



REPORT OF THE MINISTRY FOR THE ENVIRONMENT FOR THE YEAR ENDED 30 JUNE 2013



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1 Overview of the 2012/13 Year

Introduction from the Chief Executive

The Ministry for the Environment is at the centre of policy decisions that balance the environment with the economy. Critical decisions need to be made over the next few years about the way we manage and protect our natural resources for the benefit of all New Zealanders.

Over the past year (see 'Our performance highlights for 2012/13'), we have worked with our Natural Resources Sector partners to provide advice to the Government on fresh water and resource management reform. In providing that advice, we talked with stakeholders across the country to ensure the policy advice reflects their many and varied perspectives.

The development of freshwater policy has seen us work in a new way with our Natural Resources Sector partner agencies. Agencies joined us in a collated team here at Environment House to ensure the advice provided to multiple Ministers reflected all agencies' views. Working in this way aligns with government expectations of public service effectiveness.

We have made necessary progress on improving the management of New Zealand's Exclusive Economic Zone, by increasing the country's ability to regulate activities more than 12 nautical miles off our coast. That work continues with the development of proposals to regulate discharges, dumping and exploratory drilling.

Late last year, the New Zealand Emissions Trading Scheme was amended to ensure the country continues to do its fair share on climate change, while ensuring businesses and households do not face additional costs.

The Ministry's strategic direction has now been in place for three years. It continues to service the organisation well, giving the Ministry direction, providing context for our work, and helping us focus – not only on our immediate priorities but also on the medium to long term.

We continue to invest in our capability so we can provide the level of policy advice required around the environment and economy. In line with the recommendations of our Performance Improvement Framework review, we are investing in our ability to provide thought leadership and challenge the *status quo* around issues to do with New Zealand's development and international reputation.

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

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 policies 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 be well integrated with economic policy. We work with other government natural resources agencies to give integrated advice on how resources can be used efficiently within sustainable limits. The Ministry also monitors the activities and performance of the 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
- Environmental Protection Authority Act 2011
- Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012.

Our performance highlights for 2012/13

At the start of 2012/13, the Minister for the Environment set out six priorities for the Ministry for the Environment's work programme. This section outlines some of our achievements in those priority areas, as well as remediation of the Tui Mine site in Te Aroha which was successfully completed in 2012/13.

Improving New Zealand's freshwater management

Fresh water is important to all New Zealanders. Like the rest of the world, our fresh water stocks are coming under increased pressure from population growth, increased land-use intensification, and climate change. To manage these pressures New Zealand needs a more effective freshwater management framework.

In March 2013, the Government consulted on proposals for the most comprehensive reform of our freshwater management system in a generation. These proposals were based on and consistent with the recommendations of the independent stakeholder-led Land and Water Forum. Following consideration of the feedback, the Government announced key elements of the next stage of the freshwater reforms (following the introduction of the National Policy Statement for Freshwater Management in 2011). These are:

- the creation of a new freshwater collaborative planning option to give communities and iwi a greater say in managing water
- improving opportunities for iwi/Māori to engage in freshwater planning
- further work on a National Objectives Framework and better water accounting, with a commitment to consult on these before decisions are made.

These reforms are expected to be progressed through a range of measures including amendments to the Resource Management Act 1991 in a Bill to be introduced later this year.

Resource management reforms

Effective resource management is critically important to New Zealand's current and future economic, environmental, cultural and social well-being. New Zealand needs a resource management framework that is easy to use, provides certainty and predictability, and reduces unnecessary duplication and cost.

During 2012/13, the Ministry has continued to build on the first phase of reform by developing proposals for improvements to the Resource Management Act across planning, consenting and appeals. The proposals relate to the decision-making roles of central and local government and those of the court system, and considered how processes can be more proportionate to the activities involved. In March 2013, the Government consulted on these proposals and on 10 August announced a package of reforms. A Bill to enact these proposed reforms is expected to be introduced later this year.

Improving reporting of New Zealand's environmental performance

Robust environmental information is key to understanding how our natural resources are changing through time and whether the interventions that have been put in place are effective. The focus of the Ministry's 2012/13 environmental reporting work programme has been to ensure future environmental reporting is robust, balanced and credible.

The Ministry has introduced an amendment to section 360 of the Resource Management Act 1991 to enable the Government to require local authorities to monitor the environment according to specific methodologies to achieve consistency across the country. The Ministry has also developed proposals to clarify roles and responsibilities for environmental reporting and improve the framework to integrate biophysical values with economic, social and cultural values, and has been working with data providers such as regional councils and Crown research institutes to improve the quality of data.

Improving management of the Exclusive Economic Zone

New Zealand has one of the largest exclusive economic zones in the world, being about 20 times the size of our land mass. Before 2012, there was limited ability to regulate activities beyond 12 nautical miles off New Zealand's coast. This gap in New Zealand's environmental management regime was filled in September 2012 when the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act was enacted. The Act came into force in June 2013 with regulations classifying a number of activities as permitted.

The Ministry is currently consulting on proposals for a second tranche of regulations which relate to discharges, dumping and exploratory drilling.

Adjusting the New Zealand Emissions Trading Scheme

After considering the recommendations from 2011 New Zealand Emissions Trading Scheme (NZ ETS) Review, the Ministry's advice, and public feedback, the Government announced a final package of NZ ETS legislative amendments in July 2012.

In November 2012, the Climate Change Response (Emissions Trading and Other Matters) Amendment Act was enacted. The purpose of this legislation is to maintain the costs the ETS places on the economy at current levels. This will ensure businesses and households do not face additional costs during the continued economic recovery. It is also designed to improve the operation of the NZ ETS, providing more flexibility, and ensuring the scheme is 'fit for purpose' after 2012.

Constructive engagement in international climate change negotiations

In late November/early December 2012, Ministry officials were part of a cross agency delegation that attended the United Nations Framework Convention on Climate Change (UNFCCC) COP18/CMP8 negotiations in Doha, Qatar.

The Doha conference marked the end of the Kyoto Protocol's first commitment period and launched the second commitment period under the Kyoto Protocol. A Government work programme is underway to consider the implications of the outcome of the Doha conference.

Completion of Tui Mine Clean Up

In April 2013, the Tui Mine site, located on the western slopes of Mt Te Aroha, was successfully remediated on schedule and within budget.

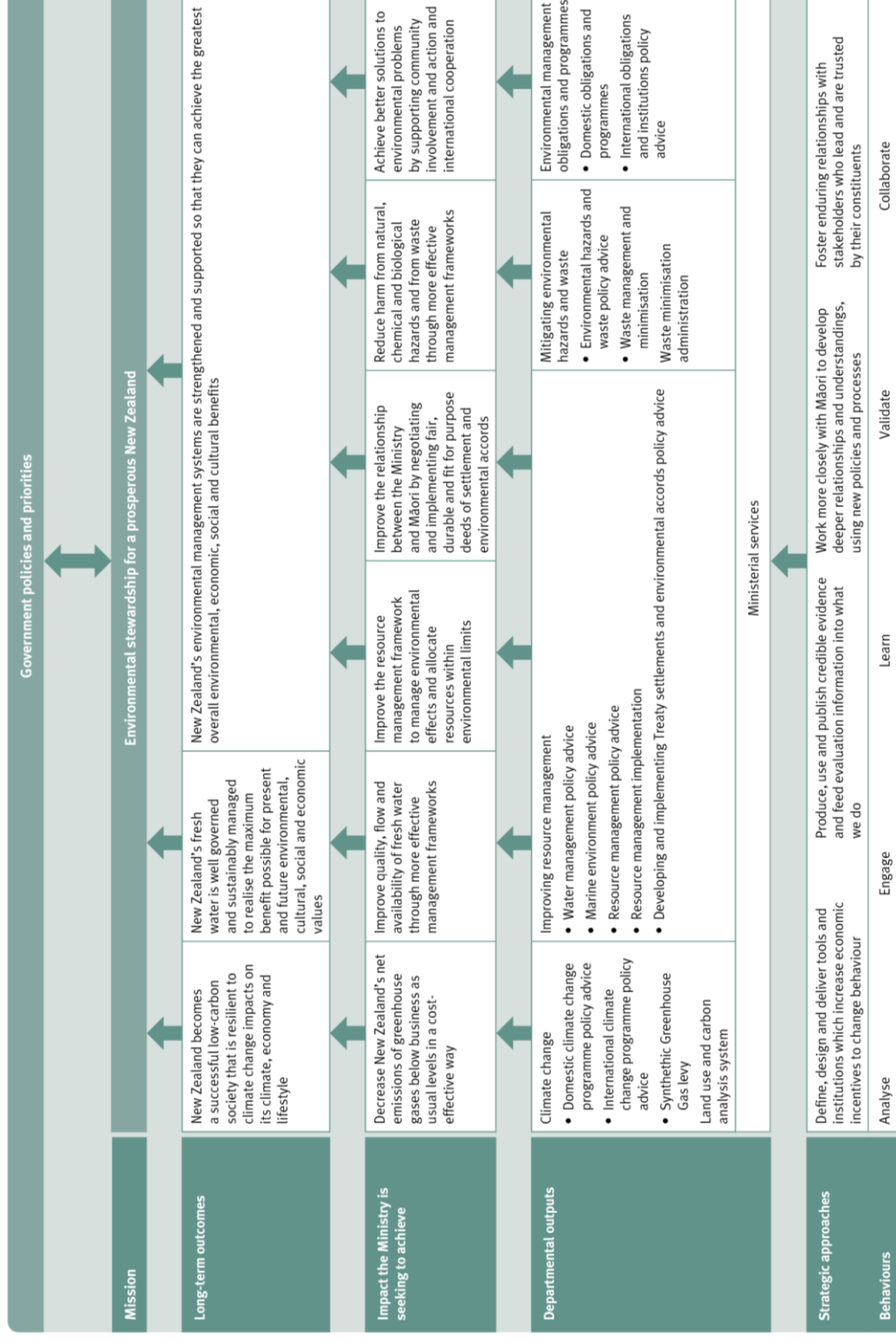
In 1975, the Mine was abandoned when the operators went into liquidation. Left behind were waste rock and ore dumps, tailings and the ruins of the mine workings. These leached heavy metals from acid rock drainage into the Tui and Tunakohoa Streams, making this site New Zealand's most contaminated

site. In addition, there was a risk the tailings mass would liquefy in an earthquake or fall in an extreme weather event and flow down the river.

In 2009, the clean up of the Tui Mine began. It was managed by the Waikato Regional Council with financial assistance from the Government. Since 2009, the Government has contributed \$21.7 million to this project. During the clean up, the tailings dam was stabilised and 110,000 cubic metres of old mine tailings were treated and stabilised and 10,000 cubic metres of waste rock, ore chip and ore stockpiles were blended, treated and stabilised. The quality of the Tunakohoa stream has improved and there is no longer a threat to human health.

The ongoing monitoring and maintenance of the Mine now lies with the Department of Conservation and the Matamata-Piako District Council.

2 Outcomes Framework



Progress against our impacts

Impact	Impact measure	Target	2012/13 result ¹	2011/12 result
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				
1. 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 from 2010/11) – 31% of water allocated for consumptive purposes is subject to measuring and reporting (This measure was not remeasured in 2012/13 – will be remeasured in 2014/15)	Benchmark information provided (one data point only from 2010/11) – 31% of water allocated for consumptive purposes is subject to measuring and reporting (This measure was not remeasured in 2011/12)
	ii. Number of large surface water catchments that have quantified flow regimes in place that set limits	Increasing number	Benchmark information provided due to change in methodology 58% (or 15,401,438 ha) of rivers and streams 0% (or 5 ha) of wetlands 6% (or 23,812 ha) of lakes	487 significant catchments are fully covered (up by 23 from 2010/11) 29 significant catchments are partially covered (no change from 2010/11)
	iii. Number of significant catchments that have quantified policy for land and water management that sets surface water quality limits	Increasing number	Benchmark information provided due to a change in methodology in 2012/13. 4% (or 1,046,251 ha) of rivers and streams 24% (or 59,017 ha) of wetlands 18% (or 69,445 ha) of lakes	59 significant catchments are fully covered (up by 21 from 2010/11) 38 significant catchments are partially covered (up by nine from 2010/11)
	iv. Number of monitored sites showing maintained or improved water quality	Increasing proportion of monitored sites improving	Benchmark information provided due to a change in methodology	29% of sites show deteriorating quality

¹ All results will be re-measured in 2013/14 unless otherwise stated.

				Total phosphorus: 30% of monitored sites improving Dissolved reactive phosphorus: 41% of monitored sites improving Bacteria (E. coli): 13% of monitored sites improving Ammonia: 21% of monitored sites improving Nitrate: 21% of monitored sites improving Macroinvertebrate Community Index: 6% of monitored sites improving (This is expected to be remeasured in 2015 and will be reported in the Annual Report for the period that the release falls into)	19% show improving quality 52% show no significant trend (This measure was not remeasured in 2011/12)
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					
2. 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 (This measure was not remeasured in 2012/13)	Static level of compliance (49%) overall / 100% compliance against 2011 target
	ii.	Trends in Environmental Protection Authority (EPA) and local government compliance with resource consent processing times under the RMA 1991	Upward trend (councils) / 100% (EPA)	Upward trend (councils) / 100% (EPA) (Due to the timing of the RMA survey, results for local government will not be available until November 2013. The results will be reported in the 2013/14 Annual Report)	Upward trend (councils) / 100% ² (EPA)

² The results for the EPA reported in the 2011/12 Annual Report were incorrect. The EPA met all of their statutory resource consent timeframes in 2011/12 and therefore the results should have been 100%.

3. 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	Hazardous substances: change in total number not reliable due to known underreporting of level 1 incidents due to industrial action by the NZ Fire Service. 66% decrease since 2009/10 in level 2 and 3 incidents. No level 4 and 5 incidents since 2009/10 New organisms: 88% increase since 2009/10, likely due to better reporting. Increased incidents were all caused by zoo animals (Data for 2012/13 is unavailable and will be reported in the 2013/14 Annual Report)	10% increase from 2009/10 to 2010/11 in number of incidents (from 1,315 incidents to 1,460) (Data for 2011/12 is currently unavailable and will be reported in the 2012/13 Annual Report)
	ii. Trends in the tonnage of waste disposed of at waste disposal facilities per unit of GDP	Downward trend	Downward trend (17.6 tonnes per \$1 million GDP (projected) for the year ending 30 June 2013 versus 18.6 tonnes per \$1 million GDP for the year ending 30 June 2010)	Downward trend (17.7 tonnes per \$1 million GDP (projected) for the year ending 30 June 2012 versus 18.7 tonnes per \$1 million GDP for the year ending 30 June 2011)
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% satisfied or very satisfied	95% 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	90% compliance	80% compliance
5. 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 = 71 Remediated priority sites = 19 Managed priority sites = 6 Percentage remediated/managed = 35%	Total priority sites identified = 67 Remediated priority sites = 14 Managed priority sites = 10 Percentage remediated/managed = 36%

6. Decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost effective way	ii. Level of community involvement in projects funded by the Community Environment Fund	Increasing community involvement	\$14.4 million of in-kind contributions for \$7.5 million of government funding committed to 75 CEF projects.	Benchmark information provided (one data point only) – \$2.7 million of in-kind contributions for \$1.3 million worth of government funding committed to 43 CEF projects (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 82% of projects	100% of objectives met by 97% of projects
	Outcome: New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle			
	i. Trends in greenhouse gas emissions and removals in the annual greenhouse gas inventory	Downward trend in net emissions	Net emissions under the Kyoto Protocol were lower in 2011 than they were in 2008 2008: 57.5 Mt CO ₂ -e 2011: 56.1 Mt CO ₂ -e	Downward trend in net emissions under Kyoto Protocol 2008: 57.5 Mt CO ₂ -e 2010: 54.2 Mt CO ₂ -e
	ii. Trends in greenhouse gas intensity of the economy by emissions per unit of GDP and emissions per capita	Downward trends	Downward trend Per unit of GDP: decrease of 28.8% since 1990 Per capita: decrease of 4.7% since 1991	Downward trend Per unit of GDP: decrease of 27.3% since 1990 Per capita: decrease of 5.4% since 1991
	iii. Divergence between forecast net position and Kyoto Protocol obligations	Decreasing liability / increasing asset	Increased surplus of units, but decreasing bookable value of the asset due to a fall in carbon price	Decreasing bookable value of the asset due to a fall in carbon price

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 2013

Introduction

To carry 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 our 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.



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

Fresh water is important to all New Zealanders – it is central to our environment, our economy, and our identity. For Māori, it is taonga, essential to life and identity.

In a world that is becoming increasingly resource-constrained, New Zealand is fortunate to have an abundant supply of fresh water – we have plenty of rainfall³ which recharges our streams, rivers, lakes and groundwater. Our water bodies support a rich array of flora and fauna, and are highly regarded for their recreational value.

However, New Zealand's freshwater stocks are coming under increased pressure from greater demands caused by a growing population, increased land-use intensification, and climate change. While fresh water is replenishable, it is not unlimited and water shortages can occur. Rain does not always fall

³ Most areas of New Zealand have between 600 and 1600mm of rain annually. Source: NIWA – Overview of New Zealand Climate <http://www.niwa.co.nz/education-and-training/schools/resources/climate/overview>.

where and when it is needed, as evidenced in early 2013 when the North Island experienced its worst drought in nearly 70 years. Also, while the overall quality of our fresh water is good, this can vary around the country depending on local land use, climate and geology. In some places, urban pressures or poor land-use practices have caused some water bodies to become polluted. This can take many years and many taxpayer and ratepayer dollars to clean-up. Over allocation can also harm our economy as it creates uncertainty about whether the supplies are reliable which creates a significant barrier to investment.

To manage these pressures, New Zealand needs a freshwater management system that encourages collaboration and engagement between regional councils, communities, iwi, and resource users at the front end of the decision-making process rather than confrontation at the back end. We need a system where decision-makers have ready access to robust information about the impacts (economic, environmental and social) of the decisions they are considering. There also needs to be mechanisms to monitor, re-assess and adjust decisions in light of new information. Water users need more certainty about reliable water supplies so they can plan and invest. And most importantly, we need a system where decisions about allocating fresh water are based on what is best overall for the economy and the environment, rather than on a simplistic first-come-first-served basis.

Improving how we manage fresh water will secure and enhance the many benefits water brings to New Zealand's environment, economy and our identity as New Zealanders.

What we did and how we performed this year

Output Class: Water Management Policy Advice

Fresh Start for Fresh Water Programme

Output: Provide advice to lead Ministers (responsible for Ministry of Primary Industries and Ministry for the Environment) on limit setting, governance and decision-making, allocation, and managing the effect of land use.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of Fresh Start for Fresh Water agreed deliverables that are completed within agreed timeframes	100%	82%

Key deliverables for 2012/13 include:

- providing a response to recommendations made by the Land and Water Forum on how to manage to limits, including allocation of freshwater resources, and additional tools to manage the effects of land use on water
- a series of studies with regional councils and key stakeholders to help councils and communities understand the potential kinds of economic and environmental impacts of the choices they may make in managing fresh water
- supporting and monitoring progress by third parties of freshwater funding initiatives such as the Lake Taupo Protection Programme, the Rotorua Lakes Protection and Restoration Action Programme, and the Fresh Start for Fresh Water Clean-up Fund
- providing regular updates and advice to the Minister on progress on engagement with the Iwi Leaders Group advisors and facilitating engagement between Ministers and the Iwi Leaders Group.

Response to recommendations made by Land and Water Forum

The Land and Water Forum's (LAWF's) 2010 report paved the way for Government to establish the National Policy Statement for Freshwater Management and funds⁴ to support water body clean-up and irrigation infrastructure in 2011. LAWF was then commissioned to provide two more reports. The first of these was delivered in April 2012 and proposed key elements of a new approach, including a national framework for objective- and limit-setting and a process for collaborative regional planning and policy making. The second report was delivered in October 2012 and focused on tools for managing within limits and achieving freshwater objectives, including integrated catchment management, good management practice, allocation approaches and consenting.

In March 2013, the Government released a proposals paper based on the recommendations contained in the three LAWF reports. This paper outlined a clear path of reform ahead that will be addressed through a comprehensive and measured approach. Over 350 submissions were received on the proposals and about 2000 people attended more than 50 meetings and hui. There was broad support for the overall direction of the water reform proposals.

In July 2013, following consideration of the feedback through the consultation, the Government has confirmed the first stage of the freshwater reforms. These include:

- the creation of a new freshwater collaborative planning option which will give communities and iwi a greater say in planning what they want for their local waterways and how they should be managed
- improving the opportunities for iwi/Māori to engage in freshwater planning, regardless of whether councils choose to the collaborative option or the existing process.

These reforms are expected to be progressed through amendments to the Resource Management Act in a Bill to be introduced later this year.

The Ministry will continue to work on the other proposals released in March 2013 including the development of the National Objectives Framework, and detailed scientific work on populating the framework. The results of this work will be released for consultation before final decisions on the design and detail of the framework are made.

Economic impact studies for the Southland, Canterbury and Waikato regions

It is a significant challenge to assess the impacts of freshwater management decisions. In 2012/13, the Ministry commissioned a number of studies to help councils and communities understand the impacts of choices they make in managing fresh water from both economic and environmental perspectives. This work was a joint effort coordinated by the Ministry's multi-agency Water Reform Directorate and involved several regional councils and sector organisations.

The studies focused on three regions – Southland, Canterbury and Waikato. Councils will be able to use these studies to assess the potential impacts of proposed rule and plan changes on all the possible uses and values they might consider for their water. The studies will also feed into central government's understanding of potential impacts of different policy proposals to improve the way New Zealand manages water. Once completed, the information will be made freely available.

⁴ These funds are the Fresh Start for Fresh Water Clean-up Fund, administered by the Ministry for the Environment, and the Irrigation Acceleration Fund, administered by the Ministry for Primary Industries.

Fresh Start for Fresh Water Clean-up Fund

The Fresh Start for Fresh Water Clean-up Fund was established to help communities clean-up waterways that are affected by historical water quality issues. Under this fund, \$13.985 million has been allocated to six projects under the Fresh Start for Fresh Water: New Initiatives appropriation. Of the \$13.985 million that has been allocated, \$5.484 million was spent by 30 June 2013. This Government funding has leveraged a further \$33.2 million of investment by local government, industry and iwi. The Ministry is responsible for managing the fund on behalf of the Crown by supporting and monitoring the progress of the projects.

The following projects have been funded.

- \$6 million has been allocated for the Te Waihora/Lake Ellesmere project for the restoration and rejuvenation of mauri and ecosystem health of Te Waihora. Of the \$6 million allocated, \$2.042 million was spent by 30 June 2013.
- \$5.2 million has been allocated for the remediation of the Manawatu River. Project activities include riparian planting and stream fencing, management plans for dairy farms, sewage treatment plant upgrades, and projects to include the community in the restoration. Of the \$5.2 million allocated, \$2.840 million was spent by 30 June 2013.
- \$1 million has been allocated to reverse the continuing degradation of wetlands in Wairarapa Moana. Project activities include landowner engagement and involvement, property assessments and environment plans, on farm works (riparian fencing, wetland enhancement, improving effluent, and fertiliser practice), and wetland hydrology improvement operations. Of the \$1 million allocated, \$330,000 was spent by 30 June 2013.
- \$800,000 has been allocated to remediate degraded water quality in Wainono Lagoon. Project activities include the fencing of riparian buffer zones, the installation of culverts, bridges, and alternative stock water sources at key sites, and planting native vegetation. Of the \$800,000 allocated, \$89,000 was spent by 30 June 2013.
- \$785,000 has been 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. Project activities include rebuilding the slopes of the streams, constructing wetlands and sediment traps, and lagoon opening. Of the \$785,000 allocated, \$163,000 was spent by 30 June 2013.
- \$200,000 has been allocated to reverse the long-term decline in water quality in Lake Brunner. Project activities include the establishment of a farm plan implementation fund to which landowners can apply, and establishing a community freshwater project fund. Of the \$200,000 allocated, \$20,000 was spent by 30 June 2013.

Overall, the projects are progressing well. For more information, refer to the Minister for the Environment's Section 32A⁵ report which is available on Parliament's website.

The Ministry had intended to provide advice to Cabinet on the progress of the projects funded by the Fresh Start for Fresh Water Fund towards achieving their agreed outcomes by the end of May; however, this was delayed until September 2013.

