



REPORT OF THE MINISTRY FOR THE ENVIRONMENT FOR THE YEAR ENDED 30 JUNE 2014



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1 Overview of the 2013/14 Year

Introduction from the Chief Executive

If we are going to get the best outcomes for the environmental management system we need to understand and provide for the complexity of values. This includes managing the tension between economic, social, environmental and cultural values, and ensuring that all those with an interest in a resource are effectively involved and have confidence in the decisions being taken.

This approach has been at the heart of our work over the past year and has seen us make good progress on issues like water, environmental reporting and product stewardship.

A key achievement has been the development of the Natural Resources Framework, in partnership with the Natural Resources Sector. The framework will help the Sector better understand and frame issues in a broad stewardship context. It will support us to consider all of the different options and perspectives and to find the best possible solutions. This will set us up to be able to advise any government of the day – now and into the future – of the opportunities to achieve stewardship, and the risks if we don't.

The cross-agency Water Directorate continues to be a leader in collaborative working and has delivered significant progress on reforms of how New Zealand manages our freshwater resources. This effort culminated in the July announcement of the revised National Policy Statement for Freshwater Management and the National Objectives Framework that will set bottom lines for water quality.

Good information on the state of our environment is important to New Zealand's long term success. It allows us to fully understand natural occurrences, the impact that human activities are having and where we need to make improvements. The introduction of the Environmental Reporting Bill into Parliament in March is an important step in improving the evidence base, providing comprehensive information on five key environmental domains – air, climate and atmosphere, freshwater, marine and land, with biodiversity as a theme across all the domains. We are waiting for the report back from the Select Committee who have a number of submissions to consider. In the meantime our environmental reporting work continues with the Air Domain report released in May.

We continue to invest in making our business more effective. We have worked hard to ensure our processes and policies support best practice and it was gratifying to receive endorsement this year from Office of the Auditor General, who again graded two key elements of our audit results as 'very good'. We have also made changes to our IT systems investing in a shared service with Land Information New Zealand that will see significant improvements in the Ministry's IT infrastructure and support capability.

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

Whakatakanga: Tiakina te taiao kia tōnui a Aotearoa

The environment supports New Zealand's economy through our use of natural resources. At the same time, the health of the environment is affected by the way every New Zealander behaves.

The Ministry for the Environment, established under the Environment Act 1986, is the Government's primary adviser on the New Zealand environment and international matters that affect the environment.

Our role includes advising the Government on the institutions, laws, regulations, policies and economic incentives that set the framework for environment management. Currently, these laws, regulations and policies are primarily implemented and enforced mainly through others, especially the Environmental Protection Authority (EPA) and local government. We are now placing greater emphasis on understanding and driving good outcomes from the environmental management system. As a result, we are positioning ourselves at the centre of this system with a much stronger partnership approach to all the stakeholders within it.

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

Fresh water and other natural resources are important for New Zealand's economic development and prosperity. Environmental policy and management, therefore, must connect with economic policy. We work with other government natural resources agencies to give integrated advice on how resources can be used efficiently within sustainable limits. We also monitor 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 our work programmes include administration of legislation. We are 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 highlights for 2013/14

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.

Building on progress made to date the Government announced the next stage of freshwater reforms in July 2013. The key elements included:

- strengthening national direction through amendments to the National Policy Statement on Freshwater Management to introduce a National Objectives Framework and better water accounting
- improving scientific and economic information to support community discussions on fresh water
- improving the quality of decision-making through collaborative planning.

The total freshwater reform package is an integrated set of institutional changes and tools. Delivering the components will require a combined effort, with central government providing direction and support for councils. Iwi/Māori, stakeholders and communities will all need to play their part to get high quality freshwater management plans in place across the country by 2025.

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.

In 2013/14, the Resource Management Amendment Act 2013 was enacted. This Act put in place the Government's second phase of its multi-phase reform programme. It provides a streamlined process for the delivery of Auckland's first unitary plan; improved the information base for local decision-making; made improvements to the resource consent regime; and improved the workability of the Resource Management Act 1991 (RMA) through minor and technical amendments.

The Government have announced the next phase of reforms which will make further improvements to the RMA, and resource management more broadly, including how freshwater is managed and used and the development of a new national planning template. The introduction of the 2014 Resource Management Reform Bill has been deferred until after the general election in September 2014.

Reclassifying exploratory drilling activities in the Exclusive Economic Zone

At about 20 times the size of our land mass, New Zealand's Exclusive Economic Zone (EEZ) is one of the largest in the world. As well as supporting highly diverse marine ecosystems, it 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 telecommunications and shipping.

Exploratory drilling within the EEZ to identify oil or gas deposits under the seafloor has the potential for generating significant economic benefits for New Zealand. However, unchecked, it also has the potential

for causing environmental harm in the areas that it occurs. On 28 February 2014, regulations classifying exploratory drilling activities as non-notified discretionary activities came into effect. This classification means that operators would need to obtain a marine consent from the Environmental Protection Authority (EPA) before commencing operations. The EPA will fully assess the effects of the activity on the environment and existing interests; and impose such conditions as it thinks necessary to properly manage any adverse effects of the activity.

The non-notified discretionary classification is the pragmatic option for exploratory drilling, and will provide a level of regulation proportionate to its effects.

New legislative framework for robust environmental reporting

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 2013/14 environmental reporting work programme has been to ensure future environmental reporting is robust, balanced and credible.

The introduction of the Environmental Reporting Bill in February 2014 brings us into line with other OECD countries where independent reporting on the state of the environment reporting is legislated. It mandates the provision of comprehensive environmental information for New Zealanders in a way that is easy to understand, independent and relevant. It also provides the Parliamentary Commissioner for the Environment a crucial role in assuring the public of the performance of the environmental management system as a whole, including the quality and balance of environmental reporting.

Mandated reporting must be supported by high quality, consistent and representative data. We have been collaborating with local government on an Environmental Monitoring and Reporting initiative to develop integrated regional and national environmental data collection networks. We have also been working with regional councils to develop National Environmental Monitoring Standards to ensure that data is being collected consistently to enable comparisons over time and space. The Minister for the Environment has also allocated \$1 million from the Community Environment Fund to improve the representativeness of the freshwater quality monitoring network. This funding will be used to establish 80 new river monitoring sites to fill data gaps.

Designing a post 2020 climate change agreement

New Zealand needs an effective international climate change agreement in order to avoid the worst effects of climate change and protect our natural resource-based economy.

Parties to the United Nations Framework Convention on Climate Change (UNFCCC) are aiming to conclude a new global climate agreement in Paris in December 2015, to apply from 2020.

During 2013/14 we, as part of a cross-agency delegation, continued to negotiate to advance New Zealand's interests in a new agreement. We attended the UNFCCC conference in Warsaw, Poland, in November 2013 and co-hosted (with the Ministry of Foreign Affairs and Trade) an international informal dialogue on the new agreement in September 2013. Our particular focus has been on designing an agreement that the major emitting countries could sign up to, and ensuring an environmentally robust international carbon market.

We are also leading a work programme to formulate New Zealand's 'intended nationally determined contribution' for the new agreement, to table in 2015 and to apply from 2020.

Managing and minimising waste

Since the passing of the Waste Minimisation 2008, the Government has encouraged industry to take the opportunity to develop robust and effective product stewardship schemes for their products. So far, 12 voluntary product stewardship schemes have been accredited by the Government and nearly 34,000 tonnes of waste diverted from landfill for recycling or safe destruction.

While these are excellent results, more needs to be done to manage harmful waste and protect the environment. The Government is now considering mandatory approaches for selected priority waste streams. From May 2014 to July 2014, the public were consulted on whether the Government should intervene on four product waste streams; and whether the four product waste streams were indeed priorities or whether there are other products the Government should be considering instead. The Government is now considering this feedback as well as options recommended by industry working groups.

Review of the effectiveness of the Waste Disposal Levy

A review of the effectiveness of the Waste Disposal Levy (imposed under the Waste Minimisation Act 2008) was completed on 1 July 2014. The review focused on whether the levy is being applied fairly and correctly, and how to ensure a level playing field for those paying the levy. It also looked at the impact that the levy funding is having.

The review found that administrative processes for calculating and paying the levy appear to be highly effective and that the levy is generally being collected and spent in accordance with the Act. The review also makes recommendations to improve the fairness in the way the levy is applied and to increase the amount of information available about waste and recycling in New Zealand. Work is currently underway to address these information gaps.

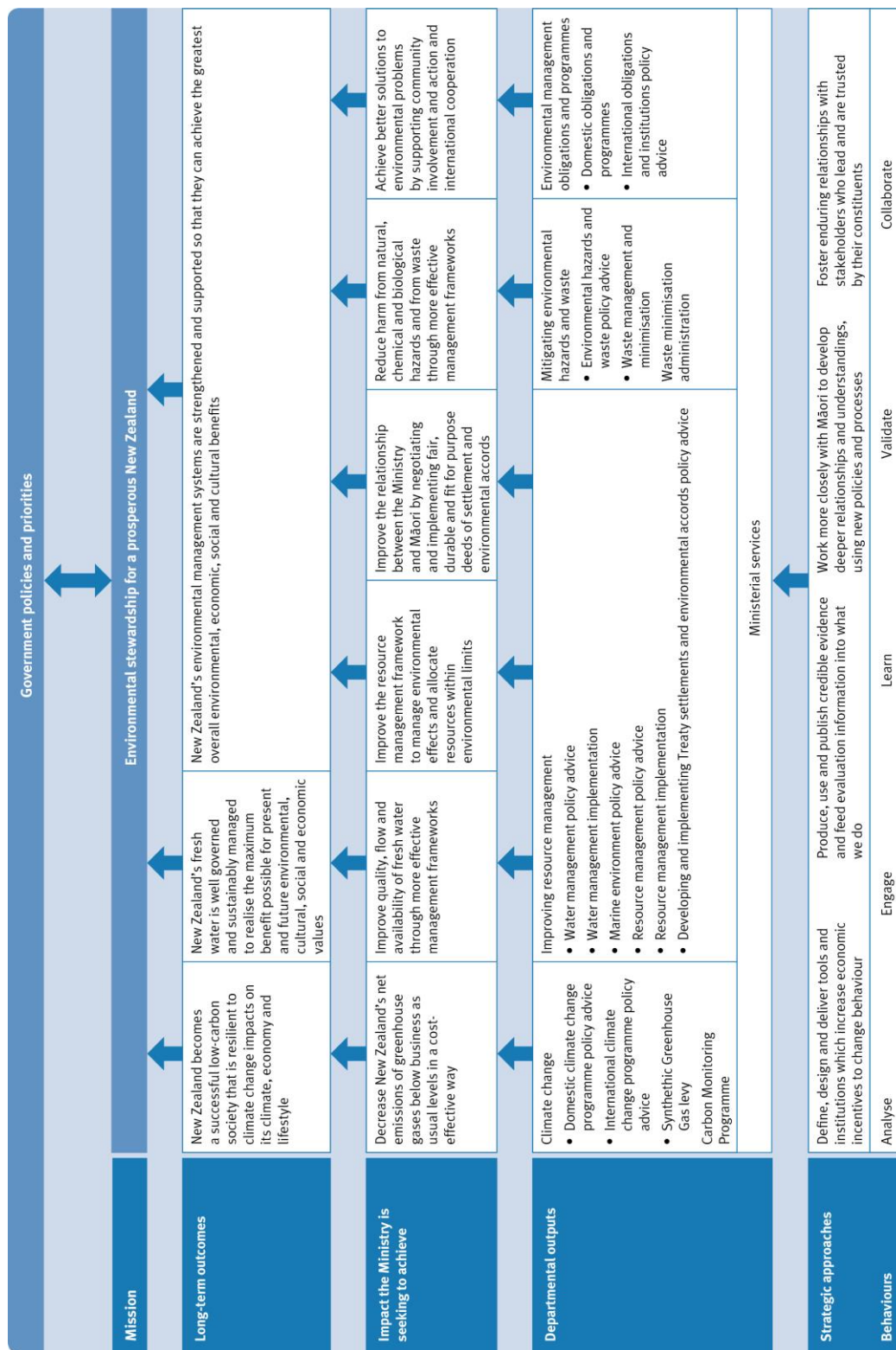
Ensuring New Zealand businesses are safe, sustainable and successful

A 2012 Survey of 400 businesses that handle hazardous substances found that only 25 per cent were fully compliant with Hazardous Substances and New Organisms Act (the HSNO Act) controls. Thirty per cent of those responsible for hazardous substances management on site had never heard of the HSNO Act, or had heard about 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.

During 2013/14, we have been working with the Ministry of Business, Innovation and Employment and the EPA on reforming the hazardous substances policy framework to ensure businesses are better able to understand how to keep safe in the workplace, and are incentivised to comply with safety requirements. These reforms have been incorporated into the Health and Safety Reform Bill that was introduced into Parliament in March 2014.

A key change under this Bill is the transferral of the implementation and enforcement of workplace hazardous substances regulations from the EPA to WorkSafe. This will reduce complexity and uncertainty for businesses because there will now be only one agency that they need to deal with.

2 Outcomes Framework



Progress against our impacts

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			
Impact measure	Target	2013/14 result	2012/13 result
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 resource consents for consumptive purposes is subject to measuring and reporting. (The measure 'proportion of resource consents subject to measuring' has been used as an interim proxy for 'the proportion of water allocated that is subject to measurement'. This measure was not remeasured in 2013/14. It 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 2012/13)
ii. Proportion ¹ of large surface water catchments that have quantified flow regimes in place that set limits	Increasing proportion	Increasing proportion from 2012/13 benchmark Rivers and streams: up 1 bps to 59% (or 15,562,501 ha) Wetlands: negligible increase to 0% (or 99 ha) Lakes: up 27 bps to 33% (or 125,669 ha)	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
iii. Proportion ² of significant catchments that have quantified policy for land and water management that sets surface water quality limits	Increasing proportion	Increasing proportion from 2012/13 benchmark Rivers and streams: up 4 bps to 8% (or 2,101,777 ha) Wetlands: up 2 bps to 8% (or 19,122 ha) Lakes: up 6 bps to 24% (or 92,131 ha)	Benchmark information provided due to a change in methodology in 2012/13. 4% (or 1,046,251 ha) of rivers and streams 6 ³ % (or 14,823 ha) of wetlands 18% (or 69,445 ha) of lakes

¹ The wording of this impact measure and associated target has been changed to refer to the proportion, rather than the number, of large surface water catchments, to be consistent with the change in methodology used to measure results.

² Ibid.

³ This figure (and associated hectares) was incorrectly published as 24 per cent (59,017 ha) last year due to human error.

Impact measure	Target	2013/14 result	2012/13 result
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 (refer to pages 23 and 24 for more information)	Benchmark information provided due to a change in methodology
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			
Impact: Improve the resource management framework to manage environmental effects and allocate resources within environmental limits			
Impact measure	Target	2013/14 result	2012/13 result
1. 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 (50%) overall / 100% compliance against 2011 target (Data for 2013 will not be available until October 2014 and will be reported in the 2014/15 Annual Report)	Static level of compliance (49%) overall / 100% compliance against 2011 target (This measure was not remeasured in 2012/13)
2. Trends in EPA and local government compliance with resource consent processing times under the RMA 1991.	Upward trend (Councils) / 100% (EPA)	Councils: Upward trend – 97% compliance in 2012/13, compared to 82% compliance in 2001/02 EPA: 100%	Upward trend (councils) / 100% EPA (Due to the timing of the RMA survey, results for local government were not available at time of publication of the 2012/13 Annual Report)
Impact: Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks			
Impact measure	Target	2013/14 result	2012/13 result
1. 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: 16% decrease in total number of reported incidents since 2009/10. 13% increase in level 2 and 3 incidents since 2009/10. No level 4 and 5 incidents since 2009/10. New organisms: 82% increase in total number of reported incidents since 2009/10, likely due to better reporting. All incidents with adverse effects on human health since 2009/10 were caused by zoo animals.	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 was not available at time of publication of the 2012/13 Annual Report)

Impact measure	Target	2013/14 result	2012/13 result
2. Trends in the tonnage of waste disposed of at waste disposal facilities per unit of GDP	Downward trend	Static trend (18.6 tonnes per \$1 million GDP (projected) for the year ending 30 June 2014 versus 18.6 tonnes per \$1 million GDP for the year ending 30 June 2010.	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)
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			
Impact measure	Target	2013/14 result	2012/13 result
1. 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	95% satisfied or very satisfied
2. Percentage of relevant Ministry obligations under deeds of settlement and environmental accords met	100% compliance	90% compliance	90% compliance
Impact: Achieve better solutions to environmental problems by supporting community involvement and action and international cooperation			
Impact measure	Target	2013/14 result	2012/13 result
1. 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 the 'Reduce harm' impact above)	Increasing proportion of priority contaminated sites remediated	Total priority sites identified = 72 Remediated priority sites = 20 Managed priority sites = 5 Percentage remediated/managed = 35%	Total priority sites identified = 71 Remediated priority sites = 19 Managed priority sites = 6 Percentage remediated/managed = 35%
2. Level of community involvement in projects funded by the Community Environment Fund	Increasing community involvement	\$13.7 million of in-kind contributions for \$7.4 million of government funding committed to 73 CEF projects. ⁴	\$14.4 million of in-kind contributions for \$7.5 million of government funding committed to 75 CEF projects
3. 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 75% of projects	100% of objectives met by 82% of projects

⁴ Projected in-kind contributions are lower in 2013/14 than the level reported for 2012/13 due to two projects not progressing past Stage I.

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				
Impact measure	Target	2013/14 result	2012/13 result	
1. 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 2012 than they were in 2008 2008: 61.6 Mt CO ₂ -e 2012: 61.1 Mt CO ₂ -e	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	
Impact measure	Target	2013/14 result	2012/13 result	
2. 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 29.2% since 1990 Per capita: decrease of 2.7% since 1991	Downward trend Per unit of GDP: decrease of 28.8% since 1990 Per capita: decrease of 4.7% since 1991	
3. 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	Increased surplus of units, but 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 2014

Introduction

To carry out our mission of 'environmental stewardship for a prosperous New Zealand', it is important that we 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 our Outcomes Framework which sets out the longer-term outcomes needed to ensure a healthy environment. It also identifies the impacts we want to achieve in the shorter term as our contribution to these outcomes.

This section provides detailed information about:

- what we are aiming to achieve under each of these outcomes
- what we have done to achieve our desired impacts
- how we have performed against our performance targets set out in the *Information Supporting the Estimates 2013/14*
- how much it has cost
- what progress has been made to date towards achieve our outcomes.

Summary of service performance

The table below provides a summary of our performance against our targets set out in the Information Supporting the Estimates 2013/14. For more information on our performance in each of these work programmes, refer to the pages indicated.

Work programme	Refer to pages	No of targets achieved
Freshwater	13 – 16	1 of 5
Resource management	27 – 32	6 of 9
Environmental reporting	29 and 32 – 33	2 of 3
Marine environment	33 – 35	2 of 3
Environmental hazards	40 – 41	0 of 1
Waste management	41 – 46	12 of 13
Domestic obligations	52 – 55	11 of 12
International obligations	55 - 56	0 of 1
Treaty commitments	62 – 63	2 of 2
Climate change	69 – 74	7 of 8
Quality of policy advice	82 – 83	2 of 3
Ministerial servicing	83	3 of 7
Total		48 of 67



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 – 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 rainfall⁵ 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 and increasing land-use intensification. While fresh water is replenishable, it is not unlimited. Water shortages do occur. Rain does not always fall where and when it is needed. This was evidenced in early 2013 when the North Island experienced its worst drought in nearly 70 years.

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, intensive farming or poor land-use practices have caused water pollution. This can take many years and many taxpayer and ratepayer dollars to clean-up. Over-allocation can harm our economy as it creates uncertainty about whether water supplies are reliable. This 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 start of the decision-making process rather than creating confrontation at the 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. We need effective mechanisms to monitor, re-assess and adjust decisions in light of new information. Water users need 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 heighten the many benefits water brings to our environment, economy and our identity as New Zealanders.

What we did and how we performed this year

Output Class: Water Management Policy Advice

Freshwater reform

The Resource Management Act 1991 (RMA) sets the regulatory framework for freshwater management in New Zealand. It devolves responsibility to regional councils for making decisions on the allocation and use of water within their boundaries and for managing water quality.

⁵ 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>.

In 2009, the Land and Water Forum conducted a stakeholder-led collaborative process that considered the reform of New Zealand's freshwater management system. The wide membership of the Forum gave it the ability to effectively consider the environmental, economic and social impacts of water reform. The recommendations of the Forum have informed the freshwater reform work.

After considering the Land and Water Forum's 2010 report *A Fresh Start for Freshwater*, the Government announced the first significant freshwater reform initiatives: the National Policy Statement for Freshwater Management 2011; the Fresh Start for Fresh Water Clean-up Fund; and the Irrigation Acceleration Fund. These initiatives recognise the strategic value of fresh water to New Zealand's economy and way of life.

In July 2013, after considering the Land and Water Forum's next two reports and feedback from public consultation, the Government announced the next stage of freshwater reforms. The key elements included:

- strengthening national direction
- improving scientific and economic information to support community discussions on fresh water
- improving the quality of decision-making through collaborative planning.

The total freshwater reform package involves an integrated set of institutional changes and tools. Delivering the components requires a combined effort, with central government providing direction and support for councils. Iwi/Māori, stakeholders and communities will all need to play their part to get high quality freshwater management plans in place across the country by 2025.

For more information on improving the way we manage our fresh water, see *Delivering Freshwater Reform – A high level overview* which is available on our website: <http://www.mfe.govt.nz/publications/water/delivering-freshwater-reform/delivering-freshwater-reform-final.pdf>.

Amending the National Policy Statement for Freshwater Management

The first National Policy Statement for Freshwater Management (NPS-FM) was released in 2011. It requires regional councils to manage water in an integrated and sustainable way, while providing for economic growth within water quantity and quality limits. A crucial requirement is that councils will 'maintain or improve' the overall water quality in their region. The Government recognised that further national guidance and support was necessary to help councils apply the NPS-FM efficiently and consistently.

In late 2013, the Government consulted on proposed changes. Public meetings and hui were held across New Zealand. More than 7,000 submissions were received. After considering the feedback, the Government announced amendments to the NPS-FM which came into force on 1 August 2014.

The amended NPS-FM provides a national framework that directs how councils are to go about setting objectives about fresh water in their regional plans. Specifically, it:

- provides a National Objectives Framework (NOF) which is a process and data based on robust science to help councils and communities to consistently and transparently set freshwater objectives
- requires councils to account for all freshwater takes and sources of contaminants. This information will be used by councils in establishing freshwater objectives and limits, and managing resource consent applications
- sets national bottom lines for two compulsory values – 'ecosystem health' and 'human health for recreation' – and minimal acceptable states for other values

- expects councils to take reasonable steps to work with iwi and hapū to identify tāngata whenua values for fresh water and ensure that these values are reflected in the decision-making on and managing fresh water
- requires councils to develop practical and affordable plans to monitor the quality of fresh water against freshwater objectives.

The concept of a NOF, to assist councils with setting freshwater objectives and limits, was a key aspect of the Land and Water Forum's recommendations. The NOF developed has a list of values for which a particular freshwater body can be managed such as swimming, fishing or irrigation. While the values chosen for each freshwater body will be a local decision, the minimum states that apply to those values will be set at a national level through the framework. More than 60 freshwater scientists from public, private and academic organisations across New Zealand have advised on the numeric measures ascribed to each water quality state. For more information on the science that underpins the NOF, see our website: www.mfe.govt.nz/issues/water/freshwater/supporting-papers/index.html.

Over the past two years, we have commissioned a number of economic impact studies to help councils and communities understand the impacts of choices they make in managing fresh water from both economic and environmental perspectives. The studies focused on three regions Southland, Canterbury and Waikato.

They are available on our website: <http://www.mfe.govt.nz/issues/water/freshwater/supporting-papers/index.html>.

In addition to the support and guidance we are providing to councils to implement the NPS-FM, \$1.1 million from the Community Environment Fund was targeted at regional councils for activities that support regional planning and community participation in freshwater management.

More information on the NPS-FM is on our website: <http://www.mfe.govt.nz/publications/rma/nps-freshwater-management-2014/index.html>

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Provide advice on options to amend the National Policy Statement on Freshwater Management to require councils to account for all types of water takes and contaminants discharges, within agreed timeframes ⁶	New measure	31 December 2013	Not achieved
Provide advice on options to amend the National Policy Statement on Freshwater Management to create and populate the National Objectives Framework, within agreed timeframes	New measure	31 December 2013	Not achieved
Percentage of Cabinet-agreed pieces of guidance or direction that are completed within agreed timeframes	New measure	100%	50%

Commentary on targets not achieved: Consultation on the amendments to the NPS-FM occurred later than originally planned so we were not able to provide advice on options to amend the NPS-FM to require councils to account for all types of water takes and contaminant discharges, and options to create and populate the National Objectives Framework by 31 December 2013. This advice was provided to Ministers in April 2014 after considering the feedback received during public consultation.

The delayed consultation also resulted in a delay in the delivery of a guidance package to support the implementation of the NPS-FM and its amendments. The amended NPS-FM came into force in August 2014 and initial guidance was issued shortly after.

⁶ Timeframes are agreed between the Minister and the Ministry and set out in the Output Plan.

Optional collaborative planning process

Collaborative planning is about local government, iwi/Māori, resource users, and community members working together early in the decision-making and planning process to achieve wider understanding and buy-in to decisions, which reduces conflict. Collaborative approaches are increasingly well-regarded internationally as good practice for dealing with contentious and complex resource management issues.

A proposed amendment to the RMA will provide for an optional collaborative planning process that councils can use when preparing, changing and reviewing freshwater policy statements and plans.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables to support the drafting and parliamentary process for the 2014 Resource Management Bill, specifically in relation to water reform, that are completed within agreed timeframes	New measure	100%	50%

Commentary on targets not achieved: The introduction of a resource management reform bill, of which the provision of an optional collaborative planning is just one amendment, has been deferred until after the general election in September. While we have incorporated the collaborative planning option into the draft bill, we have not yet agreed an implementation package for this new process. However, we are working with councils to provide assistance with collaborative planning in the absence of the bill.

Managing the clean-up of fresh water

Since 2000, the Crown has committed close to \$400 million towards cleaning up and protecting New Zealand water bodies. This includes \$210 million for the Waikato River, \$72 million for the Rotorua Lakes Restoration Programme, \$35.6 million for the Lake Taupō Protection Programme and \$14.5 million for the Fresh Start for Fresh Water Clean-up Fund.

We partner with others (such as councils, iwi/hapū, sector groups and communities) to support the clean-up of waterways. As well as contributing funding, we engage with project partners in a variety of ways, including support and advice for project managers and representation within project governance structures.

For more information on the freshwater clean-ups currently underway, refer to pages 17 to 20.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of Fresh Start for Fresh Water Clean-up Fund projects and other freshwater clean-ups that are managed and monitored appropriately	New measure	100%	100%

Iwi Leaders and Advisors Groups for fresh water

We have continued to work with the Iwi Advisors Group 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. Following the Iwi Chairs Forum in May 2014, the Iwi Leaders Group have committed to presenting an articulation of iwi/Māori rights and interests in freshwater to Ministers on 5 February 2015. We continue to work with the Iwi Advisors Group to support them and their 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 82 and 83.

What it cost

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

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.

