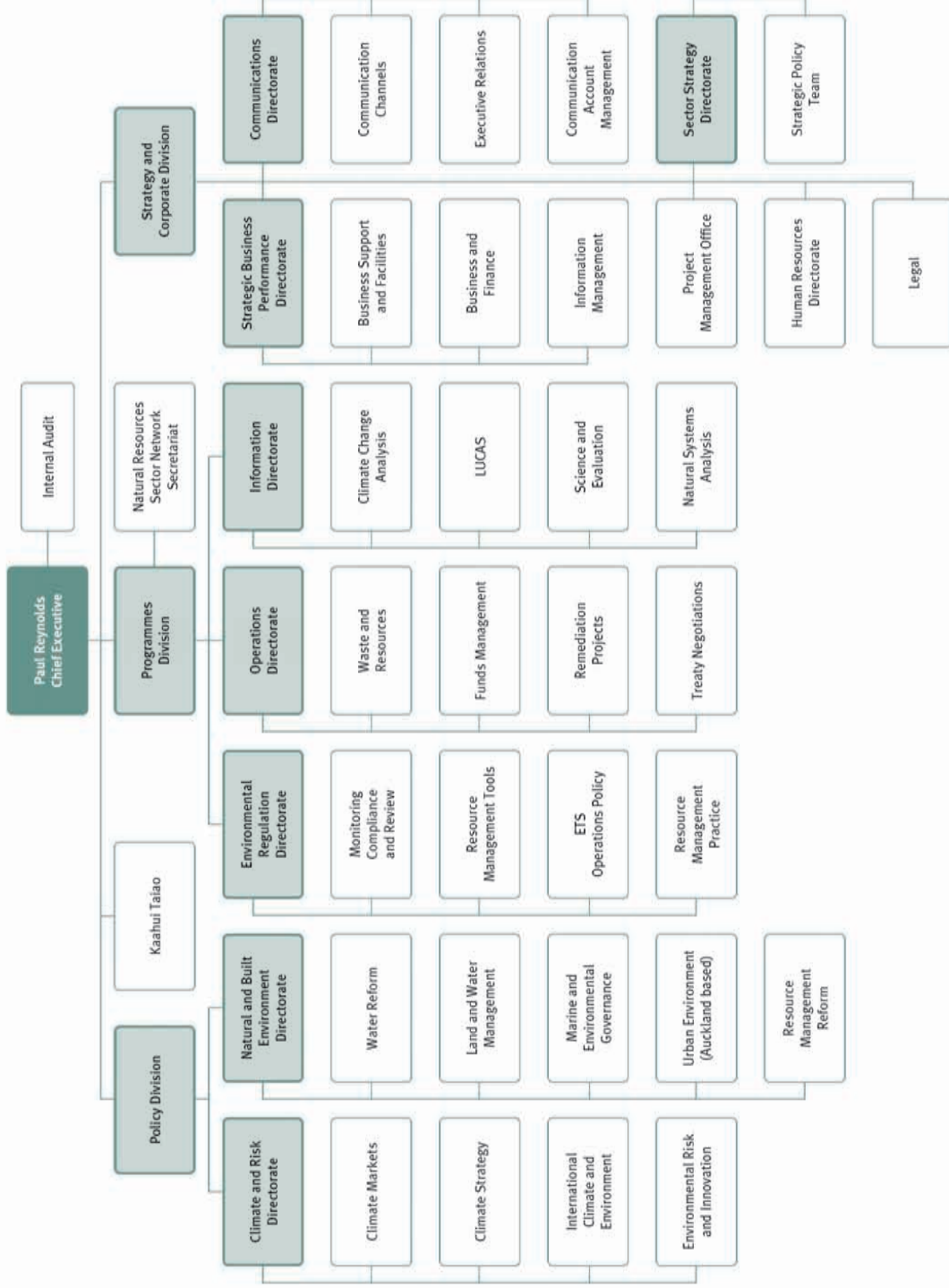
Environmental Grants Selection Panel

Purpose	<p>The purpose of the Environmental Grants Selection Panel is to:</p> <ul style="list-style-type: none">• provide a robust and quantitative assessment of all eligible applications to the Waste Minimisation Fund (WMF) and the Community Environment Fund (CEF)• ensure a degree of transparency and consistency when providing final funding recommendations to the Minister (WMF) and the Ministry's Environment Leadership Team (CEF)• deliver the critical subject matter expertise required across the Ministry's environmental grants portfolio• ensure the purpose of each fund, the strategic outcomes of the Ministry, and the Governments funding priorities are realised• ensure the risks associated with spending public money are well considered.
Number of members	12 in total; however, panel members are drawn down on a round by round basis. Typically a WMF panel consists of 6 panel members and a CEF panel consists of 5 panel members.
Number of meetings held from 1 July 2011 to 30 June 2012	3

Appendix B: Organisational Chart

Below is brief overview of the services we perform, followed by the Ministry's organisational chart, as at 1 July 2012.

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



New Zealand Government