Other Fresh Start for Fresh Water funding

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

⁵ Section 32A of the Public Finance Act. This section requires the Minister to provide Parliament with a statement of service performance about significant non-departmental appropriations within their Vote that are not covered by other reporting to Parliament.

- **Lake Taupo Protection Project:** This is a partnership between the Crown, Waikato Regional Council, and Taupo District Council. The project will reduce the amount of manageable nitrogen entering the lake by 20 per cent by 2020. This equates to a total target reduction of 170 tonnes of nitrogen. Considerable progress has been made towards achieving this target. As at 30 June 2013, the project had completed nitrogen reduction agreements with landowners totalling 151 tonnes (or 88 per cent), towards the target. The target is expected to be reached in 2013/14 which places this project approximately five years ahead of its target.
- **Rotorua Te Arawa Lakes Programme:** This is a partnership between the Crown, Rotorua District Council, and Bay of Plenty Regional Council for the restoration of four priority lakes – Rotorua, Rotoiti, Rotoehu and Ōkareka. The aim of this programme is to work with iwi (Te Arawa) and councils to improve water quality in the short term, whilst implementing long-term measures for sustained water quality for future generations. To improve water quality, the programme is aiming for a 467 tonne reduction in nitrogen from the priority lakes and a 36.6 tonne reduction in phosphorus. As at May 2013, the programme had achieved a 181 tonne reduction in nitrogen and a 41.3 tonne reduction in phosphorus. Each year the Crown makes a contribution to the programme upon acceptance of the next year's annual work programme, the previous year's annual report and six monthly report. This did not happen in 2012/13 because, over the duration of the programme, an underspend of funds has accumulated. This is primarily due to planned interventions being deferred to a later date. The underspend will be used in the first instance to fund the programme before the Crown provides any additional funding.
- **Waikato River Clean-up Fund:** This is a partnership between the Crown and the Waikato River Authority who administers the Waikato River Clean-up Fund. The Fund provides \$220 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. Since the establishment of the fund, there have been two funding rounds with \$10.5 million being allocated to over 70 projects.⁶ The third funding round closed on 23 August with up to \$7 million available.

Iwi Leaders' and Iwi Advisors' Groups for fresh water

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

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 73 to 74.

What it cost

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

⁶ More information on the funded projects is available on the Waikato River Authority's website: www.waikatoriver.org.nz.

This output class is one of five output classes⁷ within *Multi-class Output Appropriation: Improving Resource Management*. 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 the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters about the quality, flow and availability of fresh water.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
5,687	Crown	7,844	5,949	8,054
342	Departmental	1,075	–	1,086
49	Other	57	–	48
6,078	Total revenue	8,976	5,949	9,188
6,078	Total expenses	8,902	5,949	9,188
–	Net surplus/(deficit)	74	–	–

The Ministry's 2012/13 water management policy advice programme was delivered at a cost that was \$286,000 less than Supplementary Estimates. This was partly due to a delay in completing the economic impact study for the Waikato region. Also, efficiencies were made by combining the public consultation processes for the freshwater and resource management reforms.

Also, the Ministry invested significantly more resources than originally forecast at Main Estimates to deliver on the most comprehensive reform of New Zealand's freshwater management system for a generation. Significant additional outputs include a series of economic impact studies that will be used by central government, councils and communities to better understand the potential impacts of different freshwater management decisions.

Non-departmental funding

One of the Ministry's functions under this impact is the administration of the Fresh Start for Fresh Water Clean-up Fund (funded from the *Fresh Start for Fresh Water: New Initiatives* appropriation) on behalf of

⁷ 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 92 to 94 for the total spend against total Appropriation for the 'Improving Resource Management' Multi-class Appropriation.

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 recommendations on improving the quality of fresh water.

The following table outlines the total amount of funding the Ministry has distributed on behalf of the Crown during 2012/13 under the *Fresh Start for Fresh Water Programme*.

Actual 2012 \$000		Actual 2013 \$000	Appropriation ⁸ 2013 \$000
Expenditure			
1,430	Fresh Start for Fresh Water Fund: New initiatives	4,054	4,970
4,100	Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme	8,200	8,200
10,010	Fresh Start for Fresh Water: Waikato River Clean-up Fund ⁹	4,745	4,745
–	– Hawke's Bay Rivers Clean-up Fund	–	2,000 ¹⁰
–	– Provision of a new water source for Rotorua	–	1,075 ¹¹
15,540	Total expenditure	16,999	20,990

The six projects funded by the Fresh Start for Fresh Water Clean-up Fund are progressing well. Based on scientific developments, the timeframe for some deliverables for the Te Waihora and Manawatu projects have been reassessed and deferred to 2013/14. These new timeframes have not affected the overall agreed timeframe for the projects.

As part of its other freshwater funding, the Crown has established the Hawke's Bay Rivers Clean-up Fund to fund the clean-up of the Mohaka, Waikare and Waihua Rivers under the Ngāti Pahauwera settlement. Distribution of this funding is contingent on the signing of a deed of funding between the Crown, Ngāti Pahauwera, and the Hawke's Bay Regional Council. As at 30 June 2013, the deed of funding had not been finalised. The deed of funding is expected to be finalised, and funding distributed, before the end of the calendar year.

To help negotiate the Ngāti Rangiwewehi settlement, the Crown agreed to make a limited one-off contribution (funded from the *Provision of a new water source for Rotorua* appropriation) to Rotorua District Council to help with the costs of locating and establishing an alternative water source to Taniwha Springs. This funding is only available if the Council agrees to fund the remaining costs. At 30 June 2013, the Council had not made that commitment.

The Lake Taupo Programme is funded through *Multi-year Appropriation: Protecting Lake Taupo Programme*. This multi-year appropriation began on 22 September 2010 and expires on 30 June 2015.

⁸ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁹ In accordance with New Zealand Financial Reporting Standards, the Ministry recognised the payment of \$210 million over 30 years to the Waikato River Clean-up Trust as an expense in 2009/10 in net present value terms and additional \$10 million for the Waipa River extension clean-up as an expense in 2011/12 in net present value terms. The expense recognised annually since, represents the unwinding of the discounts recognised in 2009/10 and 2011/12. 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 an annual payment of \$7 million until 2037/38.

¹⁰ In Principle Expense Transfers were requested for both these appropriations in 2012/13. The final amounts of these transfers were confirmed in July 2013.

¹¹ See the explanation provided in footnote 10.

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
Actual expenses to 2012/13 year end	3,688
Total actual expenses	8,517
Balance of appropriation remaining	2,151

Progress we have made towards achieving the outcome

The work of the Land and Water Forum has created a constituency for change. Subsequent policy is building an understanding of the elements required to measure change, and 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 greater 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 provided a more consistent framework for supporting river and lake clean-ups by providing a consistent set of eligibility/assessment criteria. It is anticipated that improvements to the management framework for fresh water will – over time – mitigate the need for ongoing legacy clean-ups.

The impact measures below will help us over time to understand how water quality and allocation is being managed. We also track trends in river water quality at sites 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 result 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 regulations took effect on 10 November 2012, when all water take consent holders taking 20 litres per second or more were required to start measuring and recording their water takes. Water takes of 20 litres per 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. This is the first major date for compliance with the regulations. As such, this information will be reported the following year from July 2014.

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: Benchmark information provided due to change in methodology (58 per cent of rivers and streams, 0 per cent¹² of wetlands, and 4 per cent of lakes)

The National Policy Statement (NPS) for 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 2013, that have flow regimes which set limits that reflect the definitions within the NPS.

The percentage of New Zealand's total catchment surface area for each water body type where surface water quantity limits are set is included in the table below for rivers and streams, wetlands, and lakes.

	Rivers and streams		Wetlands		Lakes	
Quantity limits	%	Hectares	%	Hectares	%	Hectares
2012/13	58	15,401,438	0	5	6	23,812

While this is the third year data has been collected, a change in methodology in 2012/13 means the 2010/11 and 2011/12 data is not directly comparable. This year, the spatial extents of regional plan and WCO provisions were mapped and analysed with ArcMap GIS.¹³ This provides a more accurate figure of coverage than the previous approach which was based on large and significant¹⁴ catchments, which only covers approximately 85 per cent of New Zealand's total catchment area. This year's data reflects percentages of total catchment surface area in New Zealand. In addition, this methodology has enabled wetland and lake measures to be included.

There is no data currently available for groundwater as mapping and analysis is not possible. The three dimensional nature of groundwater systems means there is no national dataset for these water bodies.

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

Target: Increasing number

Results: Benchmark information provided due to changes in methodology (4 per cent of rivers and streams, 18 per cent of wetlands, and 23 per cent of lakes)

¹² 0.002 per cent.

¹³ ArcMap is part of Esri's ArcGIS suite of geospatial processing programmes, and is used primarily to view, edit, create and analyse geospatial data.

¹⁴ 'Large' and 'significant' surface water catchments are defined as fifth tier planning units in the Freshwater Ecosystems of NZ geo-database.

Similar to measure two, this measure provides a high level indication of regional plan and WCO provisions as at the end of April 2013 that set surface water quality limits that reflect the definitions within the NPS.

The percentage of New Zealand's total catchment surface area for each water body type where surface water quality limits are set is included in the table below for rivers and streams, wetlands, and lakes.

	Rivers and streams		Wetlands		Lakes	
Quality limits	%	Hectares	%	Hectares	%	Hectares
2012/13	4	1,046,251	24	59,017	18	69,445

The coverage of limits in measures two and three only represent 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.

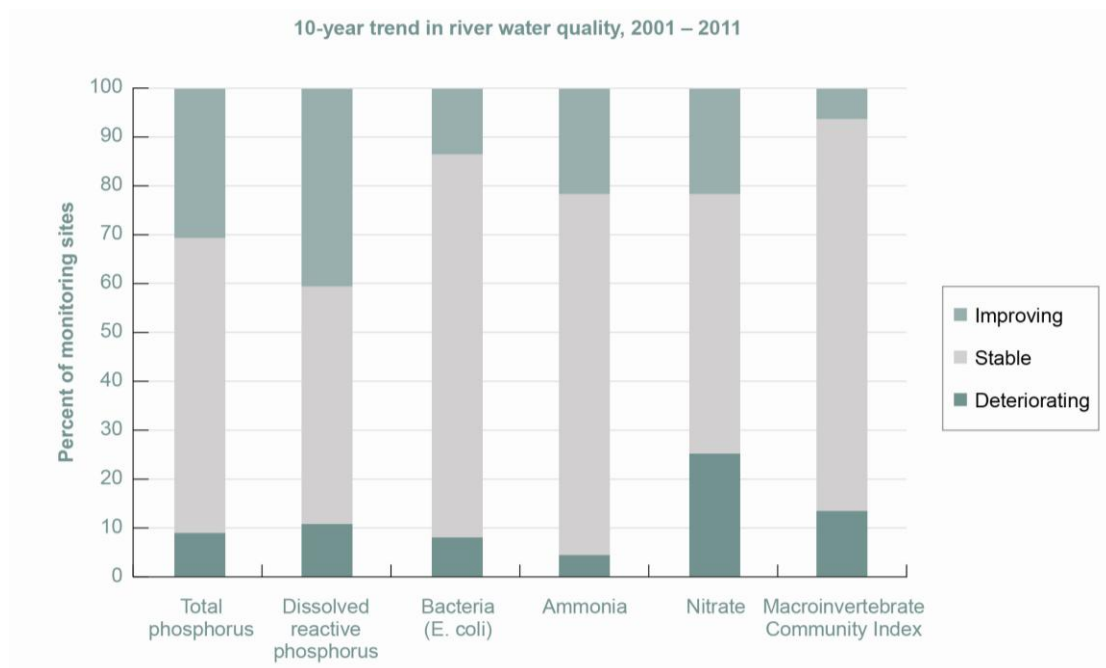
4. Number of monitored sites showing maintained or improved water quality

Target: Increasing proportion of monitored sites improving
Results: Benchmark information provided (due to change in methodology)
(2012: Benchmark information provided (one data point only))

The graph below shows the proportion of river monitoring sites that have significantly improving or deteriorating water quality over the most recently available 10-year data record.¹⁵ It is based on monthly data collected from over 300 sites across the country by regional councils and NIWA. It should be noted that comparisons between the results reported below and the results reported in previous annual reports are difficult as there have been changes in the way the results are collected and analysed.

The previous methodology reported the proportion of 77 monitoring sites that show improving or deteriorating trends for total nitrogen concentration. There were two limitations with this methodology. Total nitrogen concentration is only one possible measure of water quality; and the 77 monitoring sites are not representative of New Zealand's river environments with half being located in pristine areas. The new methodology provides a more holistic indicator of river condition as it combines more measures of water quality and uses the hundreds of monitoring sites operated by regional councils. The Ministry will continue to work with regional councils and NIWA to improve the monitoring network.

¹⁵ An improving or deteriorating trend is one that is statistically significant, and ecologically meaningful (ie, that it improves or decreases by 1 per cent or more per year). Further information on trends is available from the Ministry for the Environment's River Condition Indicator: <http://www.mfe.govt.nz/environmental-reporting/fresh-water/river-condition-indicator/>.



The parameters in the graph reflect three categories of river water quality measurement.

1. Nutrients such as nitrogen and phosphorus which can stimulate weed and algal growth. If excessive, this may cause problems such as low aquatic oxygen levels when they decay.
2. Bacteria (*Escherichia coli* concentration) which is an indicator of pathogens associated with faecal contamination. This may impact on domestic and native animals, as well as humans from the perspective of human health risk.
3. Macroinvertebrates, which are small aquatic animals such as insects, worms and snails. These are affected by water quality and habitat changes and are a good biological indicator of the diversity and resilience of river ecosystems.

Overall, concentrations of the nutrients and bacteria we monitor are either stable or improving at most monitored river sites. However, nitrate concentrations are increasing in about a quarter of our sites. Macroinvertebrate condition showed no change at most sites, but declined in more places than it improved. A number of studies show strong correlations between deteriorating water quality and land-use intensification.

Trends were calculated by NIWA using the most recent data record available. In the majority of cases, trends in nutrients and bacteria reflect a 10-year period until December 2011, and macroinvertebrates until December 2010. Trends in river water quality are difficult to discern over short periods due to climatic influences and the amount of data required to establish statistically robust trends. We therefore need to use data which spans a number of years to assess trends. Due to the need for data collectors to process and quality assure their monitoring data, there is a time lag between the time the 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. We are working with data gatherers to reduce the lag through initiatives such as consistent data storage standards.



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
- reduce harm from chemical and biological hazards and from waste through more effective management frameworks
- improve the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit-for-purpose deeds of settlement and environmental accords
- 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

Effective resource management is critically important to New Zealand's current and future economic, environmental, cultural and social well-being. Resource decisions need to ensure our natural and built resources are used and protected in a way that meets our needs now and into the future.

The Resource Management Act (RMA) is now 22 years old. While it was an innovative approach at the time, the outcomes delivered are now failing to meet New Zealander's expectations. The Government continues to hear concerns that resource management processes are cumbersome, costly and time-consuming, and that the system is uncertain, difficult to predict, and highly litigious. It is also discouraging investment and innovation.

New Zealand can do a much better job of managing its natural and built resources and planning for the needs of its communities. To do this, New Zealand needs a resource management framework that is easy to use, provides certainty and predictability, and reduces unnecessary duplication and cost.

The Government has already embarked on a multi-phase programme of resource management reform. The first phase included streamlining and simplifying the RMA. The 150 amendments made contributed to the number of late consents being reduced by 10,000 a year. Also, the Environmental Protection Authority was established to enable the efficient processing of major projects of national significance.

The next phase of reforms involves looking for further improvements to the RMA to improve our resource management system more broadly. The new resource management system must provide greater confidence for businesses to grow and create jobs, greater certainty for communities to plan for their area's needs, and stronger environmental outcomes as our communities grow and change.

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 improving: consent process, plan structure and content, plan-making process, and council performance.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
New measure	Percentage of agreed deliverables in relation to resource management reform, focusing on resource management frameworks for planning and decision-making, that are completed within agreed timeframes	100%	100%

During 2012/13, the Ministry continued to develop options for the second phase of resource management reforms. In February 2013, the Ministry released a discussion document¹⁶ that contained proposals for improvements to the RMA across planning, consenting and appeals. The reform package questioned the respective decision-making roles of central and local government, and that of the court system, and considered how processes can be more proportionate to the activities involved. It also encouraged more proactive planning for community needs upfront, rather than the consent-by-consent planning that has been occurring in some places.

Following the release of the discussion document, over 13,000 submissions were received and about 2000 people attended more than 50 meetings and hui. A summary of submissions is available on the Ministry's website: www.mfe.govt.nz/rma/reform/phase-two/index.html.

Following consultation, on 10 August 2013 Ministers announced a package of proposed reforms. A Bill to enact these proposed reforms is expected to be introduced later this year.

National instruments

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
83%	Percentage of agreed deliverables in relation to national instruments under the Resource Management Act 1991 that are completed within agreed timeframes	100%	100%

In 2012/13, an evaluation of the effectiveness of the National Environmental Standard (NES) for Telecommunications Facilities was undertaken. The purpose of the NES was to provide a nationally consistent planning framework for radiofrequency fields of all telecommunication facilities on road reserves that have low environmental impact. Ministers are still considering the outcome of this evaluation.

Under the wider resource management reforms, a framework is being developed to clarify when and how national instruments will be used in the future and which subject areas will be a priority. Until this framework has been completed, all work on new national instruments has been put on hold.

Improving environmental reporting

Output: Provide advice on improving environmental reporting so that reporting is credible and provides an integrated picture of environmental and economic performance.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables to support the drafting and parliamentary process for the Environmental Reporting Bill that are completed within agreed timeframes	100%	0%
New measure	Advice provided on options for improving environmental reporting, in accordance with the Ministry's quality policy advice standards	March 2013	Achieved

¹⁶ Ministry for the Environment. 2013. *Improving our resource management system: A discussion document*. Wellington: Ministry for the Environment.

During 2012/13, the Ministry has been providing advice on proposals for legislation that will ensure New Zealanders have access to comprehensive environmental information that is easy to understand, independent and relevant. No Cabinet policy decision was made on these matters in 2012/13, therefore drafting and parliamentary legislative processes were unable to proceed. However, on 5 August 2013, Cabinet agreed to introduce an Environmental Reporting Bill before the end of 2013. The key elements of the proposed Bill are to:

- establish an environmental reporting system that provides comprehensive information on five key environmental domains – air, climate and atmosphere, fresh water, marine and land, with biodiversity as a theme across all domains
- require the Secretary for the Environment and the Government Statistician to undertake regular environmental reporting, at arms' length from the government of the day, on a three-year cycle
- give the Parliamentary Commissioner for the Environment a legislative mandate to provide expert commentary and independent opinion on the quality of the underlying data and robustness of the analysis, as well as the substance of the report and any concerns it may raise.

To ensure the environmental information to be contained in the report is robust, balanced and credible, the Ministry has:

- introduced an amendment to section 360¹⁷ of the Resource Management Act 1991, currently before Parliament, to allow regulations to be made requiring local authorities to monitor the environment according to specific methodologies
- proposed improvements including:
 - clarifying roles and responsibilities for environmental reporting to ensure timely and consistent delivery of information
 - improving the environmental reporting framework to provide a coherent picture of New Zealand's environment, integrating biophysical values with economic, social and cultural values
 - working with data providers such as regional councils and Crown research institutes to improve the quality of data that makes up the indicators.

While this work has been progressed, the Ministry has continued to release regular environmental indicator updates.¹⁸

Monitoring of the Environmental Protection Authority

Output: Monitor the Environmental Protection Authority (EPA) by reviewing accountability documents and providing advice to the Minister on those documents, including quarterly reports, statements of intent and annual reports.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables in relation to monitoring relevant Crown entities that are completed within agreed timeframes	100%	100%

In 2012/13, the Ministry has been advising the Minister on the EPA's organisation leadership, capability, financial performance, and progress towards achieving its agreed output measures.

¹⁷ Section 360 sets out the regulations the Governor-General can make, by Order in Council.

¹⁸ For more information on the environmental indicator updates, see pages 28 and 29.

Since its establishment in 2011, the EPA has made good progress as it implements its new strategic plan. It has also continued to embed new functions under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act and compliance under the Hazardous Substances and New Organisms Act. Overall, the Ministry considers that the EPA has performed well during the year and there are no significant risks or issues.

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 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of demand driven requests for Resource Management Act processes that the Ministry has responsibility for that are completed within statutory timeframes	100%	No requests were received during 2012/13
New measure ¹⁹	Percentage of demand driven requests for Resource Management Act processes that the Ministry has responsibility for and do not have statutory timeframes, that are completed within other agreed timeframes	100%	78%

The Ministry assists Ministers with their statutory functions under the Resource Management Act. Some of these functions have statutory timeframes which must be met, while others have non-statutory timeframes which are either agreed with Ministers or agreed internally.

In 2012/13, the Ministry assisted Ministers with the following.

- Assessment of applications for requiring authority status. These functions do not have a statutory timeframe; however, the Ministry has a 65 day internal key performance indicator for processing these applications, excluding periods when awaiting further information. During the year, the Ministry received a higher number of requiring authority applications than is usual and therefore was only able to process 75 per cent (or six of eight) applications within the agreed timeframe.
- Providing advice, in conjunction with the Environmental Protection Authority, on six nationally significant proposals or applications for nationally significant proposals within the required timeframes.
- Providing advice on an application by TrustPower to amend the National Water Conservation (Rakaia River) Order 1998, and on the Environment Court's report and recommendations on the special tribunal's report on the application to amend the Kawarau Water Conservation Order. In both cases, advice was provided to Ministers within the non-statutory agreed timeframe of 25 working days after receiving the report and recommendation from Environment Canterbury (in the case of the TrustPower application) and from the Environment Court (in the case of the application to amend the Kawarau Water Conservation Order).

¹⁹ This measure was established in the Main Estimates 2013/14. However, the Ministry has decided to report against this measure in 2012/13 as it makes a useful distinction between those Resource Management Act processes that have statutory timeframes and those that do not. In 2011/12, the measure immediately above this new measure covered all Resource Management Act processes, including those without statutory timeframes.

In 2012/13, the Ministry expected to complete two regulation changes. Consultation on amendments to the Resource Management (Marine Pollution) Regulations has been undertaken but, due to the focus on resource management reform, the completion of these amendments has been delayed. Also, an amendment to the Resource Management Forms, Fees and Procedure Regulations to bring in the new Environment Court fees as agreed as a result of the Civil Fees Review was planned. This amendment has been deferred until changes can be made to the regulation powers to provide for fee waiver criteria which will be progressed through the 2013 Resource Management Reform Bill.

RMA best practice

Output: Supporting improvements to the resource management framework through effective implementation, including the provision of advice, guidance and training to support legislative reform and the management of resource management practice programmes (Making Good Decisions Programme, Quality Planning Guidance, and the Urban Design Protocol).

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
Achieved	The Making Good Decisions Programme is delivered in accordance with the licence agreement	Achieved	Achieved
New measure	Making Good Decisions Programme – appointment of new licensee by December 2012	Achieved	Achieved

The Making Good Decisions Programme, established in 2006, is a training, assessment and certification programme for Resource Management Act (RMA) decision-makers. The programme provides councillors, community board members, and independent commissioners with the skills they need to run fair and effective hearings, and to make informed decisions.

In 2012/13, the Ministry has made changes to the delivery of the programme. The most significant change is the appointment of a new licensee. From 2013, the Making Good Decisions Programme has been delivered by Opus Environmental Training Centre. Opus was originally derived from the New Zealand Ministry of Works and Development and has more than 50 years' experience delivering environmental education and applied training.

From 12 September 2014, all members of hearing panels must be accredited. Certification under the programme is the only way hearing panels can meet the accreditation requirements. Therefore, the course material has been thoroughly reviewed and updated. The material now incorporates changes in practice and case law.

Indicator reporting

Output: Produce regular environmental statistics, reports and surveys.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
13% 1 statistic released (Greenhouse Gas Emissions)	Percentage of agreed deliverables in relation to producing public information including reports, statistics and surveys are completed within agreed timeframes	100% (4 statistics)	100% (6 statistics)

In 2012/13, the Ministry released four domain indicator updates.