Departmental Output Class: Water Management Policy Advice

The scope of this appropriation is: 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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	7,844	5,968	8,424	8,424	8,818
Departmental	1,075	–	166	184	–
Other	57	–	456	292	–
Total revenue	8,976	5,968	9,046	8,900	8,818
Total expenses	8,902	5,968	9,046	8,707	8,818
Net surplus/(deficit)	74	–	–	193	–

The 2013/14 water management policy advice programme was delivered at a cost that was \$339,000 less than budgeted at Supplementary Estimates. This was primarily due to the delayed consultation and subsequent later implementation of the NPS-FM. Also, due to the absence of a resource management reform bill, we have not made as much progress as originally planned on the optional collaborative planning process.

We have invested significantly more resources than originally budgeted at Main Estimates to deliver on the most comprehensive reform of New Zealand's freshwater management system for a generation. Significant additional outputs include the amendment of NPS-FM to provide stronger national direction.

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 Expenditure and Capital Expenditure against Appropriations' on pages 100 to 102 for the total spend against total Appropriation for the 'Improving Resource Management' Multi-class Appropriation.

Non-departmental funding

Since 2000, the Crown has committed close to \$400 million towards the clean-up of New Zealand waterbodies. We manage this funding on behalf of the Crown.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual	Budget	Revised	Actual	Unaudited
	\$000	\$000	Budget	\$000	Forecast
			\$000		\$000
Expenses					
Fresh Start for Fresh Water Fund: New initiatives	4,054	8,600	7,341	6,257	1,700
Fresh Start for Fresh Water: Waikato River Clean-up Fund ⁸	4,745	5,065	5,065	5,065	5,291
Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme	8,200	9,000	–	–	–
Hawke's Bay Rivers Clean-up Fund	–	–	2,000	2,000	–
Provision of a new water source for Rotorua	–	–	1,075	–	–
Te Mana o Te Wai – restoring the life-giving capacity of fresh water	–	–	–	–	2,500
Water science and economics	–	–	–	–	2,000
Total expenses	16,999	22,665	15,481	13,322	11,491

Fresh Start for Fresh Water Clean-up Fund

This Fund was established in 2011 to help communities clean up waterways that are affected by historical water quality issues. The Crown has allocated \$14.525 million to seven priority projects. This funding has leveraged an additional \$34.1 million of investment by local government, industry and iwi.

The following projects have been funded.

⁸ In accordance with New Zealand Financial Reporting Standards, the Ministry recognised a 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 \$7.333 million until 2036/37 and \$7.342 million in 2037/38.

Water body	Purpose of the project	Funding allocated \$000	Total spend to 30 June 2014 \$000
Te Waihora/Lake Ellesmere (Selwyn, Canterbury)	The restoration and rejuvenation of mauri and ecosystem health of Te Waihora.	6,000	4,937
Manawatu River	To restore the health of the river by improving water quality, enhance habitats for native fish species and involve the community in restoration activities.	5,200	5,200
Wairarapa Moana	To restore the wetland habitat around the edge of Lake Wairarapa and Lake Onoke (collectively known as Wairarapa Moana).	1,000	673
Wainono Lagoon	To improve water quality in Wainono Lagoon and minimise further contamination of the lagoon by reducing sediment inflows. Restore water quality to enable mahinga kai (customary food and resource gathering).	800	140
Waituna Lagoon	To restore the water quality of the Waituna Lagoon to a level sufficient to maintain a healthy seagrass dominated ecosystem.	785	479
Lake Horowhenua	To improve the health of the lake through reduction of sediment and nutrient input. The aim is to make the lake fit for recreational purposes, a better habitat for native fish.	540	112
Lake Brunner	To improve the water quality of Lake Brunner through community environmental projects and farm environmental planning.	200	200
Total		14,525	11,741

Overall, the projects are progressing well with a number of key interventions completed. For more information and updates on the progress of these projects refer to our website: www.mfe.govt.nz/issues/water/freshwater/fresh-start-for-fresh-water/cleanup-fund.html

In September 2013, a report was provided to Cabinet on the performance of the Fresh Start for Fresh Water Clean-up Fund. This report assessed the funded clean-up interventions against AgResearch effectiveness ratings and concluded that the funded clean-up interventions are effective strategies for mitigating the impact of contaminants from agricultural land entering water bodies which will result in improvements for water quality in the medium- to long-term.

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 in 2011, there have been three funding rounds with \$16 million being allocated to over 100 projects. The fourth funding round closed on 29 August 2014 with up to \$7 million available. More information on the projects funded to date is available on the Waikato River Authority's website: www.waikatoriver.org.nz.

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 Ōkāreka. 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. The programme has had some remarkable success to date:

- As at 30 June, the programme had achieved a 184 tonnes reduction of nitrogen⁹ (against a target of 467 tonnes) and a 41.5 tonnes reduction of phosphorus¹⁰ (against a target of 36.6 tonnes).
- Water quality in Lake Rotoiti continues to improve and it reached its water quality target in 2013.
- Lake Rotoehu, initially one of the most degraded lakes, is now classified as having moderate water quality and is close to reaching its water quality target.
- Lake Ōkāreka's water quality is stable with all funded interventions being completed and nutrient targets met. However, it will take time for these actions to provide improvements in water quality.
- Lake Rotorua has also met its long-term water quality target as a result of the stream phosphorus-locking project. A long-term solution to reduce nutrients from the pastoral sector has been developed and will enable water quality to be sustained without detracting from the viability of the rural economy.

To give the programme more flexibility to negotiate reductions when market conditions are favourable, five years of scheduled funding (including for 2013/14) has been transferred into a multi-year appropriation commencing 1 July 2015.

Hawke's Bay Rivers Clean-up Fund

The deed of funding between the Crown, Ngāti Pahauwera and the Hawke's Bay Regional Council, establishing the Hawke's Bay Rivers Clean-up Fund, was signed in October 2013. The purpose of this Fund is to clean up the Mohaka, Waikari and Waihua Rivers under the Ngāti Pahauwera settlement.

Provision of a new water source for Rotorua

To help negotiate the Ngāti Rangiwewehi settlement, the Crown agreed to make a limited one-off contribution 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 2014, the Council had not made that commitment.

Lake Taupō Protection Project

This is a partnership between the Crown, Waikato Regional Council and Taupō District Council. The aim of this project is to 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 2014, the project has reduced the amount of manageable nitrogen by 151 tonnes, or 88 per cent of the target 170 tonnes. The target is expected to be reached in 2014/15 which places this project approximately four years ahead of its target.

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

⁹ Unaudited

¹⁰ Ibid

Lake Taupō 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
Actual expenses to 2013/14 year end		2,085
Total actual expenses		10,602
Balance of appropriation remaining after actual expenses		66
Projected expenses to 2014/15 year end		66
Balance of appropriation remaining after projected expenses		–

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 NPS-FM 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 resource consents for consumptive purposes is subject to measuring and reporting. The measure “proportion of resource consents subject to measuring” has been used as an interim proxy for “the proportion of water allocated that is subject to measurement”.

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 approximately 27 billion cubic metres.

The current result for this impact measure is 31 per cent of resource consents for consumptive fresh water takes are subject to measurement. This is based on resource consent data collected from regional councils in a survey in 2010. Based on the data available in this survey, this statistic appears to be a reliable measure for “the proportion of water allocated for consumptive purposes that is subject to measurement”. The survey was used to inform the 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.

A direct measure of “the proportion of water allocated for consumptive purposes that is subject to measurement and reporting” will be available from August 2014, when the first complete year of data has been reported to regional councils under the Resource Management (Measurement and Reporting of Water Takes) Regulations.

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 approximately 92 per cent of the allocated volume of fresh water.

By November 2016, water takes covering approximately 98 per cent of the allocated volume of fresh water will be required to be measured and reported on by consent holders.

Work is underway to develop Tier 1 Statistics for water quality and flow which will improve data for the proportion of water allocated for consumptive purposes.

2. Proportion¹¹ of large surface water catchments that have quantified flow regimes in place that set limits

Target: Increasing proportion

Results: Increasing proportion across all water body types
(Rivers and streams: up by 1 bps,¹² wetlands: negligible increase, lakes: up by 27 bps)

The National Policy Statement for Freshwater Management 2014 (NPS) requires regional councils to set freshwater objectives and limits in their regional plans. The NPS must be fully implemented as soon as reasonably practicable, or no later than 31 December 2025 (whichever is earlier). This measure provides a high level indication of regional plan and water conservation order provisions as at the end of April 2014, that have flow regimes and allocation limits in accordance with the NPS.

The percentage of New Zealand’s total catchment surface area for rivers and streams, wetlands and lakes with set surface water quantity limits is included in the table below.

	Rivers and streams		Wetlands		Lakes	
	%	Hectares	%	Hectares	%	Hectares
2013/14	59	15,562,501	0	99	33	125,669
2012/13 (benchmark)	58	15,401,438	0	5	6	23,812

There is no data currently available for groundwater. The complex three dimensional nature of groundwater systems means, although some councils hold regional data, there is no national dataset for these water bodies. The Ministry for Business Innovation and Employment are currently funding a work programme that is expected to improve data for groundwater.

¹¹ The wording of this impact measure and associated target has been changed to refer to the proportion, rather than the number, of large water catchments, to be consistent with the change in methodology used to measure results.

¹² bps = basis points.

3. Proportion¹³ of significant catchments that have quantified policy for land and water management that sets surface water quality limits

Target: Increasing proportion

Results: Increasing proportion across all water body types
(Rivers and streams: up by 4 bps, wetlands: up by 2 bps, lakes: up by 6 bps)

Similar to measure two immediately above, this measure provides a high level indication of regional plan and water conservation order provisions as at the end of April 2014. Since 2011, surface water quality limits have been defined within the NPS as 'the maximum amount of resource available, which allows a freshwater objective to be met'.

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

	Rivers and streams		Wetlands		Lakes	
Quality limits	%	Hectares	%	Hectares	%	Hectares
2013/14	8	2,101,777	8	19,122	24	92,131
2012/13 (benchmark)	4	1,046,251	6 ¹⁴	14,823 ¹⁵	18	69,445

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)

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.¹⁶ 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 results reported below and 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 showing 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. 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. Additional funding in 2014/15 has been allocated under the Community Environment Fund to enable the monitoring network to expand and become more representative. We will continue to work with regional councils and NIWA to improve the monitoring network.

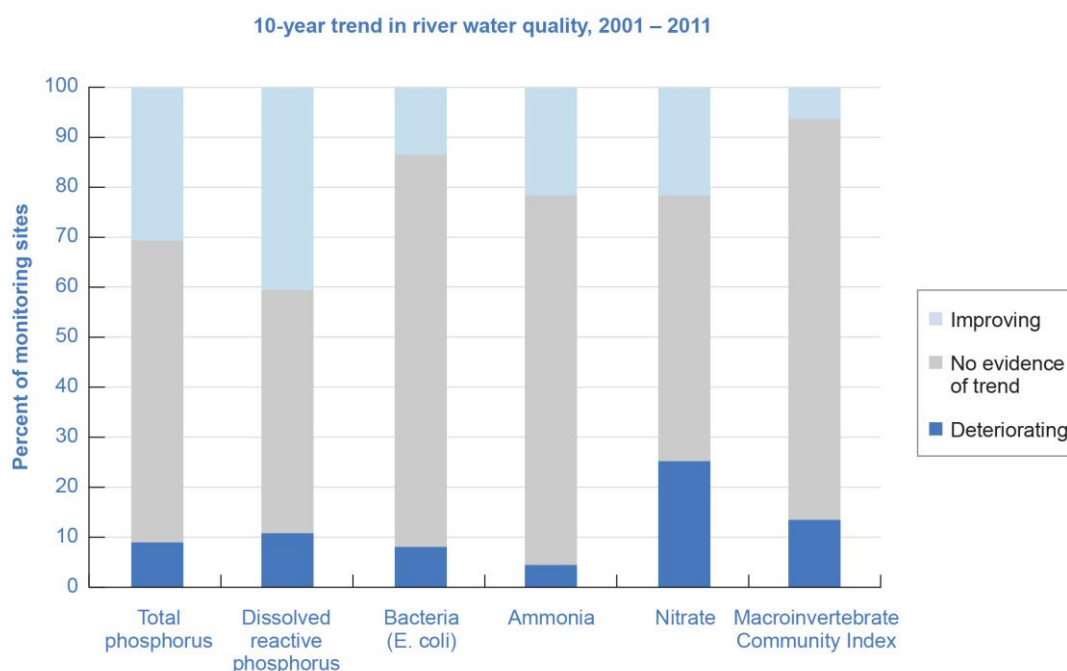
Once the Environmental Reporting Bill is passed, there will be an opportunity to update the monitoring data for water quality to reflect the current state of our water. This is scheduled to occur in July 2015.

¹³ Ibid (page 21,9)

¹⁴ This figure was incorrectly published as 24% (59,017 ha) last year due to human error.

¹⁵ Ibid.

¹⁶ 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 improving at most monitored river sites or there is no significant trend. However, nitrate concentrations are increasing in about a quarter of our sites. Macroinvertebrate condition showed no significant trend 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 climactic 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 analysis to identify where there are significant trends. We are working with data providers 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 we want 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

The resource management system enables the sustainable management of New Zealand's natural and physical resources, leading to better environmental, social, cultural and economic outcomes as New Zealand's communities grow and change.

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 1991 (RMA) is now 22 years old. It is timely to look again at whether the framework it establishes remains fit for the task of managing New Zealand's natural and built resources, and planning for the needs of its communities.

The Government has already embarked on a multi-phase programme of resource management reform. The first phase included streamlining and simplifying the RMA. Also, the Environmental Protection Authority (EPA) was established to enable the efficient processing of major projects of national significance.

The second phase made improvements to the resource consent regime; a streamlined process for the delivery of Auckland's first unitary plan; improved the information basis for local decision-making; and improved the workability of the RMA through minor and technical amendments.

The next phase of reforms involves looking for further improvements to the RMA to improve our resource management system more broadly. The proposed amendments to the planning process and delivery of national direction are designed to provide greater certainty for local government, businesses and communities.

Understanding how decisions made under the RMA impact on our resource use and environment is important. The Environmental Reporting Bill mandates the provision of comprehensive environmental information in a way that is easy to understand, independent from the government of the day and relevant. Once implemented, decision makers will have access to consistent and representative information to inform the debate about the interface between environmental, economic, cultural and social dimensions so resources can be allocated to the best use. Also, over time, decision makers will be able to assess the impact of their decisions and make informed adjustments to policies and plans.

What we did and how we performed this year

Output Class: Resource Management Policy Advice

Resource management reforms

To continue the multi-phased resource management reform programme the Government announced the third tranche of reforms in August 2013. This followed an extensive consultation period during which more than 2000 people attended more than 50 meetings and hui. Over 13,000 submissions¹⁷ were received.

Key elements of the proposed reforms include:

- clearer national direction and tools
- single, local resource management plans that address future environmental and development priorities and cover all local, regional and national issues, replacing the range of planning documents in use currently
- simpler, faster and fewer resource consents
- Māori interests and values to be considered earlier in resource management planning processes with solutions developed upfront
- comprehensive management of natural hazards in planning and consenting
- housing affordability addressed through explicit attention being paid to this issue in plans and changes to consenting arrangements to drive down their cost and improve their timeliness
- revision of the current sections 6 and 7 into a single list of matters of national importance
- establishing a clearer performance-monitoring framework for councils, making them more accountable on how they are meeting environmental, cultural, social and economic needs.

The bill to enact these proposed reforms has been deferred until after the general election in September 2014.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
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 ¹⁸	100%	100%	100%
Percentage of agreed deliverables to support the drafting and parliamentary process for the 2014 ¹⁹ Resource Management Bill (excluding water reform) that are completed within agreed timeframes.	New measure	100%	100%

¹⁷ A summary of submissions is available on our website: www.mfe.govt.nz/rma/reform/phase-two/index.html

¹⁸ Deliverables and timeframes are agreed between the Minister and the Ministry and set out in the Output Plan.

¹⁹ In the *Information Supporting the Estimates 2013/14*, this performance measure referred to the 2013 Resource Management Bill. The reference to 2013 was changed to 2014 during the Supplementary Estimates process to reflect that the Bill was still to be passed.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Advice on further resource management reforms that may be required following the passing of the 2014 ²⁰ Resource Management Reform Bill is provided within agreed timeframes.	New measure	Achieved	Not achieved

Commentary on targets not achieved: The introduction of the 2014 Resource Management Reform Bill that contains the proposed reforms discussed above was deferred until after the general election in September 2014. Therefore, we have not provided advice to the Minister for the Environment on further reforms that may be required beyond the reforms currently proposed.

National instruments

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. We are also investigating what further guidance is required in relation to managing natural hazards and urban supply issues. We will report our findings to Cabinet in December 2014.

Our work programme to ensure the policy settings under existing national instruments are appropriate has continued. Working with the Ministry of Business Innovation and Employment we completed an evaluation of the National Environmental Standards for Telecommunication Facilities (NESTF) and found the NESTF is largely achieving its objectives. We are currently undertaking an interim review of the National Environmental Standards (NES) on Assessing and Managing Contaminants in Soil to protect Human Health. As part of this review we are examining the Hazardous Activities and Industries List classification requirements, the activities for which the NES requires resource consent (for example, soil disturbance threshold) and management outcomes for contaminated sites (whether contamination is being managed on site or removed).

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to National Instruments under the Resource Management Act 1991 that are completed within agreed timeframes	100%	100%	n/a

Commentary on targets not achieved: This performance measure refers to our performance in relation to deliverables agreed with the Minister for the Environment in the Output Plan. In 2013/14, no specific deliverables for the national instruments work programme were agreed in the Output Plan as the priority for this financial year was the development of policy for resource management reforms.

Developing a national monitoring system

Understanding how the RMA is being implemented is crucial to understanding whether the Act is achieving its purpose of sustainable management. Our primary source of information on how the Act has been implemented has been the biennial survey of local authorities. However, the survey only provided high-level aggregate data and was carried out every two years. We have been working with councils and other organisations to explore how more comprehensive and timely information on RMA implementation can be collected and shared.

In June 2013, we released a discussion document for public consultation – *A National Monitoring System for the Resource Management Act 1991 – A proposal for discussion*. Seventeen regional workshops were held with local authorities early on in the consultation period to help explain and support feedback on the proposed National Monitoring System (NMS). During the consultation period, 67 submissions were received with general support for the concept of a more comprehensive, comparable and consistent

²⁰ Ibid (Page 28, 18)

national monitoring system. Further analysis and feasibility work was undertaken on the impacts and benefits of the proposed NMS ahead of decisions on its design and implementation.

The NMS is currently being introduced in stages. The first stage includes collecting a set of priority information from all local authorities for the 2014/15 financial year. This replaces the previous RMA Survey of Local Authorities. We will also work with the Environmental Protection Authority and Environment Court/Ministry of Justice to capture additional information that forms part of the priority information set. Further work will be undertaken to scope the collection of other information proposed for capture as part of the NMS, and to assess the ability and impact on local authorities of collecting this information. This will inform further decisions on the development of the NMS. We will also be advancing work on how the NMS fits within a more outcomes-based monitoring system for the RMA which can show how resource management decisions are contributing to the environmental, social and economic outcomes that we most care about.

Environmental Reporting Bill

New Zealand is currently one of only a few OECD countries that do not have legally-mandated independent reporting on the state of the environment even though we, more than any, depend on our natural environment for so much of our wealth and economic success.

To address this, an Environmental Reporting Bill was introduced to Parliament in February 2014. This Bill mandates the provision of comprehensive environmental information for New Zealanders in a way that is easy to understand, independent and relevant. Good information on the state of our environment allows us to fully understand both natural occurrences and the impact that humans are having. Most importantly, it shows us where we need to make improvements.

The key elements of the 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 to carry out 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.

The Bill passed its first reading in March 2014. The focus of the environmental reporting work programme for 2014/15 is to continue to support the parliamentary and select committee process for the Environmental Reporting Bill, implement the provisions under the Environmental Reporting Bill (including the development of, and consultation on, regulations) and to work with data providers to improve the availability of consistent and representative data to underpin national environmental reporting.

Performance measure ²¹	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables to support the drafting and parliamentary process for the Environmental Reporting Bill that are completed within agreed timeframes	0%	100%	100%

²¹ This measure is in addition to the measures published in the *Information Supporting the Estimates 2013/14*.

Monitoring the Environmental Protection Authority

We are responsible for advising the Minister on the EPA's organisation leadership, capability, financial performance, and progress towards achieving its agreed output measures. Overall, we consider that the EPA is performing well by contributing to the timeliness of decisions on proposals of national significance under the RMA, working to improve compliance under the Hazardous Substances and New Organisms Act, implementing functions under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act and ensuring compliance with the New Zealand Emissions Trading Scheme.

The EPA was established in July 2011. We have initiated a review of the effectiveness of the EPA which was required three years after the EPA became operational. The scope of the review has two key components:

1. evaluating the effectiveness and efficiency of the EPA, including the EPA's governance and the role of the Māori Advisory Committee (Ngā Kaihautū Tikanga Taiao)
2. reviewing the fiscal sustainability of the EPA, including a high-level assessment of its operational efficiency and the impact of this on funding needs and an evaluation of its cost recovery practices.

The review is expected to be completed in December 2014.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to monitoring relevant Crown entities that are completed within agreed timeframes	100%	100%	100%

Output Class: Resource Management Implementation

Implementation of Resource Management Amendment Act 2013

The enactment of the Resource Management Amendment Act (RMAA) 2013 put in place the Government's second phase of its multi-phase reform programme. The first phase, in 2009, involved simplifying and streamlining RMA processes to reduce delays, uncertainties and costs. This second phase has built on the first phase through improvements to the resource consent regime; a streamlined process for the delivery of Auckland's first unitary plan; improved the information basis for local decision-making; and improved the workability of the RMA through minor and technical amendments.

We are committed to ensuring the success of these reforms and therefore have played, and will continue to play, a more collaborative hands-on role by providing active support to councils and others, including iwi. In October 2013, we undertook a series of 17 nationwide seminars to communicate the changes arising from the RMAA 2013. These seminars were attended by over 1200 resource management practitioners from local government, private consultancies, iwi authorities and other sector groups.

We have also prepared a series of seven fact sheets which explain the amendments in greater detail. These fact sheets are available on our website:

<http://www.mfe.govt.nz/publications/rma/rma-amendment-act-factsheets-2013/index.html>.

A significant change made under the second phase of reforms is the introduction of a one-time-only streamlined process under the Local Government (Auckland Transitional Provisions) Amendment Act 2013 to help deliver the first combined plan for the Auckland Council. The Auckland Unitary Plan replaces the current Auckland Regional Policy Statement, four regional plans and seven district plans. Under the existing RMA processes it could take 10 years for the plan to become operative, with a large proportion of this time being taken to resolve merit appeals on the plan. The new streamlined process for Auckland involves the Unitary Plan being developed and notified by the Council, and then referred to a hearings panel totally independent from the council. The process, from the plan being notified,

hearings taking place, recommendations being made and the public being notified of decisions, is expected to take approximately three years.

The Auckland Council notified the Auckland Unitary Plan on 30 September 2013. We and the Auckland Council provided support and induction materials to the Hearing Panel which was appointed on 13 December 2013.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to the implementation of the 2012 Resource Management Reform Bill (including amendment of current regulations, development of new regulations, and development of guidance material, update of Quality Planning guidance notes and Making Good Decisions accreditation material) that are completed within agreed timeframes	New measure	100%	100%

Implementation of 2014 Resource Management Reform Bill

In August 2013, the Government announced the next phase of the reforms which will make further improvements to the RMA, and resource management more broadly, including how freshwater is managed and used and the development of a new national planning template.

The introduction of the 2014 Resource Management Reform Bill has been deferred until after the general election in September 2014.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to the implementation of the 2014 ²² Resource Management Reform Bill (including amendment of current regulations, development of new regulations, and development of guidance material, update of Quality Planning guidance notes and Making Good Decisions accreditation material) that are completed within agreed timeframes	New measure	100%	0%

Christchurch District Plan Review

In collaboration with the Christchurch Earthquake Recovery Authority (CERA), we have developed a process to provide a truncated RMA planning process for the review of Christchurch's District Plans in order to facilitate the rebuild and recovery of the district following the Canterbury Earthquakes. In July 2014, an Order in Council came into effect under the Canterbury Earthquake Recovery Act 2011 which enabled the truncated process. This involved lengthy negotiation between the Ministry, CERA and the Christchurch City Council, and required a significant number of policy decisions to be made by Ministers and Cabinet, resulting in final decisions being made by 30 June 2014.

The Order in Council is novel in that provision is made for ministerial comments on draft proposals prior to public notification, truncated or further submissions, and hearings by an independent panel. The Order in Council stipulated the appointment of the Chairperson, Sir John Hansen, but the remainder of the panel was not appointed by 30 June as intended. It is expected that the panel appointment process will be completed by December 2014.

²² In the *Information Supporting the Estimates 2013/14*, this performance measure referred to the 2013 Resource Management Bill. The reference to 2013 was changed to 2014 during the Supplementary Estimates process to reflect that the Bill was still to be passed.

Statutory functions under the Resource Management Act

We advise and assist the Minister for the Environment with their responsibilities under the RMA. 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.

More specifically, we assist Ministers by:

- Assessing applications for requiring authority status. Requiring authority status gives entities the ability to have areas of land designated for a particular purpose or project such as network utilities or large public works. These functions do not have a statutory timeframe, however, we have a 65 day internal key performance indicator for processing these applications, excluding periods when awaiting further information.
- Providing advice on water conservation orders. These orders aim to recognise the outstanding amenity or intrinsic values that water provides and can place restrictions on water 'takes', discharges and other uses of the water. Like requiring authority applications, water conservation orders do not have a statutory timeframe; however, the Minister is required to either appoint a special tribunal to hear and report the application, or reject the application, 'as soon as practicable'.
- Providing advice, in conjunction with the EPA, on nationally significant proposals or applications for nationally significant proposals within the required statutory timeframes.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of demand driven requests for Resource Management Act processes that the Ministry has responsibility for that are completed within statutory timeframes	No requests were received during 2012/13	100%	100%
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	78%	100%	100%

Improving environmental reporting

While the environmental reporting regime proposed under the Environmental Reporting Bill has not yet passed into law, we released the first domain report (on air) in May 2014. This report shows the changes in our air quality over time, and the associated pressures and impacts. It also helps us identify and understand air quality issues at the national level. A copy of this report is available on our website: www.mfe.govt.nz/publications/air/2014-air-domain-report/index.html.

The next environmental report to be released will be a synthesis report which aims to provide a complete picture of cross-domain issues by summarising trends across all environmental domains. While early domain and synthesis reports build on currently available data, with investment over time the quality and representativeness of these reports will improve.

To improve the quality and consistency of data on the state of our environment, we have been working with local government on an Environmental Monitoring and Reporting (EMaR) initiative to develop integrated regional and national environmental data collection networks. The EMaR initiative will build on the recently launched Land Air Water Aotearoa website.

Land Air Water Aotearoa website – www.lawa.org.nz



In March 2014, the Land Air Water Aotearoa (LAWA) website was launched. It is a platform for sharing both regional and national environmental data and hosts the NEMS standards as well.

LAWA is a collaboration between regional councils, the Ministry for the Environment, Massey University Open Labs, the Cawthron Institute and the Tindall Foundation. Its current focus is on improving public awareness of freshwater issues, sharing water quality information between interested groups and advocating for all sectors of the community to improve water quality. It holds data on more than 1100 monitored sites around the country. Work is underway to expand the website into other environmental domains.