- Air Quality (PM₁₀). This indicator provides information on concentrations of PM₁₀ in managed airsheds.
- Levels of stratospheric ozone. This indicator provides information on concentrations of stratospheric ozone (average yearly ozone levels) over New Zealand.
- Recreational water quality. This indicator provides information on health risks associated with swimming at monitored swimming spots in rivers, streams and lakes. This indicator was later updated by the release of the 'Suitability for Swimming' indicator. This indicator gives each monitored site around New Zealand a 'Suitability for Recreation Grade'. These grades range from 'very good' to 'very poor'. A schedule of the monitored sites and their grades are available on the Ministry's website: <http://www.mfe.govt.nz/environmental-reporting/fresh-water/suitability-for-swimming-indicator/suitability-swimming-indicator.html>.
- Marine areas with legal protection. This indicator provides information on Marine Protected Areas, and reports on the proportion of our territorial sea and coastal biogeographic regions protected by marine reserves.

The Ministry also released two pressure indicator updates.

- Household consumption expenditure. This indicator provides information on household consumption expenditure in seven expenditure categories including food and beverages, housing, transport, and other goods and services.
- Solid waste disposal. This indicator provides information on the quantity (by weight) of solid waste sent to landfill.

These updates, as well as the Ministry's full set of national environmental indicators, can be viewed on the Ministry's website: <http://www.mfe.govt.nz/environmental-reporting/about-environmental-reporting/national-environmental-indicators/environmental-indicators/index.html>.

Output Class: Marine Environment Policy Advice

Exclusive Economic Zone

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables to support the drafting and parliamentary process for the EEZ Bill completed within agreed timeframes	100%	100%

New Zealand's Exclusive Economic Zone (EEZ) is the area of sea and seabed that extends from 12 nautical miles off the coast to 200 nautical miles. Together with our continental shelf, its area is about 20 times the size of our land mass, making it one of the largest EEZs in the world. This zone not only supports highly diverse marine ecosystems and species, but also provides New Zealand with significant economic opportunities through fishing, petroleum mining and shipping. It also connects us to the rest of the world through undersea telecommunication cables, and ships and aircraft passing through the zone.

While the Resource Management Act 1991 regulates activities on land and in the territorial sea out to 12 nautical miles, there has been limited ability to regulate activities beyond 12 nautical miles. This gap

in New Zealand's environmental management regime was filled when the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act was passed in September 2012. The Act and regulations came into effect 28 June 2013. Under these regulations, seismic surveying, marine scientific research, submarine cabling, prospecting and exploration for petroleum and minerals, excluding drilling for petroleum are classified as permitted. However, drilling for petroleum and mining for minerals are classified as discretionary activities and parties will need to apply for a marine consent from the Environmental Protection Authority before embarking on these activities.

The Ministry is developing proposals on a second tranche of regulations for discharges, dumping and exploratory drilling. Consultation on these proposals is expected to occur before the end of the calendar year.

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 73 to 74.

Progress we have made towards achieving the outcome

National environmental standards (NESs) are a key tool for central government to provide direction to local government. The Ministry monitors the implementation of NESs to assess whether they are effective. The first of these standards dealt with air quality and has been in place long enough for trends to be seen.

Under the resource management reforms, a framework is being developed to clarify when and how national instruments, including NESs, will be used in the future and which subject areas will be a priority. Once the framework has been developed, local government (as well as the business and industry sectors) will have greater clarity and direction on the national priorities and the future policies and rules they are likely to face. Until this framework is completed, all work on new national instruments (NESs and national policy statements) is on hold.

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/>.

The Government has undertaken a number of initiatives to ensure consistent high performance among local authorities, including the improvement of accountability measures and the introduction of a National Monitoring System which may eventually replace the biennial 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 (2012: Static level of compliance overall / 100 per cent compliance against 2011 target)

Compliance with the NES will reduce air pollution. The revision of the National Environmental Standard in 2011 set three dates for when airsheds²⁰ need to comply with the standard – 2011, 2016 and 2020. In 2011, all 16 airsheds required to comply with the National Environmental Standard by 2011 did so. Of

²⁰ An airshed is an area identified by a regional council that is known or likely to have air quality problems.

the other 27 airsheds monitored in 2011, five 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. Data for 2012 is not available until October 2013 and will be reported in the Ministry's Annual Report for 2013/14.

Year	Airsheds monitored	Polluted airsheds	Non-polluted airsheds	Airsheds compliant with the 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) / 100 per cent (EPA)
(2012: Upward trend (councils) / 100 per cent²¹ (EPA))

Compliance with statutory resource consent timeframes by the Environmental Protection Authority (EPA) during 2012/13 was 100 per cent.

The table below shows the trend in local authority compliance with mandatory resource consent processing timeframes under the Resource Management Act over the past five surveys of local authorities. 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 national monitoring system to monitor the implementation of the RMA is in place.

Trend	2001/02	2003/04	2005/06	2007/08	2010/11
Local authority compliance with mandatory resource consent processing times under the Resource Management Act	82%	77%	73%	69%	95%

The 2012/13 Resource Management Act Survey of Local Authorities and the 2012/13 Survey of the EPA is currently underway. Information on resource processing timeframes will be available in November 2013 and will be reported in the Ministry's 2013/14 Annual Report. One of the key objectives of the resource management reforms is to reduce processing times for consents and it is expected that, over time, we should see consistently high levels of compliance with statutory resource consent timeframes.

The Ministry is investigating options for a National Monitoring System which may replace the surveys of local authorities and the EPA. This system will improve the consistency and timeliness of information provided by local councils on the implementation of the Resource Management Act (RMA). It would

²¹ The results for EPA reported in the 2011/12 Annual Report were incorrect. The EPA met all of their statutory resource consent timeframes in 2011/12 and therefore the results should have been 100%.

include metrics on the costs, time, levels of engagement, and good practices across a number of key RMA processes and national tools.

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, three²² contribute to the Ministry's aim of improving the resource management framework to manage environmental effects and allocate resources within environmental limits:

- 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 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
16,144	Total revenue	13,857	15,053	14,422
	Expenses			
7,793	Resource management policy advice	6,253	7,125	6,764
6,650	Resource management implementation	6,121	6,298	6,402
1,701	Marine environment policy advice	1,268	1,630	1,256
16,144	Total expenses	13,642	15,053	14,422
-	Net surplus/(deficit)	215	-	-

²² 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 12 to 22.
- 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 46 to 50.

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 92 to 94 for the total spend against total appropriation for the 'Improving Resource Management' Multi-class Appropriation.

Departmental Output Class: Resource Management Policy Advice

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to the management of natural and physical resources in New Zealand.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
7,528	Crown	6,272	7,125	6,712
174	Departmental	11	–	20
91	Other	47	–	32
7,793	Total revenue	6,330	7,125	6,764
7,793	Total expenses	6,253	7,125	6,764
–	Net surplus/(deficit)	77	–	–

The Ministry's 2012/13 resource management policy advice work programme was delivered at a cost that was \$511,000 less than Supplementary Estimates. This was due to a number of factors. There have been delays in the independent audit of the Auckland Council's Section 32²³ evaluation of the Auckland Unitary Plan. This is now expected to be completed in October 2013. The Ministry had also expected to require more legal support (including drafting support) than it has. The level of legal support will increase in 2013/14 as the resource management reform legislation is developed through to introduction of the Bill. Also, efficiencies were made by combining the public consultation processes for the resource management and freshwater reforms.

At Main Estimates, the 2012/13 budget for this output class was \$7.124 million. During the year, the timeframes for the reform work programme were reassessed and the budget adjusted accordingly.

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 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
6,438	Crown	6,125	6,298	6,313
142	Departmental	52	–	67
70	Other	27	–	22
6,650	Total revenue	6,204	6,298	6,402
6,650	Total expenses	6,121	6,298	6,402
–	Net surplus/(deficit)	83	–	–

²³ Section 32 of the Resource Management Act 1991 requires Auckland Council to carry out an evaluation of the Auckland Unitary Plan to consider the costs, benefits and alternatives of the Plan.

The Ministry's 2012/13 resource management implementation work programme was delivered at a cost that was \$281,000 less than Supplementary Estimates. This is primarily due to delays in preparing guidance on the changes to Section 32 of the Resource Management Act due to protracted contract negotiations.

At Main Estimates, the 2012/13 budget for this output class was \$6.298 million. During the year, this was increased due to reprioritisation from other work programmes to cover costs associated with assisting the Minister with Resource Management Act statutory functions. In 2012/13, the Ministry has received a higher number of requiring authority applications than is usual and additional resources were needed to help process these applications.

Departmental Output Class: Marine Environment Policy Advice

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to the marine environment.

Actual 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue			
1,642 Crown	1,315	1,630	1,246
38 Departmental	3	–	6
21 Other	5	–	4
1,701 Total revenue	1,323	1,630	1,256
1,701 Total expenses	1,268	1,630	1,256
– Net surplus/(deficit)	55	–	–

The Ministry's 2012/13 marine policy advice work programme was delivered at a cost that was \$12,000 more 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.

At Main Estimates, the 2012/13 budget for this output class was \$1.630 million. During the year, this was reduced due to the reprioritisation of resources to *Departmental Output Class: Water Management Policy Advice* to help progress the freshwater reforms.

Non-departmental funding

The Ministry is the monitoring department for the Environmental Protection Authority (EPA) therefore the appropriations for the EPA's operating funding are under the Ministry's Vote – Vote Environment.

Actual 2012 \$000		Actual 2013 \$000	Appropriation ²⁴ 2013 \$000
	Expenditure		
2,000	EPA establishment costs (one-off)	–	–
9,594	Capital contribution to the EPA (one-off)	–	–
	Environmental Protection Authority: Regulatory functions multi-class output appropriation:		
4,550	Supporting environmental management	4,346	4,346
16,144	Total expenditure	4,346	4,346

Functions carried out by the EPA that are funded by 'Supporting environmental management' contribute to the improving the resource management framework to manage environmental effects and allocate resources within environmental limits.

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

What we are aiming to achieve

New Zealand, like other countries, is exposed to hazards that can be potentially damaging to our health, well-being, or prosperity. These hazards can include risks from using, handling, transporting, storing, or disposing of hazardous substances inappropriately, as well as risks from introducing new plants, animals or micro-organisms into the environment. However, if managed well, many of these substances or organisms can help us achieve important economic goals and improve our well-being.

Our environment can also become contaminated from the unwise use and disposal of hazardous substances in industrial processes and from accidents (such as the grounding of the Rena container ship). New Zealand has government agencies and laws that help prevent contamination or remediate the environment after contamination has occurred.

The Ministry ensures management frameworks designed to protect people and the environment from environmental risks are effective, without unnecessarily constraining economic growth.

The Ministry is party to multilateral environmental agreements that help manage the risks posed by certain hazardous substances, hazardous waste, and new organisms. Participation in these agreements offers advantages to New Zealand's trading environment (for example, consistency of classification and labelling) and management of environmental hazards.

Waste indicates that we are not using resources efficiently. The more inefficient the manufacturing process is, the more waste is created. Encouraging 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 – creates business opportunities for New Zealand companies to develop innovative product design, efficient manufacturing, and resource recovery technologies.

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

Once created, waste is a problem to get rid of. Product stewardship means resources are used more efficiently and responsibly and therefore disposal, whether through recycling, reuse or landfill, is much less of a problem.

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 2012	Performance measure	Target 2012/13	Actual 30 June 2013
50%	Percentage of agreed deliverables in relation to the chemical and biological risk management framework that are completed within agreed timelines	100%	100%

In June 2012, the Environmental Protection Authority released the findings of a survey that provided a snapshot of compliance levels over a cross-section of New Zealand businesses that handle hazardous substances.²⁵ Four hundred businesses were surveyed on their compliance against eight key Hazardous Substances and New Organisms (HSNO) Act controls.²⁶ The findings showed that only 25 per cent of the businesses surveyed were fully compliant with the eight controls examined. Thirty per cent of those responsible for hazardous substances management on site had never heard of HSNO, or had heard of it but didn't know much about it. Non-compliance contributes to between 440 and 680 deaths per year from chronic exposure to hazardous substances.

The Ministry has been reviewing the effectiveness of the HSNO Act. It has been considering improvements to the policy framework for hazardous substances such as:

- simplifying the controls
- providing appropriate enforcement tools
- ensuring a robust testing certification system
- reducing duplication of resource management and HSNO legislative requirements
- improving monitoring of the HSNO regime.

Appropriate legislative requirements to enable these improvements are expected to be considered by Cabinet early in 2014.

The Ministry also contributed to the response to the report by the Taskforce on Workplace Health and Safety. The Taskforce was established in June 2012 to evaluate whether the workplace and safety system in New Zealand was fit for purpose. The Taskforce made a recommendation to transfer the regulation of the use of hazardous substances in the workplace under the HSNO Act to new workplace

²⁵ The full report is available on the Environmental Protection Authority's website: www.epa.govt.nz.

²⁶ The eight key HSNO controls were: Safety data sheets are on site and able to be produced; personal protective equipment is used and staff are trained in use and maintenance; approved handlers; location test certificate held; HSNO signage in place; emergency response plan is available and covers off hazardous substances and has been tested within the past 12 months; stationary container test certificate held; and secondary containment is in place.

health and safety legislation. The Ministry is assessing how such a transfer could work, and the impacts of doing this. The proposals are expected to be considered by Cabinet early in 2014.

The Ministry has been working with the Environmental Protection Authority and the Ministry of Business, Innovation and Employment to identify priority actions within the short term to reduce workplace harm. The first initiative released was the Hazardous Substances Toolbox. This multi-media toolbox includes both print and online tools designed specifically to help small businesses comply with HSNO safety controls such as wearing appropriate personal protective equipment and rules around proper storage of hazardous substances. Later this year, the EPA will launch a three-year campaign to raise public awareness about safely managing hazardous substances both at home and at work.

Output Class: Waste Minimisation Administration

Administration of the Waste Minimisation Act 2008

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of instances when successful action is taken against disposal facility operators who have outstanding levy payments (over 120 days)	100%	No action required to be taken
New measure	Percentage of Waste Minimisation Fund applications that proceed through Stage 2 (project planning and deed negotiation) in under 10 weeks per round (standard term: 50 working days)	75%	This measure was replaced by the measure immediately below through the Supplementary Estimates process
New measure	Percentage of projects for the Waste Minimisation Fund that proceed through Stage 2 in under 18 weeks per round (standard term: 90 working days) – from decision to signed project plan	75%	69% (11 out of 16 projects)
100%	Percentage of applications provided to the Waste Minimisation Fund panel that meet eligibility criteria per round	100%	100%

The aim of the Waste Minimisation Act 2008 is to encourage waste minimisation and decrease waste disposal in New Zealand. To help achieve this, the Act:

- imposes a levy of \$10 per tonne of waste disposed of at landfills. Fifty per cent of the money generated by this levy goes to territorial authorities, on a per head of population basis, to help them minimise waste in their area. The remaining levy money (minus administration costs recovered by the Ministry) is put into a waste minimisation fund, to fund waste minimisation activities around New Zealand
- helps, and where necessary makes, producers, brand owners, importers, retailers, consumers, and other parties take responsibility for their products through product stewardship schemes
- allows for regulations to be made making it mandatory for certain groups (for example, landfill operators) to report on waste to improve information on waste minimisation
- clarifies the waste minimisation roles and responsibilities of territorial authorities

- establishes the Waste Advisory Board to give independent advice to the Minister for the Environment on waste minimisation issues.

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 2012/13, \$25.820 million of levy funding was collected.

Waste Minimisation Fund

The purpose of the Waste Minimisation Fund (WMF) is to fund projects that increase resource efficiency, increase reuse, recovery and recycling, and decrease waste to landfill.

Since the establishment of the fund in 2008, \$43 million has been allocated to 83 projects with an estimated 33,000 tonnes²⁷ of waste having been diverted from landfill from projects already completed. To ensure the success of funded projects, the Ministry provides support to successful applicants through all phases, from project planning and deed negotiation through to assessment of milestones and payments, and responding to general enquiries.

When supporting applicants through the project planning phase, the Ministry aims to progress at least 75 per cent of projects through Stage 2 (from decision to signed project plan) in under 18 weeks per funding round. In 2012/13, only 69 per cent of projects progressed to signed project plan within that timeframe. In some cases this was due to complex negotiations over intellectual property, or applicants negotiating contracts with suppliers before finalising the project plan.

Examples of significant projects being funded from the WMF include the following.

1. The TV TakeBack Programme. This programme aims to divert up to 320,000 televisions from going to landfill by partnering with recyclers, retailers, producers and councils to provide a nationwide network of collection and recycling services. It is also expected to lay the foundation for a more permanent solution for electronic waste. The roll-out of the programme has coincided with the digital switchover in each region. At 30 June 2013, 93,037 televisions had been collected and 1,488 tonnes of waste diverted from landfills.
2. Red Zone Household Hazardous Waste Management Programme. This programme is run in partnership with Environment Canterbury, Christchurch City Council, and Waimakariri District Council. A mobile service collects hazardous waste from red zone properties before demolition. More than 360 tonnes of hazardous waste is expected to be collected by the time the programme is completed by the end of 2013. At 30 June 2013, 252 tonnes of hazardous waste had been collected.

The latest funding round for the Waste Minimisation Fund closed on 16 July 2013. Applicants will be notified whether their application has been successful in October 2013.

For more information on the projects being funded see the Ministry's website: www.mfe.govt.nz/issues/waste/waste-minimisation-fund/.

²⁷ The estimate is based on WMF projects completed by 30 June 2013.

Output Class: Waste Management and Minimisation

Product stewardship

Output: Advise on product stewardship schemes and monitor accredited product stewardship schemes.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
0%	Percentage of advice to the Minister on accreditation of product stewardship schemes completed within agreed timelines	100%	100%
New measure	An increase in the number of voluntary product stewardship schemes that are awarded accreditation from the Minister for the Environment	Upward trend	This measure was replaced by the measure immediately below through the Supplementary Estimates process
New measure	Assess progress reports from accredited schemes against agreed objectives and targets, and provide a publicly available update of progress	30 June 2013 (as and when reports are received)	Achieved
New measure	Investigate options for mandatory producer responsibility for televisions	31 October 2012	Not achieved

Product stewardship is a tool that encourages producers, brand owners, importers, retailers, consumers and other parties to take responsibility for the environmental effects of their products throughout each product's lifecycle. Mitigating the environmental effects a product can have throughout its lifecycle can mean resources are used more efficiently and responsibly and the product's end-of-life impacts are minimised.

Under the Waste Minimisation Act, product stewardship schemes can apply for formal accreditation which means that their scheme is recognised and endorsed by the Government. The Ministry is responsible for assessing these applications and, once accredited, monitoring their progress against their objectives and targets. To date eight voluntary schemes have received accreditation. A further five voluntary schemes are in the accreditation process. More information on these product stewardship schemes is available on the Ministry's website: www.mfe.govt.nz/issues/waste/product-stewardship/accredited-schemes-in-nz.html.

As well as encouraging voluntary product stewardship, the Ministry has been investigating options for mandatory producer responsibility. Initially the Ministry intended to investigate options for mandatory producer responsibility for televisions; however, the Ministry delayed this work to seek the Waste Advisory Board's advice as to which products should be 'first cabs off the rank'. A 'Willingness to Pay' study was commissioned to assess if public concern about end-of-life products²⁸ would translate into a willingness to pay for diversion from landfills. The Minister is currently considering the Waste Advisory Board's advice and the outcome of the 'Willingness to Pay' study.

²⁸ End-of-life products are e-waste, mercury containing lamps and batteries, tyres, agricultural chemicals, and products containing refrigerant gases.

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 73 to 74.

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 helps the Ministry's monitor 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 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: Hazardous substances: Change in total number of hazardous substances is not reliable due to known under-reporting of level one incidents due to industrial action by the NZ Fire Service. Sixty-seven per cent decrease in number of level one and two incidents and a continuation of no level four and five incidents

New organisms: Eight-eight per cent increase since 2009/10, likely due to better reporting rather than an actual increase in incidents. The increase in incidents were all caused by zoo animals (regulated by the Health and Safety in Employment Act 1992, not HSNO)

(2012: 10 per cent increase in number of incidents)

To monitor the efficiency of the HSNO Act, the Environmental Protection Authority (EPA) reports²⁹ on three broad outcome areas: people are protected from harm; the environment is protected from harm; and the operation of the HSNO system is efficient and cost-effective. The June 2013 monitoring report is the first to use a revised set of indicators. Incident data is only one indicator area. This data is the number of incidents *reported* to the EPA, not all incidents that have occurred.

There are five categories of incidents, ranging from minimal (level one) to massive (level five). There have been no level four or five incidents since reporting began. Level one (minimal) incidents cause no or minimal harm.

The table below summarises incidents involving hazardous substances and new organisms where these incidents had an adverse effect on the environment and human health.

²⁹ EPA. 2013. *Monitoring the Effectiveness of the Hazardous Substances and New Organisms Act 1996. Report to the Minister for the Environment*, June 2013. Environmental Protection Authority.

	2009/10	2010/11	2011/12
Total number of incidents involving hazardous substances	1,315	1,460	*599
Incidents involving hazardous substances where adverse effects to the environment were known	441	419	144
Incident levels 2 and 3 only	8	7	1
Incidents involving hazardous substances where adverse effects on human health were recorded	78	52	49
Incident levels 2 and 3 only	25	21	16
Total number of incidents involving new organisms	17	24	32
Incidents involving approved new organisms where adverse effects to the environment were recorded	0	0	0
Incidents involving approved new organisms where adverse effects on human health were recorded	2	5	9

* Figure is significantly under-reported, due to industrial action by the NZ Fire Service, the main data source.

Hazardous substances incidents: There is a high degree of uncertainty associated with level one incident data. In 2011/12, there was a large drop in the number of reported level one incidents. This was mainly due to under-reporting due to industrial action by the NZ Fire Service (the main data source) from August 2011 to April 2012. The EPA is working to improve the data quality for minimal incidents.

Very few incidents reported to the EPA identify known environmental effects. In 2011/12, there was only one level two and three incident reported with known environmental effects. The number of minor and moderate incidents affecting human health decreased in 2011/12.

New organisms: The number of reported incidents has steadily increased since 2009/10. This could partly be due to better reporting procedures rather than an actual increase in the number of incidents. The majority of incidents reported involving new organisms are minor (level two) incidents. There were no incidents of new organisms involving environmental damage. In 2011/12, all incidents causing adverse effects on human health involved zoo animals.

Improvements to the monitoring framework will include the development of indicators to better monitor harm to the environment from hazardous substances, the development of data sources on chronic harm from hazardous substances, and the analysis of ACC data to better understand the proportion of workplace-based injuries compared with domestic injuries.

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

Target: Downward trend
Results: Downward trend (17.6 tonnes per \$1 million GDP (projected) for the year ending June 2013 versus 18.6 tonnes per \$1 million GDP for the year ending 30 June 2010)

For the year to 30 June 2013, 2.6 million tonnes of waste was disposed of at facilities required to pay the Waste Disposal Levy. This equates to 17.6 tonnes of waste per \$1 million of GDP (projected) compared with 18.6 tonnes of waste per \$1 million of GDP for the year ending June 2010.

Trend	2009/10	2010/11	2011/12	2012/13
Tonnes of waste disposed at facilities per unit of GDP	18.6	18.9	17.9	17.6

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 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 Disposal Levy collected from disposal facility operators as permitted under the Act.

Vote Environment

Multi-class Output Appropriation: Mitigating Environmental Hazards and Waste

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
3,871	Total revenue	3,878	3,817	3,963
	Expenses			
2,293	Environmental hazards and waste policy advice	1,765	2,137	1,778
1,578	Waste management and minimisation	1,934	1,680	2,185
3,871	Total expenses	3,699	3,817	3,963
-	Net surplus/(deficit)	178	-	-

Departmental Output Class: Environmental Hazards and Waste Policy Advice

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to the risks posed by environmental hazards and waste, including international agreements, conventions and obligations.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
2,232	Crown	1,828	2,137	1,766
38	Departmental	18	–	7
23	Other	6	–	5
2,293	Total revenue	1,852	2,137	1,778
2,293	Total expenses	1,765	2,137	1,778
–	Net surplus/(deficit)	87	–	–

At Main Estimates, the 2012/13 budget for this output class was \$2.137 million. During the year, this was reduced to reflect the expectation that, due to delays, the development of the hazardous substances policy framework aimed at increasing compliance, reducing compliance costs, and improving monitoring was expected to be completed in 2013/14.

Departmental Output Class: Waste Management and Minimisation

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

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
1,525	Crown	2,000	1,680	2,177
38	Departmental	7	–	5
15	Other	18	–	3
1,578	Total revenue	2,025	1,680	2,185
1,578	Total expenses	1,934	1,680	2,185
–	Net surplus/(deficit)	91	–	–

The Ministry's 2012/13 waste management and minimisation work programme was delivered at a cost that was \$251,000 less than Supplementary Estimates. The Ministry had intended to conduct a 'Willingness to Pay' survey about end-of-life products by 30 June 2013; however, this was delayed and completed in August 2013. Also, the Ministry has been able to negotiate down the cost of developing an investigations and prosecutions desk file and an enforcement policy for the compliance functions under the Waste Minimisation Act.

At Main Estimates, the 2012/13 budget for this output class was \$1.680 million. During the year, this was increased through reprioritisation from other work programmes to cover the costs of establishing the TV TakeBack Programme.

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 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue			
1,663 Crown	2,310	1,714	2,314
23 Departmental	3	–	6
12 Other	7	–	4
1,698 Total revenue	2,320	1,714	2,324
1,698 Total expenses	2,234	1,714	2,324
– Net surplus/(deficit)	86	–	–

In 2012/13, the Ministry was able to carry out its functions under the Waste Minimisation Act at a cost that was \$90,000 lower than Supplementary Estimates. The Ministry is conducting a strategic review of the Waste Minimisation Fund to test its objectives against the Ministry's outcomes, government priorities, and the wider Natural Resources Sector. At 30 June 2013, the Ministry was still in the scoping and problem definition stages. Under the Waste Minimisation Act, the underspend must be returned to the Waste Minimisation Fund.

At Main Estimates, the 2012/13 budget for this output class was \$1.714 million. During the year, this was increased to cover the additional costs of the TV TakeBack Programme. The additional funding was reprioritised from within Ministry baselines; it was not recovered from the Waste Levy collected from disposal facility operators.

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 shown in the table below.

Actual 2012 \$000		Actual 2013 \$000	Appropriation ³⁰ 2013 \$000
Income			
26,189	Waste Disposal Levy collected from disposal facility operators	25,820	26,000
26,189	Total income	25,820	26,000
Expenditure			
12,194	Waste Disposal Levy disbursement to territorial local authorities	12,910	13,000
–	– Impairment of debt relating to the Waste Disposal Levy collection	–	1,500
9,975	Contestable Waste Minimisation Fund ³¹	8,569	12,562
	Environmental Protection Authority: Regulatory functions multi-class output appropriation:		
5,944	Compliance and enforcement	2,563	2,563
3,006	Decision-making	7,291	7,291
31,119	Total expenditure	31,333	36,916

Following the grounding of the Rena on Otaiti (Astrolabe Reef), the Ministry led the development of the Rena 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 Ministry has been monitoring the implementation of the plan through a deed of funding that has been set up with the Bay of Plenty Regional Council. The deed has been funded through *Multi-year Appropriation: Rena Long-term Environment Recovery*. The total funding is \$1.877 million over three years to 30 June 2015.

While responsibility for the delivery of the plan has transitioned from the Ministry to the Bay of Plenty Regional Council, the Ministry will still continue to have an active governance role within the recovery programme and will continue to manage the deed of funding.

Appropriations, adjustments and use	\$000
Total appropriation	1,877
Actual expenses to 2011/12 year end	–
Actual expenses to 2012/13 year end	1,877
Total actual expenses	1,877
Balance of appropriation remaining	–

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

³¹ Part 2.2 of the *Environment Sector – Information Supporting the Estimates 2012/13* 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: 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

The Crown and iwi both 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. The Ministry has ongoing post-settlement obligations with 27 iwi and hapū. The most significant is in relation to the Waikato River.

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

Treaty settlements and environmental accords

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables relating to Treaty settlements and environmental accords negotiations are completed within agreed timeframes	100%	75%

The Ministry works closely with the Office of Treaty Settlements – the Crown agency charged with negotiating Treaty of Waitangi claim settlements – to negotiate settlements and other agreements that involve natural resources. In 2012/13, the Ministry has provided advice on 27 Treaty negotiations.

Treaty settlement milestones achieved include:

- agreements in principle or framework agreements signed with Ngāti Tamaoho, Ngāti Hineuru, and Whanganui River Iwi
- deeds of settlement initialled with Ngāti Haua and Tauranga Iwi Collective.
- deeds of Settlement signed with Tamaki Collective, Ngāti Koroki Kahukura, Ngāti Pukenga, Ngāti Rangiwewehi, Tapuika, Ngāti Rangiteaorere, Ngāti Tuhoe, Maungaharuru Tangitu, Ngāti Toa Rangatira, Ngāti Koata, and Te Atiawa o Te Waka-a-Maui.

The Ministry has also been contributing to negotiations of relationship agreements with Ngāti Haua, Hauraki Collective, Ngāti Te Rangi, Ngāti Tūwharetoa, Mana Ahuiriri, Ngāti Hineuru, Te Atiawa, Taranaki, Ngāti Ruahine, and Whanganui River Iwi.

Feedback received suggests that the overwhelming majority (more than 90 per cent) of iwi actively engaged in post-settlement relationships with the Ministry are satisfied or very satisfied with the implementation of obligations. Significant milestones include:

- the initiation of new joint work streams with seven settled iwi
- secondment of a Ministry staff member to Nga Rauru Iwi to build resource management capacity and capability
- completion of the review of the Nga Rauru environmental management plan
- payment of co-management funding of \$11 million to Waikato Tainui and \$1 million to each of Ngāti Raukawa, Te Arawa River Iwi, and Ngāti Tūwharetoa for cleaning up the Waikato River.

Due to the circumstances of particular iwi, some obligations were not met in 2012/13 as per the relationship agreement. Invitations are left open for iwi to meet when they are ready or available to do so.

Waikato River Co-management

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of obligations met in accordance with the Waikato River Co-management deeds	100%	100%

The Ministry has met all of its Waikato River Co-management obligations. These obligations include establishing joint management agreements with local authorities and providing assistance with developing integrated river management plans, fisheries and conservation regulations, and iwi environmental management plans.

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 73 to 74.

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: 80 per cent satisfied or very satisfied
Results: 95 per cent satisfied or very satisfied
(2012: 100 per cent satisfied or very satisfied)

The Ministry currently has post-settlement relationships with 27 iwi. Due to the circumstances of particular iwi, some of these were not engaged as per the relationship agreements. However, 95 per cent of iwi actively engaged in post-settlement relationships with the Ministry are satisfied or very satisfied with the implementation of obligations.

Trend	2010/11	2011/12	2012/13
Percentage of Māori partners in deeds of settlement and environmental accords satisfied or very satisfied with Ministry implementation of obligations	100%	100%	95%

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

Target: 100 per cent compliance
Results: 90 per cent compliance
(2012: 80 per cent compliance)

The Ministry currently has post-settlement relationships with 27 iwi. Due to circumstances of particular iwi, for example, post-settlement governance entities still being in an establishment phase, some of these were not engaged as per the relationship agreements. However, having considered each settlement obligation and work programme, the Ministry considers 90 per cent would be a fair reflection of the obligations met.

Trend	2010/11	2011/12	2012/13
Percentage of the relevant Ministry obligations under deeds of settlement and environmental accords met	80%	80%	90%

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 classes³² within *Multi-class Output Appropriation: Improving Resource Management*. All five output classes contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest overall

³² 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 92 to 94 for the total spend against total appropriation for the 'Improving Resource Management' Multi-class Appropriation.

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 the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to environmental accords with Māori and Treaty settlements involving natural resources; and contributing to negotiations with iwi and affected parties on environmental issues as part of developing deeds of settlement.

Actual 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue			
2,062 Crown	1,458	1,675	1,336
49 Departmental	3	–	7
26 Other	6	–	5
2,137 Total revenue	1,467	1,675	1,348
2,137 Total expenses	1,381	1,675	1,348
– Net surplus/(deficit)	86	–	–

The Ministry's 2012/13 Treaty settlements and environmental accords work programme was delivered at a cost that was \$33,000 more 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.

At Main Estimates, the 2012/13 budget for this output class was \$1.675 million. During the year, this was reduced due to the transfer of a number of Treaty settlement functions, including oversight of implementing relationship accords between the Government and iwi, to Te Puni Kōkiri – the Ministry for Māori Development. The Ministry also transferred funding to cover the additional costs to Te Puni Kōkiri of carrying out these new functions.

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, Tūwharetoa, Te Arawa, Raukawa, and the Maniapoto Māori Trust Board.

Actual 2012 \$000		Actual 2013 \$000	Appropriation ³³ 2013 \$000
Expenditure			
2,632	Waikato River Co-management ³⁴	9,787	9,787
910	Waikato River Co-governance	910	910
100	Transitional support for local government and iwi	–	825
3,642	Total expenditure	10,697	11,522

In 2012/13, the Crown agreed to make a contribution of \$825,000 to the Bay of Plenty Regional Council to assist them with the:

- establishment and implementation of the Tauranga Moana Framework; and
- establishment and initial development of a co-governance arrangement over the lower Kaituna River catchment and its tributaries.

Payment of these contributions was conditional on the enactment of legislation. As at 30 June 2013, the legislation had not been enacted and therefore the contributions are expected to be made before the end of the calendar year.

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

What we are aiming to achieve

This outcome is mainly operational, with a focus on administering government funding, coordinating activities with partner countries, and involvement in projects with other organisations.

In providing policy advice to the Government, the Ministry generally works with others to find solutions to environmental problems. Community involvement and international cooperation can often achieve solutions and results the Ministry could not deliver alone.

We support environmental projects led by others and can leverage significant contributions of funding or community hours of work that achieves more than either party could do by themselves.

At the international level, the Ministry is involved in negotiating and implementing environmental cooperation agreements associated with free trade agreements. These provide for New Zealand to share with, and learn from, other countries about best practice in environmental management and to advance our common interests.

³³ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

³⁴ 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 2012/13 and each year until 2027/28 and then \$4 million in 2028/29 and 2029/30.

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 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of funding allocated according to Community Environment Fund eligibility and assessment criteria within agreed timeframes	100%	100%
100%	Percentage of contracted Community Environment Fund projects that are managed and monitored appropriately	100%	100%
100%	Percentage of funding allocated according to Environmental Legal Assistance Fund criteria	100%	100%
100%	Percentage of Environmental Legal Assistance Fund projects monitored appropriately	100%	100%

Community Environment Fund: The Community Environment Fund (CEF) provides funding to support practical environmental initiatives in the community. The Fund is particularly focused on supporting community initiatives that contribute to reduced greenhouse gas emissions, improve freshwater management, coastal management, improved air quality, protecting biodiversity, and some waste management initiatives.

Since the establishment of the fund in 2010, \$7.5 million has been allocated to 75 projects with the equivalent of \$14.4 million of in-kind contributions³⁵ projected. To ensure the success of funded projects, the Ministry provides support to successful applicants through all phases, from project planning and deed negotiation through to assessment of milestones and payment, and responding to general enquiries.

Examples of recently completed projects are:

1. Conservation Volunteers completed a one year project to restore and protect biodiversity within the Auckland region. The CEF contributed \$72,000 towards this project to facilitate and support increased community engagement at six nominated natural areas within the Auckland Council boundaries. The project facilitated 129 work-days covering pest control, tree planting, species surveys, track maintenance, and rubbish removal.
2. Tauranga Rotary Centennial Trust completed a one year project to restore and enhance access to an 8-hectare island within the strategic 300-hectare Kopurererua Valley Reserve in Tauranga City. The CEF contributed \$60,000 towards planting approximately 20,000 native plants by around 300 community, school and iwi volunteers over four public planting days in 2012.

Environmental Legal Assistance Fund: The Environmental Legal Assistance Fund (ELA) provides financial assistance to not-for-profit groups so they can advocate for an environmental issue, of high public interest, in resource management cases at the Environment Court, and at boards of inquiry constituted under the 'call-in' provisions of the Resource Management Act. The fund reimburses the costs of legal

³⁵ An in-kind contribution is a cash-equivalent form of support that is donated and assists with the project costs. This support includes the use or donation of equipment and facilities, and community volunteer time. Projects that demonstrate strong community involvement are given preference.

counsel and expert witnesses. The Ministry receives about 45 applications to the fund each year with an average of 35 successful applications and an average of \$23,000 being awarded to successful applicants.

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 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of contestable funding allocated according to Contaminated Sites Remediation Fund eligibility and assessment criteria within agreed timeframes	100%	100%
100%	Percentage of Contaminated Sites Remediation Fund projects that are managed and monitored appropriately	100%	100%

The Contaminated Sites Remediation Fund funds up to 50 per cent of the costs of the investigation, remedial planning, and remediation of sites that pose a risk to human health and the environment.

Since the establishment of the fund in 2003, \$36 million has been allocated to 38 projects with 16 funded sites fully remediated. One of the largest projects funded was the recently completed remediation of the Tui Mine on Mt Te Aroha in the Waikato region. This site was New Zealand's most contaminated site. Under this project, the tailings dam has been stabilised and 110,000 cubic metres of old mine tailings has been treated and stabilised. Also, the quality of the Tunakohoa stream has improved and there is no longer a threat to human health. The ongoing monitoring and maintenance of the Mine now lies with the Department of Conservation and the Matamata-Piako District Council.

Projects currently underway include:

- Kopeopeo Canal in the Bay of Plenty. The Canal was originally built to allow drainage and floodwaters from low lying farmland into the Whakatane Estuary. However, between 1950 and 1989 the canal was contaminated by dioxins from a local sawmill. The Ministry is working with the Bay of Plenty Regional Council to develop the remedial plan and apply for resource consent for the removal of the contaminated sediment. Depending on the outcome of the consent process, the remediation of the Canal is expected to be completed by June 2014.
- Calwell Slipway in Nelson. Ship repair work has contaminated the marine sediment at Port Nelson's Calwell Slipway Basin. The Ministry is working with the Nelson City Council and Port Nelson Limited to develop a remedial plan.
- Prohibition Mine. The Prohibition Roasting Plant, located on Department of Conservation land, processed ore from the Waiuta Gold Mine from 1938 to 1951. Processing residue contained high concentrations of arsenic that accumulated on the ground throughout the site. The Ministry is working with the Department of Conservation to develop a robust project plan for the remediation of the site.

Sir Peter Blake Youth EnviroLeaders Forum

The Youth EnviroLeaders Forum is an annual event run in partnership with the Sir Peter Blake Trust. The 10th annual Youth EnviroLeaders Forum took place between 28 April and 2 May 2013 and was held in Christchurch for the first time. The Forum was an 'urban expedition' with a focus on fresh water, resource management, and the Christchurch city rebuild.

The Forum is hands on, youth driven and designed to inspire and build the capability of young environmental leaders. Each year about 50 delegates are selected to represent their regions at the Forum. Delegates are nominated because of their leadership skills and passion for the environment. On returning to their regions delegates are encouraged to continue with their environmental work and help lead other youth in environmental stewardship.

Green Ribbon Awards

The 2013 Green Ribbon Awards were held on World Environment Day, 5 June. 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', and 'Community leadership'. The awards attracted over 200 nominations this year.

The Sustainable Coastlines Charitable Trust was named the 2013 Supreme Winner for their work to protect and sustain coastlines across New Zealand and the Pacific. The Trust provides environmental education and awareness through a mix of technology and large scale on-ground actions. Their programmes reach wide audiences and have been replicated internationally. The Trust has been pushing boundaries, using innovative ways to engage with the community and demonstrates great entrepreneurship in tackling the issue of Marine debris.

A full list of the 2013 winners is available on the Ministry's website:
<http://www.mfe.govt.nz/withyou/awards/green-ribbon-winners-2013.html>.

Output Class: International Obligations and Institutions

Environmental cooperation agreements (ECA)

Output: Negotiate and implement environment cooperation agreements associated with new and existing free trade agreements.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables in relation to international obligations completed within agreed timeframes ³⁶	100%	67%

In 2012/13, seven cooperation activities under seven ECAs (with China, Thailand, Chile, Indonesia, Malaysia, Philippines and Hong Kong) were successfully completed. The majority of activities were ongoing projects with China, covering water quality in rural areas and chemical management. There were also several additional visits to discuss climate change-related issues. The fourth New Zealand – Thailand Environmental Committee meeting was held in Thailand in March 2013.

The Ministry undertook a review of ECA implementation in the third quarter of 2012/13. This resulted in less bilateral activities in the last half of the year. No cooperation activities were undertaken under the New Zealand-Hong Kong ECA, Malaysia ECA, or Philippines ECA.

Multilateral environmental agreements

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

³⁶ Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

Conventions, and the Montreal Protocol. The Ministry led New Zealand's engagement in conferences of the parties, meetings of the parties and open ended working groups to ensure New Zealand's interests are protected and promoted in these forums. The Ministry also:

- led New Zealand's engagement in two rounds of the intergovernmental negotiating committee in developing a new United Nations multilateral environment agreement on mercury to promote and protect New Zealand's interests in the draft agreement
- continued its work on New Zealand's domestic policies and their operation to ensure they reflect our international obligations.

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 73 to 74.

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 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 remediated³⁷

Target³⁸: Increasing proportion of priority contaminated sites remediated³⁹ and/or managed⁴⁰
Results: 30 June 2013: Total priority sites⁴¹ identified = 71 sites; Remediated priority sites = 19; Managed priority sites = 6; Percentage remediated/managed = 35%
(2012: see table below)

Since 2003/04, 40 contaminated sites projects have received funding from the Contaminated Sites Remediation Fund (CSRF). During 2012/13, work has been undertaken on eight projects (two of which are multi-year projects). The Ministry's current priority list identifies 40 sites as priority sites for funding. Of these, six sites received funding from the CSRF. The allocation of any CSRF funding is informed by the priority list so sites of greatest risk are given priority for 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.

³⁷ Also contributes to impact: Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks.

³⁸ The impact target has been amended to include 'and/or managed' to make it more consistent with the impact measure.

³⁹ Remediated sites are sites where the contamination has been remediated or is subject to site management procedures to ensure the site is suitable for its intended use.

⁴⁰ Managed sites are sites that are currently subject to detailed site investigations, remedial planning, and/or remediation.

⁴¹ Total priority sites is the sum of the priority sites previously addressed by the Contaminated Sites Remediation Fund and the priority sites on the Ministry's current priority list.

Trend	2010/11	2011/12	2012/13
Total priority sites identified	61	67	71
Remediated priority sites	13	14	19
Managed priority sites	5	10	6
Percentage remediated/managed	30%	36%	35%

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

Target: Increasing community involvement

Results: \$14.4 million of in-kind contributions projected for the \$7.5 million of government funding committed to 75 Community Environment Fund (CEF) projects
 \$1.6 million of actual in-kind contributions for the \$1.3 million of government funding paid to 21 completed CEF projects
 (2012: \$2.7 million of in-kind contributions projected for the \$1.3 million worth of government funding committed to 43 CEF projects. Actual in-kind contributions not available as no CEF projects had been completed at 30 June 2012.)

Projected in-kind contributions: The overall performance against this measure is based on the predicted information contained in the 75 approved Community Environment Fund project proposals. Community involvement is measured by in-kind contributions made to projects per dollar of government funding committed.⁴² A total of approximately \$7.5 million in CEF funding has been allocated to date, towards estimated total project costs of \$14.7 million.

Actual in-kind contributions: Actual in-kind contributions are reported against once the projects are completed. To date, 21 CEF projects have been successfully completed. In-kind contributions of \$1.6 million have been made towards these 21 projects, against an actual CEF contribution of \$1.3 million and an actual project cost of \$2.7 million.

Trend	2010/11	2011/12	2012/13
Projected in-kind contributions (\$ million) – cumulative	1.5	2.7	14.4
Government funding committed (\$ million) – cumulative	0.75	1.3	7.5
Ratio of projected in-kind contributions to committed government funding	2 : 1	2.08 : 1	1.92 : 1

2. 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 82 per cent of projects
 (2012: 100 per cent of objectives met by 97 per cent of projects)

Eighty-two per cent of completed projects from the Community Environment Fund (CEF) and the Waste Minimisation Fund (WMF) (rounds one and two of CEF / rounds one, two and three of WMF)

⁴² In-kind contributions include professional services and goods (calculated using the actual hourly rate), use and donation of equipment, community volunteers/staff time (calculated at a rate of \$30 per hour), and facilities provided. In-kind contributions are 'donated' to the project and do not count towards the total project cost.

report full achievement against their objectives. This is based on a total of 40 WMF projects and nine CEF projects.⁴³

Trend	2010/11	2011/12	2012/13
Percentage of CEF and WMF projects that report full achievement against objectives	85%	97%	82%

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 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 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
5,102	4,353	4,364	4,227
Total revenue			
Expenses			
3,331	2,246	2,758	2,346
Domestic obligations and programmes			
1,771	1,924	1,606	1,881
International obligations and institutions			
5,102	4,170	4,364	4,227
Total expenses			
- Net surplus/(deficit)	183	-	-

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.

⁴³ This does not include environment centres operational costs (which account for an additional 12 completed CEF projects).

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
3,212	Crown	2,330	2,753	2,328
87	Departmental	4	–	8
32	Other	5	5	10
3,331	Total revenue	2,339	2,758	2,346
3,331	Total expenses	2,246	2,758	2,346
–	Net surplus/(deficit)	93	–	–

The Ministry's 2012/13 domestic obligations and programmes work programme was delivered at a cost that was \$100,000 less than Supplementary Estimates. The Ministry is conducting a strategic review of the Community Environment Fund and the Environmental Legal Assistance Fund to test the objectives of these funds against the Ministry's outcomes, government priorities, and the wider Natural Resources Sector. At 30 June 2013, the Ministry was still in the scoping and problem definition stages.

At Main Estimates, the 2012/13 budget for this output class was \$2.758 million. During the year, this was reduced through the reprioritisation of funding to *Departmental Output Class: International Obligations and Institutions* to progress and implement a number of cooperation agreements associated with free trade agreements, and to *Departmental Output Class: Water Management Policy Advice* to help fund the freshwater reforms.

Departmental Output Class: International Obligations and Institutions

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to advice on international environmental arrangements, agreements and partnerships; contributing to negotiations with international parties on environmental issues in line with international arrangements, agreements and partnerships.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
1,732	Crown	1,992	1,606	1,849
25	Departmental	6	–	28
14	Other	16	–	4
1,771	Total revenue	2,014	1,606	1,881
1,771	Total expenses	1,924	1,606	1,881
–	Net surplus/(deficit)	90	–	–

The Ministry's 2012/13 international obligations and institutions policy advice work programme was delivered at a cost that was \$43,000 more than Supplementary Estimates. This output class is part of *Multi-class Output Appropriation: Environmental Management and Programmes*. Parliamentary authority is given at multi-class output appropriation level rather than at individual output class level.

At Main Estimates, the 2012/13 budget for this output class was \$1.606 million. During the year, the budget was increased to progress and implement a number of cooperation agreements associated with

free trade agreements. The funding was reprioritised from *Departmental Output Class: Domestic Obligations and Programmes*.

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 shown in the table below.

Actual 2012 \$000		Actual 2013 \$000	Appropriation ⁴⁴ 2013 \$000
	Expenditure		
316	Sustainable Management Fund	–	–
800	Promotion of Sustainable Land Management	800	800
–	Environmental training programmes	1,900	1,900
1,340	Community Environment Fund	2,304	2,992
769	Environmental Legal Assistance Fund	464	800
300	Climate Change Development Fund	296	300
2,031	Contaminated Sites Remediation Fund ⁴⁵	103	320
278	United Nations Environment Programme	323	393
102	International subscriptions	113	117
5,936	Total expenditure	6,303	7,622

The clean-up of the Tui Mine in Te Aroha is funded through *Multi-year Appropriation: Tui Mine Remediation*.⁴⁶ This multi-year appropriation began 1 July 2011 and expires 30 June 2014. While the remediation of the site has been successfully completed, the validation and handover to the landowners of the remediated tailings dam is expected to be completed by 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
Actual expenses to 2012/13 year end	4,850
Total actual expenses	14,850
Balance of appropriation remaining	350

⁴⁴ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁴⁵ 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 administering 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.