While it is important to understand the state of the environment at any one time, it is also important to understand how that state changes over time or how it compares between regions. To enable comparisons over time and space, data must be collected consistently. To help, standards and guidance are being developed by the National Environmental Monitoring Standards (NEMS) group (a collaboration between regional councils and ourselves). The NEMS that have been developed to date are available on the LAWA website.

Data must also be representative. The data currently being collected is not necessarily representative of the whole country. For example, many freshwater quality monitoring sites are located in lowland pastoral areas or areas where there is significant concern. To improve the representativeness of this network, the Minister for the Environment has allocated \$1 million from the Community Environment Fund to establish 80 new river monitoring sites to fill data gaps.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to producing public information including reports, statistics and surveys are completed within agreed timeframes	100% (6 statistics)	100%	100% (1 domain report)
Percentage of agreed deliverables in relation to improving environmental reporting so that reporting is credible, fairly represents the overall position in New Zealand, and provides an integrated picture of environmental and economic performance that are completed within agreed timeframes.	New measure	100%	33%

Commentary on targets not achieved: We expected to provide an update to the Minister for the Environment on the progress of the NEMS programme by 30 June 2014. However, this update was deferred and provided as part of a broader update on data for environmental reporting in July 2014.

Also, as the Environmental Reporting Bill is not yet in force, the data improvement work programme has not progressed as intended. However, some significant data improvements are underway such as the Environmental Monitoring and Reporting initiative and the development of NEMS. Further work to identify and prioritise data improvement needs will happen in parallel with the production of the 2015 Synthesis report.

Output Class: Marine Environment Policy Advice

Exclusive Economic Zone

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 RMA 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 EEZ and Continental Shelf (Environmental Effects) Act 2012 and regulations came into effect.

In August 2013, the Government released a supplementary order paper to the Marine Legislation Bill to introduce a new non-notified discretionary classification for the marine consent regime under the EEZ Act. The Marine Legislation Bill transferred the regulation of dumping and certain discharges related to the EEZ activities from Maritime New Zealand to the Environmental Protection Authority.

In August and September 2013, the Government consulted on proposals for classifying exploratory drilling, discharges of harmful substances and dumping of waste in the EEZ and continental shelf. During this period, over 21,000 submissions were received.²³ After considering the feedback and recognising the complexities of the issues being discussed, the Government acknowledged that it was appropriate to provide the public with a further opportunity to consider the issues under discussion.

In December 2013, the Government released an exposure draft²⁴ of proposed regulations for exploratory oil and gas drilling under the EEZ Act. Following seven weeks of public consultation and consideration of over 14,000 submissions,²⁵ the Government announced that activities involved in the exploratory drilling for oil and gas will be classified as non-notified discretionary, effective from 28 February 2014. This means that, as a part of the marine consent application, operators will need to submit an impact assessment that identifies impacts on the environment and existing interests. The application will be assessed by the EPA who can impose such conditions as it thinks necessary to properly manage any adverse effects of the activity. Obtaining a marine consent to drill an exploratory well does not give the consent holder the right to begin producing oil or gas. The operator will need to apply for a separate, discretionary marine consent before any production activities could take place.

In February 2014, the Government released supporting information for the exposure draft of regulations for the discharge of harmful substances and the dumping of waste under the EEZ Act. During the consultation period 22 submissions were received. The Government is still to make decisions regarding the proposed regulations.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Provide advice on regulations to be made under the EEZ Act within agreed timeframes	New measure	31 December 2013	Achieved
Provide advice on regulations to be made under the EEZ Regulations reviews and options for collecting this information within agreed timeframes	New measure	31 December 2013	Not achieved
Provide support and advice on the Marine Legislation Bill and its SOP within agreed timeframes. ²⁶	New measure	Achieved	Achieved

²³ A summary of submissions is available on the Ministry's website: <http://www.mfe.govt.nz/publications/oceans/managing-our-oceans/activity-classification-under-the-eez-act-summary-submissions.html>

²⁴ Exposure drafts give interested parties an indication of what the new regulations are likely to look like, and to provide an opportunity to comment on the drafting of them before they are finalised.

²⁵ A summary of submissions on the exposure draft of activity classification of exploratory drilling for oil and gas under the EEZ Act is available on the Ministry's website: <http://www.mfe.govt.nz/publications/oceans/managing-our-oceans/exposure-draft-of-activity-classification-of-exploration-drilling-for-oil-and-gas-under-eez-act-summary-of-submissions.html>

²⁶ This measure is in addition to the measures published in the Information Supporting the Estimates 2013/14 and was agreed in our Output Plan agreement with the Minister for the Environment.

Commentary on targets not achieved: We originally expected to report back to Cabinet on the information needed to inform future reviews of the EEZ and Continental Shelf regulations, and cost-effective options for collecting this information by 31 December 2013.

The Minister for the Environment has sought a cancellation of this report back as the regulations have not been in place long enough to be able to determine the information needs for future reviews. Activities in the EEZ will continue to be monitored to increase understanding of the range of permitted activities being carried out. Also, an evaluation and monitoring framework to review the overall regulatory regime in the EEZ is being developed. This framework will put us in a better position to make decisions about the information required to review the regulations.

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 82 and 83.

What it cost

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

This multi-class output appropriation²⁷ 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, three²⁸ contribute to our 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.

²⁷ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned all of its multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. There was no change made to the underlying structure of the 'Improving resource management' appropriation during this transition. The 'Water management implementation' category was added in Budget 2014.

²⁸ The remaining two output classes are:

- Departmental Output Class: Water Management Policy Advice. More information on the Ministry's freshwater work programme is available on pages 12 to 23.
- Departmental Output Class: Developing and Implementing Treaty Settlements and Environmental Accords. More information on the Ministry's Treaty work programme is available on pages 61 to 66.

Parliamentary authority is given at the multi-class appropriation level rather than at an individual output class level. Refer to 'Statement of Departmental Expenditure and Capital Expenditure against Appropriations' on pages 100 to 102 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.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual \$000	Budget \$000	Revised Budget \$000	Actual \$000	Unaudited Forecast \$000
Revenue					
Crown	6,272	7,154	4,243	4,243	4,797
Departmental	11	–	17	23	–
Other	47	–	15	20	–
Total revenue	6,330	7,154	4,275	4,286	4,797
Total expenses	6,253	7,154	4,275	4,188	4,797
Net surplus/(deficit)	77	–	–	98	–

At Main Estimates, the 2013/14 budget for this output class was \$7.154 million. During the year, this decreased by \$2.879 million primarily because of the delays in introducing the 2014 Resource Management Reform Bill.

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.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual \$000	Budget \$000	Revised Budget \$000	Actual \$000	Unaudited Forecast \$000
Revenue					
Crown	6,125	6,218	8,950	8,950	11,685
Departmental	52	–	25	45	–
Other	27	–	20	26	–
Total revenue	6,204	6,218	8,995	9,021	11,685
Total expenses	6,121	6,218	8,995	8,967	11,685
Net surplus/(deficit)	83	–	–	54	–

At Main Estimates, the 2013/14 budget for this output class was \$6.218 million. During the year, this was increased by \$2.777 million primarily to cover the costs of implementing the Resource Management Amendment Act 2013 and progressing significant environmental data improvement initiatives such as the Environment Monitoring and Reporting initiative and the development of NEMS.

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	1,315	1,637	1,601	1,601	1,316
Departmental	3	–	–	2	–
Other	5	–	2	5	–
Total revenue	1,323	1,637	1,603	1,608	1,316
Total expenses	1,268	1,637	1,603	1,594	1,316
Net surplus/(deficit)	55	–	–	14	–

Non-departmental funding

We are the monitoring department for the EPA therefore the appropriations for the EPA's operating funding are under Vote Environment. Under the *Supporting Environmental Management* appropriation, the EPA provides advice on implementation and effectiveness of policy and legislation, as well as international developments in the management of hazardous substances, ozone-depleting substances, hazardous waste, new organisms, climate change issues and natural and physical resources as well as advice and support around resource management proposals of national significance and the assessment of environmental impacts for proposals received from EEZ operators.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Expenditure					
Environmental Protection Authority: Regulatory functions multi-class output appropriation:					
Supporting Environmental Management	4,346	6,420	4,655	4,655	–
Total expenditure	4,346	6,420	4,655	4,655	–

Progress we have made towards achieving the outcome

National environmental standards (NESs) and National Policy Statements (NPSs) are key tools for central government to provide direction to local government. We monitor the implementation of NESs and NPSs 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.

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 will 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

Compliance with the NES will reduce air pollution. The revision of the NES in 2011 set three dates for when airsheds need to comply with the standard, 2011, 2016 and 2020. In 2012, 13 airsheds required to comply with the NES by 2011 were monitored. All these airsheds complied with the standard. Of the other 25 air sheds monitored in 2012, six 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 2012 has remained relatively constant. Data for 2013 is not available until October 2014 and will be reported in our Annual Report for 2014/15.

Year	Airsheds monitored	Polluted airsheds	Non-polluted airsheds	Airsheds compliant with the NES
2012	38	19 (50%)	19 (50%)	13 (100%)
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

Target: Upward trend (councils) / 100 per cent (EPA)

Results: Upward trend (councils) / 100 per cent (EPA)

In 2013/14, the EPA-administered boards of inquiry complied with the statutory resource consent timeframes for all the resource consents it processed in relation to National Significant Proposals (100%) including those with extensions of time approved by the Minister for the Environment. The table below shows the trend in EPA administered board of inquiry compliance over the past five years.

Trend	2009/10	2010/11	2012/12	2012/13	2013/14
EPA administered board of inquiry compliance with mandatory resource consent processing times under the RMA	100%	100%	100%	100%	100%

The table below shows the trend in local authority compliance with mandatory resource consent processing timeframes under the RMA over the past six surveys of local authorities. Surveys occur every two years, apart from 2010/11 which was deferred to a year later than scheduled to capture the effects of the RMA reforms²⁹ which took effect on 1 October 2009. Information for 2014/15 will be available in late 2015 and captured as part of the priority information set under the NMS.

²⁹ As enacted under Resource Management (Simplifying and Streamlining) Amendment Act 2009.

Trend	2001/02	2003/04	2005/06	2007/08	2010/11	2012/13	2013/14
Local authority compliance with mandatory resource consent processing times under the RMA	82%	77%	73%	69%	95%	97%	n/a (next survey in 2014/15)

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. Over 2013/14, we have been working closely with Christchurch City Council to ensure it is able to meet the resource consenting demands of the Christchurch rebuild. While work continues, improvements have been and continue to be made, placing Christchurch City Council well for the anticipated volume of consents.

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.

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

New Zealand 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 offer 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.

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

While fundamental to our economy and environmental management, the use and management of hazardous chemicals and the introduction of organisms pose risks to New Zealand's environment, people's health and our economy. The Hazardous Substances and New Organisms Act 1996 (the HSNO Act) provides a policy framework designed to manage these risks while ensuring New Zealand gets the benefits delivered by the use of hazardous substances and new organisms.

A 2012 survey of 400 businesses that handle hazardous substances found that only 25 per cent of these businesses were fully compliant with eight key HSNO Act controls.³⁰ Thirty per cent of those responsible for hazardous substances management on site had never heard of the HSNO Act, 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.

To help reduce harm in the workplace we have been working with the Ministry of Business, Innovation and Employment and the Environmental Protection Authority (EPA). Part of this includes reforming the hazardous substances policy framework to ensure businesses are better able to understand how to keep safe in the workplace, and are incentivised to comply with safety requirements. These changes to the hazardous substances policy framework have been incorporated into the Health and Safety Reform Bill that was introduced into parliament in March 2014. Once enacted, this Bill will create the Health and Safety at Work Act.

The key HSNO related changes proposed are:

- Workplace hazardous substances regulations will be transferred to the new Health and Safety at Work Act. This Act will be implemented and enforced by WorkSafe. This will reduce complexity and uncertainty for businesses because there will be one clear regulator who will implement and enforce the new Act.
- Many non-workplace hazardous substances regulations within the HSNO regime will be shifted to tertiary legislation, empowering the EPA to manage hazardous substances through new 'EPA notices'. This will simplify the regulatory requirements and make them more flexible, adaptive and in keeping with current international best practice.
- The enabling of infringement notice regulations within the HSNO regime.

The Government's intention is that the Bill will be reported back from Select Committee in 2014, with the new Act coming into force in 2015. We continue to look for additional improvements to both the hazardous substances' and new organisms' regulatory regimes to reduce harm and compliance costs, and to improve administrative efficiency.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to the chemical and biological risk management framework that are completed within agreed timelines ³¹	100%	100%	67%

Commentary on targets not achieved: The Health and Safety Reform Bill was originally intended for introduction in December 2013 but was deferred until March 2014. We had intended to provide a departmental report by 30 June 2014, however Select Committee has progressed slower than expected,

³⁰ 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

³¹ Deliverables and timeframes are agreed between the Minister and the Ministry and set out in the Output Plan.

and at 30 June 2014 the Committee was still hearing submissions. We will now provide our departmental report in late 2014.

While significant progress has been made in the development of a new monitoring framework for new organisms, the identification of indicators to monitor the performance of the new organisms' regime was delayed by several weeks due to having to respond to other priorities. The outcomes model and measures were completed in July 2014.

Output Class: Waste Management and Minimisation

Product stewardship

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 through the entire lifecycle of those products. 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. We are responsible for assessing these applications and, once accredited, monitoring their progress against their objectives and targets. In 2013/14, a further three voluntary schemes were accredited, bringing the total number of accredited product stewardship schemes to 11³². The newly-accredited schemes are:

- *Kimberly Clark NZ's Envirocomp Product Stewardship Scheme for Sanitary Hygiene Products*: Using purpose-built plans, the scheme breaks down nappies and sanitary waste into safe, odourless compost, instead of sending them to landfill. By February 2015, the scheme aims to process three million nappies per year.
- *Fonterra Milk for Schools Recycling Programme*: This scheme covers the collection of the used packaging generated through its Fonterra Milk for Schools Programme. The used packaging is processed at Fonterra sites before being sent to international recycling facilities overseas, where it is broken down and used to make products such as roof tiles, books and paper.
- *The Glass Packaging Forum's Public Place Recycling Scheme*: This scheme funds projects to promote and influence the recycling of plastic, paper, aluminium and glass containers in public places including research, infrastructure and educational programmes.
- More information on these and other accredited product stewardship schemes is available on our website: <http://www.mfe.govt.nz/issues/waste/product-stewardship/accredited-schemes-in-nz.html>.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
An increase in the total number of voluntary product stewardship schemes that have sought accreditation from the Minister for the Environment	New measure	Upward trend	Upward trend (additional three schemes accredited)
Percentage of product stewardship scheme applicants satisfied (or better) with the timeliness and quality of advice received from the Ministry throughout the course of their application	New measure	80% satisfied or better	100% satisfied

Priority waste streams

Since passing the Waste Minimisation Act, the Government has encouraged voluntary product stewardship efforts as a first priority. Over this time, 11 voluntary product stewardship schemes have

³² Since 30 June 2014, another product stewardship scheme has received accreditation. RE:MOBILE provides all New Zealanders the opportunity to pass on unwanted mobile phones and accessories for reuse and recycling.

been accredited by the Government and more than 34,000 tonnes of waste diverted from landfill for recycling or safe destruction.

While these sound like good results, the estimated 34,000 tonnes of waste diverted through these schemes equates to only 1.4 per cent of the total waste stream going to landfills. More needs to be done to manage harmful waste and protect the environment. We now need to consider appropriate mandatory approaches for selected priority waste streams.

In May 2014, as a first step, the Government released a discussion document – *Priority Waste Streams for Product Stewardship Intervention* – to consult on whether they should intervene to improve the management of four product waste streams, electrical and electronic equipment (e-waste), tyres, agrichemicals and farm plastics, and refrigerants and other synthetic greenhouse gases. They also sought feedback on whether these products were indeed priorities, or whether there were other products the Government should be considering instead.

Following seven public workshops across New Zealand, consultation closed in July 2014 with 216 submissions received. The Government is now considering this feedback as well as options recommended by industry working groups.

The next step will be to carry out close analysis of the short-term and long-term economic, environmental and social costs and benefits, and consult with potentially affected parties. Only once that is complete will the Government consider what interventions to propose.

Waste Advisory Board

The Waste Advisory Board was established in 2008 under the Waste Minimisation Act to provide independent advice to the Minister for the Environment on request, on matters such as the declaration of priority products, product stewardship scheme guidelines, funding criteria, effectiveness of the waste and regulations under the Act.

Appointees to the board are selected for their knowledge, skills and experience on the Waste Minimisation Act, community waste minimisation projects, business/industry (including the commercial waste industry), local government and tikanga Māori. Board members serve for three years, unless a shorter term is stated in their notice of appointment.

We provide secretariat support to the Waste Advisory Board to help them fulfil their statutory role.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Secretariat functions for the Waste Advisory Board are undertaken in accordance with the Board's terms of reference and their annual work programme	New measure	Achieved	Achieved

Strategic alliances

Enduring strategic alliances with stakeholders who lead and are trusted by their constituents help us achieve our long-term visions and outcomes. A three year strategic alliance was entered into in 2011 to formalise and mature the relationship between the Ministry and the Waste Management Institute of New Zealand (WasteMINZ).

A strong relationship now exists between the Ministry and WasteMINZ which promotes collaboration across the waste and resource recovery sector and has enhanced both organisations' ability for two way communication on key issues.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
The Waste Management Institute of New Zealand (WasteMINZ) delivers work and the quality of this work is monitored by the Ministry in accordance with the contractual obligations outlined in the Strategic Alliance	New measure	Achieved	Achieved

Output Class: Waste minimisation administration

Waste Minimisation Act 2008

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:

- puts a levy (of \$10 per tonne plus GST) on all waste disposed of in landfills to generate funding to help local government, communities and business reduce the amount of waste
- 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.

We are responsible for the administration of the Act.

Administering the Waste Minimisation Act

We are able to recover the costs of certain administration functions from the Waste Disposal Levy up to an amount agreed by Cabinet (in 2013/14, this amount was \$2.220 million). In 2013/14, we recovered \$2.061 million from the levy.

On-going administration functions include:

- collection of the levy from disposal facility operators (including collecting returns, issuing invoices, receiving payments and collecting debts)
- payment of 50 per cent of levy revenue to territorial authorities and monitoring that territorial authorities are using the funds for the intended purposes
- managing the Waste Minimisation Fund and oversight of projects funded
- monitoring and review activities associated with the levy (ie, disposal facility operators, territorial authorities and WMF recipients) to provide assurance to the Minister that the Waste Minimisation Act is being complied with
- managing offences and enforcement actions associated with the levy (including investigations and prosecutions).

Our aim is to keep the cost of these administration functions within five per cent of the total levy collected.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Administration costs of the Waste Disposal Levy (including levy collection, administration of Waste Minimisation Fund projects and payments to territorial authorities) are not more than 5% of the total levy collected.	New measure	No more than 5%	4.81%

Collection of the Waste Disposal Levy

We collect the Waste Disposal Levy imposed on disposal facilities under the Act. The purpose of the levy is to create funding opportunities for waste minimisation initiatives (through the Waste Minimisation Fund) and provide an economic incentive to polluters to change their behaviour.

In 2013/14, \$27.856 million of levy funding was collected.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of instances when successful action is taken against disposal facility operators who have outstanding levy payments (over 120 days)	No action required to be taken	100%	No action required to be taken
Percentage of Disposal Facility Operators satisfied (or better) with the timeliness and quality of advice received from the Ministry through the course of the year.	New measure	70% satisfied or better	92% satisfied

Distribution of levy money to territorial authorities

Fifty per cent of the Waste Disposal Levy that is collected is distributed to territorial authorities, on a per head of population basis, and is to be spent on waste minimisation initiatives and activities in their regions.

In October 2013, we published best practice guidelines for territorial authorities on the use of the levy money. The guidelines have been well received by territorial authorities and have established clear processes for spending, tracking and reporting of levy money. We have an ongoing programme of financial and outcome-focused audits of levy spend by territorial authorities. These audits continue to drive improvements in territorial authorities reporting on waste minimisation outputs and outcomes from the levy spending.

For more information on how territorial authorities are expected to spend their share of the levy, see: <https://www.mfe.govt.nz/publications/waste/waste-levy-spending-guidelines-territorial-authorities.pdf>.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of territorial authorities satisfied (or better) with the timeliness and quality of advice received from the Ministry throughout the course of the year.	New measure	70% satisfied or better	93% satisfied

Managing the Waste Minimisation Fund

The Waste Minimisation Fund (WMF) was established in 2009 with the introduction of the waste disposal levy to fund projects that increase resource efficiency.

The purpose of the 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 2009, \$52 million

has been allocated to 102 projects with an estimated 75,000 tonnes³³ of waste having been diverted from landfill from projects already completed.

A funding round is run each year and applications are reviewed by an assessment panel comprising a mix of Ministry officials and external parties. Applications are assessed against assessment criteria to ensure only projects that promote or achieve waste minimisation are funded. Recommendations are then provided to the Minister for the Environment who makes the final decision on which projects are funded.

Before funding is guaranteed, we undertake due diligence of the applicant and work closely with all successful applicants to plan the project and negotiate the funding deed. Once funding has been awarded, we provide support throughout the project, providing advice when sought and undertaking rigorous assessment of milestone deliverables. All recipients are visited by officials at least once during the project's lifetime.

The latest funding round closed on 15 May 2014 and applicants were notified whether their application was successful in August 2014.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
The Waste Minimisation Fund eligibility and assessment criteria are aligned with the requirements of the Waste Minimisation Act 2008	New measure	Achieved	Achieved
Percentage of funding rounds for the Waste Minimisation Fund that proceed through Stage 1 in under 12 weeks per round (standard term: 60 working days)	New measure	100%	0% (based on one funding round)
Percentage of completed Waste Minimisation Fund projects administered within acceptable timeframes (after funding agreement signed)	New measure	80%	83%
Percentage of Waste Minimisation Fund applicants whose projects are completed are satisfied (of better) with the timeliness and quality of advice received from the Ministry throughout the course of their project.	New measure	80% satisfied or better	83% satisfied
The eligibility and assessment criteria for the Waste Minimisation Fund is tested and reviewed for alignment with the Ministry's Outcomes Framework, and with the Natural Resources Sector's priorities. ³⁴	New measure	Achieved	Achieved
Percentage of Waste Minimisation Fund recipients with health and safety provisions that require health and safety excellence by 30 June 2014. ³⁵	New measure	100%	100%

Commentary on targets not achieved: We aim to complete Stage 1 of each funding round (application receipt, assessment and approval) within 12 weeks (standard term: 60 working days). In 2013/14, we took 86 working days to complete Stage 1. Work is currently underway to develop improved application and assessment processes which should reduce the Stage 1 timeframe for future funding rounds.

Review of the effectiveness of the Waste Disposal Levy

A review of the effectiveness of the Waste Disposal Levy is required by the Waste Minimisation Act to be completed every three years. The 2014 review has been completed and focussed on whether the levy is being applied fairly and correctly, and how to ensure a level playing field for those paying the levy. It also looked at the impact the levy funding is having on achieving waste minimisation.

³³ The estimate is based on WMF projects completed by 30 June 2013.

³⁴ This measure is in addition to the measures published in the *Information Supporting the Estimates 2013/14*. This measure was agreed in our 2013/14 Output Plan agreement with the Minister for the Environment.

³⁵ Ibid

The review found:

- more and better data is needed to measure the impact the levy is having on waste minimisation
- based on data available, the levy is currently only applied to an estimated 30 per cent of the total waste disposed of to land as the levy is only payable on waste disposed of at landfills that accept household waste
- changes should be investigated to ensure the levy is applied to a greater proportion of waste being disposed of to land and to ensure that issues of interpretation are clarified as these changes will ensure a level playing field for those paying the levy
- the process around collecting and distributing levy revenue appear to be effective
- levy funding has supported a broad range of waste minimisation initiatives and more could be done to ensure funding is directed towards strategic priorities and that funding outcomes are being effectively measured and monitored.

We are currently working through options in response to the review's findings.

Promoting compliance under the Waste Minimisation Act

Since 2010, we have undertaken systematic and regular compliance reviews, audits and inspections of disposal facility operators, territorial authorities, and recipients of WMF funding to promote compliance under the Act. Over this period there have been 193 entities involved with levy income and expenses, and all high- to medium-risk entities have been reviewed, inspected or audited. In total:

- 93 per cent of disposal facility operators have been audited or reviewed
- 56 per cent of territorial authorities have been audited or reviewed
- 42 per cent of WMF recipients have been audited or reviewed.

Audits and compliance reviews of disposal facility operators has shown that different legislative interpretations of the term 'reuse' remains an issue for levy collection. This ambiguity is expected to be dealt with through amendments to the Act and regulations as noted in the review of the waste levy.

Guidance prepared for territorial authorities on levy expenses has been widely accepted and its use, in tandem with audits and compliance reviews, has resulted in a marked improvement in financial record keeping by territorial authorities.

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 82 and 83.

What it cost

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

This multi-class output appropriation³⁶ comprises two output classes that contribute to the outcome of strengthening and supporting New Zealand's environmental systems so they can achieve the greatest

³⁶ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned all of its multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. There was no change made to the underlying structure of this appropriation during the transition.

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.

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	1,828	2,146	1,488	1,488	1,365
Departmental	18	–	–	35	–
Other	6	–	2	2	–
Total revenue	1,852	2,146	1,490	1,525	1,365
Total expenses	1,765	2,146	1,490	1,502	1,365
Net surplus/(deficit)	87	–	–	23	–

At Main Estimates, the 2013/14 budget for this output class was \$2.146 million. During the year, this was decreased by \$656,000 primarily due to the reprioritisation of funding to *Departmental Output Class: Waste Management and Minimisation* to contribute to the costs of the continuing TV TakeBack scheme and the review of the Waste Disposal Levy.

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Forecast \$000
Revenue					
Crown	2,000	1,692	2,409	2,409	2,085
Departmental	7	–	–	4	–
Other	18	–	2	3	–
Total revenue	2,025	1,692	2,411	2,416	2,085
Total expenses	1,934	1,692	2,411	2,301	2,085
Net surplus/(deficit)	91	–	–	115	–

At Main Estimates, the 2013/14 budget for this output class was \$1.692 million. During the year, this was increased by \$719,000 due to the reprioritisation from other work programmes to cover the costs of the TV TakeBack scheme.

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 Disposal Levy.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	2,310	1,714	2,218	2,218	1,714
Departmental	3	–	–	3	–
Other	7	–	2	3	–
Total revenue	2,320	1,714	2,220	2,224	1,714
Total expenses	2,234	1,714	2,220	2,062	1,714
Net surplus/(deficit)	86	–	–	162	–

In 2013/14, we carried out our functions under the Waste Minimisation Act at a cost that was \$158,000 lower than Supplementary Estimates. Under the Waste Minimisation Act, this underspend must be returned to the Waste Minimisation Fund.

At Main Estimates, the 2013/14 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 existing baselines; it was not recovered from the Waste Levy collected from disposal facility operators.