⁴⁶ See the explanation provided in footnote 45.



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

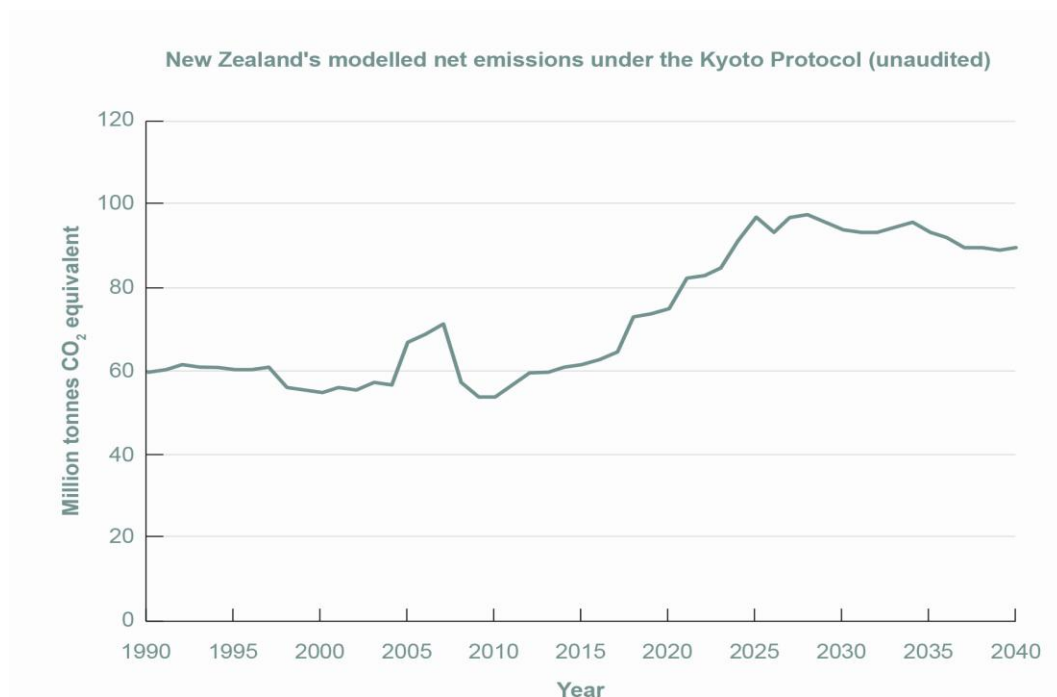
What we are aiming to achieve

Climate change is the most challenging international issue of the 21st century. New Zealand must 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 net emissions from 1990 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 greenhouse gas 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 for developed countries.⁴⁷ 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. In August 2013, the Government announced its unconditional international commitment taken under the United Nations Framework Convention on Climate Change for the period to 2020 of minus five per cent on 1990 levels. The Ministry continues to contribute to negotiations for the new global agreement on climate change to enter into force in 2020.

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.

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.

⁴⁷ <http://www.mfe.govt.nz/publications/climate/greenhouse-gas-inventory-2013-snapshot/index.html>.

What we did and how we performed this year

Output Class: Domestic Climate Change Programme

Legislative changes to the New Zealand Emissions Trading Scheme

Output: Advise on the New Zealand Emissions Trading Scheme, including legislative amendment of the Climate Change Response Act, and developing and maintaining regulations.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
85%	Percentage of agreed deliverables in relation to the domestic climate change work programme completed within agreed timeframes ⁴⁸	100%	88%

In 2011, an independent panel undertook a review of the New Zealand Emissions Trading Scheme (NZ ETS). The purpose of the review was to assess the operation and effectiveness of the NZ ETS and how it should evolve beyond 2012 given the uncertainty at the time about the outcome of international climate change negotiations and what climate change action would be taken by our key trading partners. The panel made a number of recommendations. After considering the panel's recommendations, the Ministry's advice, and public feedback, the Government announced a final package of NZ ETS legislative amendments in July 2012.

In November 2012, the Climate Change Response (Emissions Trading and Other Matters) Amendment Act 2012 was passed into law. The purpose of this legislation is to maintain the costs that the ETS places on the economy at current levels. This will ensure businesses and households do not face additional costs during the continued economic recovery, and that New Zealand continues to do its fair share on climate change. It is also designed to improve the operation of the NZ ETS, providing more flexibility, and ensuring the scheme is fit for purpose after 2012.

The key changes are to:

- introduce a power to allow the Government to sell New Zealand Units (NZUs) (the primary emissions unit used within the NZ ETS) by auction, with an overall cap on the number of NZUs auctioned and allocated
- introduce 'offsetting' as an option for pre-1990 forests giving forest landowners the flexibility to convert their land to a better use, but avoid ETS deforestation costs by planting a carbon equivalent area of forest elsewhere
- remove the start date for surrender obligations for biological emissions from agriculture
- extend transitional measures designed to reduce the cost impacts of the scheme beyond 2012
- change the NZ ETS treatment of the synthetic greenhouse gas (SGG) sector through a number of changes, such as introducing the SGG levy.

More information on these changes is available on the Ministry's climate change information website: <http://www.climatechange.govt.nz/emissions-trading-scheme/ets-amendments/index.html>.

The Ministry has been working on options for implementing these amendments. The Synthetic Greenhouse Gas Levy took effect from 1 July 2013. Regulations that will give effect to the remaining amendments are expected to be promulgated by November 2013.

⁴⁸ Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

Rules for the second commitment period of the Kyoto Protocol, agreed in Doha in 2012, have created a different kind of market access for countries like New Zealand that are taking a target outside the Protocol for Commitment Period 2. The Ministry had intended to consult on the options for the design of the auctioning system by 31 May 2013; however, this has now been deferred while we work through the suite of policy issues relating to international emission unit market access.

Projects to Reduce Emissions (PREs) Programme

The Ministry administers 19 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 emissions units. Participants are investing in initiatives such as landfill gas, wind generation, hydro-generation, and geothermal generation to achieve their objectives.

The transfer of emission units to a project participant is conditional on the delivery of emission reductions by the project. Project participants must provide an annual report which details the emission reductions achieved in that year. Once the annual report has been assessed and accepted, the Crown will then transfer the emission units to the project participant.

All annual reports for 2012 have been received and assessed and unit disbursements have been made.

Output Class: International Climate Change Programme

United Nations Framework Convention on Climate Change (UNFCCC) negotiations
– Doha 2012

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

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of agreed deliverables in relation to international negotiating positions and resulting submissions completed within agreed timeframes	100%	100%

In late November/early December 2012, Ministry officials were part of a cross agency delegation, led by Minister for Climate Change Issues Hon Tim Groser and Associate Minister Hon Simon Bridges, that attended the United Nations Framework Convention on Climate Change (UNFCCC) COP18/CMP8 negotiations in Doha, Qatar.

The Doha conference marked the end of the Kyoto Protocol's first commitment period and launched the second commitment period under the Kyoto Protocol. New Zealand's decision not to be part of Commitment Period 2 meant that New Zealand's access to the clean development mechanism (a source of offset units under the New Zealand Emissions Trading Scheme) has been restricted.

A government work programme is underway to consider the implications of the new rules. A number of options are under consideration.

Developments in national and international carbon markets

The Ministry remains active in the development of the international carbon market, of which the ETS is a part. This is implemented through a strategy of pursuing carbon market engagement opportunities simultaneously at a multilateral, regional and bilateral level.

As part of its approach to regional engagement, the Ministry created and provides secretariat support for the Asia-Pacific Carbon Markets Roundtable. The purpose of the Roundtable is to build relationships with countries in the region, and progress technical discussions and solutions to support the development of a regional carbon market.

Bilaterally New Zealand works closely with a number of countries, such as Australia, Thailand, China and Korea, to progress the development of their own carbon markets and international carbon markets. In the UNFCCC negotiations, New Zealand has proposed the development of a framework to facilitate the interaction between the UNFCCC and existing and emerging national and regional carbon markets.

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 of the Kyoto Protocol and beyond.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
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 projections 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 1990–2011 was released on 12 April 2013 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 65 and 66.

The results of the United Nations Expert Review Team's review of New Zealand's National Inventory Report 1990–2010 were released in May 2013 with no material items noted for addressing in the final year of Commitment Period One.

Output Class: Synthetic Greenhouse Gas Levy

Output: Administer the funding for the implementation of the Synthetic Greenhouse Gas Levy Collection System by the New Zealand Transport Agency and New Zealand Customs Service.

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
New measure	Administer the funding for the implementation of the Synthetic Greenhouse Gas Levy Collection System by New Zealand Transport Agency and New Zealand Customs Service in accordance with respective memoranda of understanding	Achieved	Achieved

In November 2012, an amendment to the Climate Change Response Act 2012 removed the NZ ETS obligation from the importation of synthetic greenhouse gases (SGGs) in goods and motor vehicles and replaced it with a SGG levy linked to the NZ ETS emission price. This change is expected to significantly reduce compliance costs for the sector.

From 1 July 2013, the levy on motor vehicles is collected by the New Zealand Transport Agency when a vehicle is first registered in New Zealand. The levy on all other goods that contain hydrofluorocarbons and perfluorocarbons applies at the point of import and is collected by the New Zealand Customs Service.

In the months leading up to the levy coming into force the collecting agencies updated their systems and processes. As the agency responsible for the NZ ETS, the Ministry was also responsible for administering the funding for implementing the levy and ensuring the collecting agencies complied with the conditions agreed under the Memoranda of Understanding.

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 2012	Performance measure	Target 2012/13	Actual 30 June 2013
Achieved (Programme scheduled to be completed by 30 June 2015)	The LUCAS Programme progresses according to schedule	Achieved	Achieved (Programme scheduled to be completed by 30 June 2015)
Achieved (Availability averaged 99% over the year)	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 99.2% over the year)
Achieved	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

LUCAS is a multi-year programme that is responsible for meeting the United Nations Framework Convention on Climate Change and Kyoto Protocol reporting requirements for the Land Use, Land Use Change and Forestry (LULUCF) sector. LUCAS provides information on the greenhouse gas emissions and removals arising from LULUCF activities. This information is reported annually in New Zealand's Greenhouse Gas Inventory (also known as the National Inventory Report).

To do this, LUCAS:

- maps New Zealand's land use, and tracks all land-use change between 1990 and 2012. This includes afforestation, reforestation and deforestation
- calculates the amount of carbon stored in forests and soils and how these carbon stocks change with land use.

Key achievements in 2012/13 include:

- the completion of the post-89 natural forest remeasurement in March 2013
- satellite imagery was received for the second part of the 2012 land-use mapping. This imagery has been made available to other government agencies under an all-of-government licence with the supplier
- a significant upgrade of the geospatial component of the LUCAS information technology infrastructure was successfully deployed on schedule.

The LUCAS programme remains on track to provide the information required for the 2012 National Inventory Report and to enable final year accounting for Kyoto Protocol Commitment Period One (2008 to 2012).

When completing the 2011 National Inventory Report draft chapters, the following quality specifications were complied with:

- the project plan was completed
- 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.

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

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 73 to 74.

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 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

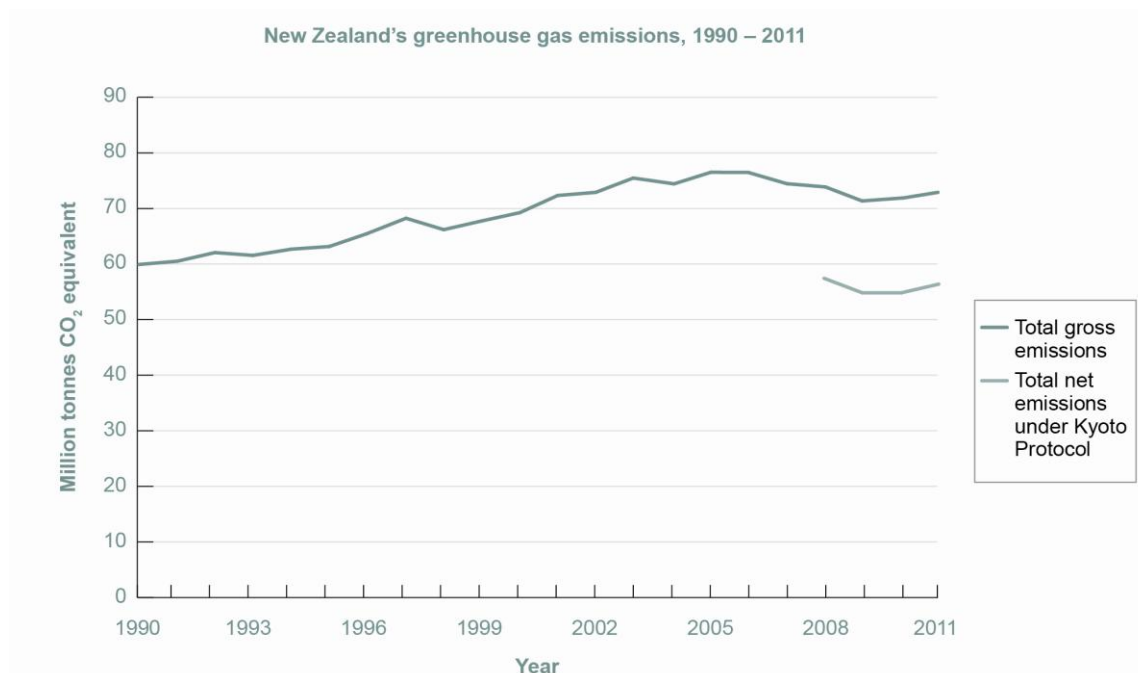
Results: Net emissions under the Kyoto Protocol were lower in 2011 than they were in 2008 (2012: Downward trend in net emissions under the Kyoto Protocol)

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.

The graph below shows the trends in New Zealand's total (gross)⁴⁹ and net⁵⁰ greenhouse gas emissions from 1990–2011. This is the latest data as presented in the April 2013 inventory submissions to the United Nations Framework Convention on Climate Change Secretariat.

⁴⁹ Gross emissions exclude any removals of emissions through Land Use, Land Use Change and Forestry.

⁵⁰ 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.



In 1990, New Zealand's total greenhouse gas emissions were 59.6 million tonnes of carbon dioxide equivalent (Mt CO₂-e). In 2011, this total had increased by 13.2 Mt CO₂-e (22.1 per cent growth) to 72.8 Mt CO₂-e. This represents an average annual growth rate of around 1 per cent in total emissions since 1990.

The four emission sources that contributed the most to this increase in total emissions were emissions from dairy cattle, road transport, agricultural soils, and from the release of hydrofluorocarbons from industrial and household refrigerant and air-conditioning systems.

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. Net emissions as reported under the Kyoto Protocol are only reported from 2008 as required under the Protocol. There are currently four data points available for the first commitment period of the Kyoto Protocol (2008–2012).

Net emissions were lower in 2011 (56.1 Mt CO₂-e) than they were in 2008 (57.5 Mt CO₂-e) at the start of the first commitment period of the Kyoto Protocol. The trend in net emissions between 2008 and 2011 is dominated by the trend in total emissions, and by the trend in emission removals from forestry activities under Article 3.3 of the Kyoto Protocol (afforestation, reforestation and deforestation since 31 December 1989).

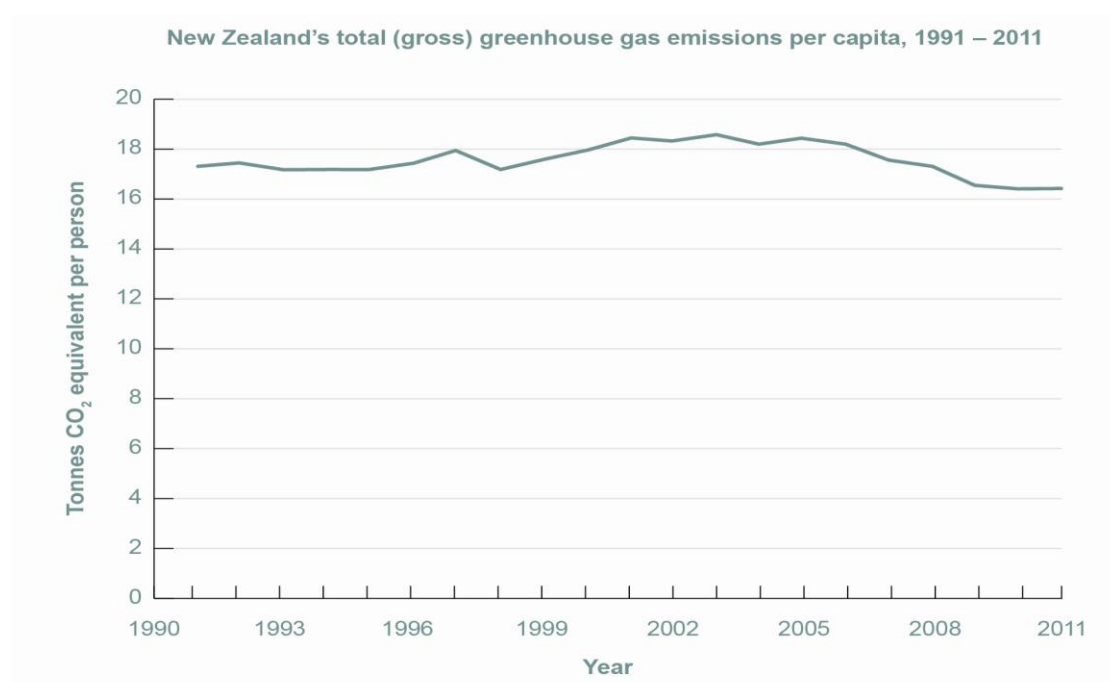
	Gross emissions (Mt CO ₂ -e)	Net emissions (Mt CO ₂ -e)	Removals (Mt CO ₂ -e)
2008	74.1	57.5	16.5
2009	71.4	54.6	16.8
2010	71.8	54.5	17.3
2011	72.8	56.1	16.8

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
(2012: Downward trend)

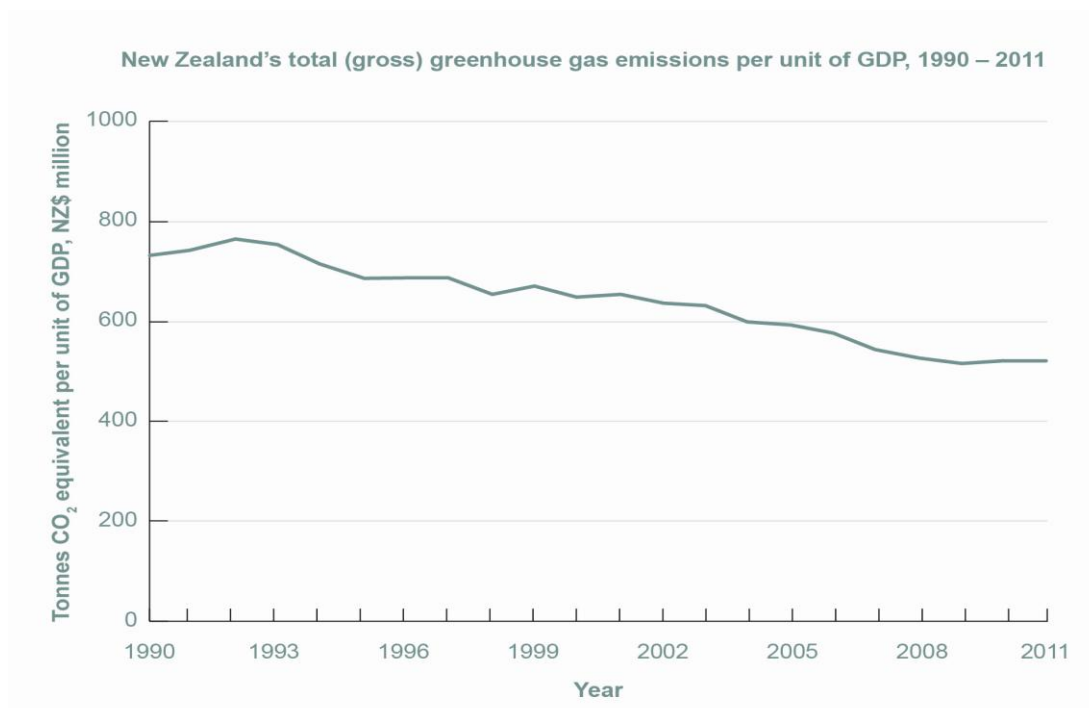
In 2011, New Zealand's emissions per capita⁵¹ were 16.5 tonnes of carbon dioxide equivalent per person. Emissions per capita have decreased by 4.7 per cent since 1991. The general trend in emissions per capita continues downward, despite a slight increase in emission per capita between 2010 and 2011 (approximately 0.5 per cent).



The next graph shows New Zealand's gross greenhouse gas emissions divided by GDP (product measure)⁵² from 1990–2011. New Zealand's greenhouse gas emissions per unit of GDP have decreased by 28.8 per cent since 1990.

⁵¹ Statistics New Zealand – Total estimated resident population, mean year ended 31 December, since 1991.

⁵² Statistics New Zealand official series – GDP (Production), Chain volume, Actual, Total Annual-March, expressed in 1995/96 constant prices; 21 March 2013.



3. Divergence between forecast net position and Kyoto Protocol obligations

Target: Decreasing liability / increasing asset⁵³

Results: Increased surplus of units, but decreasing bookable value of the asset due to a fall in carbon price
(2012: Decreasing bookable value of the asset due to a fall in carbon price)

The projected balance of Kyoto Protocol emissions units is updated twice a year; once in April to include updated emissions data, and once in June to include Kyoto units surrendered to the Government through the New Zealand Emissions Trading Scheme. The Kyoto Protocol financial position is updated monthly for changes in the exchange rate and emission 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 latest projection of New Zealand's net position under the Kyoto Protocol is a surplus of 64 million units. The net position has increased by 28.6 million units, from 35.4 million units in June 2012.

The largest contribution (36 million units) to the increase is a large amount of Kyoto Units that were surrendered to the Government in 2012/13 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.

⁵³ A net asset means that New Zealand's net emissions are projected to be below our commitment under the Kyoto Protocol whereas a net liability means that New Zealand's net emissions are projected to be above our commitment.

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

Although the net surplus of units has increased by 28.6 million units since June 2012, the bookable value of the asset has decreased due to a fall in the global carbon price as show in the table below.

This table presents the forecasted net position as at 30 June of each year within the commitment period.

Financial statements period ended	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08
Net position excluding transfers	23.1	27.6	25.3	13.5	9.6	(21.7)
Net transfers from the assigned amount in million units	(40.9)	(7.8)	3.5	2.3	0.0	0.0
Net position in million units	64.0	35.4	21.8	11.2	9.6	(21.7)
Carbon price EURO	0.49	3.6	10.95	10.75	10.00	12.50
Exchange rate	0.59630	0.63185	0.57335	0.5677	0.4628	0.4829
Carbon price NZD	0.82	5.70	19.10	18.94	21.61	25.89
Value of the net asset/(liability) in NZD	53	202	417	212	207	(562)

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.html.

What it cost

The Ministry's domestic and international climate change work programme is funded by *Multi-class Output Appropriation: Climate Change* under Vote Environment.⁵⁴

This Multi-class Output Appropriation comprises three 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
- Synthetic Greenhouse Gas Levy.

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

⁵⁴ In 2011/12, Multi-class Output Appropriation: Climate Change was funded under Vote Climate Change. In late 2011/12, Votes Environment and Climate Change were merged.

Vote Environment

Multi-class Output Appropriation: Climate Change

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
8,586	Total revenue	8,105	7,792	7,396
	Expenses			
5,123	Domestic climate change programme	3,669	4,609	3,854
3,463	International climate change programme	3,429	3,183	3,542
–	– Synthetic Greenhouse Gas Levy	773	–	957
8,586	Total expenses	7,871	7,792	8,353
	– Net surplus/(deficit)	234	–	–

Departmental Output Class: Domestic Climate Change Programme

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to domestic climate change.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
	Revenue			
4,900	Crown	3,715	4,609	3,819
115	Departmental	8	–	21
108	Other	14	–	14
5,123	Total revenue	3,737	4,609	3,854
5,123	Total expenses	3,669	4,609	3,854
	– Net surplus/(deficit)	68	–	–

The Ministry's 2012/13 domestic climate change programme was delivered at a cost that was \$185,000 less than Supplementary Estimates. This is due to a number of factors. The Ministry supports the Climate Change Iwi Leaders Group (CCILG) by providing funding for technical advice on an 'as required basis'. The level of advice requested by the CCILG was less than forecast. Also, there has been a delay in the Negotiated Greenhouse Agreement work stream due to issues found during the verification work of an agreement.