Non-departmental funding

We manage 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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Income					
Waste Disposal Levy collected from disposal facility operators	25,820	26,000	28,000	27,856	28,000
Total income	25,820	26,000	28,000	27,856	28,000
Expenses					
Waste Disposal Levy disbursement to territorial local authorities	12,910	13,000	14,000	13,928	14,000
Contestable Waste Minimisation Fund ³⁷	8,569	20,004	16,642	8,484	15,752
Impairment of debt relating to the Waste Disposal Levy collection	–	1,500	1,500	–	–
Impairment of debt relating to environment activities	–	–	–	–	1,500
Environmental Protection Authority: Regulatory functions multi-class output appropriation:					
Compliance and enforcement	2,563	3,252	3,722	3,722	8,404
Decision-making	7,291	6,428	7,723	7,723	10,181
Total expenses	31,333	44,184	43,587	33,857	49,837

Contestable Waste Minimisation Fund

The purpose of the WMF is to fund projects that increase resource efficiency, increase reuse, recovery and recycling, and decrease waste to landfill. Examples of recently completed WMF projects are:

- *Whanganui District Council Resource Recovery Centre:* Whanganui District Council has developed a Resource Recovery Centre (RRC) for the benefit of the Whanganui community which has significantly increased the range of waste minimisation services available in the district. The RRC includes a drop-off site which collects a greater range of products for re-use, recycling or recovery, as well as an education centre. The RRC has brought together iwi, Council and the community sector to deliver these services collaboratively. The site is centrally located in the central business district making it easily accessible for the community and the size of the site provides for future developments and expansion.
- *Glass Packaging Forum Love NZ public place recycling programme:* This project builds on the success of the existing Love NZ project, by extending the Love NZ public place recycling programme to the commercial sector. The project provided seed funding to install 190 permanent recycling bins at garage forecourts, shopping malls, retail outlets and other public buildings around the country. The bins are serviced by the private sector and the project has been supported by local authorities who are keen to have the commercial sector take responsibility for waste.

Applications to this fund are assessed against criteria to ensure only projects which promote or achieve waste minimisation are funded. For the 2014 funding round, preference was given to projects that focused on the reduction of harm to the environment. More information on the projects being funded, see our website: www.mfe.govt.nz/issues/waste/waste-minimisation-fund/.

³⁷ Part 2.2 of the *Environment Sector – Information Supporting the Estimates 2013/14* 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.

Rena Long-term Environment Recovery

Following the grounding of the Rena on Otaiti (Astrolabe Reef), we 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.

We have 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 was originally \$1.877 million over three years to 30 June 2015 but in 2013/14, the Government invested an additional \$542,000 to continue the monitoring of water quality and kaimoana, restore shorelines, protect wildlife and assess the mauri of the Bay of Plenty area.

In December 2013, the Bay of Plenty Regional Council released a report into the effects of oil pollution on the Bay of Plenty environment following the Rena grounding. The report concluded that the grounding of the Rena should have no long-lasting effects on the Bay of Plenty beaches and coastal fisheries.

Rena Long-term Environment Recovery - appropriations, adjustments and use	\$000
Original appropriation	1,877
Adjustment for 2013/14	542
Total adjusted appropriation	2,419
Actual expenses to 2011/12 year end	–
Actual expenses to 2012/13 year end	1,877
Actual expenses to 2013/14 year end	426
Total actual expenses	2,303
Balance of appropriation remaining after actual expenses	116
Projected expenses to 2014/15 year end	–
Balance of appropriation remaining after projected expenses	116

Progress we have made towards achieving the outcome

The EPA is responsible for decision-making under the HSNO Act. The EPA also reports annually on the HSNO Act's effectiveness, which helps us monitor the management framework for chemical and biological hazards. We collect data on waste disposal at facilities subject to the Waste Disposal Levy. This helps us monitor the effectiveness of the Waste Minimisation Act in reducing waste.

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

Target: Reduced number of incidents

Results: **Hazardous substances:** Sixteen per cent decrease in total number of reported incidents since 2009/10. No level four or five incidents have been reported.

(2013: 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: Eighty-two 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)

(2013: Eighty-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))

To monitor the effectiveness of the HSNO Act, the EPA reports 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 was 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 the number of incidents, reported to the EPA, involving hazardous substances and new organisms and how many incidents had an adverse effect on the environment and/or human health.

Trend	2009/10	2010/11	2011/12	2012/13	2013/14
Total number of incidents involving hazardous substances	1,315	1,460	*599	929	1,100
Incidents involving hazardous substances where adverse effects to the environment were known	441	419	144	417	464
Incident levels 2 and 3 only	8	7	1	2	7
Incidents involving hazardous substances where adverse effects on human health were recorded	78	52	49	39	45
Incident levels 2 and 3 only	25	21	16	23	38
Total number of incidents involving new organisms	17	24	32	35	31
Incidents involving approved new organisms where adverse effects to the environment were recorded	0	0	0	0	0
Incidents involving approved new organisms where adverse effects on human health were recorded	2	5	9	5	5

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

Hazardous substances incidents: Reporting on the adverse effects to the environment involving hazardous substances continues to be challenging. The total number of incidents involving hazardous substances where adverse effects to the environment were known shows a decrease in 2011/12 but this is likely due to greater caution in describing whether environmental effects were known or not known, as well as under-reporting by the NZ Fire Service due to industrial action.

New organisms: The total number of reported incidents has doubled since 2009/10. This is most likely due to better reporting and recording of incidents. Since 2011/12, all new organisms incidents causing adverse effects on human health have involved zoo animals.

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

Target: Downward trend

Results: Static trend - 18.6 tonnes per \$1 million GDP (projected) for the year ending June 2014 versus 18.6 tonnes per \$1 million GDP for the year ending 30 June 2010

For the year to 30 June 2014, 2.8 million tonnes of waste was disposed of at facilities required to pay the Waste Disposal Levy. This equates to 18.6 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.

The Minister has recently undertaken a review of the effectiveness of the levy. The recommendations from this review will direct our future work to address issues identified with the operation of the levy.

Trend	2009/10	2010/11	2011/12	2012/13	2013/14
Tonnes of waste disposed at facilities per unit of GDP	18.6	18.9	17.9	17.6	18.6

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, we generally work with others, both domestically and internationally, to find solutions to environmental problems. Community involvement and international cooperation can often achieve solutions and results we could not deliver alone.

At a domestic level, 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, we are 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.

What we did and how we performed this year

Output Class: Domestic Obligations and Programmes

Managing grants schemes on behalf of the Crown

We manage a number of grant schemes on behalf of the Crown. Robust processes are used to ensure funded projects have the best chance of success and there is transparent accountability for public money.

Before funding is guaranteed, we undertake due diligence of the applicant, and works closely with the applicant to plan the project and negotiate the funding deed. Once funding has been awarded, we engage with fund recipients during the project, providing advice when sought and undertaking rigorous assessment of milestone deliverables. All recipients are visited by officials at least once during the project's lifetime.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Administration costs are no more than 12% of the total funds being allocated	New measure	Not more than 12%	8.98%

Managing the 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, improved freshwater management, improved coastal management, improved air quality, protecting biodiversity and some waste management initiatives.

Since the establishment of the fund in 2010, \$7.4 million has been allocated to 73 projects with the equivalent of \$13.7 million of in-kind contributions³⁸ projected. For more information on these projects, refer to page 58.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
The Community Environment Fund eligibility and assessment criteria is aligned with the Ministry's Outcome Framework	New measure	Achieved	Achieved
Percentage of completed Community Environment Fund projects administered within acceptable timeframes (after funding agreement signed)	New measure	80%	91%
Percentage of Community Environment Fund applicants whose projects are completed are satisfied (or better) with the timeliness and quality of advice received from the Ministry throughout the course of their project	New measure	80% satisfied or better	100% satisfied
Percentage of funding rounds for the Community Environment Fund proceed through Stage I in under 12 weeks per round (standard term: 60 working days)	New measure	100%	0% (based on one funding round)
The eligibility criteria for the Community Environment Fund is tested and reviewed for alignment with the Ministry's Outcomes Framework, and with the Natural Resource Sector's priorities. ³⁹	New measure	Achieved	Achieved
Percentage of Community Environment Fund recipients with health and safety provisions that require health and safety excellence by 30 June 2014. ⁴⁰	New measure	100%	100%

Commentary on targets not achieved: We aim to complete Stage I of each funding round (application receipt, assessment and approval) within 12 weeks (standard term: 60 working days). In 2013/14, the timeframe for applications proceeding through Stage I exceeded 12 weeks due to the establishment of a new CEF assessment panel.

Managing the 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 enquiry constituted under the 'call-in' provisions of the Resource Management Act. The funding covers the cost of engaging legal counsel and expert witnesses.

We receive about 58 applications to the fund each year with an average of 40 successful applications and an average of \$20,000 being awarded to successful applicants.

³⁸ 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.

³⁹ This measure is in addition to the measures published in the *Information Supporting the Estimates 2013/14*. This measure was agreed in our 2013/14 Output Plan agreement with the Minister for the Environment.

⁴⁰ Ibid

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of Environmental Legal Assistance grants administered within acceptable timeframes	New measure	80%	100%
Percentage of Environmental Legal Assistance applicants whose projects are completed are satisfied (or better) with the timeliness and quality of advice received from the Ministry throughout the course of their project	New measure	80% satisfied or better	100% satisfied
The eligibility criteria for the Environmental Legal Assistance Fund is tested and reviewed for alignment with the Ministry's Outcomes Framework and with the Natural Resource Sector's priorities. ⁴¹	New measure	Achieved	Achieved

Managing the Contaminated Sites Remediation Fund

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, \$52 million has been allocated to 42 projects with 20 sites remediated.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
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 applicants whose projects are completed are satisfied (or better) with the timeliness and quality of advice received from the Ministry throughout the course of their project	New measure	80% satisfied or better	100% satisfied

Sir Peter Blake Youth EnviroLeaders Forum

The Youth EnviroLeaders Forum is an annual event run in partnership with the Sir Peter Blake Trust and is our principle opportunity to engage with environmentally aware youth throughout New Zealand. The Forum is an opportunity for youth to take part in practical environmental projects, and is designed to inspire and build the capability of young environmental leaders. Delegates (50 Year 11 to 13 students) 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.

The 11th annual Youth EnviroLeaders Forum took place between 27 April and 1 May 2014 and was held in Wellington. The focus of this year's Forum was climate change and ocean health. The Forum's programme held a range of opportunities, over four days, for the chosen youth enviroleaders to be exposed to and debate topical environmental issues. The programme included workshops, field trips, presentations and plenary sessions with a range of agencies including NIWA, the New Zealand Defence Force and Victoria University. Workshops were also held at the Ministry for the Environment to showcase our current work programmes and priorities, as well as promote future opportunities at the Ministry for youth.

Feedback from this year's event has been overwhelmingly positive. In particular the chosen youth enviroleaders relished the opportunity to see first-hand topical environmental issues being considered in a policy context. By the end of the week, most students felt that they were more likely to be involved in environmental and conservation issues and initiatives in their communities.

⁴¹ ibid

Green Ribbon Awards

The 2014 Green Ribbon Awards were held on 16 June and recognised the outstanding contributions of individuals, organisations, businesses and communities to protect and enhance New Zealand's environment. Awards were given in various categories such as 'Caring for our water', 'Minimising our waste' and 'Communication and education'. The awards attracted 113 nominations across 12 categories.

The Nina Valley EcoBlitz event was named the 2014 Supreme Winner. This event brought together scientists, senior high school students, university students, teachers and helpers to document and discover the species of North Canterbury's Nina Valley and surrounds. This unique event enabled high school students from 21 different schools in Canterbury and Westland to experience hands-on activities and learn scientific methods. The EcoBlitz included 119 field activities ranging from general species searching to workshops on popular ecology topics. The event educated and inspired students and teachers, and highlighted the importance of scientific methods in fieldwork.

A full list of the 2014 winners is available on our website:

<http://www.mfe.govt.nz/withyou/awards/green-ribbon-winners-2014.html>

Output Class: International Obligations and Institutions

Environmental cooperation agreements and multilateral environmental agreements

New Zealand's environment is affected not only by what we do within our borders but increasingly by what other countries do within and beyond their borders. New Zealand's aim, both domestically and internationally, is to develop sound trade and environment policies that mutually support the goal of sustainable development.

The Ministry of Foreign Affairs and Trade is the lead agency for negotiating free trade agreements with other countries. The Ministry for the Environment's role is to support the negotiation of environment provisions associated with those agreements and to encourage our bilateral partners to improve market access for environmental goods and services.

Environment provisions in the context of Free Trade Agreements are a part of New Zealand's commitment to sustainable development and also provide a platform for international cooperation between trading partner countries. Much of the work under these agreements focuses on improving knowledge, strengthening environmental policies, and building capacity and capability to implement such measures.

In 2013/14, nine cooperation activities with five Environment Cooperation Agreement (ECA) partners (China, Thailand, Indonesia, Chile and Singapore) were successfully completed. A priority for this year has been continued engagement with China on issues such as water quality in rural areas and chemical management. Other activities included discussions on freshwater and climate change issues. An interim New Zealand-China ECA Coordinators' meeting was held in China in October 2013. The prioritisation of engagement with China has resulted in a reduction in both the scope and volume of cooperation activities with other ECA partner countries. Cooperation has been limited to small scale activities oriented toward departmental priorities.

We also provided advice on, and ensured that New Zealand met, obligations arising from the following multilateral environment agreements: the Basel, Waigani, Rotterdam and Stockholm Conventions, and the Montreal Protocol. We 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. We also:

- led the process for submitting a National Interest Analysis for the treaty examination process for the recently concluded Minamata Convention on Mercury, leading to New Zealand's signing of the Convention on 10 October 2013

- continued work on New Zealand's domestic policies and their operation to ensure they reflect our international obligations.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to international obligations completed within agreed timeframes ⁴²	67%	100%	86%

Commentary on targets not achieved: We had agreed to provide advice to Ministers in advance of the July 2014 Montreal Open Ended working group regarding any items or issues that went beyond the Cabinet mandate for the negotiations. As there were no items or issues outside the parameters of the Cabinet mandate, no advice was required.

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 82 and 83.

What it cost

The 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 appropriation⁴³ 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.

⁴² Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

⁴³ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned all of its multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. There was no change made to the underlying structure of the 'Improving resource management' appropriation during this transition.

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.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual	Budget	Revised	Actual	Unaudited
	\$000	\$000	Budget	\$000	Forecast
			\$000		\$000
Revenue					
Crown	2,330	2,763	2,021	2,021	1,700
Departmental	4	–	20	48	–
Other	5	5	42	5	5
Total revenue	2,339	2,768	2,083	2,074	1,705
Total expenses	2,246	2,768	2,083	2,056	1,705
Net surplus/(deficit)	93	–	–	18	–

At Main Estimates, the 2013/14 budget for this output class was \$2.768 million. During the year, this was reduced by \$685,000 due to the reprioritisation of funding to *Departmental Output Class: Water Management Policy Advice* to progress work in relation to the National Policy Statement on Freshwater Management.

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; and contributing to negotiations with international parties on environmental issues in line with international arrangements, agreements and partnerships.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual	Budget	Revised	Actual	Unaudited
	\$000	\$000	Budget	\$000	Forecast
			\$000		\$000
Revenue					
Crown	1,992	1,612	1,576	1,576	1,630
Departmental	6	–	25	2	–
Other	16	–	2	3	–
Total revenue	2,014	1,612	1,603	1,581	1,630
Total expenses	1,924	1,612	1,603	1,564	1,630
Net surplus/(deficit)	90	–	–	17	–

Non-departmental funding

We manage 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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Expenses					
Promotion of Sustainable Land Management	800	800	800	800	800
Environmental training programmes	1,900	1,900	1,900	1,900	1,900
Community Environment Fund	2,304	6,472	3,008	1,770	4,872
Environmental Legal Assistance Fund	464	800	1,125	555	800
Climate Change Development Fund	296	300	300	290	300
Contaminated Sites Remediation Fund ⁴⁴	103	5,453	3,670	344	4,628
United Nations Environment Programme	323	393	393	320	393
International subscriptions	113	117	117	75	117
Total expenses	6,303	16,235	11,313	6,054	13,810

Community Environment Fund

The purpose of the CEF is to support initiatives that increase community-based advice, educational opportunities and public awareness on environmental issues. Examples of recently completed CEF projects are:

- *Freshwater Invertebrate Identification, Information and Action Resource project by Landcare Research:* Landcare Research is one of New Zealand's Crown Research Institutes whose research is focused on the environment, biodiversity and sustainability. The purpose of this project was to develop a web-based guide to help community groups who are carrying out studies on their streams to identify freshwater invertebrates, interpret what they indicate about the stream and decide on any stream management actions. Within the first 10 weeks of being launched there were over 15,000 visits to the site and was rapidly put to use by community, education and other groups. The guide is available by following this link: <http://fwinverts.landcareresearch.co.nz>.
- *LiteClub by the Project Litefoot Trust:* Project Litefoot is a Trust led by seven prominent New Zealand sportspeople who are dedicated to inspiring New Zealanders to be environmental champions. The purpose of the LiteClub programme was to partner with sports clubs throughout New Zealand to help them reduce their carbon footprint and also to empower and inspire members of sports clubs to adopt positive environment practices at home and in their personal lives. Since receiving CEF funding 486 clubs and over 200,000 club members across the North Island have joined the programme and it is estimated that over 1,000 tonnes of carbon dioxide equivalent emissions has been prevented.

⁴⁴ Part 2.2 of the *Environment Sector – Information Supporting the Estimates 2013/14* 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.

Contaminated Sites Remediation Fund

The purpose of the Contaminated Sites Remediation Fund (CSRF) is to encourage and support regional councils and unitary authorities to investigate and remediate sites that pose a risk to human health and the environment. Examples of projects in progress or completed during 2013/14 are:

- *Kopeopeo Canal in the Bay of Plenty*: The Canal was originally built to allow drainage of floodwaters from low-lying farmland into the Whakatane Estuary. But, between 1950 and 1989 it became contaminated by dioxins from a local sawmill. We are working with the Bay of Plenty Regional Council to progress the remedial plan and to acquire consents for the removal of the contaminated sediment. Depending on the outcome of the resource consent process, the major remedial works are expected to be carried out in the 2015/16 financial year.
- *Oamaru timber treatment site*: This site was used for timber treatment from the mid-1960s to the mid-1980s. The principle contaminant of concern is arsenic, which was present in concentrations that exceed Soil Contaminants Standards for recreational and commercial/industrial land-use. In 1991, the site was partially remediated with the most highly contaminated site being placed into an on-site encapsulation cell. To reduce the risk of exposure to any residual contaminants on the site, the whole site has been remediated by increasing the thickness of the clean capping.

In 2013/14, the Contaminated Sites Remediation Fund spent \$5.1 million less than originally estimated at Mains Estimates. This is primarily due to the delays in the resource consenting process for the Kopeopeo Canal project.

Tui Mine Remediation

The remediation of the Tui Mine site, located on the western slopes of Mt Te Aroha, was successfully completed in 2012/13 on schedule and within budget. The \$350,000 balance of the multi-year appropriation was transferred to contribute towards the costs of implementing the Rena Long-term Environmental Recovery Plan.

In July 2014, the project returned the responsibility for the ongoing monitoring and maintenance of the Mine to the Department of Conservation and the Matamata-Piako District Council.

Tui Mine Remediation – Appropriations, adjustments and use	\$000
Original appropriation	15,200
Adjustment for 2013/14	(350)
Total adjusted appropriation	14,850
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
Actual expenses to 2013/14 year end	–
Total actual expenses	14,850
Balance of appropriation remaining	–

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 remediated⁴⁵

Target⁴⁶: Increasing proportion of priority contaminated sites remediated⁴⁷ and/or managed⁴⁸

Results: Total priority sites⁴⁹ identified = 72 sites; Remediated priority sites = 20; Managed priority sites = 5; Percentage remediated/managed = 35%

Since 2003/04, 42 contaminated sites projects have received funding from the CSRF. During 2013/14, work has been undertaken on seven projects (two of which are multi-year projects). In 2013/14, we developed the Contaminated Sites Remediation Fund Priority List that identifies 10 confirmed contaminated sites as priority sites for funding. Of these, four sites received funding from the CSRF in 2013/14. 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.

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

Trend	2010/11	2011/12	2012/13	2013/14
Total priority sites identified	61	67	71	72
Remediated priority sites	13	14	19	20
Managed priority sites	5	10	6	5
Percentage remediated/managed	30%	36%	35%	35%

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

Target: Increasing community involvement

Results: \$13.7 million of in-kind contributions projected for the \$7.4 million of government funding committed to 73 CEF projects
\$2.8 million of actual in-kind contributions for the \$1.9 million of government funding paid to 32 completed CEF projects

⁴⁵ Also contributes to the following impact: Reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks.

⁴⁶ The impact target has been amended to include 'and/or managed' to make it more consistent with the impact measure.

⁴⁷ 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 and no further controls are required to manage risk to any residual contamination. It also includes sites where contaminated materials are isolated using an on-site technique such as capping and encapsulating. The site is suitable for its intended use but is subject to ongoing site management controls to monitor and maintain the capping or encapsulation that mitigates any risk from contaminants present on the site.

⁴⁸ Managed sites are sites that are currently subject to detailed site investigations, remedial planning, and/or remediation.

⁴⁹ Total priority sites is the sum of the priority sites previously addressed by the Contaminated Sites Remediation Fund and priority sites that regional councils have provided to the Ministry.

Projected in-kind contributions: The overall performance against this measure is based on the predicted information contained in the 73 approved (CEF) project proposals. Community involvement is measured by in-kind contributions made to projects per dollar of government funding committed.⁵⁰ A total of approximately \$7.4 million in CEF funding has been allocated to date, towards estimated total project costs of \$13.7 million.

Actual in-kind contributions: Actual in-kind contributions are reported against once the projects are completed. To date, 32 CEF projects have completed. In-kind contributions of \$2.8 million have been made towards these 32 projects, against an actual CEF contribution of \$1.9 million and an actual project cost of \$5.08 million.

Trend based on predicted information	2010/11	2011/12	2012/13	2013/14
Projected in-kind contributions (\$ million) – cumulative	1.5	2.7	14.4	13.7 ⁵¹
Government funding committed (\$ million) – cumulative	0.75	1.3	7.5	7.4
Ratio of projected in-kind contributions to committed government funding	2 : 1	2.08 : 1	1.92 : 1	1.85 : 1

Trend based on actuals from completed projects	2010/11	2011/12	2012/13	2013/14
Actual in-kind contributions (\$ million) – cumulative	–	–	1.6	2.8
Government funding spent (\$ million) – cumulative	–	–	1.3	1.9
Ratio of actual in-kind contributions to spent government funding	–	–	1.23 : 1	1.47 : 1

3. Percentage of Community Environment Fund and Waste Minimisation Fund 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 75 per cent of projects

Seventy-five per cent of completed projects from the CEF and the Waste Minimisation Fund (WMF) (rounds one and two of CEF / rounds one, two and three of WMF) report full achievement against their objectives. This is based on a total of 54 WMF projects and 19 CEF projects being complete at the time of reporting.⁵²

Trend	2010/11	2011/12	2012/13	2013/14
Percentage of CEF and WMF projects that report full achievement against objectives [Target: 80%]	85%	97%	82%	75%

⁵⁰ 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.

⁵¹ The 2013/14 projected in-kind contributions is lower than the value projected in 2012/13 due to two projects not proceeding past Stage I.

⁵² This does not include environment centres operational costs (which account for an additional 12 completed CEF projects).

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 us to be involved in negotiating Treaty settlements and environmental accords and to implement obligations under these agreements.

Our aim is to ensure that settlements provide appropriate redress but do not conflict with or undermine existing natural resources policy objectives. We have 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

We work 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 2013/14, we have provided advice on 16 Treaty negotiations.

Treaty settlement milestones achieved include:

- agreements in principle or high level agreements signed with Ngāti Tuwharetoa, Te Wairoa, Mana Ahuriri, He Toa Takitini, Rangitane, Tamaki Nui a Rua and Rangitane o Wairarapa
- deeds of settlement initialled with Kawerau a Maki, Te Atiawa, Ngā Ruahine and Whanganui River Iwi
- deeds of settlement signed with Ngāti Hauā and Tūhoe.

We have also been contributing to negotiations of relationship agreements with Ngāi Tai ki Tāmaki, Te Ākitai o Waiohū, Ngāti Tūwharetoa, Te Atiawa, Taranaki, Ngā Ruahine, Ngāti Hineuru and Mana Ahuiriri.

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

- the initiation of new joint work streams with six settled iwi
- developed an implementation plan with Ngāti Maniapoto for the Environment Portfolio Accord
- delivered 'RMA 101' training for Ngāti Maniapoto kaitiaki and provided \$50,000 funding for a Ngāti Maniapoto environmental scoping project (Waipa River catchment)

- developed a deed of funding for the Port Nicholson Block Trust mātauranga planning project
- facilitated the transfer of \$2 million funding to Ngāti Pahauwera to assist with the restoration of the health of the Mohaka, Waikari and Waihua rivers and their catchments within their rohe.

Due to the circumstances of particular iwi, some obligations were not met in 2013/14 as per the relationship agreement. Invitations are left open for iwi to meet when they are ready or available to do so.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables relating to Treaty settlements and environmental accords negotiations are completed within agreed timeframes	75%	100%	100%

Waikato River Co-management

We have fully delivered on the annual work programme agreed with iwi partners under the Waikato River Environment Portfolio Accords. These obligations include engagement on freshwater policy development, providing assistance with developing integrated river management plans and iwi environment management plans, information sharing and building resource management capability.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of obligations met in accordance with the Waikato River Co-management deeds	100%	100%	100%

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 82 and 83.

What it cost

The 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 classes⁵³ within *Multi-class Output Appropriation: Improving Resource Management*.⁵⁴ 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.

⁵³ 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 Expenditure and Capital Expenditure against Appropriations' on pages 100 to 102 for the total spend against total appropriation for the 'Improving Resource Management' Multi-class Appropriation.

⁵⁴ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned all of its multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. There was no change made to the underlying structure of the 'Improving resource management' appropriation during this transition apart from the establishment of 'Water management implementation' category (\$3 million in 2014/15) which was added in Budget 2014.

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.

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	1,458	1,581	1,233	1,233	1,224
Departmental	3	–	–	2	–
Other	6	–	2	2	–
Total revenue	1,467	1,581	1,235	1,237	1,224
Total expenses	1,381	1,581	1,235	1,233	1,224
Net surplus/(deficit)	86	–	–	4	–

At Main Estimates, the 2013/14 budget for this output class was \$1.581 million. During the year, this was reduced by \$346,000 due to the reprioritisation of funding to *Departmental Output Class: Water Management Policy Advice* to progress work in relation to the National Policy Statement on Freshwater Management.

Non-departmental funding

As part of our Treaty settlement implementation role, we manage non-departmental appropriations related to the Waikato-Tainui and Whanganui River Treaty settlements ensuring that the Crown meets its obligations under these settlements.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Expenses⁵⁵					
Waikato River Co-management	9,787	2,810	2,810	2,810	2,873
Waikato River Co-governance	910	910	910	910	910
Transitional support for local government and iwi	–	–	825	787	–
Te Awa Tupua Putea	–	–	30,000	28,000	–
Te Pou Tupua	–	–	2,490	2,490	96
Te Awa Tupua Whole of River Strategy	–	–	430	401	–
Total expenses	10,697	3,720	37,465	35,398	3,879

Whanganui River Settlement

In February 2014, the Whanganui River deed of settlement was initialled by the Crown and Whanganui Iwi negotiators. Following a series of ratification hui across the country Whanganui River Iwi ratified this settlement which achieves three important things:

1. It addresses longstanding historical grievances of Whanganui Iwi in relation to the Whanganui River in a way that recognises the innate relationship between iwi and the river for the first time.
2. It recognises the river as Te Awa Tupua, a whole and indivisible entity from the mountains to the sea.
3. It enables the development of a Whole of River Strategy to ensure the long-term environmental, social, cultural and economic health and well-being of Te Awa Tupua.

The settlement contains a financial redress package of \$80 million, of which we are managing a portion:

- A one-off payment of \$30 million for the establishment of a contestable fund, Te Awa Tupua Putea, available to any person, group or entity seeking funding for initiatives related to Te Awa Tupua. This fund will be administered by Te Pou Tupua – the guardians of Te Awa Tupua.
- \$4 million over 20 years to be paid to Te Pou Tupua as a contribution towards their operating costs.
- A one-off payment of \$430,000 to be paid to Te Pou Tupua towards the establishment and development of the Whole of River Strategy.

⁵⁵ In accordance with New Zealand Financial Reporting Standards the Ministry has recognised the full obligation of some of these settlements as an expense in net present value terms in the year the obligation arises. The expenses recognised annually since represent the unwinding of the discount recognised. It does not represent the cash payments made each year. The settlement, year it was recognised as an expense in net present value terms, and cash payment profile is detailed below:

- Waikato River co-management: \$150 million over 30 years recognised as an expense in net present value terms in 2009/10. Cash payment profile as per 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.
- Te Awa Tupua Putea: one-off contribution of \$30 million (expected in 2015/16) recognised as an expense in net present value terms in 2013/14.
- Te Pou Tupua: \$4 million over 20 years recognised as an expense in net present value terms in 2013/14. Cash payment profile is \$200,000 per year between 2014/15 and 2033/14.
- Te Awa Tupua Whole of River Strategy: one-off contribution of \$430,000 (expected in 2015/16) recognised as an expense in net present value terms in 2013/14.

Progress we have made towards achieving the outcome

We have 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

We currently have post-settlement relationships with 27 iwi and are actively engaged with all of them. Ninety-five per cent of iwi actively engaged in post-settlement relationships with us are satisfied or very satisfied with the implementation of obligations.

Trend	2010/11	2011/12	2012/13	2013/14
Percentage of Māori partners in deeds of settlement and environmental accords satisfied or very satisfied with Ministry implementation of obligations	100%	100%	95%	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

We currently have post-settlement relationships with 27 iwi and are actively engaged with all of them. Having considered each settlement obligation and work programme, we consider 90 per cent would be a fair reflection of the obligations met.

Trend	2010/11	2011/12	2012/13	2013/14
Percentage of the relevant Ministry obligations under deeds of settlement and environmental accords met	80%	80%	90%	90%



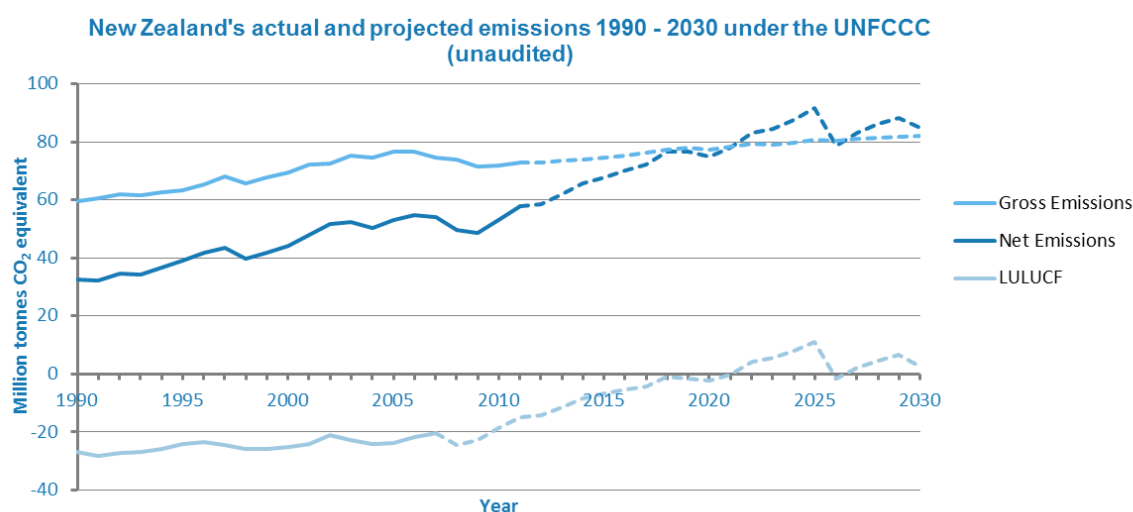
Outcome: New Zealand becomes a successful low-carbon society that is resilient to climate change impacts on its climate, economy and lifestyle

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 global environmental 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.

The graph below shows the trend in New Zealand's emissions, and projected emissions out to 2030 under the United Nations Framework Convention on Climate Change (UNFCCC).⁵⁶



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 expect 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.⁵⁷ 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, low population density and consequent relatively low use of public transport).

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 has set an unconditional responsibility target of a five per cent reduction in emissions below New Zealand's 1990 greenhouse gas emission levels by 2020, managed using the Kyoto Protocol's second commitment period framework of rules. New Zealand has also set a long-term emission

⁵⁶ Source: New Zealand's Sixth National Communication, released December 2013.
<http://mfe.govt.nz/publications/climate/nz-sixth-national-communication/index.html>

⁵⁷ <http://www.mfe.govt.nz/publications/climate/greenhouse-gas-inventory-2014-snapshot/snapshot.pdf>

reduction target of a 50 per cent reduction in greenhouse gas emissions from 1990 levels by 2050 (in short 50 by 50⁵⁸).

New Zealand will take responsibility for meeting its commitments for emissions reductions from 1990 levels through a combination of:

- domestic emissions reductions
- removal of carbon from forests
- participation in international carbon markets
- recognising surplus achieved during the first commitment period of the Kyoto Protocol (towards the period to 2020).

The main government policy to reduce New Zealand's greenhouse gas emissions is the New Zealand Emissions Trading Scheme (NZ ETS). All significant sources of emissions, other than agriculture, have both reporting and surrender obligations under the NZ ETS (such as energy, industry, and waste disposal sectors). The agriculture sector has reporting-only obligations for methane from livestock and nitrous oxide from soils.

What we did and how we performed this year

Output Class: Domestic Climate Change Programme

Implementing legislative changes to the New Zealand Emissions Trading Scheme

Following recommendations made following the 2011 independent review of the operation and effectiveness of the NZ ETS and how it should evolve beyond 2012, the Climate Change Response (Emissions Trading and Other Matters) Amendment Act was passed into law in 2012.

In September 2013, amendments to the operational regulations of the NZ ETS were made, in part to implement changes made in the 2012 Act. The amended regulations made the following changes for NZ ETS participants:

- Purchasers of liquid fossil fuels (obligation fuels) can now apply to opt in as voluntary participants if they use over 10 million litres per year of jet fuel, or over 35 million litres per year of all obligation fuels combined.
- Global Warming Potentials for non-CO₂ emissions, particularly methane, have been updated.
- A threshold of 100 tonnes of carbon per year has been introduced for the Schedule 4 activity of 'producing iron or steel', to clarify that foundries are not mandatory NZ ETS participants.
- A new regulation provides a simple methodology of reporting emissions from the own-use of crude oil by a miner, with a minimum threshold for this activity of 1500 tonnes of oil per year.

In 2013/14, two further changes were made to the operation of the NZ ETS to reduce fiscal and economic risks associated with the NZ ETS and to protect the reputation and integrity of the NZ ETS. The first of these was to restrict NZ ETS participants' access to international units from June 2015 onwards, which was creating fiscal and economic risks both for present and future Governments and for the integrity of the NZ ETS. The second was an amendment to the Climate Change Response Act 2002 to close a loophole in the NZ ETS available to post-1989 forest land participants. This re-registration arbitrage opportunity enabled participants to register and de-register multiple times for the same area of post-1989 forest land, each time receiving an allocation of New Zealand Units. Again, this created potentially significant fiscal costs to the Crown and risked the reputation and integrity of the NZ ETS.

⁵⁸ The 1990 level is based on New Zealand's greenhouse gas emissions as per the agreed accounting rules of the Kyoto Protocol. The 2050 target is based on New Zealand's net greenhouse gas emissions and will take into account any removals or emissions arising from afforestation or deforestation since 1990 consistent with the Kyoto Protocol.

We are now working to ensure the NZ ETS has an appropriate supply of units in the medium to long term. This includes assessing what form of access to international markets would be best suited to New Zealand, and exploring whether and when an auctioning system should be implemented, and what shape this could take. We had intended to consult on the options for the design of the auctioning system by 31 May 2013, however, that was deferred while we worked through the suite of policy issues noted above relating to international emission unit market access, carry over and arbitrage.

The Government has scheduled the second review of the NZ ETS for 2015, and agreed that the scope is to include an assessment of whether the settings remain suitable to operate in the 2013-2020 period and beyond.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to the domestic climate change work programme completed within agreed timeframes ⁵⁹	88%	100%	75%

Commentary on targets not achieved: Additional advice was expected to be provided to the Cabinet Economic Growth and Infrastructure Committee on progress towards resolving long-term NZ ETS issues, including non-legislative amendments to reduce the fiscal costs of the NZ ETS in June 2014. The Minister took this advice to Cabinet at the end of July 2014, where the Cabinet agreed that no action was required in the short term, but asked that the Minister for Climate Change Issues report back in early 2015.

Developing national and international carbon markets

We remain active in the development of the international carbon market, of which the NZ ETS is a part. This is implemented through a strategy of pursuing carbon market engagement opportunities simultaneously at multilateral, regional and bilateral levels.

As part of New Zealand's approach, we provide secretariat support for the Asia Pacific Carbon Markets Roundtable which we initiated in 2011. The purpose of the Roundtable is to build relationships with countries in the region, provide updates and share experiences on the development of market mechanisms, and progress technical discussions and practical solutions to facilitate 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 collaborate on the development of domestic and international carbon markets. In the UNFCCC negotiations, New Zealand has proposed the development of a framework. The framework will facilitate the interaction between the UNFCCC and existing and emerging national and regional carbon markets and ensure units being traded have environmental integrity, double-counting is avoided, and countries are transparent about their actions.

Output Class: International Climate Change Programme

Providing advice on New Zealand's negotiating position for international climate change negotiations

New Zealand participates in multilateral agreements to address the mitigation and adaptation challenges of climate change. International climate change discussions and negotiations are held primarily under the UNFCCC and its Kyoto Protocol.

⁵⁹ Deliverables are agreed between the Minister and the Ministry and set out in the Output Plan.

We play an important role in New Zealand's international climate change negotiations. We work collaboratively with the Ministry of Foreign Affairs and Trade, the Treasury, the Ministry for Primary Industries, the Ministry of Transport, the Department of Prime Minister and Cabinet and the Ministry of Business, Innovation and Employment to develop New Zealand's international climate change policy.

In 2013/14, we supported Ministers and officials before and during the 19th Conference of the Parties in Warsaw. These negotiations focused on pushing towards a climate change agreement that is legally binding on all countries post-2020, with negotiations scheduled to conclude by 2015. New Zealand's priority for these negotiations was ensuring that work towards the legal framework was on track. We also promoted proposals on information sharing regarding carbon markets and worked to ensure New Zealand, as a Party to the Kyoto Protocol, but with a target under the UNFCCC rather than in the second commitment period of the Kyoto Protocol, is not inadvertently disadvantaged during this period.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of agreed deliverables in relation to international negotiating positions and resulting submissions completed within agreed timeframes	100%	100%	100%

New Zealand's emissions reduction targets

In August 2013, the Government announced an unconditional target of 5 per cent below 1990 emissions by 2020. New Zealand has chosen not to commit to a climate change target under the Kyoto Protocol's second commitment period. Instead we have joined countries responsible for more than 70 per cent of global greenhouse gas emissions who have made international pledges under the UNFCCC.

The new unconditional target is more ambitious than our target under the first commitment period of the Kyoto Protocol.⁶⁰ It also compares favourably with similar countries' action and reflects New Zealand's national circumstances.

This new target means New Zealand now has three national targets, covering both the medium and long term for reducing greenhouse gas emissions. The other two targets are:

- a conditional target of 10 to 20 per cent reduction below 1990 emissions levels by 2020⁶¹
- a long-term target of a 50 per cent reduction in emissions below 1990 levels by 2050.

New Zealand will approach these targets through a mix of domestic emission reductions, the storage of carbon units in forests and the purchase of emission reduction units from other countries.

New Zealand's Greenhouse Gas Inventory

New Zealand's Greenhouse Gas Inventory is the official annual report of all human-caused emissions and removals of greenhouse gases in New Zealand. The inventory measures New Zealand's progress against its obligations under the Kyoto Protocol as well as the UNFCCC.

⁶⁰ To reduce greenhouse gas emissions to 1990 levels on average over the first commitment period of the Kyoto Protocol (2008–2012).

⁶¹ Conditions attached to the target:

- A global agreement that sets the world on a pathway to limit global temperature rise of not more than 2°C;
- Comparable efforts by developed countries;
- Actions by advanced and major emitted developing countries fully commensurate with their respective capabilities;
- Effective rules governing land use, land use change and forestry (LULUCF); and
- Full recourse to a broad and efficient carbon market.

New Zealand's Greenhouse Gas Inventory 1990-2011 was released in April 2013. The report was reviewed and accepted by international institutions during the 2013/14 year as meeting the UNFCCC and Kyoto Protocol reporting requirements.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
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	Achieved

New Zealand's Greenhouse Gas Inventory 1990-2012 was released on 11 April 2014 and is New Zealand's final Inventory for the first commitment period of the Kyoto Protocol (2008-2012). The report was submitted on time and New Zealand's inventory report will be reviewed in September 2014.

For more information on what was contained in this report, see pages 78 to 81.

New Zealand's Sixth National Communication on Climate Change and First Biennial Report

In addition to the National Inventory Report, New Zealand must produce a national communication every four years and a biennial report (a new requirement under the UNFCCC) every two years.

New Zealand's Sixth National Communication under the UNFCCC and Kyoto Protocol was released in December 2013 and provides a snapshot of our progress towards meeting our commitments under UNFCCC and the Kyoto Protocol. It describes the sources of our emissions, projections of emissions and removals up to 2030, the broad range of measures underway to reduce emissions further, and a description of the expected impacts of climate change on New Zealand and our approach to adapting to these impacts. New Zealand is on track to meet its Kyoto Protocol target.

The latest Net Position report produced in April 2014 supports this with a projected surplus of 90.8 million units. A net surplus means that New Zealand's net emissions are projected to be below our target. The actual surplus or deficit of units will be confirmed once the true-up process⁶² has been completed, likely to be in 2015/16.

The biennial report is a new requirement under the UNFCCC and presents New Zealand's progress towards meeting its targets under the UNFCCC. New Zealand released its first biennial report in December 2013. This report contains a subset of the information found in the sixth national communication. In particular, it provides more specific detail on New Zealand's new unconditional emissions reduction target to 2020, including any accounting assumptions that are relevant to the attainment of that target, projections of greenhouse gas emissions and removals, and information on the provision of financial, technological and capacity building support to developing countries.

UNFCCC experts conducted a technical review of both New Zealand's sixth national communication and first biennial report from 24 February to 1 March 2014. The review found no major issues of compliance or implementation.

The Sixth National Communication and First Biennial Report can be found at www.mfe.govt.nz/publications/climate/nz-sixth-national-communication/index.html

⁶² A period of 100 days following the completion of the Kyoto Protocol reviews of greenhouse gas emissions information relating to the First Commitment Period (2008-2012). Transfers of units may still take place until the end of this period, allowing Annex I parties to trade and retire units to comply with their emissions obligations.

Output Class: Synthetic Greenhouse Gas Levy

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.⁶³ 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.

As the agency responsible for the NZ ETS, we were also responsible for administering the funding for implementing the levy and for ensuring the collecting agencies comply with the conditions agreed under the Memoranda of Understanding.

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
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	Achieved

Multi-year Appropriation: Land Use and Carbon Analysis System

Land Use and Carbon Analysis System (LUCAS) is a multi-year programme that is responsible for meeting the UNFCCC 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 and tracks all land use change from 1990 for each reporting period including 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 2013/14 include:

- provision of the information required for the 2012 National Inventory Report to enable final year accounting for the first commitment period of the Kyoto Protocol
- inclusion of estimates on carbon stock change in natural forest in the inventory for the first time in 2014
- completion of re-measurement of the post-1989 planted and natural forest
- production of the 2012 land-use map based on satellite imagery collected during 2011 and 2012. This imagery has been made available to other government agencies under an all-of-government licence with the supplier

⁶³ Gasses included in the SGG levy are:

- hydrofluorocarbons (HFCs)
- perfluorocarbons (PFCs)
- sulphur hexafluoride (SF6).

- successful transition of the LUCAS programme to business as usual on 30 June 2014.

When completing the 2012 National Inventory Report draft chapters, the following quality specifications were complied with:

- draft chapters, data and supporting documentation was completed to schedule
- all improvements were approved by the Reporting Governance Group
- peer review change forms, peer review checklists, and the related recalculation change forms were completed
- uncertainties were provided
- Tier 1 Quality Control documentation was provided.

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

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
The LUCAS Programme progresses according to schedule	Achieved (Programme scheduled to be completed by 30 June 2015)	Achieved	Achieved (Programme successfully transitioned to BaU on 30 June 2014)
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)	Achieved (Availability averaged 99.2% over the year)	99% during business hours	Achieved (Availability 100% over the year)
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	Achieved

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 82 and 83.

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.

This multi-class output appropriation⁶⁴ 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.

⁶⁴ Following the 2013 amendments to the Public Finance Act 1989, we transitioned all of our multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. There was no change made to the underlying structure of this appropriation during the transition.

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

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	3,715	4,889	2,897	2,897	3,462
Departmental	8	–	13	21	–
Other	14	–	4	11	–
Total revenue	3,737	4,889	2,914	2,929	3,462
Total expenses	3,669	4,889	2,914	3,037	3,462
Net surplus/(deficit)⁶⁵	68	–	–	(108)	–

At Main Estimates, the 2013/14 budget for this output class was \$4.889 million. During the year, the budget was reduced by \$1.975 million primarily due to the delay in the development of the auctioning function for New Zealand Units under the NZ ETS and the reprioritisation of funding to *Departmental Output Class: Water Management Policy Advice* to help fund the implementation of the National Policy Statement on Freshwater Management.

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.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	3,481	3,095	3,577	3,577	3,550
Departmental	6	–	16	30	–
Other	23	–	3	9	–
Total revenue	3,510	3,095	3,596	3,616	3,550
Total expenses	3,429	3,095	3,596	3,258	3,550
Net surplus/(deficit)	81	–	–	358	–

⁶⁵ Parliamentary authority is given at the multi-class appropriation level rather than at an individual output class level.

At Main Estimates, the 2013/14 budget for this output class was \$3.095 million. During the year, the budget was increased by \$501,000 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.

	2012/13	2013/14	2013/14	2013/14	2014/15
	Actual \$000	Budget \$000	Revised Budget \$000	Actual \$000	Unaudited Forecast \$000
Revenue					
Crown	858	49	49	49	49
Departmental	–	–	–		–
Other	–	–	–	78	–
Total revenue	858	49	49	127	49
Total expenses	773	49	49	45	49
Net surplus/(deficit)	85	–	–	82	–

In 2013/14 we recognised ‘other income’ of \$78,000. This was due to the overstatement of an accrual at 30 June 2013 which was not crystallised in 2013/14.

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. From 1 July 2014, 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
Actual expenses to 2013/14 year end	6,880
Total actual expenses	14,769
Balance of appropriation remaining	2,152

This multi-year appropriation expired on 30 June 2014. \$2 million of the balance of appropriation remaining has been transferred across 2015/16 and 2016/17 to contribute to the continuing costs of our international climate change reporting requirements. This funding has been transferred to *Departmental Output Class: Carbon Monitoring Programme*.

Non-departmental funding

As the Ministry responsible for the NZ ETS we manage the NZ ETS non-departmental appropriations on behalf of the Crown. We are also responsible for ensuring New Zealand's financial obligation to the UNFCCC is met each year.

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Income					
Emissions trading	40,474	5,213	19,430	13,410	56,349
Revision in carbon units	–	–	–	–	–
NZ ETS penalty revenue	583	–	–	129	–
Net changes in carbon price of NZ Units including foreign exchange movements	235,399	–	–	–	–
Synthetic Greenhouse Gas Levy	–	–	500	357	500
Total income	276,456	5,213	19,930	13,896	56,849
Expenses					
Allocation of New Zealand Units	54,823	170,680	164,040	46,223	164,710
Administration of NZ Units held on trust	160	177	177	177	177
Revision in carbon units ⁶⁶	40,845	–	12,285	9,506	–
Net changes in carbon price of NZ Units including foreign exchange movements ⁶⁷	–	–	129,052	284,693	–
Net changes in carbon price of Kyoto Units including foreign exchange movements ⁶⁸	132,367	–	42,172	39,461	–
Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants	336	–	–	–	–
Purchase of Units under the New Zealand Emissions Trading Scheme	–	–	–	–	–
Purchase of Projects to Reduce Emissions Units	12	–	1,240	486	–
Indemnity payments (Permanent Legislative Authority)	1,102	–	–	–	–
Emissions Trading Scheme ⁶⁹	7,937	6,392	6,392	6,392	6,392
Framework Convention on Climate Change	103	127	127	103	127
Impairment of debt relating to the New Zealand Emissions Trading Scheme	522	1,000	3,500	–	–
Impairment of debt relating to Synthetic Greenhouse Gas Levy	–	–	200	–	–
Impairment of debt relating to climate change activities	–	–	–	–	8,700
Total expenses	238,207	178,376	359,185	387,041	180,106

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.

⁶⁶ This is a remeasurement under the Public Finance Act 1989 and therefore does not require an appropriation.

⁶⁷ Ibid (page 79, 65)

⁶⁸ Ibid

⁶⁹ This is the operating funding provided to the Environmental Protection Authority to administer the NZ ETS.

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.

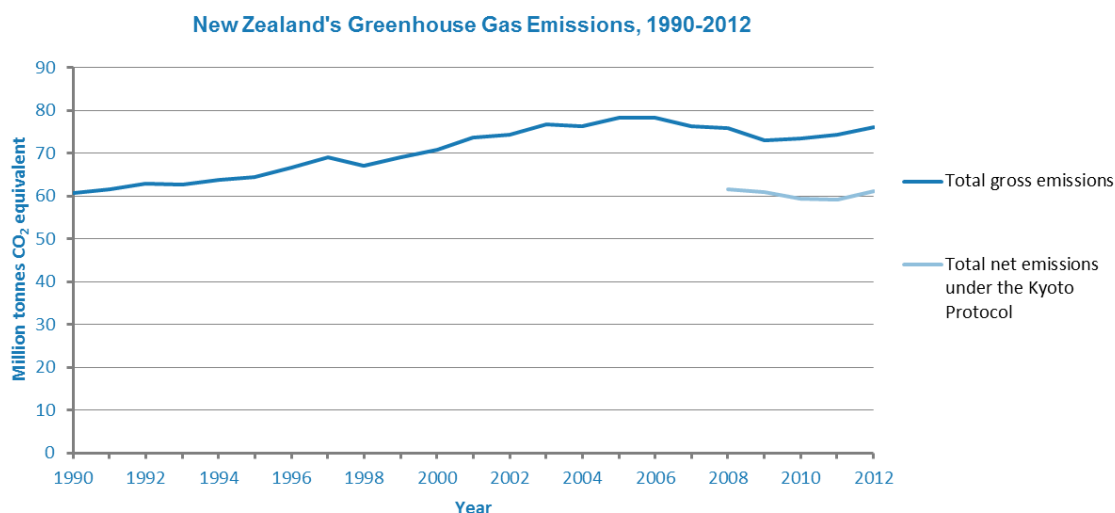
1. Trends in greenhouse gas emissions and removals in the annual greenhouse gas inventory

Target: Downward trend in net emissions

Results: Net emissions under the Kyoto Protocol were lower in 2012 (61.1 Mt CO₂-e) than they were in 2008 (61.6 Mt CO₂-e)

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)⁷⁰ and net⁷¹ greenhouse gas emissions from 1990–2012. This is the latest data as submitted to the United Nations Framework Convention on Climate Change Secretariat in April 2014⁷². Note: the Inventory year is 15 months behind the current calendar year to give time for countries to collect data and prepare the inventory. The latest inventory, published in April 2014, contains data from 1990 to 2012 inclusive.



In 1990, New Zealand's total greenhouse gas emissions were 60.6 million tonnes of carbon dioxide equivalent (Mt CO₂-e). In 2012, this total had increased by 15.4 Mt CO₂-e (25.4 per cent growth) to 76.0 Mt CO₂-e. This represents an average growth rate in total emissions of 1.2 per cent per annum 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.

⁷⁰ Gross emissions exclude any removals of emissions through Land Use, Land Use Change and Forestry.

⁷¹ 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.

⁷² Emissions data for 2012, the final year of the first commitment period of the Kyoto Protocol, are published in *New Zealand's Greenhouse Gas Inventory 1990–2012*.

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. Policy impacts on emissions are harder to identify and include initiatives that support energy efficiency and renewable energy as well as, from 2008, the 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. All five data points are now available for the first commitment period of the Kyoto Protocol (2008–2012) and are provided in the table below.

	Gross emissions (Mt CO ₂ -e)	Net emissions (Mt CO ₂ -e)	Removals (Mt CO ₂ -e) ⁷³
2012	76.0	61.1	15.0
2011	74.4	59.2	15.2
2010	73.5	59.4	14.1
2009	73.1	60.9	12.2
2008	75.8	61.6	14.2

The trend in net emissions between 2008 and 2012 is governed 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). Net emissions were lower in 2012 (61.1 Mt CO₂-e) than they were in 2008 (61.6 Mt CO₂-e) at the start of the first commitment period of the Kyoto Protocol. There was a decrease in net emissions each year from 2008 to 2011, with an increase in 2012. Data from subsequent years is needed to determine whether this represents a change in the overall trend.