At Main Estimates, the 2012/13 budget for this output class was \$4.609 million. During the year, the budget was reduced due to the completion of the Emissions Trading Scheme Review which cost less than anticipated, and the reprioritisation of funding to *Departmental Output Class: Water Management Policy Advice* to help fund the freshwater reforms.

Departmental Output Class: International Climate Change Programme

This output class is limited to the provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to international climate change issues, negotiating positions for climate change agreements, and development of carbon markets.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
3,322	Crown	3,481	3,183	3,518
56	Departmental	6	–	13
85	Other	23	–	11
3,463	Total revenue	3,510	3,183	3,542
3,463	Total expenses	3,429	3,183	3,542
–	Net surplus/(deficit)	81	–	–

At Main Estimates, the 2012/13 budget for this output class was \$3.183 million. During the year, the budget was increased to progress continuing international negotiations for climate change agreements after Commitment Period One which ended on 31 December 2012.

Departmental Output Class: Synthetic Greenhouse Gas Levy

This output class is limited to the implementation and collection of the Synthetic Greenhouse Gas Levy.

Actual 2012 \$000		Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue				
–	Crown	858	–	957
–	Departmental	–	–	–
–	Other	–	–	–
–	Total revenue	858	–	957
–	Total expenses	773	–	957
–	Net surplus/(deficit)	85	–	–

The 2012/13 cost of implementing the Synthetic Greenhouse Gas Levy was less than expected at Supplementary Estimates as the implementation has taken longer than envisaged. Final documentation of the systems and processes was expected to be completed by 30 June; however, this was completed in early 2013/14 instead.

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 United Nations Framework Convention on Climate Change.

This multi-year appropriation began on 1 July 2012 and expires on 30 June 2014. Once 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	15,843
Adjustment for 2011/12	–
Adjustment for 2012/13	1,078
Total adjusted appropriation	16,921
Actual expenses to 2011/12 year end	–
Actual expenses to 2012/13 year end	7,889
Total actual expenses	7,889
Balance of appropriation remaining	9,032

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 the Crown's financial obligation to the United Nations Framework Convention on Climate Change is met each year.

Actual 2012 \$000		Actual 2013 \$000	Appropriation⁵⁵ 2013 \$000
Income			
136,489	Emissions trading	40,474	5,072
20,287	Revision in carbon units	–	–
4,178	NZ ETS penalty revenue	583	45
507,247	Net changes in carbon price of NZ Units including foreign exchange movements	235,399	377,415
668,201	Total income	276,456	382,532
Expenditure			
128	Administration of NZ Units held on trust	160	177
334,248	Allocation of New Zealand Units	54,823	327,980
4,146	Impairment of debt relating to the New Zealand Emissions Trading Scheme	522	15,000
–	Revision in carbon units ⁵⁶	40,845	33,219
–	Net changes in carbon price of NZ Units including foreign exchange movements ⁵⁷	132,367	165,835
2,355	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants	336	16,800
–	Purchase of Units under the New Zealand Emissions Trading Scheme	–	6,000
969	Purchase of Projects to Reduce Emissions Units	12	1,252
1,807	Indemnity payments (Permanent Legislative Authority)	1,102	–
3,447	Emissions Trading Scheme ⁵⁸	7,937	7,937
116	Framework Convention on Climate Change	103	127
347,216	Total expenditure	238,207	574,327

⁵⁵ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁵⁶ This is a remeasurement under the Public Finance Act 1989 and therefore does not require an appropriation.

⁵⁷ This is a remeasurement under the Public Finance Act 1989 and therefore does not require an appropriation.

⁵⁸ This is the operating funding provided to the Environmental Protection Authority to administer the NZ ETS.

The variance between actuals and Supplementary Estimates is primarily due to the decrease in the carbon price and increase in the EURO/NZ exchange rate. The Supplementary Estimates is calculated based on a carbon price of NZ\$10 per unit and the actuals are based on the monthly average price of carbon units at the time the revenue is recognised.

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.

Since 2010/11, the Ministry has 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 New Zealand Institute of Economic Research 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, we have 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
- run workshops with managers to set expectations of required standards, identify barriers, and propose solutions to these barriers
- run staff sessions targeting areas where work can be improved, including strengthening commissioning and the peer reviewer role.

The Ministry has undertaken seven formal assessments of policy advice from July 2012 to June 2013. The internal panel is chaired by an external independent chair, 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 10–15 briefing notes and Cabinet papers randomly selected across all of the Ministry's policy advice. Given that the Ministry is placing particular emphasis on the quality of its policy advice, papers of a more 'transactional nature' (such as those needed for appointments to boards, or for preparing the Minister for meetings) were excluded from the assessments.

All Vote Environment output classes

Actual 30 June 2012	Performance measure	Target 2012/13	Actual 30 June 2013
59% of papers sampled met the Ministry's external reporting quality standard	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 ⁵⁹	51%
100% of the regulatory impact statements (RISs) assessed fully or partially met the quality assurance criteria. Of these, 71% fully met the criteria and 29% partially met the criteria	Percentage of all regulatory impact statements that fully or partially meet quality assurance criteria [See note below]	At least 90%	84% of the RIS assessed fully or partially met the quality assurance criteria. Of these, 69% fully met the criteria and 31% partially met the criteria

Note: 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 or limited consultation). A 'does not meet' is given where the RIS is weak in multiple areas.

⁵⁹ High quality is defined as papers marked as seven out of 10 (or higher) by the assessment panel.

Ministerial support for Vote Environment

Actual 30 June 2012 ⁶⁰	Performance measure	Target 2012/13	Actual 30 June 2013
100%	Percentage of responses to parliamentary questions that are completed within required timeframes	100%	100%
94%	Percentage of responses to Ministerial correspondence submitted to the Minister within agreed timeframes	95%	90%
84%	Percentage of responses to Ministerial correspondence accepted first time by the Minister	90%	92%
90%	Percentage of responses to departmental Official Information Act requests sent within statutory deadlines	100%	95%
94%	Percentage of briefing notes accepted first time by the Minister	90%	95%
3.25 out of 5	Overall Ministerial satisfaction as surveyed quarterly	Average 4 out of 5	3.33 out of 5

What it cost

Vote Environment

Departmental Output Class: Ministerial Services

This output class is limited to the provision of services to Ministers to enable them to discharge their portfolio responsibilities (other than policy decision-making).

Actual 2012 \$000	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Revenue			
1,732 Crown	2,675	2,973	2,651
25 Departmental	2	–	5
14 Other	5	–	4
1,771 Total revenue	2,682	2,973	2,660
1,771 Total expenses	2,604	2,973	2,660
– Net surplus/(deficit)	78	–	–

This output class was established in 2012/13. As this 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 support the Minister. During the year, the Ministry has collected better information on the level of resources required and has refined its external budget.

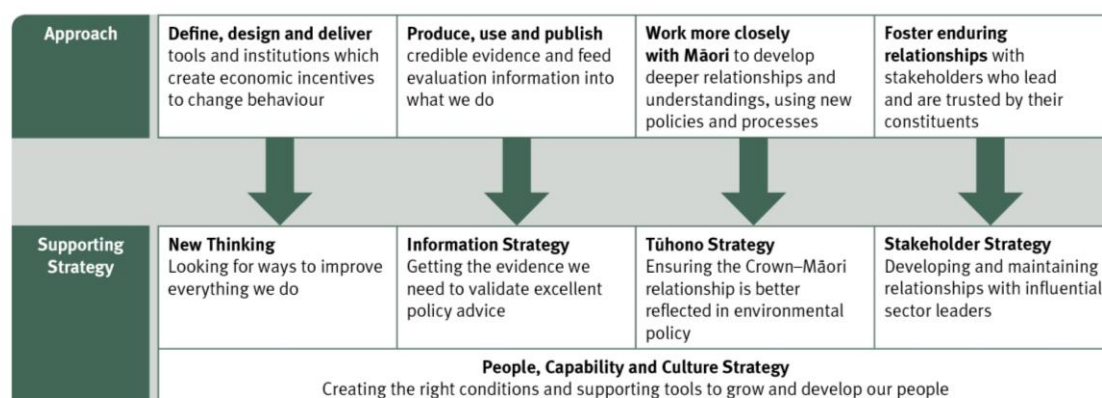
⁶⁰ Comparatives show performance results for Ministerial support for Vote Environment and Vote Climate Change. In late 2011/12, these Votes were merged.

4 Our Organisational Health and Capability

Strategy

Our strategic direction (launched in 2010) sets out our mission of ‘environmental stewardship for a prosperous New Zealand’ and the approaches and behaviours needed to carry out this mission.

For each of the four approaches we have developed a supporting strategy, underpinned by a wide-ranging strategy for people, capability and culture. These are shown in the figure below.



An essential part of ensuring we achieve our mission is that we place an ongoing focus on shifting to ‘exceptional’ performance. Our performance improvements are mainly articulated through our supporting strategies (detailed below) but we look for performance improvements in all areas of the organisation, particularly in the way we run our business.

Performance Improvement Framework review

The Ministry had its first Performance Improvement Framework (PIF) review in 2012. The Ministry found this review a useful exercise and approached it as a systematic ‘stocktake’ – an opportunity to examine every aspect of our business and organisation. The areas where we have focused attention over recent years were well rated and those we have more recently prioritised were rated as needing improvement. The review suggested new perspectives for already planned initiatives and suggested additional areas of focus. As a result, our organisational development priorities are:

- strengthening our environmental stewardship role and strategy
- enhancing our capability and culture, especially increasing long-term innovative thinking, challenge and debate
- expanding the evidence base, especially monitoring and evaluation
- improving the effectiveness of our interventions and organisational efficiency
- tracking our progress towards the desired future state: four-year excellence horizon.

Multi-disciplinary analytical framework

The Performance Improvement Framework review in 2012 identified the need for a multi-disciplinary analytical framework. An analytical framework can help in developing a common understanding of the scope and complexity of an issue, the drivers of problems and the policy gaps, so solutions can be agreed. It can be a useful tool for guiding decision-making, informing trade-offs, and strategic planning.

During the second half of 2012/13, the Ministry worked closely with the Natural Resources Sector (NRS) to design the framework. We undertook a literary review and developed draft versions of the framework and supporting material. We engaged with NRS agency staff through workshops and a Reference Group. We also developed an implementation plan and are working on developing a web-based tool to aid the application of the framework.

The developed framework promotes a people-centred approach to understand how behaviour affects environmental outcomes over the long term, which is consistent with the OECD's approach to green growth indicators.

The initial development phase for the framework was completed in August 2013 and will be applied on the Natural Resources Sector's marine strategy work and 2014 Briefing to the Incoming Minister. Guidance for using the framework is now available on the web (<http://nrs.mfe.govt.nz>) for NRS agencies to use.

Supporting strategies

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

People, Capability and Culture Strategy

What we are aiming to achieve

The aim of the People Capability and Culture Strategy is to create the right conditions and supporting tools to grow and develop our people.

How we will know if we are achieving these outcomes

Each year, the Ministry conducts a staff engagement survey to measure the extent to which staff are connected and engaged with the organisation they work in. Improvements in staff engagement, as measured by the survey, will indicate that the Ministry is creating the right conditions and supporting tools to grow and develop our people.

Current state

The 2012 staff engagement survey showed that the Ministry has almost 11 engaged staff to every disengaged staff member which is considered best in class and is a significant improvement on the 1.38 engaged staff to 1 disengaged staff from four years ago.

The 2013 survey took place in September 2013 but results will not be available until November 2013.

Trend of survey results	2008	2009	2010	2011	2012
Ratio of engaged to disengaged staff	1.38 – 1	1 – 1	2.91 – 1	6.14 – 1	10.8 – 1
Percentile (NZ Public Sector)	<50 th	26 th	56 th	73 rd	81 st

New Thinking Strategy

What we are aiming to achieve

The aim of the New Thinking strategy is look for ways to improve everything we do.

How we will know if we are achieving these outcomes

The Ministry will see continuous improvement in policy advice products as measured by the quality policy advice assessment panel and internal regulatory impact analysis reference panel.

Current state

Quality of policy advice: Of the papers sampled in 2012/13, 51 per cent of papers were assessed as high quality. As we take our role as a provider of quality policy advice very seriously we are always looking for new ways to improve. For more information on what we have done to try and improve our quality of policy advice, see page 73.

Regulatory impact statements: As at 30 June 2013, 84 per cent of all regulatory impact statements (RIS) assessed fully or partially met the quality assurance criteria (against a target of 90 per cent). The internal Regulatory Impact Assessment (RIA) Panel has worked to improve RIS quality by providing coaches to RIS authors. This approach is expected to increasingly influence quality as new members come on to the panel with the necessary RIA experience. The internal RIA Panel has developed a closer relationship with the Treasury RIA Team through regular meetings and some authors have also done the same, resulting in useful lessons learnt that can be applied in the future.

Trend	2010/11	2011/12	2012/13
Percentage of policy advice papers assessed as high quality (Target: at least 70% of policy advice papers sampled are of a high quality)	49%	59%	51%
Percentage of regulatory impact statements assessed that fully ⁶¹ or partially met the quality assurance criteria (Target: 2010/11 – at least 80%; 2011/12 onwards – at least 90%)	58%	71%	84%

Information Strategy

What we are aiming to achieve

The aim of the information strategy is to produce, use and publish credible evidence and feed evaluation information into what we do.

How we will know if we are achieving these outcomes

The Ministry sees an improvement in the use of evidence in our policy advice products.

Current state

During 2012/13 the primary focus of the information strategy has been on the 'produce' and 'publish' elements. Key successes include:

- Cabinet has agreed to amend Section 360 of the RMA to allow regulations to be made specifying methodology for data collection at the local level.

⁶¹ 2012/13 was the first year that the measure included regulatory impact statements that partially met the quality assurance criteria. All years prior only included papers that fully met the quality assurance criteria.

- The Ministry has developed an environmental reporting framework, in conjunction with stakeholders, which draws on international best practice and incorporates the range of values important to New Zealanders.
- The Ministry has provided advice to the Minister on the best way to undertake environmental reporting, resulting in a proposal for Cabinet early in the 2013/14 year for an Environmental Reporting Bill.
- Collaboration with regional councils on nationally consistent standards for freshwater monitoring has contributed to a significantly improved River Condition Indicator Update.

As of February 2013, further work on the Information Strategy as a stand-alone initiative was formally paused.

Use of evidence to underpin quality policy advice is seen as a core part of everything we do at the Ministry. The future operating model of the Ministry integrates evidence teams within the policy directorates to ensure early identification of information needs and enable better uptake and use of information.

The new operating model proposes that environmental reporting and evaluation functions sit in a stewardship directorate, reflecting the importance of these two areas to the long-term success of the Ministry.

We are also undertaking an external review of the way evaluation is undertaken within the Ministry to understand where we could improve our effectiveness.

Tūhono Strategy

What we are aiming to achieve

The aim of the Tūhono Strategy is to ensure the Crown – Māori relationship is better reflected in environmental policy.

How we will know if we are achieving these outcomes

Capacity within the Ministry to develop relationships with Māori will be built through the Pae Ngatahi course, as measured by the percentage of staff that attend and pre- and post-course evaluations on attendees' capability.

Current state

Significant staff movement has resulted in a reduction of staff numbers who have undertaken Pae Ngatahi training to 31 per cent. With such staff movement it is questionable whether the Ministry can reach or maintain Pae Ngatahi training levels at 45 per cent on an ongoing basis. However, Pae Ngatahi training should continue to be provided within the Ministry to the extent that it is practicable to do so.

The knowledge gap has been, and will continue to be, closed by an informal approach to building knowledge across the Ministry of Māori environmental values and worldviews. This approach involves Kaahui Taiao running interactive sessions with teams on Māori notions of environment including, where possible, using issues and examples relevant to the participants' work streams / experience to improve understanding. This work is an integral part of the Tuhono Strategy.

Trend	2010/11	2011/12	2012/13
Percentage of staff who have attended at least one module of the Pae Ngatahi course	23%	45%	31%

Stakeholder Strategy

What we are aiming to achieve

The aim of the Stakeholder Strategy is to ensure we have high-quality relationships with influential sector leaders.⁶²

How we will know if we are achieving these outcomes

External stakeholders will appreciate the Ministry's goals and perspectives, and have a positive view of us, as measured by a survey of stakeholder perceptions.

Current state

The 2013 Stakeholder Perception Audit shows the Ministry is heading in the right direction; however, many ratings in the quantitative study have not improved. Analysis of the audit has identified several activities the Ministry will undertake to improve its standing with stakeholders.

Ministry profile

As at 30 June 2013, the Ministry employed 270.18 full-time equivalent (FTE) staff (2012: 258.27 FTE).

Our staff come from a range of professional, technical and scientific backgrounds, including resource management, law 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 20.2 per cent (in 2011/12 it was 12.5 per cent). The average length of service is approximately 4.1 years (2011/12: 4.3 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.

Currently women make up approximately 49 per cent of the management team at the Ministry. This is a similar level to 2011/12 when women represented about 46 per cent of the management team.

People and culture

The People Capability and Culture Strategy was launched in 2010/11 with three phases. Phase One, *Nailing the Basics*, focused on providing our people with clarity about what is expected of them and improving core systems and processes. Phase Two, *Expanding our Horizons*, has been the focus for the last year. Phase three is about providing new tools that allow us to push our ideas further.

During Phase Two we:

- implemented staff awards to celebrate our staff who show exemplary performance and leadership in our five organisational behaviours
- hired new principal analysts to provide fresh thinking, challenge and innovation on policy issues

⁶² We have updated this since the Statement of Intent 2012–2015 was published. The aim stated in the Statement of Intent was to 'develop and maintain relationships with influential sector leaders'.

- completed a comprehensive strategic workforce planning exercise to identify our future capability requirements and developed a plan to bridge any gaps over the next four years
- monitored and reviewed the effectiveness of our new performance management system and made changes to make it better
- continued to develop capability with programmes, courses, seminars, secondments and on-the-job opportunities
- developed an online resource to help our staff understand their career paths and how to achieve growth in their current role as well as work towards a more senior or other role within the Ministry or the Natural Resources Sector
- established a new organisational development governance group to monitor, drive and enhance our organisational capability
- invested in new tools and sharing techniques that encourage and build innovation, challenge and debate in our work
- monitored the effectiveness of our improved processes and policies and made improvements as necessary.

As we enter Phase Three we will continue to stretch individuals and teams in their thinking, cross sector leadership, and environmental stewardship.

We will continue to monitor our performance through our annual staff engagement survey.

Relationships

The Ministry has continued to work on forging collaborative working relationships with those who share our mission of environmental stewardship for a prosperous New Zealand. This includes central government agencies in the Natural Resources Sector and stakeholders in local government, business, the primary sector, industry, and science, particularly where there is a shared interest in the Ministry's priorities.

In 2012/13, the Sector has built on its foundation of collaborative work by continuing its inter-agency work programme on co-producing big policy reforms. This has resulted in a comprehensive package of Resource Management Act reforms; proposed reforms to our freshwater management system to provide better economic, social, cultural, and environmental outcomes; and the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 coming into effect by the end of June 2013 which will regulate the environmental impacts of the activities undertaken in New Zealand's Exclusive Economic Zone and continental shelf.

Inter-agency system development work was commissioned on marine strategic policy and a common analytical framework for considering natural resource value trade-offs across economic, social, cultural and environmental values and benefits. The Building Natural Resources key area of the Business Growth Agenda (BGA) has delivered significant progress against its 49 actions, and the Informal BGA Building Natural Resources Ministers Group has doubled its meeting frequency in recognition of this progress and to further support this ambitious portfolio of work.

We increased our strategic policy capability by recruiting six principal policy analysts and by delivering a new training programme to develop our emerging aspiring leaders; key staff with an interest in technical leadership or management positions across the Sector.

This year attention has been given 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 the Ministry and iwi have confidence in this engagement. The lift in confidence has

resulted in the two parties being able to have discussions with more depth which has improved the quality of input into programmes and projects pertaining to Māori and natural resource management. Current work in treaty negotiations highlights the continued building of relationships at the iwi/hapū level, which will continue until all treaty settlements have been completed.

Kaahui Taiao, the Ministry's internal strategic advisory unit on Māori and Treaty of Waitangi issues, puts a lot of effort into managing iwi relationships and engagement. As a result the unit has been influential at governance level internally and externally across government agencies and with iwi reflecting the positive relationships created or strengthened by staff. This influence has played a part in policy design in decision-making, implementation, and the delivery of quality advice.

Processes, technology and physical assets

During 2012/13, the Ministry has continued to explore and prepare for all-of-government solutions for information technology (IT) that could enable us to gain economies of scale and leverage the expertise of others. As part of this preparation process we have explored the Ministry's likely future IT needs with a view to increasing the quality, effectiveness and innovation of our IT services.

We have continued to improve our infrastructure and security in line with Government Communications Security Bureau requirements.

We have completed systems enhancements, including those to our grants portal and to our Land Use Carbon Accounting System.

Internal audit and risk management

The Internal Audit function conducts independent reviews of the Ministry's internal control and governance processes. It also provides internal audit services to the Environmental Protection Authority (EPA). The Internal Audit function adopts a risk-based approach in formulating its audit plan to align audit activities to the key risks across the Ministry. The audit plan is approved by the Chief Executive and endorsed by the Audit Committee at the beginning of each financial year.

In addition to providing internal audit assurances to the Chief Executive and the Environment Leadership Team, the Internal Audit function is responsible for managing the Ministry's risk management programme and conducting internal investigations.

The Internal Audit function has completed 14 audits for the Ministry and four audits for the EPA. A monthly audit recommendation reminder and follow-up programme is in place to ensure all audit issues are being addressed.

The Ministry's risk management programme, framework and procedures are being refined. Meanwhile, the existing framework remains in place.

The Audit and Risk Committee of three independent advisors meet at least four times per year. The Committee continues to provide an effective forum for identifying high level strategic risk with the Chief Executive and providing oversight and advice on the effectiveness of our risk management.

In line with the Institute of Internal Auditor's policy agenda, the Chief Internal Auditor has a direct reporting line to the Chief Executive and the Audit and Risk Committee.

Ministry budget and assets

Funding

We want to provide efficient and effective services that represent good value for money. To achieve this, we have focused on improving our efficiency and effectiveness over several years, including introducing a new strategic direction in 2010. To deliver the most effective high quality advice and support, we have 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.

The Performance Improvement Framework Review signalled that we need to continue to improve our financial and resource management maturity. We have made a start through a multi-year project to improve planning and financial management and the Information System Strategic Plan. During 2012/13, we put in place tighter accountability for budget forecasting and management. We implemented time recording in 2013 to ensure we have better management information and are actively using benchmarking from the Benchmarking Administrative and Support Services (BASS) Programme and Finance Quickstart to improve efficiency.

We have also worked closely with the Natural Resources Sector (NRS) to develop a multi-disciplinary analytical framework, referred to as the Natural Resources Framework, to ensure that priorities and trade-offs are explicit so the Ministry can continue to prioritise the funding available to progress the Government's priorities and meet ongoing operational pressures.

Capital expenditure

The Ministry incurred \$529,000 of capital expenditure in 2012/13.

The main area of capital expenditure related to investment in information technology. The Ministry spent approximately \$200,000 on the Online Waste Disposal Levy System to improve the information and reporting systems for the TV TakeBack Programme. Further capital expenditure was used for upgrades and improvements to existing systems such as the implementation of a time recording module as part of the Ministry's existing payroll system.

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 2012/13 is measured using waste minimisation, energy efficiency, and transportation as performance indicators.

In general terms, our waste minimisation has decreased over the past 12 months and our energy consumption is in line with the previous two years.

Overall, transportation (kilometres travelled) continues to decrease.