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

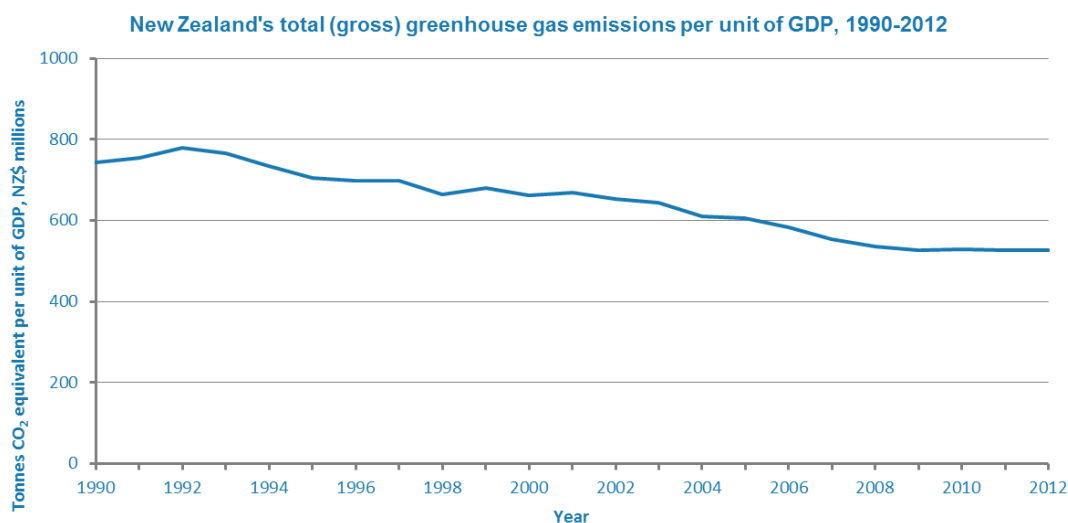
Target: Downward trends

Results: Downward trends:
Emissions per capita have decreased by 2.7 per cent since 1991
Emissions per unit of GDP have decreased by 29.2 per cent since 1990

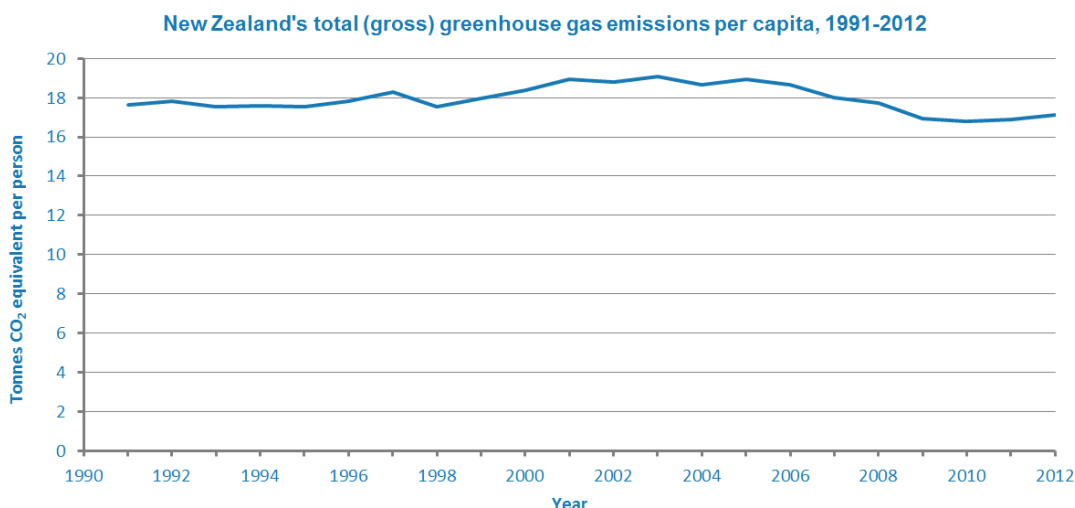
The graph below shows New Zealand's gross greenhouse gas emissions divided by GDP (product measure)⁷⁴ from 1990–2012. New Zealand's greenhouse gas emissions per unit of GDP have decreased by 29.2 per cent since 1990.

⁷³ These removals include emissions covered by the Afforestation/Reforestation Debit-Credit (ARDC) rule, which are not included when accounting for New Zealand's obligations under the Kyoto Protocol.

⁷⁴ Statistics New Zealand official series – GDP (Production), Chain volume, Actual, Total Annual-March, expressed in 1995/96 constant prices; 19 June 2014.



In 2012, New Zealand's emissions per capita⁷⁵ were 17.1 tonnes of carbon dioxide equivalent per person. Emissions per capita have decreased by 2.7 per cent since 1991. New Zealand's high emissions per capita are due to the widely distributed population, geography, and high levels of agricultural production.



3. Divergence between forecast net position and Kyoto Protocol obligations

Target: Decreasing liability / increasing asset⁷⁶

Results: Increased surplus of units, but decreasing bookable value of the asset due to a fall in carbon price
(2013: Increased surplus of units, but 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

⁷⁵ Statistics New Zealand – Total estimated resident population, mean year ended 31 December, since 1991.

⁷⁶ 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.

through the NZ ETS. 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

Under the Kyoto Protocol, New Zealand has committed to return emissions to 1990 levels on average over the first commitment period (2008-2012) or otherwise take responsibility for the excess.

New Zealand's net position is a forecast of the nation's greenhouse gas emissions over the first commitment period of the Kyoto Protocol. It is reported as a surplus if New Zealand's net emissions are projected to be below our commitment under the Kyoto Protocol and as a deficit if emissions are projected to be above the commitment. The number, in millions of units, refers to the number of Kyoto Units that New Zealand will have spare (surplus), or need to purchase (deficit) to meet our obligations under the Kyoto Protocol.

As at 30 June 2014, New Zealand's net position under the Kyoto Protocol is a surplus of 114.4 million units. The net position has increased by 50.4 million units, from 64 million units in June 2013.

The largest contribution (65.3 million units) to the increase was a large amount of Kyoto Units that were surrendered to the Government in 2013/14 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.

The Kyoto Financial Position is the asset or liability that sits on the Government's financial accounts as a result of the Kyoto Protocol. It is calculated by taking the net position (measured in Kyoto Units), and converting it into dollars using the current trading price for emissions units and the current exchange rate. This asset or liability must be reported in the Government's financial accounts. It also takes account of Kyoto Units that have been received by the Government under the NZ ETS or transferred out of the Government account. Although the net surplus of units has increased by 50.4 million units since June 2013, the bookable value of the asset has decreased due to a fall in the global carbon price.

The table below presents the forecast net position as at 30 June of each year.

Financial statements period ended	2013/14	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08
Net position excluding transfers	8.4	23.1	27.6	25.3	13.5	9.6	(21.7)
Net transfers from the assigned amount in million units	(106.0)	(40.9)	(7.8)	3.5	2.3	0.0	0.0
Net position in million units	114.4	64.0	35.4	21.8	11.2	9.6	(21.7)
Carbon price EURO	0.16	0.49	3.6	10.95	10.75	10.00	12.50
Exchange rate	0.64215	0.59630	0.63185	0.57335	0.5677	0.4628	0.4829
Carbon price NZD	0.25	0.82	5.70	19.10	18.94	21.61	25.89
Value of the net asset/(liability) in NZD	29	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 our website: www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position/index.html

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, we have 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:

- established a Quality of Advice Community of Practice to co-ordinate and drive quality improvement and support a culture of challenge and debate
- refreshed our quality guidance and increased the visibility of quality scores across the Ministry
- analysed the papers which were assessed and identified particular weaknesses and opportunities for improvement which have been reflected in specific feedback on papers, general messages to the Ministry and redesign of training and guidance products
- redesigned our advice templates and commissioning processes, and developed new policy training models.

We have undertaken seven formal assessments of policy advice from July 2013 to June 2014. 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.

All Vote Environment Output Classes

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Technical quality of policy advice papers assessed by a survey with a methodical robustness of 100%	51% ⁷⁷	At least 70% of policy advice papers sampled are of a high quality. ⁷⁸	49%
Percentage of all regulatory impact statements that fully or partially meet quality assurance criteria [See note 1 below]	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	At least 90%	100% of the RIS assessed fully or partially met the quality assurance criteria. Of these, 64% fully met the criteria and 36% partially met the criteria.
The total cost per hour of producing outputs.	New measure	At most \$150	\$148.05
The total cost per hour of producing outputs (updated) [See note 2 below]	New measure	n/a	\$160.68

⁷⁷ The 2012/13 measure for quality of policy advice was 'Percentage of Ministry's policy advice sampled that meets the Ministry's quality criteria'. This measure is not substantively different to the 2013/14 measure; to enhance comparability, the 2012/13 results have been reported above.

⁷⁸ 'High quality' is defined as papers marked as seven (or higher) out of 10 by the assessment panel.

Note 1: 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. Regulatory Impact Analysis is fundamental to high quality advice.

Depending on the significance of the proposal, RISs are assessed by the 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.

Note 2: The total cost per hour of producing outputs has recently been updated by Treasury to better align it with the amended definition of policy advice costs. Performance measures calculated using both the original and updated formulae have been provided to help readers understand how this change has affected the assessment of performance.

	Original formula	Updated formula
Total cost per hour of producing outputs	Total policy advice costs Total policy output and non-policy output hours	Total policy advice costs Total policy output hours (excluding non-policy advice hours)

Ministerial support for Vote Environment

Performance measure	2012/13 Actual	2013/14 Target	2013/14 Actual
Percentage of responses to parliamentary questions that are completed within required timeframes	100%	100%	100%
Percentage of responses to Ministerial correspondence submitted to the Minister within agreed timeframes	90%	95%	94%
Percentage of responses to Ministerial correspondence accepted first time by the Minister	92%	90%	94%
Percentage of Ministerial Official Information Act requests submitted within the timeframes agreed with your office.	New measure	95%	86%
Percentage of responses to departmental Official Information Act requests sent within statutory deadlines	95%	100%	98%
Percentage of briefing notes accepted first time by the Minister	95%	90%	98%
The satisfaction of the Minister for the Environment and the Minister for Climate Change Issues with the policy advice service, as per the common satisfaction survey	67% ⁷⁹	At least 80%	65%

⁷⁹ The 2012/13 measure for Minister satisfaction was ‘Overall Ministerial satisfaction as surveyed quarterly’ and results were reported as a score out of 5 (3.33 out of 5). This measure is not substantively different to the 2013/14 measure; to retain comparability, the 2012/13 results have been converted to a percentage.

What it cost

Vote Environment

Departmental Output Class: Ministerial Services

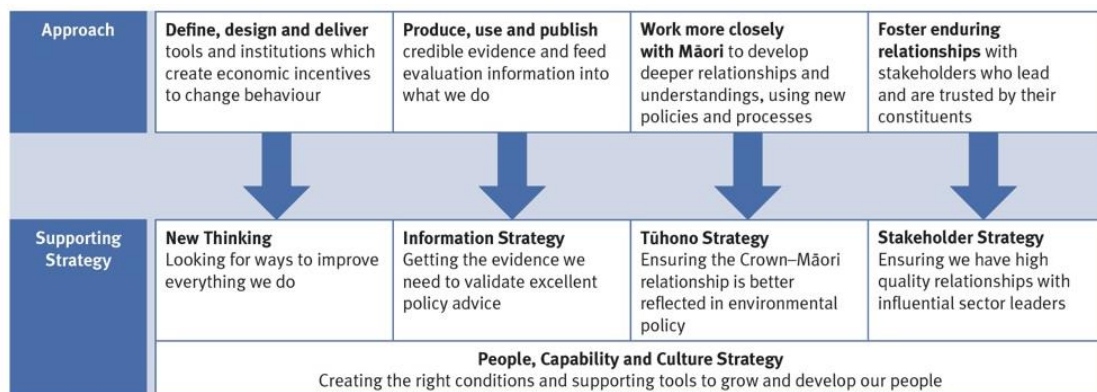
This output class is limited to the provision of services to Ministers to enable them to discharge their portfolio responsibilities (other than policy decision-making).

	2012/13 Actual \$000	2013/14 Budget \$000	2013/14 Revised Budget \$000	2013/14 Actual \$000	2014/15 Unaudited Forecast \$000
Revenue					
Crown	2,675	2,973	3,187	3,187	3,300
Departmental	2	–	–	4	–
Other	5	–	3	4	–
Total revenue	2,682	2,973	3,190	3,195	3,300
Total expenses	2,604	2,973	3,190	3,167	3,300
Net surplus/(deficit)	78	–	–	28	–

4 Our Organisational Health and Capability

Strategy

Our strategic direction sets out our mission statement and provides guiding principles for how we want to operate. It is a combination of approaches and behaviours needed to carry out our mission and the strategies that drive change (known as supporting strategies). All elements of the strategic direction are designed to help focus activity on what needs to be done to help us work towards our mission of ‘Environmental stewardship for a prosperous New Zealand – Tiakina te taiao kia tōnui a Aotearoa’



The first phase of implementing the strategic direction concentrated on the approaches and behaviours which are seen as essential to success. Five supporting strategies were developed to help staff integrate these approaches and behaviours into our everyday work.

The supporting strategies focused on new ways of thinking, information and evidence, engagement with Māori, stakeholder engagement and, people and capability. Good progress has been made towards many of the objectives identified in the strategies and we now have many extra resources that can help us in our work. Those initiatives that need continuing reinforcement (for example, stakeholder engagement) have now been incorporated into normal business activities.

The second phase of implementation focuses on our mission of ‘environmental stewardship for a prosperous New Zealand’. It also builds on the advice of our Performance Improvement Framework reviewers that we will need to be quite exceptional to make the contribution New Zealand needs from it.

We have identified four priorities under the *Good to Great to Exceptional* approach:

- strengthening our leadership (internally and externally)
- knowing where we are going and how we are doing (in terms of understanding what environmental impacts we want to have and being able to measure our progress towards achieving them)
- being a flexible and agile workforce
- achieving value for money.

The *Good to Great to Exceptional* approach is still at an early stage of implementation. Progress is monitored by a governance group and will be reported regularly to the Leadership Team.

Performance Improvement Framework review

We had the first Performance Improvement Framework (PIF) review in 2012. 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.

A follow-up review to check on progress since 2012 was carried out by the same external reviewers in June 2014. The reviewers found that the Ministry's direction and progress was on track, though there was still a need to consolidate a long-term strategy with measurable outcomes. The PIF follow-up report is available on our website: <http://www.mfe.govt.nz/publications/about/follow-up-pif-review-aug14/index.html>

Natural Resources Framework

The 2012 PIF review identified the need for a multi-disciplinary analytical framework to guide decision-making, inform trade-offs, and aid strategic planning and priority setting. The Natural Resources Framework was developed in 2013 and is available on the web (<http://nrs.mfe.govt.nz>) for National resource agencies to use.

Over the last 12 months, the framework has been used to develop our medium-term work programme, which will result in the identification of gaps and priority areas applicable to the wider environmental management system. The framework is also being applied by individual teams within the Ministry (eg, in relation to resource management and waste) to better understand the multiple dimensions and interconnections of their work areas. The framework is also being integrated into our wider quality of advice community of practice and guidance initiatives. We have hosted workshops across the natural resources sector (NRS) and within the Ministry to improve uptake of the framework. The framework was applied in the NRS's marine strategic policy work and is also being applied on the 2014 Natural Resources Sector Briefing to Incoming Ministers.

Supporting strategies

Our supporting strategies were developed to implement the approaches and reinforce the behaviours identified in the Strategic Direction.

We have made good progress towards many of the objectives identified in these strategies. A number of these strategies have reached the stage where they need to be reviewed and updated. The next phase will involve building on the progress stimulated by the supporting strategies and by focusing on new priorities.

People, Capability and Culture Strategy

What we are aiming to achieve

In the last 12 months we have focused on taking a stronger leadership role in environmental system design, implementation and ongoing monitoring and reporting. This shift has seen us transition from a standalone people, capability and culture strategy towards a single integrated organisational wide strategy for the next four years.

How we will know if we are achieving these outcomes

Each year, we conduct a staff engagement survey to measure the extent to which staff are connected and engaged with the Ministry. Improvements in staff engagement, as measured by the survey, will indicate that we are on track for the people elements of our organisational strategy.

Current state

The 2013 staff engagement survey showed that the Ministry has maintained its ratio of almost 11 engaged staff members to every disengaged staff member which is considered best in class and is a significant improvement on the 1.38 engaged staff member to every disengaged staff member from five years ago. While our percentile has dropped back over the last year, we have continued to focus on being a high performing and highly engaged workforce and will continue to monitor our performance through our annual staff engagement survey.

Trend of survey results	2008	2009	2010	2011	2012	2013
Ratio of engaged to disengaged staff	1.38 – 1	1 – 1	2.91 – 1	6.14 – 1	10.8 – 1	10.5 – 1
Percentile (NZ Public Sector)	<50th	26th	56th	73rd	81st	67th

New Thinking Strategy

What we are aiming to achieve

The New Thinking strategy has been subsumed within our broader approach to improving the quality of our advice, building on the Cost Opportunity Benefit Risk Analysis (COBRA)⁸⁰ framework and the Natural Resources Sector Framework.

How we will know if we are achieving these outcomes

We will see continuous improvement in policy advice products as measured by quality policy advice assessment panels, the internal regulatory impact analysis reference panel and the Treasury Regulatory Impact Assessment Team.

Current state

Quality of policy advice: Of the papers sampled in 2013/14, 49 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 pages 82 and 83.

Regulatory impact statements: As at 30 June 2014, 100 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 engaging earlier in the policy process, providing coaches to RIS authors, and working together with the Quality of Advice Community of Practice to ensure RIA is considered as part of high quality advice. This approach is expected to continue to influence quality as new members come on to the panel with the necessary RIA experience. The internal RIA Panel has continued to foster 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.

⁸⁰ The COBRA framework provides staff with concepts, frameworks and tools to use when developing quality policy advice. It helps identify opportunities, risks and alternative options.

Trend	2010/11	2011/12	2012/13	2013/14
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%	49%
Percentage of regulatory impact statements assessed that fully ⁸¹ or partially met the quality assurance criteria (Target: 2010/11 – at least 80%; 2011/12 onwards – at least 90%)	58%	71%	84%	100%

Information Strategy

What we are aiming to achieve

The information strategy has been subsumed within our broader environmental reporting work programme. The environmental reporting regime aims to provide New Zealanders with comprehensive, consistent and high quality data about our environment that can be tracked over time. This improved information will enable decision-makers and stakeholders to make better informed decisions about how to manage the environment, and inform the evidence base for the policy work we do.

How we will know if we are achieving these outcomes

We will be better enabled to provide evidence-based policy advice informed by regular and comprehensive environmental reporting, and to evaluate the effectiveness of policy responses.

Current state

During 2013/14 the primary focus of the environmental reporting work programme has been the introduction of an Environmental Reporting Bill to mandate the provision of comprehensive information for New Zealanders that is easy to understand, independent and relevant. Supporting this are initiatives to improve the quality and consistency of environmental data.

Key successes include:

- the introduction of the Environmental Reporting Bill in February 2014
- the development of an Environmental Monitoring and Reporting initiative to develop integrated regional and national environmental data collection networks
- the development of National Environmental Monitoring Standards to ensure data is being collected consistently between regions and across time
- the allocation of \$1 million from the Community Environment Fund to improve the representativeness of the country's network of sites monitoring freshwater quality.

Use of evidence to underpin quality policy advice is a core part of everything we do at the Ministry. Access to high quality consistent information on the state of the environment allows us to fully understand both natural occurrences and the impact that humans are having across time and space. It is also essential for evaluating the impact of policies and decisions on natural resources over time.

Under our operating model, the environmental reporting and evaluation functions sit in the Stewardship Directorate, reflecting the importance of these two areas to the long-term success of the Ministry.

⁸¹ 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.

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 and resource management arrangements.

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

Approximately 8.5 per cent more staff undertook Pae Ngatahi training in 2013/14 than in 2012/13. However, due to staff movements, the overall percentage across the Ministry is only slightly higher than last year. We are currently reviewing the training needs across the Ministry to build our future capability around Māori engagement and reflecting Māori perspectives in policy and advice. The review is considering the value of both formal training such as Pae Ngatahi and informal 'on-the-job' approaches to building knowledge across the Ministry of Māori environmental values and worldviews. The review will also identify other measures of this outcome being achieved, for inclusion in further Statements of Intent. This ongoing work is an integral part of the Tūhono Strategy.

Trend	2010/11	2011/12	2012/13	2013/14
Percentage of staff who have attended at least one module of the Pae Ngatahi course	23%	45%	31%	32%

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.

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

We are continuing to improve engagement with stakeholders. We are implementing recommendations from the PIF completed in 2012 and have taken steps on key findings in the 2013 Stakeholder Perception Audit.

Sharing of information about engagement with stakeholders has increased across all levels of the Ministry. The programme for stakeholder engagement includes increased regional visits with business, local government and iwi. We are building relationships with local government and are implementing a structured relationship management approach.

Ministry profile

As at 30 June 2014, the Ministry employed 299.8 full-time equivalent (FTE) staff (in 2013 it was 270.18 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 is approximately 16.4 per cent (in 2013/14 it was 20.2 per cent). The average length of service is approximately 3.7 years (in 2011/12 it was 4.1 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 44 per cent of the management team at the Ministry. This is a similar level to 2013/14 when women represented about 49 per cent of the management team.

People and culture

We have continued to develop our people capability and monitor the improvements made over the last few years to ensure they are effective and having the impact they were designed to deliver. As a result, we have:

- continued to refine and improve our induction tools
- made refinements to our performance and development tools and templates
- established a policy community of practice
- continued to run a number of seminars, training and development events for our people
- support and enable career progression/promotion
- been working on clearer expectations and development pathways for our leaders at all levels
- continued to support and foster debate and innovation in the Ministry.

Relationships

We have continued forging collaborative working relationships to achieve our mission of environmental stewardship for a prosperous New Zealand. This includes central government agencies in the NRS, the Environmental Protection Authority (EPA), Māori and partners 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 2013/14, the NRS continued its collaborative inter-agency policy programme work in the water, climate change and resource management areas. This has resulted in a comprehensive package of Resource Management Act reforms and proposed reforms to our freshwater management system to provide better outcomes. The NRS formed inter-agency teams and commissioned 'Paris 2015', a project aimed at preparing New Zealand's position for the UNFCCC Paris meeting in 2015.

The Building Natural Resources key area of the Business Growth Agenda (BGA) delivered significant progress against its 57 actions in the final report that was delivered in June 2014.⁸² The Informal BGA Building Natural Resources Ministers Group met through the process to support this ambitious portfolio of work.

The NRS delivered 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 programme continues with three cohorts in 2014/15.

⁸² This report is available on the Ministry of Business Innovation and Employment's website: <http://www.mbie.govt.nz/what-we-do/business-growth-agenda/business-growth-agenda-future-direction-2014>

This year, attention has been given to continuing to improve our engagement with iwi/Māori. Our engagement with iwi leaders on fresh water, Exclusive Economic Zone regulations and climate change continues, showing we and iwi have confidence in this engagement. This has resulted in the two parties being able to have in-depth discussions improving 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 beyond Treaty settlements through the implementation of those settlements.

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/Māori 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 2013/14, we undertook a review of our Information, Communication and Technology (ICT) service delivery model. This review resulted in a change in focus on how ICT can better support the Ministry to achieve its outcomes, and how ICT service provision aligned to the Government's ICT Strategy and Action Plan to 2017.

To move to this new service delivery model, we:

- transitioned a large proportion of our infrastructure to Infrastructure as a Service (IaaS)
- transferred the day-to-day operational management of ICT to a managed services provider
- intend to transition our external networks and internet services to one.govt by the end of 2014.

As part of the changes to our ICT service delivery model, we have begun discussions with Land Information New Zealand on a proposal to share services that support both organisations' ICT service delivery models and provide opportunities to gain economies of scale and leverage the expertise.

In addition to this, we implemented a revised Security Policy in line with Government Communications Security Bureau requirements. We also completed an initial business case for investment to replace the current Electronic Data Management System with a solution from the Government's ICT Common Capability Enterprise Content Management System as a Service panel.

Internal audit and risk management

The Internal Audit function conducts independent reviews of our internal control and governance processes. It also provides internal audit services to the 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 11 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.

Our risk management framework policy, procedures and central risk register system are in place. In mid-March this year, a risk management awareness presentation took place at the whole of ministry staff

meeting. This presentation was a success with a record number of staff visiting the risk management pages within the intranet.

The Audit and Risk Committee of three independent advisors met four times during the 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 programme.

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 a sustained period of time, 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 EPA and funding the clean up of Tui Mine.

In response to the PIF review, we continue to make progress under a multi-year project to improve planning and financial management. We have strengthened accountability for budget forecasting and management. We have also implemented time recording to ensure we have better information for planning and to support resource allocation decisions. We also actively use benchmarking from the Benchmarking Administrative and Support Services (BASS) Programme to improve efficiency.

We have also worked closely with the 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 we can continue to prioritise the funding available to progress the Government's priorities and meet ongoing operational pressures.

Capital expenditure

In 2013/14, we incurred \$255,000 of capital expenditure.

The main area of capital expenditure (approximately \$125,000) related to the upgrading of furniture, fittings and security at Environment House. We also spent approximately \$79,000 on a Learning Management system, reporting systems for the TV TakeBack programme and further development of our time recording module. Further capital expenditure of approximately \$40,000 was spent updating desktops and laptops.

Our environmental performance

Our environmental performance is continually monitored to enable us to demonstrate leadership in this important area. Our environmental performance is measured using waste minimisation, energy efficiency and transportation as performance indicators.

Benchmarking our performance

		Metric	2013/14	2012/13	2011/12	2010/11	2009/10
Waste minimisation	Total waste	kg	36,878	33,528	36,643	35,910	39,965
	Total waste per FTE	kg	123.0	124.1	141.9	117.3	136
	Waste recycled	kg	6,379	5,945	5,989	5,910	6,773
	Waste recycled per FTE	kg	21.3	22	23.2	19.3	23
	Paper recycled	kg	28,612	25,935	29,250	28,585	31,430
	Paper recycled per FTE	kg	95.4	96	113.3	93.4	107
	Waste to landfill	kg	1,798	1,647	1,404	1,415	1,762
	Waste to landfill per FTE	kg	6.0	6.1	5.44	4.63	6
Energy efficiency	Total electricity usage	mWh	751	705	700	705	760
	Total electricity usage per FTE	kWh	2,505	2,609	2,710	2,303	2,584
Transportation	Total transportation	km	3,535,046	3,417,397	3,466,664	3,721,712	4,322,000
	Total transportation per FTE	km	11,791	12,649	13,423	12,162	14,701
	Domestic flights	km	1,112,922	1,018,417	1,021,033	1,484,373	1,490,000
	Domestic flights per FTE	km	3,712	3,769	3,953	4,850	5,068
	International flights	km	2,384,525	2,388,424	2,355,694	2,144,637	2,736,000
	International flights per FTE	km	7,954	8,840	9,121	7,008	9,306
	Ground transport	km	37,599	10,556	89,937	92,702	96,000
	Ground transport per FTE	km	125	39	348	303	327

Crown entity monitoring

During 2013/14, we monitored the performance of the 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.

We have been preparing for a review of the effectiveness and fiscal sustainability of the EPA which was required three years after it became operational. This review is expected to be completed in December 2014.