Benchmarking our performance

		Metric	2012/13	2011/12	2010/11	2009/10	2008/09
Waste minimisation	Total waste	kg	33,528	36,643	35,910	39,965	26,852
	Total waste per FTE	kg	124.1	141.9	117.3	136	87
	Waste recycled	kg	5,945	5,989	5,910	6,773	5,580
	Waste recycled per FTE	kg	22	23.2	19.3	23	18
	Paper recycled	kg	25,935	29,250	28,585	31,430	19,355
	Paper recycled per FTE	kg	96	113.3	93.4	107	63
	Waste to landfill	kg	1,647	1,404	1,415	1,762	1,917
	Waste to landfill per FTE	kg	6.1	5.44	4.63	6	6
Energy efficiency	Total electricity usage	mWh	705	700	705	760	784
	Total electricity usage per FTE	kWh	2,609	2,710	2,303	2,584	2,539
Transportation	Total transportation	km	3,417,397	3,466,664	3,721,712	4,322,000	5,011,000
	Total transportation per FTE	km	12,649	13,423	12,162	14,701	16,238
	Domestic flights	km	1,018,417	1,021,033	1,484,373	1,490,000	1,590,000
	Domestic flights per FTE	km	3,769	3,953	4,850	5,068	5,152
	International flights	km	2,388,424	2,355,694	2,144,637	2,736,000	3,318,000
	International flights per FTE	km	8,840	9,121	7,008	9,306	10,752
	Ground transport	km	10,556	89,937	92,702	96,000	103,000
	Ground transport per FTE	km	39	348	303	327	334

Crown entity monitoring

During 2012/13, the Ministry monitored the performance of the Environmental Protection Authority (EPA) on behalf of the Ministers for the Environment and for Climate Change Issues. We reviewed quarterly reports and drafts of key accountability documents to monitor the EPA's progress against its annual outputs and expectations.

The Ministry has provided an analysis of the EPA's performance, based on their quarterly reports, to the Ministers for the Environment and for Climate Change Issues.

5 Financial Statements for the Ministry for the Environment

Performance Indicators for the Year Ended 30 June 2013

	Unit	Actual 2013	Supplementary estimates 2013
Operating results			
Revenue: Crown	\$000	52,173	52,978
Revenue: Departmental and other	\$000	1,434	1,445
Output expenses	\$000	52,392	54,423
Gain on sale of assets	\$000	2	5
Net surplus	\$000	1,217	5
Working capital			
Net current assets	\$000	5,523	5,593
Current ratio	Ratio	1.75	2.12
Resource utilisation			
Plant and equipment			
Plant and equipment at year-end	\$000	875	968
Value per employee	\$000	3.0	3.4
Additions as % of plant and equipment	%	29.4	38.7
Plant and equipment as % of total assets	%	6.0	7.9
Intangible assets			
Intangible assets at year-end	\$000	769	764
Value per employee	\$000	2.7	2.7
Additions as % of intangible assets	%	35.4	39.3
Intangible assets as % of total assets	%	5.3	6.2
Taxpayers' funds			
Level at year-end	\$000	5,992	5,992
Level per employee	\$000	20.9	21.0
Net cash flows			
Surplus/(deficit) from operating activities	\$000	1,805	1,300
Surplus/(deficit) from investing activities	\$000	(557)	(747)
Surplus/(deficit) from financing activities	\$000	-	(1)
Net increase/(decrease) in cash held	\$000	1,247	552
Human resources			
Staff turnover	%	20.2	12.5
Average length of service	Years	4.1	4.0
Total staff	No.	287	285

Statement of Comprehensive Income for the Year Ended 30 June 2013

Actual 2012 \$000		Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Continuing activities					
Income					
48,965	Crown		52,173	52,830	52,978
1,673	Other revenue	2	1,434	5	1,445
1	Gains	3	2	5	5
50,639	<i>Total income</i>		53,609	52,840	54,428
Expenditure					
25,908	Personnel costs	4	25,202	25,994	25,388
1,523	Depreciation and amortisation expense	9, 10	1,198	1,214	1,256
479	Capital charge	5	479	479	479
24	Finance cost	6	26	–	–
22,704	Other operating expenses	7	25,487	25,148	27,300
50,638	<i>Total expenditure</i>		52,392	52,835	54,423
1	<i>Total comprehensive income from continuing activities</i>		1,217	5	5
Discontinued activities					
Environmental Protection Authority					
224	Income	22	–	–	–
224	Expenditure	22	–	–	–
–	<i>Total comprehensive income (loss) from discontinued activities</i>		–	–	–
All activities					
50,863	<i>Total income</i>		53,609	52,840	54,428
50,862	<i>Total expenditure</i>		52,392	52,835	54,423
1	Net surplus and total comprehensive income		1,217	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 2013

Actual 2012 \$000		Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Assets					
Current assets					
1,291	Cash and cash equivalents		2,538	4,457	1,843
8,457	Debtors and other receivables	8	10,040	7,550	8,531
336	Pre-payments		315	200	200
10,084	<i>Total current assets</i>		12,893	12,207	10,574
Non-current assets					
1,151	Plant and equipment	9	875	1,090	968
1,162	Intangible assets	10	769	740	764
2,313	<i>Total non-current assets</i>		1,644	1,830	1,732
12,397	Total assets		14,537	14,037	12,306
Liabilities					
Current liabilities					
3,115	Creditors and other payables	11	4,196	4,740	3,044
1	Return of operating surplus	12	1,217	5	5
50	Provisions	13	40	–	–
1,932	Employee entitlements	14	1,917	1,999	1,932
5,098	<i>Total current liabilities</i>		7,370	6,744	4,981
Non-current liabilities					
910	Employee entitlements	14	752	928	910
397	Provisions	13	423	373	423
1,307	<i>Total non-current liabilities</i>		1,175	1,301	1,333
6,405	Total liabilities		8,545	8,045	6,314
5,992	Net assets		5,992	5,992	5,992
Equity					
5,992	Taxpayers' 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 2013

Actual 2012 \$000		Note s	Actual 2013 \$000	Main estimates 2013 \$000	Supplementar y estimates 2013 \$000
5,992	Balance at 1 July		5,992	5,992	5,992
	<i>Comprehensive income</i>				
1	Surplus for the year		1,217	5	5
1	Total comprehensive income		1,217	5	5
(1)	Return of operating surplus to the Crown	12	(1,217)	(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 2013

Actual 2012 \$000		Note s	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Cash flows from continuing operating activities					
45,437	Receipts from Crown		50,435	52,433	52,978
3,582	Receipts from other revenue		1,391	5	1,373
(24,971)	Payments to suppliers		(24,663)	(25,273)	(27,282)
(25,884)	Payments to employees		(25,294)	(25,869)	(25,288)
(479)	Payments for capital charge		(479)	(479)	(479)
260	Goods and services tax (net)		415	–	(2)
(2,055)	<i>Net cash flow from continuing operating activities</i>	16	1,805	817	1,300
Cash flows from discontinuing operating activities					
215	Receipts from Crown		–	–	–
9	Receipts from other revenue		–	–	–
(147)	Payments to suppliers		–	–	–
(77)	Payments to employees		–	–	–
–	<i>Net cash flow from discontinuing operating activities</i>	–	–	–	–
(2,055)	<i>Net cash flow from operating activities</i>	16	1,805	817	1,300
Cash flows from investing activities					
1	Receipts from sale of plant and equipment		2	5	5
(226)	Purchase of plant and equipment		(287)	(375)	(375)
(700)	Purchase of intangible assets		(272)	(300)	(377)
(925)	<i>Net cash (outflow)/inflow from investing activities</i>		(557)	(670)	(747)
Cash flows from financing activities					
(53)	Return of operating surplus		(1)	(5)	(1)
(53)	<i>Net cash flow from financing activities</i>		(1)	(5)	(1)
(3,033)	Net increase/(decrease) in cash		1,247	142	552
4,324	Cash at the beginning of the year		1,291	4,315	1,291
1,291	Cash at the end of the year		2,538	4,457	1,843

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 2013

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 \$27,557 (2012: \$34,405).

Actual 2012 \$000		Actual 2013 \$000
	Capital commitments	
27	Intangible assets	13
27	<i>Total capital commitments</i>	13
	Non-cancellable operating lease commitments	
2,187	Not later than one year	2,155
8,324	Later than one year but not later than five years	6,169
–	Later than five years	–
10,511	<i>Total non-cancellable operating lease commitments</i>	8,324
10,538	Total commitments	8,337

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 2013

Contingent liabilities

The Ministry has no contingent liabilities (2012: \$nil).

Contingent assets

The Ministry has no contingent assets (2012: \$nil).

Statement of Unappropriated Expenditure for the Year Ended 30 June 2013

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 (2012: \$nil).

There were no breaches of projected departmental net assets schedules (2012: \$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 2013

Actual 2012 \$000		Expenditure including re- measurement 2013 \$000	Re- measurement 2013 \$000	Expenditure excluding re- measurement 2013 \$000	Appropriation ⁶³ 2013 \$000
Vote Environment					
Departmental Output Expenses					
224	Administration of the Emissions Trading Scheme ⁶⁴	—	—	—	—
—	Ministerial Services	2,604	(13)	2,591	2,660
1,698	Waste Minimisation Administration	2,234	(5)	2,229	2,324
1,922	Total Departmental Output Expenses	4,838	(18)	4,820	4,984
Departmental Output Expenses: Multi-class Output Appropriation					
5,102	<i>Environmental Management Obligations and Programmes MCOA</i>	4,170	(8)	4,162	4,227
3,331	Domestic Obligations and Programmes	2,246	9	2,255	2,346
1,771	International Obligations and Institutions Policy Advice	1,924	(17)	1,907	1,881
24,359	<i>Improving Resource Management MCOA</i>	23,925	(86)	23,839	24,958
6,078	Water Management Policy Advice	8,902	(24)	8,878	9,188
1,701	Marine Environment Policy Advice	1,268	(10)	1,258	1,256
7,793	Resource Management Policy Advice	6,253	(28)	6,225	6,764
6,650	Resource Management Implementation	6,121	(19)	6,102	6,402
2,137	Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice	1,381	(5)	1,376	1,348
3,871	<i>Mitigating Environmental Hazards and Waste MCOA</i>	3,699	(2)	3,697	3,963

⁶³ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁶⁴ Previous year's figures are regrouped in Vote Environment upon merging of Votes Climate Change and Environment.

Actual 2012 \$000		Expenditure including re- measurement 2013 \$000	Re- measurement 2013 \$000	Expenditure excluding re- measurement 2013 \$000	Appropriation ⁶³ 2013 \$000
2,293	Environmental Hazards and Waste Policy Advice	1,765	(5)	1,760	1,778
1,578	Waste Management and Minimisation	1,934	3	1,937	2,185
8,586	Climate Change MCOA ⁶⁴	7,871	8	7,879	8,353
5,123	Domestic Climate Change Programme Policy Advice	3,669	17	3,686	3,854
3,463	International Climate Change Programme Policy Advice	3,429	(9)	3,420	3,542
–	Synthetic Greenhouse Gas Levy	773	–	773	957
41,918	Total Departmental Output Expense: Multi- class Output Appropriation	39,665	(106)	39,577	41,501
43,840	Total for Vote Environment Capital Expenditure	44,503	(106)	44,397	46,485
863	Capital Expenditure	529	–	529	675

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 2013 (continued)

Details of multi-year appropriation

On 1 July 2012, the Ministry re-established a multi-year appropriation in Vote Environment upon merging Vote Climate Change and Vote Environment. This appropriation is limited to developing a national carbon accounting system (the Land Use and Carbon Analysis System) that will contribute to meeting New Zealand's greenhouse gas reporting obligations under the Kyoto Protocol and the United Nations Framework Convention on Climate Change (UNFCCC). The appropriation expires on 30 June 2014.

	2013 \$000
Vote Environment	
Land Use and Carbon Analysis System	
Original appropriations	15,843
Adjustments to 2012/13	1,078
Total adjusted appropriations	16,921
Cumulative actual expenditure 1 July	—
Current year actual expenditure	7,889
Cumulative actual expenditure 30 June	7,889
Appropriation remaining 30 June	9,032

The balance of funding was transferred from a previously established multi-year appropriation in Vote Climate Change. The increase of \$1.078 million in 2012/13 represents the unspent amount at June 2012.

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 2013

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 2013. The financial statements were authorised for issue by the Chief Executive of the Ministry on 30 September 2013.

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.

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. These standards have been developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means the Ministry will transition to the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standards 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 2013, 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 2012/13 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 2013, direct costs accounted for 59 per cent of the Ministry's costs (2012: 61 per cent) and indirect costs accounted for 41 per cent of the Ministry's costs (2012: 39 per cent).

Leases

Operating leases

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

Foreign currency

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

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

Cash and cash equivalents

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

Debtors and other receivables

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

Plant and equipment

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

Additions

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

Disposals

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

Depreciation

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

	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 developing 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 2012 \$000	Actual 2013 \$000
1,127 Departmental	1,198
546 Other	236
1,673 Total other revenue	1,434

3. Gains

Actual 2012 \$000	Actual 2013 \$000
1 Net gain on sale of plant and equipment	2
1 Total gains	2

4. Personnel costs

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

Actual 2012 \$000	Actual 2013 \$000
24,471 Salaries and wages	23,922
543 Termination benefits	220
720 Employer contributions to defined contribution plans	693
129 Net employee entitlements	336
45 Other	31
25,908 Total personnel costs	25,202

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the 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 2013 was 8.0 per cent (2012: 8.0 per cent).

6. Finance costs

Actual 2012 \$000	Actual 2013 \$000
24 Discount unwind on provisions (note 13)	26
24 Total finance costs	26

7. Other operating expenses

Actual 2012 \$000		Actual 2013 \$000
178	Audit fees for the financial statement audit	183
2,246	Operating lease payments	2,233
358	Advertising and publicity	266
531	Contributions and sponsorship	538
	<i>External resources:</i>	
2,217	Advisory groups	576
2,550	Services provided by other government agencies	5,372
1,365	Data/imagery	1,779
440	Annual outsourced specialist services	474
4,645	Other professional consulting fees	5,783
1,234	Contracted research	1,410
3,353	General and administration	2,607
3,587	Other operating expenses	4,266
22,704	Total other operating expenses	25,487

8. Debtors and other receivables

Actual 2012 \$000		Actual 2013 \$000
8,131	Debtor Crown	9,869
128	Debtor other	171
–	Less provision for impairment	–
8,259	Net debtors	10,040
198	GST receivable	–
8,457	Total debtors and other receivables	10,040

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

As at 30 June 2013 and 2012, 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	2013 Impairment \$000	Net \$000	Gross \$000	2012 Impairment \$000	Net \$000
Not past due	10,040	–	10,040	8,429	–	8,429
Past due 1 – 30 days	–	–	–	9	–	9
Past due 31 – 60 days	–	–	–	–	–	–
Past due 61 – 90 days	–	–	–	19	–	19
Past due > 91 days	–	–	–	–	–	–
Total	10,040	–	10,040	8,457	–	8,457

9. Plant and equipment

	Furniture and fixtures \$000	Office equipment \$000	Computer hardware \$000	Total \$000
Cost				
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
Balance at 1 July 2012	2,207	303	1,701	4,211
Additions	8	–	235	243
Add: Closing work in progress	–	47	–	47
Less: Opening work in progress	–	–	(33)	(33)
Disposals	–	(34)	(206)	(240)
Balance at 30 June 2013	2,215	316	1,697	4,228
Accumulated depreciation and impairment losses				
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
Balance at 1 July 2012	1,642	207	1,211	3,060
Depreciation expense	252	31	250	533
Eliminate on disposal	–	(34)	(206)	(240)
Balance at 30 June 2013	1,894	204	1,255	3,353
Carrying amounts				
At 1 July 2011	816	106	619	1,541
At 30 June / 1 July 2012	565	96	490	1,151
At 30 June 2013	321	112	442	875

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 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
Balance at 1 July 2012	1,354	25	1,262	1,843	4,484
Additions	106	–	98	–	204
Add: Closing work in progress	52	–	160	–	212
Less: Opening work in progress	(54)	–	(90)	–	(144)
Disposals	(131)	–	–	–	(131)
Balance at 30 June 2013	1,327	25	1,430	1,843	4,625
Accumulated amortisation and impairment losses					
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
Balance at 1 July 2012	950	25	669	1,678	3,322
Amortisation expense	173	–	341	151	665
Disposals	(131)	–	–	–	(131)
Balance at 30 June 2013	992	25	1,010	1,829	3,856
Carrying amounts					
At 1 July 2011	195	–	570	668	1,433
At 30 June / 1 July 2012	404	–	593	165	1,162
At 30 June 2013	335	–	420	14	769

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 2012 \$000	Actual 2013 \$000
250 Creditors	312
2,865 Accrued expenses	3,666
– GST payable	218
3,115 Total creditors and other payables	4,196

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 2012 \$000	Actual 2013 \$000
1 Net surplus	1,217
1 Total return of operating surplus	1,217

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 2012 \$000	Actual 2013 \$000
Current portion	
50 Restructuring	40
50 Total current portion	40
Non-current portion	
397 Restoration costs	423
447 Total provisions	463

	Restoration costs \$000	Restructuring \$000	Total \$000
Balance at 1 July 2011	373	26	399
Additional provisions made	–	543	543
Discount unwind	24	–	24
Amounts used	–	(519)	(519)
Unused amounts reversed	–	–	–
Balance at 30 June 2012	397	50	447
Balance at 1 July 2012	397	50	447
Additional provisions made	–	40	40
Discount unwind	26	–	26
Amounts used	–	(50)	(50)
Unused amounts reversed	–	–	–
Balance at 30 June 2013	423	40	463

Provisions represent:

- the costs from a review of the communications functions within the Ministry. These costs will be paid in 2013/14 (2012: \$50,000)
- 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 2012 \$000	Actual 2013 \$000
Current employee entitlements are represented by:	
613 Salary accruals	640
1,177 Annual leave	1,180
142 Retirement and long service leave	97
1,932 <i>Total current portion</i>	1,917
Non-current employee entitlements are represented by:	
910 Retirement and long service leave	752
2,842 Total employee entitlements	2,669

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 2013. The rates used range from 2.71 per cent to 5.50 per cent depending on the term of the liability for each employee (2012: 2.43 per cent to 6.00 per cent)
- a long-term annual salary growth rate of 3.5 per cent (2012: 3.5 per cent).

15. Equity

Actual 2012 \$000	Actual 2013 \$000
Taxpayers' funds	
5,992 Balance at 1 July	5,992
1 Total comprehensive income	1,217
(1) Return of operating surplus to the Crown	(1,217)
5,992 Balance at 30 June	5,992

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

Actual 2012 \$000	Actual 2013 \$000
1 Net surplus	1,217
Add/(less) non-cash items:	
24 Restoration costs	26
1,522 Depreciation and amortisation expense	1,198
1,546 <i>Total non-cash items</i>	2,441
Add/(less) items classified as investing or financing activities:	
(1) Net (gains)/losses on disposal of property, plant and equipment, and intangibles	(2)

Actual 2012 \$000	Actual 2013 \$000
Add/(less) movements in deferrals and accruals:	
(1,359) (Increase)/decrease in debtors and other receivables	(1,583)
80 (Increase)/decrease in pre-payments	21
(2,242) Increase/(decrease) in creditors and other payables ⁶⁵	1,111
24 Increase/(decrease) in provisions	(10)
(104) Increase/(decrease) in employee entitlements	(173)
(3,602) <i>Total net movement in working capital items</i>	636
(2,055) Net cash flow from operating activities	1,805

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 \$51.000 million (2012: \$49.180 million) to provide services for the year ended 30 June 2013. This includes Debtor Crown funding of \$8.696 million (2012: \$8.131 million), yet to be received in cash from the Crown.

No revenue (2012: \$1.130 million) was received from other departments for the reimbursement of the contribution to the State Sector Retirement Savings Scheme, KiwiSaver, and other services for the year ended 30 June 2013. 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 \$5.802 million (2012: \$4.103 million) for the year ended 30 June 2013.

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 Goods and Services Tax, Fringe Benefit Tax 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 2013 totalled \$845,000 (2012: \$829,000). These purchases included the purchase of air travel from Air New Zealand, and postal services from New Zealand Post.

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

⁶⁵ Creditors and accruals for capital expenditure are excluded when calculating this increase or decrease.

Key management personnel compensation

Actual 2012 \$000	Actual 2013 \$000
1,353 Salaries and other short-term employee benefits	1,303
17 Post-employment benefits	13
1,370 Total key management personnel compensation	1,316

Key management personnel include the Chief Executive and the Ministry's four members of the Environment Leadership Team as at 30 June. (2012: The Chief Executive and the Ministry's four 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 2012 \$000	Actual 2013 \$000
Loans and receivables	
1,291 Cash and cash equivalents	2,538
8,457 Debtors and other receivables	10,040
9,748 <i>Total loans and receivables</i>	12,578
Financial liabilities measured at amortised cost	
3,115 Creditors and other payables	4,196

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 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
2012						
Creditors and other payables (note 11)	3,115	3,115	3,115	–	–	–
2013						
Creditors and other payables (note 11)	4,196	4,196	4,196	–	–	–

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 2012/13 Main Estimates are as follows. These include amounts from continuing and discontinuing activities.

(i) Statement of comprehensive income

	Actual 2013 \$000	Main estimates 2013 \$000	Variance \$000
Crown revenue	52,173	52,830	657
Other revenue	1,434	5	(1,429)
General and administration	2,698	4,523	(1,825)

Actual Crown revenue and general and administration expenses were lower than budget due to:

- delays in the independent audit of the Auckland Council's Section 32 evaluation of the Auckland Unitary Plan which is now expected to be completed in October 2013
- delays in preparing guidance on the changes to Section 32 of the Resource Management Act due to protracted contract negotiations
- the transfer of a number of Treaty settlement functions, including oversight of implementing relationship accords between the Government and iwi, to Te Puni Kōkiri – the Ministry for Māori Development
- the completion of the Emissions Trading Scheme Review at a lower cost than anticipated
- timing differences in the recognition of expenses for implementing the Synthetic Greenhouse Gas Levy

This was partially offset by increased costs associated with Resource Management Act statutory functions and additional costs for the TV TakeBack Programme.

Other Revenue was higher than budget due to revenue received from other departments that contributed towards the economic impact studies undertaken as part of the Ministry's water reform work programme. These studies will be used by central government, councils and communities to better understand the potential impacts of different freshwater management decisions.

(ii) Statement of financial position

	Actual 2013 \$000	Main estimates 2013 \$000	Variance \$000
Bank	2,538	4,457	(1,919)
Debtors and other receivables	10,040	7,550	2,490

The amount of cash held was lower than budget due to a higher level of debtors and other receivables at 30 June 2013. The higher level of debtors and other receivables relate to amounts receivable from the Crown.

(iii) Statement of cash flows

	Actual 2013 \$000	Main estimates 2013 \$000	Variance \$000
Receipts from Crown	50,435	52,433	(1,998)
Receipts from other revenue	1,391	5	1,386

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

22. Discontinued activities

The Ministry has no discontinued activities (2012: Activities relating to the Administration of Emissions Trading Scheme were transferred to the Environmental Protection Authority, which had a Crown revenue \$214,642; Other revenue \$9,325; and expenditure \$223,967).

6 Non-Departmental Statements and Schedules for the Year Ended 30 June 2013

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 2013

Actual 2012 \$000		Actual 2013 \$000	Appropriation 2013 \$000 ⁶⁶
Vote Environment			
Non-Departmental output expenses			
128	Administration of New Zealand Units held on Trust ⁶⁷	160	177
1,340	Community Environment Fund	2,304	2,992
2,031	Contaminated Sites Remediation Fund	103	320
9,975	Contestable Waste Minimisation Fund	8,569	12,562
3,447	Emissions Trading Scheme ⁵	7,937	7,937
–	Environmental Training Programmes	1,900	1,900
1,430	Fresh Start for Fresh Water: New Initiatives	4,054	4,970
4,100	Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme	8,200	8,200
800	Promotion of Sustainable Land Management	800	800
316	Sustainable Management Fund	–	–
23,567	Total non-departmental output expenses	34,027	39,858
Non-Departmental output expenses – Multi-class output appropriation			
Environmental Protection Authority: Regulatory functions			
3,006	Compliance and Enforcement	2,563	2,563
5,944	Decision Making	7,291	7,291
4,550	Supporting Environmental Management	4,346	4,346
13,500	Total non-departmental output expenses – Multi-class output appropriation	14,200	14,200
Non-Departmental other expenses			
334,248	Allocation of New Zealand Units ⁵	54,823	327,980
300	Climate Change Development Fund ⁵	296	300

⁶⁶ This includes adjustments made in the Supplementary Estimates under the Public Finance Act 1989.