5 Financial Statements for the Ministry for the Environment

Performance Indicators for the Year Ended 30 June 2014

	Unit	2013/14 Actual \$000	2013/14 Revised Budget \$000
Operating results			
Revenue: Crown	\$000	50,905	52,905
Revenue: Departmental and other	\$000	866	837
Output expenses	\$000	50,561	53,742
Gain on sale of assets	\$000	1	5
Net surplus	\$000	1,211	5
Working capital			
Net current assets	\$000	6,037	5,416
Current ratio	Ratio	1.92	2.12
Resource utilisation			
Plant and equipment			
Plant and equipment at year-end	\$000	771	885
Value per employee	\$000	2.6	2.8
Additions as % of plant and equipment	%	22.8	27.2
Plant and equipment as % of total assets	%	5.6	7.1
Intangible assets			
Intangible assets at year-end	\$000	398	865
Value per employee	\$000	1.3	2.7
Additions as % of intangible assets	%	19.8	57.8
Intangible assets as % of total assets	%	2.9	7.0
Taxpayers' funds			
Level at year-end	\$000	5,992	5,992
Level per employee	\$000	20.0	19.0
Net cash flows			
Surplus/(deficit) from operating activities	\$000	878	1,644
Surplus/(deficit) from investing activities	\$000	(301)	(783)
Surplus/(deficit) from financing activities	\$000	(1,217)	(1,217)
Net increase/(decrease) in cash held	\$000	(640)	(356)
Human resources			
Staff turnover	%	16.4	20.2
Average length of service	Years	3.7	4.1
Total staff	No.	300	316

Statement of Comprehensive Income for the Year Ended 30 June 2014

2012/13 Actual \$000		Notes	2013/14 Actual \$000	2013/14 Budget*	2013/14 Revised Budget*	2014/15 Forecast*
	Income					
52,173	Crown		50,905	52,474	52,905	53,970
1,434	Other revenue	2	866	5	837	5
2	Gains	3	1	5	5	5
53,609	<i>Total income</i>		51,772	52,484	53,747	53,980
	Expenditure					
25,202	Personnel costs	4	27,483	25,388	26,903	27,503
1,198	Depreciation and amortisation expense	9, 10	730	795	635	854
479	Capital charge	5	479	479	479	479
26	Finance cost	6	28	—	—	—
25,487	Other operating expenses	7	21,841	25,817	25,725	25,139
52,392	<i>Total expenditure</i>		50,561	52,479	53,742	53,975
1,217	Net surplus and total comprehensive income		1,211	5	5	5

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

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position as at 30 June 2014

2012/13 Actual \$000		Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Assets						
Current assets						
2,538	Cash and cash equivalents		1,898	2,091	2,182	2,443
10,040	Debtors and other receivables	8	10,380	8,531	8,176	8,176
315	Pre-payments		352	200	300	300
12,893	<i>Total current assets</i>		12,630	10,822	10,658	10,919
Non-current assets						
875	Plant and equipment	9	771	1,009	885	681
769	Intangible assets	10	398	503	865	836
1,644	<i>Total non-current assets</i>		1,169	1,512	1,750	1,517
14,537	Total assets		13,799	12,334	12,408	12,436
Liabilities						
Current liabilities						
4,196	Creditors and other payables	11	3,125	3,044	3,319	3,319
1,217	Return of operating surplus	12	1,211	5	5	5
40	Provisions	13	46	–	–	–
1,917	Employee entitlements	14	2,211	1,932	1,918	1,918
7,370	<i>Total current liabilities</i>		6,593	4,981	5,242	5,242
Non-current liabilities						
752	Employee entitlements	14	763	910	751	751
423	Provisions	13	451	451	423	451
1,175	<i>Total non-current liabilities</i>		1,214	1,361	1,174	1,202
8,545	Total liabilities		7,807	6,342	6,416	6,444
5,992	Net assets		5,992	5,992	5,992	5,992
Equity						
5,992	Taxpayers' funds	15	5,992	5,992	5,992	5,992
5,992	Total equity		5,992	5,992	5,992	5,992

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

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Changes in Equity for the Year Ended 30 June 2014

2012/13 Actual \$000	Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast * \$000
5,992	Balance at 1 July	5,992	5,992	5,992	5,992
	<i>Comprehensive income</i>				
1,217	Surplus for the year	1,211	5	5	5
1,217	Total comprehensive income	1,211	5	5	5
(1,217)	Return of operating surplus to the Crown	(1,211)	(5)	(5)	(5)
5,992	Balance at 30 June	5,992	5,992	5,992	5,992

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Cash Flows for the Year Ended 30 June 2014

2012/13 Actual \$000	Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Cash flows from continuing operating activities					
50,435	Receipts from Crown	50,435	52,474	54,798	53,970
1,391	Receipts from other revenue	1,158	5	808	5
(24,663)	Payments to suppliers	(23,127)	(25,789)	(26,580)	(25,111)
(25,294)	Payments to employees	(27,171)	(25,388)	(26,903)	(27,503)
(479)	Payments for capital charge	(479)	(479)	(479)	(479)
415	Goods and services tax (net)	62	–	–	–
1,805	<i>Net cash flow from continuing operating activities</i>	878	823	1,644	882
Cash flows from investing activities					
2	Receipts from sale of plant and equipment	1	5	5	5
(287)	Purchase of plant and equipment	(223)	(375)	(241)	(121)
(272)	Purchase of intangible assets	(79)	(200)	(547)	(500)
(557)	<i>Net cash (outflow)/inflow from investing activities</i>	(301)	(570)	(783)	(616)
Cash flows from financing activities					
(1)	Return of operating surplus	(1,217)	(5)	(1,217)	(5)
(1)	<i>Net cash flow from financing activities</i>	(1,217)	(5)	(1,217)	(5)
1,247	Net increase/(decrease) in cash	(640)	248	(356)	261
1,291	Cash at the beginning of the year	2,538	1,843	2,538	2,182
2,538	Cash at the end of the year	1,898	2,091	2,182	2,443

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 statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of these financial statements.

Statement of Commitments as at 30 June 2014

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 \$20,709 (2012/13, \$27,557).

2012/13 Actual \$000		2013/14 Actual \$000
	Capital commitments	
13	Intangible assets	—
13	<i>Total capital commitments</i>	—
	Non-cancellable operating lease commitments	
2,155	Not later than one year	2,166
6,169	Later than one year but not later than five years	4,066
—	Later than five years	—
8,324	<i>Total non-cancellable operating lease commitments</i>	6,232
8,337	Total commitments	6,232

Statement of Contingent Liabilities and Contingent Assets as at 30 June 2014

Contingent liabilities

In the 2013/14 financial year the Ministry has no contingent liabilities (2012/13, \$nil).

Contingent assets

In the 2013/14 financial year the Ministry has no contingent assets (2012/13, \$nil).

The accompanying accounting policies and notes form part of these financial statements.

Statement of Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2014

2012/13 Actual \$000		2013/14 Expenditure ⁸³ \$000	2013/14 Budget* \$000	2013/14 Revised Budget* ⁸⁴ \$000	2014/15 Forecast* \$000
Vote Environment					
	Appropriations for output expenses				
–	Carbon Monitoring	–	–	–	4,275
2,604	Ministerial Services	3,167	2,973	3,190	3,300
2,234	Waste Minimisation Administration	2,062	1,714	2,220	1,714
4,838	Total output expenses	5,229	4,687	5,410	9,289
	Multi-class Output Appropriation ⁸⁵				
Environmental Management Obligations and Programmes					
2,246	Domestic Obligations and Programmes	2,056	2,768	2,083	1,705
1,924	International Obligations and Institutions Policy Advice	1,564	1,612	1,603	1,630
4,170	Total Environmental Management Obligations and Programmes	3,620	4,380	3,686	3,335
	Multi-class Output Appropriation				
Improving Resource Management					
8,902	Water Management Policy Advice	8,707	5,968	9,046	8,818
–	Water Management Implementation	–	–	–	3,000
1,268	Marine Environment Policy Advice	1,594	1,637	1,603	1,316
6,253	Resource Management Policy Advice	4,188	7,154	4,275	4,797

⁸³ Excludes remeasurement of \$10,960 (2012/13, (\$106,000)).

⁸⁴ This includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act 1989.

⁸⁵ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned all of its multi-class output appropriations to multi-category appropriations, effective from 1 July 2014. The 'Water Management Implementation' category was added to the 'Improving Resource Management MCA' in Budget 2014. There were no changes made to the underlying structure of the other existing multi-class output appropriations during this transition.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of these financial statements.

2012/13 Actual \$000		2013/14 Expenditure ⁸³ \$000	2013/14 Budget* \$000	2013/14 Revised Budget* ⁸⁴ \$000	2014/15 Forecast* \$000
6,121	Resource Management Implementation	8,967	6,218	8,995	11,685
1,381	Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice	1,233	1,581	1,235	1,224
23,925	Total Improving Resource Management	24,689	22,558	25,154	30,840
	Multi-class Output Appropriation				
	Mitigating Environmental Hazards and Waste				
1,765	Environmental Hazards and Waste Policy Advice	1,502	2,146	1,490	1,365
1,934	Waste Management and Minimisation	2,301	1,692	2,411	2,085
3,699	Total Mitigating Environmental Hazards and Waste	3,803	3,838	3,901	3,450
	Multi-class Output Appropriation				
	Climate Change				
3,669	Domestic Climate Change Programme Policy Advice	3,037	4,889	2,914	3,462
3,429	International Climate Change Programme Policy Advice	3,258	3,095	3,596	3,550
773	Synthetic Greenhouse Gas Levy	45	49	49	49
7,871	Total Climate Change	6,340	8,033	6,559	7,061
39,665	Total Multi-class Output Appropriation	38,452	38,809	39,300	44,686
44,503	Total for Vote Environment	43,681	43,496	44,710	5,3975
	Capital Expenditure				
529	Capital Expenditure	255	575	741	621

The accompanying accounting policies and notes form part of these financial statements.

Statement of Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2014 (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 expired on 30 June 2014.

	2013/14 Actual \$000	2012/13 Actual \$000
Vote Environment		
Land Use and Carbon Analysis System		
Original appropriations	15,843	15,843
Cumulative adjustments	1,078	1,078
Total adjusted appropriations	16,921	16,921
Cumulative actual expenditure 1 July	7,889	–
Current year actual expenditure	6,880	7,889
Cumulative actual expenditure 30 June	14,769	7,889
Appropriation remaining 30 June	2,152	9,032

The amount of \$2 million of the balance of appropriation remaining has been transferred across 2015/16 and 2016/17 to contribute to the continuing costs of international climate change reporting requirements. This funding has been transferred to *Departmental Output Class: Carbon Monitoring Programme*.

Statement of Unappropriated Expenditure and Capital Expenditure for the Year Ended 30 June 2014

Departmental appropriations and net asset schedule

In the 2013/14 financial year there were no instances of expenses, and capital expenditure incurred without appropriation or other authority, or outside of the scope of appropriation (2012/13: \$nil).

In the 2013/14 financial year there were no breaches of projected departmental net assets schedules (2012/13: \$nil).

The accompanying accounting policies and notes form part of these financial statements.

Notes to the Financial Statements

1. Statement of accounting policies for the year ended 30 June 2014

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

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.

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. While the Ministry is working on some of the detailed assessment, the work is not yet complete and no significant impact is expected on transition.

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

Budgeting and forecasting figures

The budget figures are those included in the Information Supporting the Estimates of Appropriations (Budget) for the year ending 30 June 2014 and the Information Supporting the Supplementary Estimates of Appropriations (Revised Budget) for the year ending 30 June 2014 (the Budget is 2013 Budget Economic and Fiscal Update (BEFU 2013) out-year 1 figures and the Revised Budget is SUPPS 2014 out-year 0 figures).

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 and are based on NZ IFRS (PBE).

Forecast information has been included for the following financial year for the first time. The Public Finance Amendment Act 2013 requires this. The aim is to increase transparency by providing the reader with further context of this year's results by showing next year's forecast for comparison.

The forecast figures are those included in the *Information Supporting the Estimates of Appropriations* for the year ending 30 June 2015 (the Forecast is 2014 Budget and Economic and Fiscal Update (BEFU 2014) out-year 1 figures).

The forecast figures are unaudited and have been prepared in accordance with the requirements of the Public Finance Act 1989, and comply with the International Public Sector Accounting Standards (IPSAS). They are to be used in the future for reporting historical general purpose financial statements.

The forecast figures contained in these financial statements reflects the Ministry's purpose and activities and are based on a number of assumptions on what may occur during the year 2014/15. Events and circumstances may not occur as expected. Factors that could lead to material differences between the forecast financial statements and the 2014/15 actual financial statements include changes to the baseline forecast through new initiatives, or technical adjustments.

Significant assumptions – forecast figures

The forecast figures have been compiled on the basis of existing government policies and Ministerial expectations at the time the BEFU 2014 was finalised.

The main assumptions were as follows:

- The department's activities will remain substantially the same as the previous year focusing on the Government's priorities. These priorities include the reform of the Resource Management Act, implementation and operation of the Emissions Trading Scheme, improving New Zealand's freshwater management, improving Hazardous Substances and New Organisms (HSNO) framework and the management of the Exclusive Economic Zone (EEZ).

- Personnel costs were based on 315 full time equivalent staff which takes into account staff turnover.
- Operating costs were based on historical experience and various other factors that were believed to be reasonable under the circumstances.
- The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revisions and future periods if the revision affects both current and future periods.
- Estimated year end information for 2013/14 was used as the opening position for the 2014/15 forecasts.

These assumptions were adopted as at 14 April 2014.

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 2013/14 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 2014, direct costs accounted for 53 per cent of the Ministry's costs (2012/13, 59 per cent) and indirect costs accounted for 47 per cent of the Ministry's costs (2012/13, 41 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:

Asset Class	Useful Life (years)	Depreciation Rate (%)
Furniture and fittings	5–13	8.39–20.0
Office equipment	5	20.0
Computer hardware	3–4	25.0–33.33

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:

Asset Class	Useful Life (years)	Amortisation Rate (%)
Acquired computer software	3	33.33
Acquired computer software licences (Land Use and Carbon Analysis System)	7.5	13.33
Developed computer software	3	33.33

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 ending 30 June 2015.

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

2012/13 Actual \$000		2013/14 Actual \$000
1,198	Departmental	403
236	Other	463
1,434	Total other revenue	866

3. Gains

2012/13 Actual \$000		2013/14 Actual \$000
2	Net gain on sale of plant and equipment	1
2	Total gains	1

4. Personnel costs

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

2012/13 Actual \$000		2013/14 Actual \$000
23,922	Salaries and wages	25,992
220	Termination benefits	46
693	Employer contributions to defined contribution plans	854
91	ACC Levy	84
245	Net employee entitlements	466
31	Other	41
25,202	Total personnel costs	27,483

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 2014 was 8.0 per cent (2012/13, 8.0 per cent).

6. Finance costs

2012/13 Actual \$000	2013/14 Actual \$000
26 Discount unwind on provisions (note 13)	28
26 Total finance costs	28

7. Other operating expenses

2012/13 Actual \$000	2013/14 Actual \$000
183 Audit fees for the financial statement audit	187
2,233 Operating lease payments	2,262
266 Advertising and publicity	206
538 Contributions and sponsorship	502
<i>External resources:</i>	
576 Advisory groups	269
5,372 Services provided by other government agencies	3,265
1,779 Data/imagery	1,107
474 Annual outsourced specialist services	1,722
5,783 Other professional consulting fees	5,953
1,410 Contracted research	663
2,607 General and administration	2,542
4,266 Other operating expenses	3,163
25,487 Total other operating expenses	21,841

8. Debtors and other receivables

2012/13 Actual \$000	2013/14 Actual \$000
9,869 Debtor Crown	10,339
171 Debtor other	41
— Less provision for impairment	—
10,040 Net debtors	10,380
— GST receivable	—
10,040 Total debtors and other receivables	10,380

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

As at 30 June 2014 and 2013, 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	2013/14 Impairment \$000	Net \$000	Gross \$000	2012/13 Impairment \$000	Net \$000
Not past due	10,360	–	10,360	10,040	–	10,040
Past due 1 – 30 days	20	–	20	–	–	–
Past due 31 – 60 days	–	–	–	–	–	–
Past due 61 – 90 days	–	–	–	–	–	–
Past due > 91 days	–	–	–	–	–	–
Total	10,380	–	10,380	10,040	–	10,040

9. Plant and equipment

	Furniture and fixtures \$000	Office equipment \$000	Computer hardware \$000	Total \$000
Cost				
Balance at 1 July 2012	2,207	303	1,701	4,211
Additions	8	–	235	243
Add: Closing work in progress	32	15	–	47
Less: Opening work in progress	–	–	(33)	(33)
Disposals	–	(34)	(206)	(240)
Balance at 30 June 2013	2,247	284	1,697	4,228
Balance at 1 July 2013	2,247	284	1,697	4,228
Additions	162	21	40	223
Add: Closing work in progress	–	–	–	–
Less: Opening work in progress	(32)	(15)	–	(47)
Disposals	–	–	–	–
Balance at 30 June 2014	2,377	290	1,737	4,404
Accumulated depreciation and impairment losses				
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
Balance at 1 July 2013	1,894	204	1,255	3,353
Depreciation expense	58	29	193	280
Eliminate on disposal	–	–	–	–
Balance at 30 June 2014	1,952	233	1,448	3,633
Carrying amounts				
At 1 July 2012	565	96	490	1,151
At 30 June / 1 July 2013	321	112	442	875
At 30 June 2014	425	57	289	771

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 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
Balance at 1 July 2013	1,327	25	1,430	1,843	4,625
Additions	132	–	159	–	291
Add: Closing work in progress	–	–	–	–	–
Less: Opening work in progress	(52)	–	(160)	–	(212)
Disposals	–	–	–	–	–
Balance at 30 June 2014	1,407	25	1,429	1,843	4,704
Accumulated amortisation and impairment losses					
Balance at 1 July 2012	950	25	669	1,678	3,322
Amortisation expense	172	–	342	151	665
Disposals	(131)	–	–	–	(131)
Balance at 30 June 2013	991	25	1,011	1,829	3,856
Balance at 1 July 2013	991	25	1,011	1,829	3,856
Amortisation expense	256	–	180	14	450
Disposals	–	–	–	–	–
Balance at 30 June 2014	1,247	25	1,191	1,843	4,306
Carrying amounts					
At 1 July 2012	404	–	593	165	1,162
At 30 June / 1 July 2013	336	–	419	14	769
At 30 June 2014	160	–	238	–	398

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

2012/13 Actual \$000	2013/14 Actual \$000
312 Creditors	13
– Revenue received in advance	162
3,666 Accrued expenses	2,671
218 GST payable	279
4,196 Total creditors and other payables	3,125

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

2012/13 Actual \$000	2013/14 Actual \$000
1,217 Net surplus	1,211
1,217 Total return of operating surplus	1,211

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

13. Provisions

2012/13 Actual \$000	2013/14 Actual \$000
Current portion	
40 Restructuring	46
40 Total current portion	46
Non-current portion	
423 Restoration costs	451
463 Total provisions	497

	Restoration costs \$000	Restructuring \$000	Total \$000
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
Balance at 1 July 2013	423	40	463
Additional provisions made	–	46	46
Discount unwind	28	–	28
Amounts used	–	(40)	(40)
Unused amounts reversed	–	–	–
Balance at 30 June 2014	451	46	497

Provisions represent:

- the costs from a review of the information technology functions within the Ministry. These costs will be paid in 2014/15 (2012/13, \$40,000).
- 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

2012/13 Actual \$000	2013/14 Actual \$000
Current employee entitlements are represented by:	
640 Salary accruals	786
1,180 Annual leave	1,274
97 Retirement and long service leave	151
1,917 <i>Total current portion</i>	2,211
Non-current employee entitlements are represented by:	
752 Retirement and long service leave	763
2,669 Total employee entitlements	2,974

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 2014. The rates used range from 3.70 per cent to 5.50 per cent depending on the term of the liability for each employee (2012/13, 2.71 per cent to 5.50 per cent)
- a long-term annual salary growth rate of 3.50 per cent (2012/13, 3.50 per cent).

15. Equity

2012/13 Actual \$000		2013/14 Actual \$000
Taxpayers' funds		
5,992	Balance at 1 July	5,992
1,217	Total comprehensive income	1,211
(1,217)	Return of operating surplus to the Crown	(1,211)
5,992	Balance at 30 June	5,992

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

2012/13 Actual \$000		2013/14 Actual \$000
1,217	Net surplus	1,211
	Add/(less) non-cash items:	
26	Restoration costs	28
1,198	Depreciation and amortisation expense	730
1,224	<i>Total non-cash items</i>	758
	Add/(less) items classified as investing or financing activities:	
(2)	Net (gains)/losses on disposal of property, plant and equipment, and intangibles	(1)
	Add/(less) movements in deferrals and accruals:	
(1,583)	(Increase)/decrease in debtors and other receivables	(340)
21	(Increase)/decrease in pre-payments	(37)
1,111	Increase/(decrease) in creditors and other payables ⁸⁶	(1,024)
(10)	Increase/(decrease) in provisions	6
(173)	Increase/(decrease) in employee entitlements	305
(636)	<i>Total net movement in working capital items</i>	(1,091)
1,805	Net cash flow from operating activities	878

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 \$50.435 million (2012/13, \$51.000 million) to provide services for the year ended 30 June 2014. This includes Debtor Crown funding of \$10.339 million (2012/13, \$9.869 million), yet to be received in cash from the Crown.

⁸⁶ Creditors and accruals for capital expenditure are excluded when calculating this increase or decrease.

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 paid for goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 amounted to \$5.652 million (2012/13, \$6.647 million). These purchases included the cost of air travel from Air New Zealand, legal services from Crown Law Office, staff secondments, and external resources to support LUCAS, capital charge on funds from Treasury and postal services from New Zealand Post.

The Ministry also received \$494,000 (2012/13, \$1.350 million) from entities controlled, significantly influenced, or jointly controlled by the Crown. These services include contributions towards the joint economic impact studies undertaken as part of the Ministry's water reform work programme, staff secondments and other services for the year ended 30 June 2014.

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

Key management personnel compensation

2012/13 Actual \$000		2013/14 Actual \$000
1,303	Salaries and other short-term employee benefits	1,350
13	Post-employment benefits	16
1,316	Total key management personnel compensation	1,366

Key management personnel include the Chief Executive and the Ministry's four members of the Environment Leadership Team as at 30 June (2012/13, 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.

2012/13 Actual \$000		2013/14 Actual \$000
	Loans and receivables	
2,538	Cash and cash equivalents	1,898
10,040	Debtors and other receivables	10,380
12,578	<i>Total loans and receivables</i>	12,278
	Financial liabilities measured at amortised cost	
4,196	Creditors and other payables	3,125

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
2013						
Creditors and other payables (note 11)	4,196	4,196	4,196	–	–	–
2014						
Creditors and other payables (note 11)	3,125	3,125	3,125	–	–	–

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 2013/14 Main Estimates are as follows.

(i) Statement of comprehensive income

	2013/14 Actual \$000	2013/14 Budget \$000	2013/14 Variance \$000
Crown revenue	50,905	52,474	(1,569)
Other revenue	866	5	861
Personnel costs	27,483	25,388	2,095
External resources	12,979	14,800	(1, 821)
General and administration	2,542	5,151	(2,609)

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

- a transfer of \$2 million to 2015/16 and 2016/17 from the Land Use and Carbon Analysis System to contribute towards the continuing costs of international climate change reporting requirements

- delayed consultation and subsequent later implementation of the National Policy Statement for Freshwater Management
- the delay in the development of the auctioning function for NZ Units under the New Zealand Emissions Trading Scheme
- lower spend in developing a Hazardous Substances and New Organisms (HSNO) monitoring framework and other HSNO reforms.

This was partially offset by increased costs associated with the resource management reforms and water management reforms including implementing the Resource Management Amendment Act 2013 and progressing significant environmental data improvement initiatives such as the Environment Monitoring and Reporting initiative and the development of National Environmental Monitoring standards.

Other Revenue was higher than budget primarily due to revenue received from other agencies towards the joint economic impact studies undertaken as part of the Ministry's water reform work programme, staff secondments and other services provided by the Ministry.

Personnel cost was higher than budget due to additional staff engaged in 2013/14 to help progress work in relation to the water management reforms and the resource management reforms.

(ii) Statement of financial position

	2013/14 Actual \$000	2013/14 Budget \$000	2013/14 Variance \$000
Debtors and other receivables	10,380	8,531	1,849

The higher level of debtors and other receivables relate to amounts receivable from the Crown.

(iii) Statement of cash flows

	2013/14 Actual \$000	2013/14 Budget \$000	2013/14 Variance \$000
Receipts from Crown	50,435	52,474	(2,039)
Receipts from other revenue	1,158	5	1,153
Payments to suppliers	23,127	25,789	(2,662)
Payments to employees	27,171	25,388	1,783

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

6 Non-Departmental Statements and Schedules for the Year Ended 30 June 2014

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 2014

	2012/13 Actual \$000	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Vote Environment					
Appropriations for output expenses					
Administration of New Zealand Units held on					
160 Trust		177	177	177	177
2,304 Community Environment Fund		1,770	6,472	3,008	4,872
103 Contaminated Sites Remediation Fund		344	5,453	3,670	4,628
8,569 Contestable Waste Minimisation Fund		8,484	20,004	16,642	15,752
7,937 Emissions Trading Scheme		6,392	6,392	6,392	6,392
1,900 Environmental Training Programmes		1,900	1,900	1,900	1,900
4,054 Fresh Start for Fresh Water: New Initiatives		6,257	8,600	7,341	1,700
Fresh Start for Fresh Water: Rotorua Lakes					
8,200 Restoration Programme		–	9,000	–	–
800 Promotion of Sustainable Land Management		800	800	800	800
Te Mana o Te Wai – restoring the life-giving					
– capacity of fresh water		–	–	–	2,500
– MCA1 – Water science and economics		–	–	–	2,000
34,027 Total output expenses		26,124	58,798	39,930	40,721
Multi-class output appropriation⁸⁷					
Environmental Protection Authority:					
Regulatory functions					
2,563 Compliance and Enforcement		3,722	3,252	3,722	8,404
7,291 Decision Making		7,723	6,428	7,723	10,181
4,346 Supporting Environmental Management		4,655	6,420	4,655	–

⁸⁷ Following the 2013 amendments to the Public Finance Act 1989, the Ministry transitioned its non-departmental multi-class output appropriation to multi-category appropriation, effective from 1 July 2014. The structure of the multi-category appropriation was changed from three output classes to two during this transition.

The accompanying accounting policies and notes form part of 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 2014.

2012/13 Actual \$000		2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
14,200	Total Multi-class output appropriation	16,100	16,100	16,100	18,585
	Appropriations for other expenses				
54,823	Allocation of New Zealand Units	46,223	170,680	164,040	164,710
296	Climate Change Development Fund	290	300	300	300
464	Environmental Legal Assistance	555	800	1,125	800
103	Framework Convention on Climate Change	103	127	127	127
4,745	Fresh Start for Fresh Water: Waikato River Clean-up Fund	5,065	5,065	5,065	5,291
	– Hawke's Bay Rivers Clean-up Fund	2,000	–	2,000	–
	– Impairment of Debt relating to Climate Change Activities	–	–	–	8,700
	– Impairment of Debt relating to Environment Activities	–	–	–	1,500
522	– Impairment of Debt Relating to the New Zealand Emissions Trading Scheme	–	1,000	3,500	–
	– Impairment of Debt Relating to the Synthetic Greenhouse Gas Levy	–	–	200	–
	– Impairment of Debt Relating to the Waste Disposal Levy collection	–	1,500	1,500	–
113	International subscriptions	75	117	117	117
	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants	–	–	–	–
336	– Provision for a new water source for Rotorua	–	–	1,075	–
	– Te Awa Tupua Putea	28,000	–	30,000	–
	– Te Awa Tupua Whole of River Strategy	401	–	430	–
	– Te Pou Tupua	2,490	–	2,490	96
	– Transitional support for Local Government and Iwi	787	–	825	–
323	United Nations Environment Programme	320	393	393	393
910	Waikato River Co-governance	910	910	910	910
9,787	Waikato River Co-management	2,810	2,810	2,810	2,873
12,910	Waste Disposal Levy disbursement to territorial authorities	13,928	13,000	14,000	14,000
85,332	Total other expenses	103,957	196,702	230,907	199,817
	Capital expenditure				
12	Purchase of PRE Units	486	–	1,240	–
12	Total capital expenditure	486	–	1,240	–
133,571	Total for Vote Environment	146,667	271,600	288,177	259,123

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of 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 2014.

Remeasurements

In addition, to the above expenditure, the Crown has incurred costs of \$39 million (2012/13, \$132 million) in relation to the remeasurement in the provision for the Crown's position under the Kyoto Protocol.

The Crown has also incurred costs of \$285 million (2012/13, (\$235) million) in relation to the remeasurement in the provision of the allocation of New Zealand units under the Emissions Trading Scheme.

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 accompanying accounting policies and notes form part of 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 2014.

Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations for the Year Ended 30 June 2014 (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.

	2013/14 Actual \$000	2012/13 Actual \$000	2011/12 Actual \$000	2010/11 Actual \$000
Vote Environment				
Protecting Lake Taupo Programme				
Original appropriation	10,668	10,668	10,668	10,668
Cumulative adjustments	—	—	—	—
Total adjusted appropriation	10,668	10,668	10,668	10,668
Cumulative actual expenditure 1 July	8,517	4,829	—	—
Current year actual expenditure	2,085	3,688	4,829	—
Cumulative actual expenditure 30 June	10,602	8,517	4,829	—
Appropriation remaining 30 June	66	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 expired on 30 June 2014.