⁶⁷ Previous year's figures are regrouped in Vote Environment upon merging of Votes Climate Change and Environment.

Actual 2012 \$000		Actual 2013 \$000	Appropriation 2013 \$000 ⁶⁶
769	Environmental Legal Assistance	464	800
2,000	Environmental Protection Authority establishment costs	–	–
116	Framework Convention on Climate Change ⁵	103	127
10,010	Fresh Start for Fresh Water: Waikato River Clean-up Fund	4,745	4,745
–	– Hawke's Bay Rivers Clean-up Fund	–	2,000
4,146	Impairment of Debt Relating to the New Zealand Emissions Trading Scheme ⁵	522	15,000
–	– Impairment of Debt Relating to the Waste Disposal Levy collection	–	1,500
102	International subscriptions	113	117
2,355	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants ⁵	336	16,800
–	– Provision for a new water source for Rotorua	–	1,075
–	– Purchase of Units under the New Zealand Emissions Trading Scheme ⁵	–	6,000
100	Transitional support for local government and iwi	–	825
278	United Nations Environment Programme	323	393
910	Waikato River Co-governance	910	910
2,632	Waikato River Co-management	9,787	9,787
12,194	Waste Disposal Levy disbursement to territorial authorities	12,910	13,000
370,160	Total non-departmental other expenses	85,332	401,359
	Non-Departmental capital expenditure		
9,594	Capital contribution to the Environmental Protection Authority	–	–
969	Purchase of PRE Units ⁵	12	1,252
10,563	Total non-departmental capital expenditure	12	1,252
417,790	Total for Vote Environment	133,571	456,669

Remeasurements

In addition, to the above expenditure, the Crown has incurred costs of \$132 million (2012: \$177 million) in relation to the remeasurement in the provision for the Crown's position under the Kyoto Protocol.

The remeasurement of the provisions takes 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 2013.

Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2013 (continued)

Details of multi-year appropriations

On 22 September 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 2013 \$000	Actual 2012 \$000	Actual 2011 \$000
Vote Environment			
Protecting Lake Taupo Programme			
Original appropriation	10,668	10,668	10,668
Cumulative adjustments	–	–	–
Total adjusted appropriation	10,668	10,668	10,668
Cumulative actual expenditure 1 July	4,829	–	–
Current year actual expenditure	3,688	4,829	–
Cumulative actual expenditure 30 June	8,517	4,829	–
Appropriation remaining 30 June	2,151	5,839	10,668

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 2012 \$000	Actual 2013 \$000
Vote Environment		
Tui Mine Remediation		
15,200 Original appropriation		15,200
– Cumulative adjustments		–
15,200 Total adjusted appropriation		15,200
– Cumulative actual expenditure 1 July		10,000
10,000 Current year actual expenditure		4,850
10,000 Cumulative actual expenditure 30 June		14,850
5,200 Appropriation remaining 30 June		350

Further details for the 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 2013.

On 7 March 2012, a multi-year appropriation, Rena Long-term Environment Recovery, was established in Vote Environment, Non-Departmental output expenses for implementing the Rena Long-term Environmental Recovery Plan. This appropriation expires on 30 June 2015.

Actual 2012 \$000	Actual 2013 \$000
Vote Environment	
Rena Long-term Environment Recovery	
2,872 Original appropriation	2,872
– Adjustments for 2012/13	(995)
2,872 Total adjusted appropriation	1,877
– Cumulative actual expenditure 1 July	–
– Current year actual expenditure	1,877
– Cumulative actual expenditure 30 June	1,877
2,872 Appropriation remaining 30 June	–

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 2012 \$000	Actual 2013 \$000
1,807 Indemnity payments	1,102
1,807 Total for indemnity payments	1,102

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 2013.

Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure for the Year Ended 30 June 2013

There has been no unappropriated expenditure for the year ended 30 June 2013 (2012: Vote Environment \$nil and Vote Climate Change \$nil).

Schedule of Non-Departmental Income for the Year Ended 30 June 2013

Actual 2012 \$000		Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Income					
701	Royalties		577	400	500
26,189	Levies		24,020	26,000	26,000
136,489	Emissions trading		40,474	311,362	5,072
4,178	Emissions Trading Scheme penalty revenue		583	–	45
–	Grants refund		639		–
20,287	Change in estimate of Kyoto units held		–	–	–
507,247	Net changes in carbon price of New Zealand Units including foreign exchange movements	6	235,399	–	377,415
695,091	Total non-departmental income		301,692	337,762	409,032

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

Schedule of Non-Departmental Capital Receipts for the Year Ended 30 June 2013

The Ministry on behalf of the Crown has no capital receipts (2012: \$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 2013.

Schedule of Non-Departmental Expenses for the Year Ended 30 June 2013

Actual 2012 \$000	Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementar y estimates 2013 \$000
Expenditure				
48,442	Grants and settlements	51,342	78,343	61,884
800	Promotions	800	800	800
796	Subscriptions and contributions to international forums	835	937	937
18,947	Crown entity funding	22,137	20,992	22,137
–	Change in estimate of Kyoto units held	40,845	–	33,219
177,062	Net changes in carbon price of Kyoto units including foreign exchange movements	132,367	–	165,835
12,194	Levy disbursement	12,910	13,000	13,000
334,248	Allocations of New Zealand Units	54,823	558,150	327,980
2,355	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants	336	11,750	16,800
10,863	GST input expense	11,652	17,191	12,670
6,081	Other	1,784	15,177	23,677
611,788	Total non-departmental expenditure	329,831	716,340	678,939

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 2013.

Schedule of Non-Departmental Assets as at 30 June 2013

Actual 2012 \$000		Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Assets					
Current assets					
6,481	Cash and cash equivalents		2,755	4,365	2,567
8,366	Debtors and other receivables	2	7,044	6,809	6,809
14,847	<i>Total current assets</i>		9,799	11,174	9,376
Non-current assets					
201,812	Kyoto Protocol	5	52,616	189,454	2,711
1,586	PRE units		1,598	3,100	2,838
203,398	<i>Total non-current assets</i>		54,214	192,554	5,549
218,245	Total non-departmental assets		64,013	203,728	14,925

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 2013

Actual 2012 \$000		Notes	Actual 2013 \$000	Main estimates 2013 \$000	Supplementary estimates 2013 \$000
Liabilities					
Current liabilities					
33,231	Creditors and other payables	3	28,466	21,500	30,198
376,403	Provisions	6	179,204	814,860	1,913
409,634	<i>Total current liabilities</i>		207,670	836,360	32,111
Non-current liabilities					
141,181	Creditors and other payables	3	133,433	131,998	133,432
141,181	<i>Total non-current liabilities</i>		133,433	131,998	133,432
550,815	Total non-departmental liabilities		341,103	968,358	165,543

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 2013.

Schedule of Non-Departmental Contingencies as at 30 June 2013

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 42.6 million (2012: 61.3 million) forestry credits. During the first commitment period, the Ministry for Primary Industries estimated that 91.5 million tonnes of credits will be generated by carbon removals through forests (2012: 92.2 million tonnes). Of this amount, 48.9 million tonnes (2012: 30.9 million tonnes) has been allocated to foresters through the Emissions Trading Scheme as at 30 June 2013. 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 for future commitment periods has been reported as a separate contingent liability. Using the carbon price as at 30 June 2013, this contingent liability can be measured at NZ\$35 million (ie, 42.6 million x NZ\$0.82) (2012: \$349 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 2013.

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.

Those landowners who have not yet registered their post-1989 forest land or who have deregistered from the scheme have until the end of 2017 (the second five year period beginning 1 January 2013 to

31 December 2017) to decide whether to re-register and receive NZUs for the period beginning from 1 January 2013. If they do, they can claim NZUs for all the carbon stored in their forest from 1 January 2013 subject to review and approval of their applications.

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 2013.

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 pay cash at a rate of \$25 per NZU for emissions resulting from deforestation.

At 30 June 2013, there may be some deforestation which has not yet been reported to the Crown. (30 June 2012: Nil)

The Ministry on behalf of the Crown has no other contingent liability or assets (2012: 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 2013.

Notes to the Non-Departmental Financial Statements

1. Statement of accounting policies for the year ended 30 June 2013

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 operations 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 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 for registered participants in the scheme at each reporting date) or as the emissions compensated by the industrial allocation occur.

The methodology used to approximate the price at the date of each transaction is the lower of the average NZU spot price and the spot price at the end of each month.

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 better 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.

The asset is remeasured using the current spot price of the secondary certified emissions reduction at each reporting date.

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 for the allocation of NZUs is remeasured using the current carbon price 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 provide 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 lower of the remaining contractual commitment and 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 2012 \$000		Actual 2013 \$000
12,512	Debtors and other receivables	7,566
(4,146)	Less provision for impairment	(522)
8,366	Total debtors and other receivables	7,044

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

As at 30 June 2013 and 2012, all debtors and other receivables have been assessed for impairment. The Ministry has identified one debtor as impaired \$522,000 (2012: \$4.146 million).

	Gross \$000	2013 Impairment \$000	Net \$000	Gross \$000	2012 Impairment \$000	Net \$000
Not past due	7,072	(28)	7,044	8,463	(97)	8,366
Past due 1 – 90 days	83	(83)	–	88	(88)	–
Past due 90 – 180 days	83	(83)	–	–	–	–
Past due 180 – 360 days	166	(166)	–	3,961	(3,961)	–
Past due > 360 days	162	(162)	–	–	–	–
Total	7,566	(522)	7,044	12,512	(4,146)	8,366

3. Creditors and other payables

Actual 2012 \$000		Actual 2013 \$000
Current creditors and other payables are represented by:		
5,762	Waikato River Co-management	5,742
8,321	Waikato River Clean-up Fund	7,289
340	GST payable	359
18,808	Other payables	15,076
33,231	<i>Total current portion</i>	28,466
Non-current creditors and other payables are represented by:		
52,013	Waikato River Co-management	46,820
89,168	Waikato River Clean-up Fund	86,613
141,181	<i>Total non-current portion</i>	133,433
174,412	Total creditors and other payables	161,899

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
	2013–2015 \$000	2016–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	2036–2040 \$000	
Co-management							
Nominal	11,000	25,000	25,000	23,000	–	–	84,000
Discount	(778)	(6,205)	(11,077)	(13,378)	–	–	(31,438)
Recognised	10,222	18,795	13,923	9,622	–	–	52,562
Clean-up							
Nominal	14,999	36,665	36,665	36,665	36,665	22,008	183,667
Discount	(1,134)	(9,078)	(16,231)	(21,432)	(25,282)	(16,608)	(89,765)
Recognised	13,865	27,587	20,434	15,233	11,383	5,400	93,902

In May 2013, following a request from Waikato-Tainui, the Crown agreed to provide an upfront payment of \$10 million of their \$30 million co-management funding. The funding was originally intended to be paid to them in annual \$1 million instalments. (In the previous year, the Crown provided additional funding of \$10 million to the Waikato River Clean-up Fund administered by the Waikato River Authority for the clean-up of the Upper Waipa River.)

The table above reconciles the cash outflows that will occur over the next 25 years.

4. Financial instruments

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

Actual 2012 \$000		Actual 2013 \$000
Loans and receivables		
6,481	Cash and cash equivalents	2,755
8,366	Debtors and other receivables	7,044
14,847	Total loans and receivables	9,799
Financial liabilities measured at amortised cost		
174,412	Creditors and other payables	161,899

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 2012 \$million	Analysis of the Kyoto Protocol obligation	Actual 2013 \$million
291	Opening position (provision)	202
(177)	Change in the price of carbon	(132)
18	Change in net projected emission units	(41)
70	Kyoto compliant units surrendered under NZ ETS	24
202	Closing position (provision)	53
Emission units⁶⁸		Emission units⁶⁹
309.6	Kyoto Target (Assigned Amount Units)	309.6
4.5	Less AAUs allocated to emission reducing projects	4.5
305.1	Total commitment target	305.1

⁶⁸ One emission unit is equivalent to one tonne of greenhouse gas emissions converted to carbon dioxide equivalents by the global warming potential.

⁶⁹ See footnote 68 for an explanation of what an emission unit is equivalent to.

Actual 2012 \$million	Analysis of the Kyoto Protocol obligation	Actual 2013 \$million
Projected emission units		
170.5	Agriculture	170.2
184.9	Energy (including transport) and industrial processes	183.1
10.0	Waste	10.1
0.2	Solvent and other product use	0.1
365.6	Total projected emission units	363.5
92.2	Removals via forests	91.5
(6.4)	Deforestation emissions	(14.3)
85.8	Net removals via forests	77.2
279.8	Net projected emission units	286.3
2.2	Less net transfers of AAUs	3.1
12.3	Add Kyoto compliant units surrendered under NZ ETS	48.3
35.4	Surplus units	64.0

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008–2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests. New Zealand's Kyoto Protocol compliance over the first commitment period will not be finalised until 2015 when the annual submission covering the period 2008 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 as New Zealand Government has no specific fiscal obligation beyond the first commitment period.

New Zealand's net Kyoto position as at 30 June 2013 of NZ\$53 million (2012: NZ\$202 million) is based on the projected surplus of 64.0 million (2012: 35.4 million) Kyoto Protocol emission units. This surplus includes 36 million (2012: 12.3 million) Kyoto compliant units surrendered by the emitters under the New Zealand Emissions Trading Scheme. The carbon price of €0.49 per unit has been used. The carbon price in New Zealand dollars equates to NZ\$0.82 (2012: NZ\$5.70), using the 30 June 2013 exchange rate of €0.59630 = NZ\$1 (30 June 2012: €0.63185 = NZ\$1, and a carbon price of €3.60 per unit).

The carbon price has been determined by the Ministry for the Environment based on the spot secondary certified emission reduction (sCER) unit price published by Point Carbon.

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 Business, Innovation, and Employment, 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: 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 2013.

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.

No liability for periods beyond 2012 has been recognised, as New Zealand currently has no specific fiscal obligations beyond the first commitment period.

On 16 August 2013, the Government announced its target to reduce greenhouse gas emission to five per cent below 1990 levels by 2020. This does not give rise to an obligation under NZ IAS 37: Provisions, Contingent Liabilities, and Contingent Assets.

6. Provisions

Actual 2012 \$000	Actual 2013 \$000
Current portion	
1,019 Indemnity payments	517
375,384 Allocation of New Zealand Units	178,687
376,403 Total provisions	179,204

The total provisions are all considered to be current as at 30 June 2013.

	Indemnity \$000	Allocation of New Zealand Units \$000	Total \$000
Balance at 1 July 2011	535	612,056	612,591
Additional provisions made	1,807	334,247	336,054
Amounts used	(1,323)	(63,671)	(64,994)
(Gains)/losses	–	(507,248)	(507,248)
Unused amounts reversed	–	–	–
Balance at 30 June 2012	1,019	375,384	376,403
Balance at 1 July 2012	1,019	375,384	376,403
Additional provisions made	1,102	54,823	55,925
Amounts used	(1,604)	(16,121)	(17,725)
(Gains)/losses	–	(235,399)	(235,399)
Unused amounts reversed	–	–	–
Balance at 30 June 2013	517	178,687	179,204

Provision for NZ ETS credits

	30 June 2013 Units in million	30 June 2013 Amount in \$million	30 June 2012 Units in million	30 June 2012 Amount in \$million
Opening provision	65.5	375	30.2	612
New provision recognised during the period	38.9	55	39.8	334
Provision used during the period	(41.1)	(40)	(16.8)	(134)
Gains and losses	–	(235)	–	(507)
Transfer of units to Kyoto provision	36.0	24	12.3	70
Closing provision	99.3	179	65.5	375

Indemnity payments relate to the Projects to Reduce Emissions (PRE) and this is authorised under section 65ZG of the Public Finance Act 1989. In 2002, the PRE programme was established where incentives (assigned amount units) were provided to projects that would reduce New Zealand's emissions over 2008–2012 that would not occur without the incentive. The Crown entered into PRE agreements with Meridian Energy Limited and TrustPower Limited in 2002 in advance of the PRE programme becoming operational. These early project agreements contain a provision that indemnifies Meridian and TrustPower against taxation incurred on the delivery of assigned amount units.

The New Zealand Emissions Trading Scheme (NZ ETS) was established to encourage a reduction in greenhouse gas emissions. The NZ ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely or sell to entities. The allocation of NZ Units creates a provision. An expense is recognised in relation to the allocation of free units. The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use 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 NZ\$1.80 (2012: €3.62 equivalent to NZ\$5.73) has been used to value NZUs. This price is determined based on the lower of the current quoted NZU spot price and the monthly average NZU spot price as published by Point Carbon. For the prior year period, the monthly average price for secondary certified emissions reduction 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 New Zealand Units (NZUs) and international units has continued to increase. The price of NZUs is \$3.03 and international units is \$0.98 per unit based on the August monthly prices. At these prices, the ETS provision is valued at \$301 million and the Net position is valued at \$63 million.

8. Memorandum account for the Waste Minimisation Fund

Actual 2012 \$000	Actual 2013 \$000
Provision for statutory information	
17,529 Balance at 1 July	19,851
26,189 Revenue from waste levy collection	24,020
(23,867) Expenses	(23,713)
19,851 Balance at 30 June	20,158

The memorandum account records the Waste Disposal Levy collected which has not been spent to date. As at 30 June 2013, the Fund has \$14.2 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 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 2013 \$000	Main estimates 2013 \$000	Variance \$000
Emissions trading	37,414	311,362	273,948
Net changes in carbon price of NZUs including foreign exchange movements	235,399	–	(235,399)

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 Main Estimates amount is calculated at NZ\$25 per carbon unit and the actuals are based on the monthly average price of carbon unit at the time revenue is recognised.

The variance between the Main Estimates and the actual expense for net changes in carbon price of NZUs including foreign exchange movements relates to the decrease in the carbon price and increase in EURO/NZ exchange rate. These changes are considered to be a remeasurement under the Public Finance Act 1989 and do not require appropriation.

There were no other significant variances to budget.

(ii) Schedule of non-departmental expenses

	Actual 2013 \$000	Main estimates 2013 \$000	Variance \$000
Grants and settlements	51,342	78,343	(27,001)
Change in estimate of Kyoto units held	40,845	–	40,845
Net changes in carbon price of Kyoto units including foreign exchange movements	132,367	–	132,367
Allocations of New Zealand Units	54,823	558,150	(503,327)
Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative Participants	336	11,750	(11,414)

Expenditure on grants and settlements was lower than budget due to the following.

- Delays in the Rotorua Lakes Restoration programme resulting in a milestone that will not be reached until 2013/14.
- Appropriation levels for the Community Environment Fund and Contaminated Sites Remediation Fund are initially set at the annual funding round limit. Timing of deliverables, project milestones, and therefore funding from the Crown are unknown at the time of Main Estimates. The funds are subsequently rephased during baseline updates to match the delivery of projects and updated for actual delivery of milestones.
- Less spent on the Fresh Start for Fresh Water: New Initiatives Programme. Funding of \$15m was originally appropriated for two financial years from 2011 to 2013. However, the establishment period has taken longer than anticipated resulting in timeframes for the projects being extended.

- Timing differences between the introduction of the Waste Disposal Levy and the establishment of the Contestable Waste Minimisation Fund. A forecast change is completed during baseline updates to match the expected spend over the forecast period.

This was partially offset by increased expenditure incurred for the Waikato Co-management appropriation. This increase is due to changes in the unwinding of the discount amounts following a request from Waikato-Tainui for the additional upfront payment of \$10 million of their \$30 million co-management funding. The funding was originally intended to be paid to them in annual \$1m instalments.

The variance between the Main Estimates and the actual expense 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 a remeasurement under the Public Finance Act 1989 and do not require appropriation.

At the finalisation of the Main Estimates, the NZ ETS provision is based on information at April 2012. Due to uncertainty, no forecast of changes in the provision was made.

The variance between the Main Estimates and the actual expense for net changes in carbon price of Kyoto units including foreign exchange movements 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 expenses for both Allocation of New Zealand Units and Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative Participants were lower than budget primarily due to:

- a decrease in the carbon price and increase in EURO/NZ exchange rate. The Main estimates amount is calculated at NZ\$25 per carbon unit and the actuals are based on the monthly average price of carbon unit at the time expense is recognised
- a lower uptake rate than expected by the Permanent Forest Sink Initiative Participants.

(ii) Statement of assets

	Actual 2013 \$000	Main estimates 2013 \$000	Variance \$000
Kyoto Protocol units	52,616	189,454	(136,838)

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 2013 \$000	Main estimates 2013 \$000	Variance \$000
Provisions	179,204	814,860	635,656

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 primarily due to:

- 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. This was partially offset by the transfer of international units and NZ Assigned Amount Units surrendered under the New Zealand Emissions Trading Scheme.

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 2013.

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

Paul Reynolds
Chief Executive
30 September 2013

Countersigned by:

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

Glenn Phillips
Chief Financial Officer
30 September 2013

Independent Auditor's Report

**To the readers of
the Ministry for the Environment's
financial statements, non-financial performance information
and schedules of non-departmental activities
for the year ended 30 June 2013**

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

We have audited:

- the financial statements of the Ministry on pages 86 to 112, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, 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 11 to 75 and the report about impacts on pages 6 to 10; and
- the schedules of non-departmental activities of the Ministry on pages 113 to 133 that comprise the schedule of assets, schedule of liabilities, schedule of contingent liabilities and contingent assets as at 30 June 2013, 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 86 to 112:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Ministry's:

- financial position as at 30 June 2013;
 - 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 2013; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2013.
- the non-financial performance information of the Ministry on pages 11 to 75 and 6 to 10:
 - 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 2013, 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 113 to 133 fairly reflect, in accordance with the Treasury Instructions:
 - the assets, liabilities, contingencies and commitments as at 30 June 2013 managed by the Ministry on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Ministry on behalf of the Crown.

Our audit was completed on 30 September 2013. 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, in our judgement, are likely to influence readers' 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. Also we did not evaluate the security and controls over the electronic publication 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, that fairly reflect those activities managed by the Ministry on behalf of the Crown.

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

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 External Reporting Board.

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

A handwritten signature in grey ink, appearing to read 'Robert Cox'.

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

Appendix A: Advisory Bodies 2012/13

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 2012 to 30 June 2013	8

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 2012 to 30 June 2013	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 third and final report, covering managing water quality and allocating water, was provided to Ministers in October 2012. While the advice sought from the Forum by the Government has now been delivered in full, the Forum has continued to meet occasionally in 2013 to discuss the Government's reform package (particularly the <i>Freshwater reform 2013 and beyond</i> paper), which builds on the Forum's reports.
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 2012 to 30 June 2013	Plenary: 3 meetings Small group: 9 meetings over 15 days

Environmental Grants Selection Panel

Purpose	The purpose of the Environmental Grants Selection Panel is to: • 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 Government's 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 2012 to 30 June 2013	3

Appendix B: Organisational Chart

Below is brief overview of the services we perform, followed by the Ministry's organisational chart, as at 30 June 2013.

Policy Division	The Policy Division focuses on strategic policy issues and strengthening policy relationships across economic and social policy networks, as well as making connections across different sectors. The Policy Division works to achieve economic, social and environmental benefits as a result of effective and integrated environmental management.
Sector Strategy Division	The Sector Strategy Division monitors and evaluates environmental outcomes, the effectiveness of the Ministry's interventions, and the performance of external resource management institutions. This information provides the evidence base for the Ministry's policy advice and strategic direction.
Kaahui Taiao/Treaty Relationship and Negotiations	Kaahui Taiao provides strategic advice on Māori and Treaty of Waitangi issues for environmental and resource management policies and claims to the Waitangi Tribunal involving natural resources. The role of Kaahui Taiao is to help teams understand the principles for engagement and how these can be applied to policy development, negotiations and implementation.
Organisational Performance Division	The Organisational Performance Division focuses on internal and external organisational performance functions.