	2013/14 Actual \$000	2012/13 Actual \$000	2011/12 Actual \$000
Vote Environment			
Tui Mine Remediation			
Original appropriation	15,200	15,200	15,200
Cumulative adjustments	(350)	—	—
Total adjusted appropriation	14,850	15,200	15,200
Cumulative actual expenditure 1 July	14,850	10,000	—
Current year actual expenditure	—	4,850	10,000
Cumulative actual expenditure 30 June	14,850	14,850	10,000
Appropriation remaining 30 June	—	350	5,200

The decrease of \$350,000 in 2013/14 represents savings in the Tui Mine Remediation project. This saving was transferred to contribute towards the costs of implementing the Rena Long-term Environmental Recovery Plan.

The accompanying accounting policies and notes form part of 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 2014.

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.

	2013/14 Actual \$000	2012/13 Actual \$000	2011/12 Actual \$000
Vote Environment			
Rena Long-term Environment Recovery			
Original appropriation	2,872	2,872	2,872
Cumulative adjustments	(453)	(995)	–
Total adjusted appropriation	2,419	1,877	2,872
Cumulative actual expenditure 1 July	1,877	–	–
Current year actual expenditure	426	1,877	–
Cumulative actual expenditure 30 June	2,303	1,877	–
Appropriation remaining 30 June	116	–	2,872

This Multi-year appropriation increased by \$542,000 in 2013/14 to complete the established work streams and successfully implement the remaining plan under the Rena Long-term Environment Recovery project.

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.

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.

	2012/13 Actual \$000	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000
1,102 Indemnity payments	–	–	–	–
1,102 Total for Indemnity payments	–	–	–	–

The agreements with the projects to reduce emissions participants have been completed and no more payments are expected to be paid by the Crown.

*The statement of accounting policies provides explanations of these figures which are not subject to audit

The accompanying accounting policies and notes form part of 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 2014.

Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure for the Year Ended 30 June 2014

There has been no unappropriated expenditure for the year ended 30 June 2014 (2012/13, \$nil).

Schedule of Non-Departmental Income for the Year Ended 30 June 2014

2012/13 Actual \$000	Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Income					
577	Royalties	595	400	500	500
24,020	Levies	28,213	26,000	28,500	28,500
40,474	Emissions trading	13,410	5,213	19,430	56,349
	Emissions Trading Scheme				
583	penalty revenue	129	—	—	—
639	Grants refund	4	—	—	—
	Net changes in carbon price of				
	New Zealand Units including				
235,399	foreign exchange movements	—	—	—	—
301,692	Total non-departmental income	42,351	31,613	48,430	85,349

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

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

Schedule of Non-Departmental Capital Receipts for the Year Ended 30 June 2014

The Ministry on behalf of the Crown has no capital receipts (2012/13, \$nil).

The accompanying accounting policies and notes form part of 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 2014.

Schedule of Non-Departmental Expenses for the Year Ended 30 June 2014

2012/13 Actual \$000	Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Expenditure					
51,342	Grants and settlements	63,804	62,764	76,873	43,388
800	Promotions	800	800	800	800
	Subscriptions and contributions to international forums				
835		788	937	937	937
22,137	Crown entity funding	22,492	22,492	22,492	24,977
40,845	Change in estimate of Kyoto units held	9,506	–	12,285	–
	Net changes in carbon price of Kyoto units including foreign exchange movements				
132,367		39,461	–	42,172	–
12,910	Levy disbursement	13,928	13,000	14,000	14,000
	Allocation of New Zealand Units				
54,823		46,223	4,172	50,852	68,684
–	Net changes in carbon price of New Zealand units	284,693	–	129,052	–
	Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative participants				
336		–	–	–	–
11,652	GST input expense	9,161	13,929	11,352	11,126
1,784	Other	174	1,677	177	177
329,831	Total non-departmental expenditure	491,030	119,771	360,992	164,089

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

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of 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 2014.

Schedule of Non-Departmental Assets as at 30 June 2014

2012/13 Actual \$000		Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Assets						
Current assets						
2,755	Cash and cash equivalents		4,519	2,633	3,539	3,571
7,044	Debtors and other receivables	2	7,766	6,809	6,809	6,809
9,799	<i>Total current assets</i>		12,285	9,442	10,348	10,380
Non-current assets						
52,616	Kyoto Protocol	5	28,497	2,711	31,330	30,067
1,598	PRE units		2,083	2,838	2,838	2,083
54,214	<i>Total non-current assets</i>		30,580	5,549	34,168	32,150
64,013	Total non-departmental assets		42,865	14,991	44,516	42,530

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

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 2014

2012/13 Actual \$000		Notes	2013/14 Actual \$000	2013/14 Budget* \$000	2013/14 Revised Budget* \$000	2014/15 Forecast* \$000
Liabilities						
Current liabilities						
28,466	Creditors and other payables	3	26,844	30,156	27,956	27,628
179,204	Provisions	6	521,040	(128)	351,247	525,389
207,670	<i>Total current liabilities</i>		547,884	30,028	379,203	553,017
Non-current liabilities						
133,433	Creditors and other payables	3	129,017	129,016	129,017	124,877
–	Provisions	6	31,428	–	–	–
133,433	<i>Total non-current liabilities</i>		160,445	129,016	129,017	124,877
341,103	Total non-departmental liabilities		708,329	159,044	508,220	677,894

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

The accompanying accounting policies and notes form part of 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 2014.

Schedule of Non-Departmental Contingencies as at 30 June 2014

Guarantees and indemnities

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

Other quantifiable contingent liabilities

Kyoto Protocol

The Ministry has a contingent liability on behalf of the Crown relating to 61.4 million (2012/13, 42.6 million) forestry credits. During the first commitment period, the Ministry for Primary Industries estimated that 91.8 million tonnes of credits have been earned by carbon removals through forests (2012/13, 91.5 million tonnes). Of this amount, 30.4 million tonnes (2012/13, 48.9 million tonnes) has been allocated to foresters through the Emissions Trading Scheme as at 30 June 2014. To the extent that these forests are harvested (in subsequent commitment periods) and a future international agreement is negotiated, and addresses this commitment, 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 2014, this contingent liability can be measured at NZ\$15 million (ie, 61.4 million x NZ\$0.25) (2012/13, \$35 million).

Conversion of New Zealand AAUs

If New Zealand is unable to carry-over NZ AAUs, the Government has agreed that it will replace privately-owned New Zealand issued AAUs by allocating an equivalent number of New Zealand Units to their owners. The estimated costs of replacing these units will be approximately \$8 million (using the carbon prices as at 30 June 2014) due to the price difference between NZ AAUs and NZUs (2012/13, \$nil).

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.

The accompanying accounting policies and notes form part of 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 2014.

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 2014.

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 2014, there may be some deforestation which has not yet been reported to the Crown. (2012/13, nil)

The Ministry on behalf of the Crown has no other contingent liability or assets (2012/13, \$nil).

The accompanying accounting policies and notes form part of 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 2014.

Notes to the Non-Departmental Financial Statements

1. Statement of accounting policies for the year ended 30 June 2014

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:

Significant accounting policies

Budgeting and forecasting figures

The budget figures are those included in the Information Supporting the Estimates of Appropriations (Budget) for the year ending 30 June 2014 and the Information Supporting the Supplementary Estimates of Appropriations (Revised Budget) for the year ending 30 June 2014 (the Budget is 2013 Budget Economic and Fiscal Update (BEFU 2013) out-year 1 figures and the Revised Budget is SUPPS 2014 out-year 0 figures).

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 and are based on NZ IFRS (PBE).

The Budget figures used in these financial statements for the New Zealand Emissions Trading Scheme (NZ ETS) surrender of units and allocation of NZUs were valued using market prices per carbon unit at the time of Budget forecast. Similarly, the liability provision for the NZ ETS and the Kyoto Protocol units' asset balance was valued using market price per carbon unit at the time of Budget forecast. Budget figure for the appropriation of Allocation of New Zealand Units is based on NZ\$10 per carbon unit.

Forecast information has been included for the following financial year for the first time. The Public Finance Amendment Act 2013 requires this. The aim is to increase transparency by providing the reader with further context of this year's results by showing next year's forecast for comparison.

The forecast figures are those included in the Information Supporting the Estimates of Appropriations for the year ending 30 June 2015 (the Forecast is 2014 Budget and Economic and Fiscal Update (BEFU 2014) out-year 1 figures) except for the figures used in these financial statements for the NZ ETS surrender of units and allocation of NZUs are valued using market prices per carbon unit at the time of the 2014 Pre-election Economic and Fiscal Update (PREFU 2014) forecast. Similarly, the liability provision for the NZ ETS and the Kyoto Protocol units' asset is valued using market prices per carbon unit at the time of PREFU 2014 forecast. The change in the forecast figures relating to the NZ ETS and the Kyoto Protocol at PREFU 2014 is due to the change in carbon price per unit since the Budgets 2014. Forecast figure for the appropriation of Allocation of New Zealand Units remains at NZ\$10 per carbon unit.

The forecast figures are unaudited and have been prepared in accordance with the requirements of the Public Finance Act 1989, and comply with the International Public Sector Accounting Standards (IPSAS). They are to be used in the future for reporting historical general purpose financial statements.

The forecast figures contained in these financial statements reflects the Ministry's purpose and activities and are based on a number of assumptions on what may occur during the year 2014/15. Events and circumstances may not occur as expected. Factors that could lead to material differences between the forecast financial statements and the 2014/15 actual financial statements include changes to the baseline forecast through new initiatives, or technical adjustments.

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, the Synthetic Greenhouse Gas Levy under the Climate Change Response Act 2002 and the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013 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.

The Synthetic Greenhouse Gas (SGG) Levy revenue is recognised in the month, when it is collected by the New Zealand Transport Agency (NZTA).

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 betters its emission targets, the Crown will have surplus units which can be used to offset future obligations or be exchanged with other countries.

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

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.

2. Debtors and other receivables

2012/13 Actual \$000		2013/14 Actual \$000
7,566	Debtors and other receivables	7,766
(522)	Less provision for impairment	—
7,044	Total debtors and other receivables	7,766

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

As at 30 June 2014 and 2013, all debtors and other receivables have been assessed for impairment. The Ministry has identified one debtor as impaired \$457 (2012/13, \$522,000).

	Gross \$000	2013/14 Impairment \$000	Net \$000	Gross \$000	2012/13 Impairment \$000	Net \$000
Not past due	7,745	—	7,745	7,072	(28)	7,044
Past due 1 – 90 days	—	—	—	83	(83)	—
Past due 90 – 180 days	—	—	—	83	(83)	—
Past due 180 – 360 days	—	—	—	166	(166)	—
Past due > 360 days	21	—	21	162	(162)	—
Total	7,766	—	7,766	7,566	(522)	7,044

3. Creditors and other payables

2012/13 Actual \$000		2013/14 Actual \$000
Current creditors and other payables are represented by:		
5,742	Waikato River Co-management	5,725
7,289	Waikato River Clean-up Fund	6,931
359	GST payable	384
15,076	Other payables	13,804
28,466	<i>Total current portion</i>	26,844
Non-current creditors and other payables are represented by:		
46,820	Waikato River Co-management	44,647
86,613	Waikato River Clean-up Fund	84,370
133,433	<i>Total non-current portion</i>	129,017
161,899	Total creditors and other payables	155,861

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
	2014–2015	2016–2020	2021–2025	2026–2030	2031–2035	2036–2040	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Co-management							
Nominal	6,000	25,000	25,000	23,000	–	–	79,000
Discount	(275)	(5,181)	(10,318)	(12,854)	–	–	(28,628)
Recognised	5,725	19,819	14,682	10,146	–	–	50,372
Clean-up							
Nominal	7,333	36,665	36,665	36,665	36,665	22,008	176,001
Discount	(402)	(7,585)	(15,125)	(20,607)	(24,666)	(16,315)	(84,700)
Recognised	6,931	29,080	21,540	16,058	11,999	5,693	91,301

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.

2012/13 Actual \$000		2013/14 Actual \$000
	Loans and receivables	
2,755	Cash and cash equivalents	4,519
7,044	Debtors and other receivables	7,766
9,799	Total loans and receivables	12,285
	Financial liabilities measured at amortised cost	
161,899	Creditors and other payables	155,861

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

2012/13 Actual \$million	Analysis of the Kyoto Protocol obligation	2013/14 Actual \$million
202	Opening position (provision)	53
(132)	Change in the price of carbon	(39)
(41)	Change in net projected emission units	(9)
24	Kyoto compliant units surrendered under NZ ETS	24
53	Closing position (provision)	29
Emission units⁸⁸		Emission units⁸⁹
309.6	Kyoto Target (Assigned Amount Units)	309.6
4.5	Less AAUs to be allocated to emission reducing projects	–
305.1	Total commitment target	309.6
	Estimated emission units	
170.2	Agriculture	169.3
183.1	Energy (including transport) and industrial processes	184.7
10.1	Waste	18.6
0.1	Solvent and other product use	0.2
363.5	Total estimated emission units	372.8
91.5	Removals via forests	91.8
(14.3)	Deforestation emissions	(20.2)
77.2	Net removals via forests	71.6
286.3	Net estimated emission units	301.2
3.1	Less net transfers of AAUs	7.6
48.3	Add Kyoto compliant units surrendered under NZ ETS	113.6
64.0	Surplus units	114.4

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases over 2008–2012 (the first commitment period of the Kyoto Protocol or CP1) is reduced to 1990 levels or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests. New Zealand's Kyoto Protocol compliance over the first 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 2014 of NZ\$29 million (2012/13, NZ\$53 million) is based on the projected surplus of 114.4 million (2012/13, 64 million) Kyoto Protocol emission units. This surplus includes 65.3 million (2012/13, 36 million) Kyoto compliant units surrendered by the emitters under the New Zealand Emissions Trading Scheme. The carbon price of €0.16 per unit has been used. The carbon price in New Zealand dollars equates to NZ\$0.25 (2012/13, NZ\$0.82), using the 30 June 2014 exchange rate of €0.64215 = NZ\$1 (30 June 2012/13, €0.59630 = NZ\$1, and a carbon price of €0.49 per unit).

⁸⁸ See footnote 68 for an explanation of what an emission unit is equivalent to.

⁸⁹ See footnote 68 for an explanation of what an emission unit is equivalent to.

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 2014.

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.

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

2012/13 Actual \$000	2013/14 Actual \$000
Current portion	
517 Indemnity payments	–
178,687 Allocation of New Zealand Units	521,040
179,204 Total current portion	521,040
Non-current portion	
– Te Awa Tupua Putea	28,000
– Te Awa Tupua Whole of River Strategy	401
– Te Pou Tupua	2,490
– Transitional Support for Local Government and Iwi (Tauranga Moana Framework Co-management arrangements)	537
– Total non-current portion	31,428
179,204 Total provisions	552,468

	Te Awa Tupua Putea \$000	Te Awa Tupua Whole of River Strategy \$000	Te Pou Tupua \$000	Transitional Support for Local Government and Iwi \$000	Indemnity \$000	Allocation of New Zealand Units \$000	Total \$000
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
Balance at 1 July 2013	–	–	–	–	517	178,687	179,204
Additional provisions made	28,000	401	2,490	537	–	46,223	77,651
Amounts used	–	–	–	–	(514)	11,437*	10,923
(Gains)/Losses	–	–	–	–	–	284,693	284,693
Unused amounts reversed	–	–	–	–	(3)	–	(3)
Balance at 30 June 2014	28,000	401	2,490	537	–	521,040	552,468

Provision for NZ ETS credits

	2013/14 Units in million	2013/14 Amount in \$million	2012/13 Units in million	2012/13 Amount in \$million
Opening provision	99.3	179	65.5	375
New provision recognised during the period	12.7	46	38.9	55
Provision used during the period	(52.3)	(13)	(41.1)	(40)
Gains and losses	–	285	–	(235)
Transfer of units to Kyoto provision	65.3*	24	36.0	24
Closing provision	125	521	99.3	179

*The transfer of 65.3m units equating to NZ\$24m to the Kyoto Provision relates to international units surrendered by participants. This includes estimation at the end of the previous financial year for the units still to be received for 2012/13 period. This estimation was based on the assumption that the participant will surrender NZUs. However the majority of actual units surrendered by the participants were international units.

Whanganui River Settlement

In February 2014, the Whanganui River deed of settlement was initialled by the Crown and Whanganui Iwi negotiators. Following a series of ratification hui across the country Whanganui River Iwi ratified this settlement.

The settlement contains the following:

- A one-off payment of \$30 million for the establishment of a contestable fund – Te Awa Tupua Putea – available to any person, group or entity seeking funding for initiatives related to Te Awa Tupua. This fund will be administered by Te Pou Tupua – the guardians of Te Awa Tupua.
- \$4 million over 20 years to be paid to Te Pou Tupua as a contribution towards their operating costs.
- A one-off payment of \$430,000 to be paid to Te Pou Tupua towards the establishment and development of the Whole of River Strategy.

Transitional Support for Local Government and Iwi (Tauranga Moana Framework Co-management Arrangements)

The Crown and Tauranga Moana Iwi Collective, (Ngā Hapū o Ngāti Ranginui, Ngāi Te Rangi and Ngāti Pūkenga) initialled a collective deed on 2 November 2012. The deed has been put to all members of the claimant group for ratification purposes.

The Crown has agreed to a one-off contribution of \$575,000 to assist the bay of Plenty Regional council with establishing and implementing the Tauranga Moana Framework co-management arrangements.

The above payments are likely to occur once the settlement bill is enacted. The total amounts of payments have been provided for at 30 June 2014. The cash outflows have been discounted to recognise the present value of the future payments using the risk-free discount rate provided by the Treasury. The table below reconciles the provisions recognised with the cash outflows.

Recognition of future discounted cash flows for the Whanganui River Funds and the Tauranga Moana Framework Co-management Arrangements

	Provisions					Total
	2014–2015 \$000	2016–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	\$000
Te Awa Tupua Putea						
Nominal	30,000	–	–	–	–	30,000
Discount	(2,000)	–	–	–	–	(2,000)
Recognised	28,000	–	–	–	–	28,000
Te Awa Tupua Whole of River Strategy						
Nominal	430	–	–	–	–	430
Discount	(29)	–	–	–	–	(29)
Recognised	401	–	–	–	–	401
Te Pou Tupua Nominal	200	1,000	1,000	1,000	800	4,000
Discount	(7)	(158)	(352)	(504)	(489)	(1,510)
Recognised	193	842	648	496	311	2,490
Transitional Support for Local Government and Iwi (Tauranga Moana Framework Co-management Arrangements)						
Nominal	575	–	–	–	–	575
Discount	(38)	–	–	–	–	(38)
Recognised	537	–	–	–	–	537

The table above reconciles the cash outflows that will occur over the next 20 years.

Indemnity Payments

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.

Allocation of New Zealand 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\$4.17 (2012/13, NZ\$1.80) 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.

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

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

8. Memorandum account for the Waste Minimisation Fund

2012/13 Actual \$000		2013/14 Actual \$000
	Provision for statutory information	
19,851	Balance at 1 July	20,160
24,022	Revenue from waste levy collection	27,855
(23,713)	Expenses	(24,474)
20,160	Balance at 30 June	23,541

The memorandum account records the Waste Disposal Levy collected which has not been spent to date. As at 30 June 2014, the Fund has \$15.6 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

	2013/14 Actual \$000	2013/14 Budget \$000	Variance \$000
Levies	28,213	26,000	2,213
Emissions Trading	13,410	5,213	8,197

Levies include the revenue collected from the Waste Disposal Landfill facility operators and the SGG levy collected by the NZTA.

The revenue collected from the Waste disposal levy was higher than budget due to increased activity reported by the Landfill facility operators.

The Ministry recognised revenue from the SGG Levy collected by NZTA. This levy was introduced from 1 July 2013 under the Climate Change Response Act 2002 and the Climate Change (SGG Levies) Regulations 2013.

The revenue from surrendering units under the NZ ETS from emitters was higher than budget primarily due to increase in surrender of units by post 89 forestry participants. The price per carbon unit was also higher during the year than the price used at the time of Budget forecast.

There were no other significant variances to budget.

(ii) Schedule of non-departmental expenses

	2013/14 Actual \$000	2013/14 Budget \$000	Variance \$000
Grants and settlements	63,804	62,764	1,040
Change in estimate of Kyoto units held	9,506	–	9,506
Net changes in carbon price of Kyoto units including foreign exchange movements	39,461	–	39,461
Allocations of New Zealand Units	46,223	4,172	42,051
Net changes in carbon price of New Zealand units	284,693	–	284,693
Other	174	1,677	(1,503)

Expenditure on grants and settlements were higher than budget due to the recognition of an obligation upon signing of the settlement deed by the Crown in respect of the Whanganui River funds. This was partially offset by decreased expenditure incurred in the following:

- Expenditure was lower than budget in the Community Environment Fund and the Contaminated Sites Remediation Fund. The Ministry has sought expense transfers to 2014/15 and 2015/16 due to a delay in the delivery of milestones and to match the amount of funding with the revised timing of deliverables for the committed projects. The funds are rephased during baseline updates to match the delivery of projects and updated for actual delivery of milestones.

- The Rotorua Lakes Restoration programme funding was transferred to a new multi-year appropriation beginning from 2015/16.
- The Fresh Start for Fresh Water: New Initiatives Programme projects are expected to be completed in 2015/16. Funding of \$15m was originally appropriated for two financial years from 2011 to 2013. However, the establishment period has taken longer than anticipated for the large projects 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.

The actual expense for changes in the 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.

The actual expense for net changes in carbon price of Kyoto units including foreign exchange movements relates to the fluctuations in price per carbon unit and movement in EURO/NZ exchange rate during the year. These changes are considered to be a remeasurement under the Public Finance Act 1989 and do not require appropriation.

The expenditure for Allocation of New Zealand Units was higher than budget primarily due to a change in the methodology of valuing New Zealand Units. New Zealand Units are now valued using NZU price due to divergence in carbon price between NZUs and international units.

The actual expense for net changes in carbon price of New Zealand units relates to the fluctuations in price per carbon unit during the year. These changes are considered to be a remeasurement under the Public Finance Act 1989 and do not require appropriation.

(ii) Statement of assets

	2013/14 Actual \$000	2013/14 Budget \$000	Variance \$000
Cash and cash equivalents	4,519	2,633	1,886
Kyoto Protocol units	28,497	2,711	25,786

The Ministry drew more funding from the Crown in anticipation of payments due to certain grants and settlements, and this resulted in higher than the budgeted cash and cash equivalents.

Kyoto Protocol units were higher than budget primarily due to the transfer of international units surrendered under the New Zealand Emissions Trading Scheme. Further, increase in carbon price per unit and decrease in EURO/NZ exchange rates has partially increased the Kyoto Protocol units' asset balance.

(iii) Statement of liabilities

	2013/14 Actual \$000	2013/14 Budget \$000	Variance \$000
Creditors and other payables	26,844	30,156	(3,312)
Provisions	552,468	(128)	552,596

Creditors and other payables were lower than budget due to less spending in various work programmes such as, the Community Environment Fund, the Contaminated Sites Remediation Fund due to delay in meeting milestones. The Ministry also paid the majority of creditors before year-end.

Provisions include Allocation of New Zealand Units, the Whanganui River funds payment and the Transitional Support for Local Government and Iwi (Tauranga Moana Framework co-management arrangements payment).

The provision relating to the Allocation of New Zealand Units was higher than budget primarily due to:

- a change in the methodology of valuing New Zealand Units. New Zealand Units are now valued using NZU price due to divergence in carbon price between NZUs and international units. At Budgets 2013, the provision was valued using the Secondary Certified Emission Reduction (sCER) units price. Further, the majority of units surrendered under the New Zealand Emissions Trading Scheme were international units which were transferred to the Kyoto Protocol.

The provision relating to the Whanganui River funds payment was due to the recognition of an obligation for the payment of funding upon signing of the settlement deed by the Crown.

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 2014.

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

Paul Reynolds
Chief Executive
30 September 2014

Countersigned by:

A handwritten signature in black ink, appearing to read 'Aaron Crookston', followed by a long horizontal line.

Aaron Crookston
Acting Chief Financial Officer
30 September 2014

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 2014**

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 95 to 120, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the non-financial performance information of the Ministry that comprises the statement of service performance on pages 11 to 84 and the report about impacts on pages 7 to 10; and
- the schedules of non-departmental activities of the Ministry on pages 121 to 144 that comprise the schedule of non-departmental assets, schedule of non-departmental liabilities and schedule of non-departmental contingencies as at 30 June 2014, the schedule of non-departmental expenses, schedule of non-departmental expenditure and capital expenditure against appropriations, schedule of non-departmental unappropriated expenditure and capital expenditure, schedule of non-departmental income and schedule of non-departmental 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 95 to 120:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Ministry's:

- financial position as at 30 June 2014;
- 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 2014; and
- unappropriated expenses and capital expenditure for the year ended 30 June 2014.

the non-financial performance information of the Ministry on pages 11 to 84 and 7 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 2014, 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 121 to 144 fairly reflect, in accordance with the Treasury Instructions:
 - the assets, liabilities and contingencies as at 30 June 2014 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 2014. 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 2013/14

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 the costs 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 2013 to 30 June 2014	13

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 2013 to 30 June 2014	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 2013/14 to discuss the Government's reform package (particularly the National Policy Statement for Freshwater Management amendments), which builds on the Forum's reports.
Number of members	Plenary organisations: Approximately 64 – including active observers Small group organisations: 21 Central and local government organisations as active observers: 11
Number of meetings held from 1 July 2013 to 30 June 2014	Plenary: 1 meeting Small group: 3 meetings

Environmental Grants Assessments Panel

Purpose	The purpose of the Environmental Grants Assessment Panels 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 • provide 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 assessed and managed.
Number of members	The WMF panel consists of six voting panel members plus a non-voting chair. The CEF panel consists of five voting panel members plus a non-voting chair.
Number of meetings held from 1 July 2013 to 30 June 2014	2

Waste Advisory Board

Purpose	The Waste Advisory Board provides independent advice to the Minister for the Environment relating to the Waste Minimisation Act 2008 and wider waste minimisation. The Waste Advisory Board was established under Part 7 of the Waste Minimisation Act.
Number of members	8 (The Minister is required to appoint at least four, but no more than eight members to the Waste Advisory Board.)
Number of meetings held from 1 July 2013 to 30 June 2014	7

Appendix B: Organisational Chart

Below is a brief overview of the focus of each of the Ministry's Divisions, followed by the Ministry's organisational chart, as at 30 June 2014.

Natural Resources Policy Division	The Natural Resources Policy Division focuses on strategic policy issues and strengthening 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 focuses on the strategic direction of the Ministry and the wider natural resource management system. It does this through supporting the Natural Resource Sector Chief Executives and Deputy Secretaries in their oversight of the sector, through the Central-Regional Government Chief Executives Environment Forum and coordinating the Government's Business Growth Agenda Resources work stream. System performance oversight is also achieved through monitoring of both the Environmental Protection Authority and the implementation of the Resource Management (and related national instruments) Waste Minimisation and Climate Change Response Acts. The division includes the Ministry's Strategic Policy team that looks at long-term systemic priority issues, and the Environmental Reporting and Environmental Science System and Monitoring teams whose focus is the information and evidence the Ministry requires to develop sound, effective policy, programmes and operations and to inform New Zealanders and international audiences.
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 and Operations Division	The Organisational Performance and Operations Division focuses on internal and external organisational performance functions.

