



Ministry for the
Environment
Manatū Mō Te Taiao

Annual Report

2017/18



Presented to the House of Representatives
pursuant to section 44 of the Public Finance Act 1989

Published in October 2018 by
the Ministry for the Environment
Manatū Mō Te Taiao

23 Kate Sheppard Place, Thorndon
PO Box 10362, Wellington 6143, New Zealand

Publication number: ME 1387

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Environment
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Welcome

Welcome to the Ministry for the Environment's annual report for the year ending 30 June 2018. In this report you'll find information about how we've performed during 2017/18. We have grouped our annual report into three parts.

Part one: About us

Part one provides an overview of our organisation – our purpose, our people, our way of working and our funding.

Part two: Our performance

Part two provides information about how we performed during 2017/18. It shows achievements against our long-term and annual performance measures.

Part three: Our finances

Part three reports on the financial resources we have used to deliver our services. This part also includes an independent audit report on our annual report.

Tell us what you think

We welcome your feedback.
You can get in touch with us by:

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Phone: +64 4 439 7400
Email: info@mfe.govt.nz

Chief Executive's introduction



Whāia te iti kahurangi – Strive for something of great value

Trends in the environment reflect the sum of the choices all New Zealanders make every day. Because all elements of the environment – water, land, climate, air, and biodiversity – are interconnected, the choices people make can have consequences far wider than their immediate local impact.

People care about and are very interested in the state of the environment today, and the environmental legacy being left to future generations. There is great potential to turn this interest into action, particularly in areas of heightened public engagement such as fresh water, climate and waste.

To be successful, action is needed not just across central and local government and with iwi/Māori, but from businesses, non-governmental organisations, communities and individuals. Considering a broad range of perspectives is vital.

This year's annual report provides an overview of Ministry-led initiatives and collaborative work we have progressed.

In 2017 we went through a second independent review using the State Services Commission's Performance Improvement Framework (PIF). At the outset of this exercise I asked the reviewers Jenn Bestwick and Lester Levy to really test whether we can make a difference over a longer period. They responded by setting out an ambitious and challenging transformation agenda. I am proud of the progress that we have made in implementing this change programme.

A significant initiative by the Ministry during the year was leading the Crown's engagement with New Zealand on the Zero Carbon Bill and a national conversation about how we should transition to a low carbon economy. Also, our involvement in helping the government shape its urban growth agenda is another example of our role as a Ministry in bringing economic and environmental policy together.

In other areas, the Ministry continues to lead the all-of-government programme required to manage the response to the per- and poly-fluorinated alkyl substances (PFAS) contamination issue and advanced work to ratify the Kigali Amendment to the Montreal Protocol, which will contribute to lowering NZ's greenhouse gas emissions.

The Ministry has also worked with partners in the private sector to make significant advances in tackling environmental issues including: with local and international businesses that committed to using 100 per cent reusable, recyclable or compostable packaging in their New Zealand operations by 2025 or earlier; co-designed an action plan with rural interests for accelerating the uptake of good farming practices to improve New Zealand's freshwater quality; and joined with 45 different stakeholders to develop principles to water sensitive design that promote ways of managing storm water to improve water quality.

We also worked with Sir Rob Fenwick and Sir Jonathon Porritt from UK-based Forum for the Future, and business leaders to bring together a coalition and drive a collective approach to improve the health of natural assets. This is a powerful alliance between the Government and businesses on board – we know no one on their own can make enough of a difference and we look forward to driving results with this group. It will launch its ambitions and work in October 2018.

The Ministry, in partnership with Stats NZ, continued to develop our environmental reporting programme during the year, stimulating discussion and debate around the release of reports on the state of New Zealand's atmosphere and climate and land use. We also produced guidance on managing coastal hazard and best practice guidelines on compliance, monitoring and enforcement under the Resource Management Act 1991.

Finally, I want to acknowledge the excellent work done by our people during this busy year and would like to thank them for their patience and resilience through this period of change. Because of their work and commitment to public service, 2017/18 has been a successful year of growth for the Ministry. And with the implementation of our transformation programme, I believe next year will be better yet.



Vicky Robertson

Chief Executive and Secretary
for the Environment

This year's highlights

July 2017

New tools developed to help meet climate change targets
First time back in Environment House after 2016 Kaikoura earthquake

September 2017

Amendment to the National Policy Statement for Freshwater Management came into force

December 2017

Working safer reforms commenced – changing how hazardous substances are managed and enforced
Products containing plastic microbeads banned in New Zealand
National Monitoring System data released for 2015/16
Climate Change Adaptation Technical Working Group's Stocktake report released
Cabinet agreed to consultation before introducing a Zero Carbon Bill
Waikato Waipa River iwi summer intern programme commenced
Coastal hazards and climate change: guidance for local government released

May 2018

Applications for the Waste Minimisation Fund opened, with a focus on supporting projects that would take circular economy approaches to resource efficiency
Funding announced for a Resource Management Act oversight unit to oversee compliance with the act
Allowed area for deposits from space vehicle launches into Exclusive Economic Zone expanded

August 2017

Government allocated \$44 million to freshwater improvement projects for 100 rivers and lakes

October 2017

Consenting changes came into force
Our atmosphere and climate 2017 released

January 2018

New Chief Operating Officer Claire Richardson, and new Deputy Secretary Partnerships and Customers James Walker joined us

March 2018

New Departmental Science Adviser Dr Alison Collins appointed
Mana Whakahono ā Rohe guidelines released

April 2018

Interim Climate Change Committee membership announced
Our land 2018 report released

June 2018

New Zealand plastic packaging declaration signed by 12 local and international businesses to make all packaging reusable, recyclable or compostable by 2025
First set of draft National Planning Standards released
Public consultation on the Zero Carbon Bill began
Taranaki Iwi Environmental Regional Forum held for the first time
Released *Good Farming Practice Action Plan for Water Quality*, co-designed by farming sector leaders and environment and agriculture Ministers





01

About us

An overview of the Ministry for the Environment – our purpose, our people, and our funding.

Key topics

08 Our purpose

09 Our strategic direction

10 How we work

16 Our people

20 How we are funded

Our purpose

*Aotearoa – he whenua
mana kura mō te tangata
– to make New Zealand
the most liveable place
in the world.*

A wealth of natural resources have supported New Zealand to grow into a prosperous country with a high standard of living. New Zealand's economy has been built on our environment, and for many, it is why people want to live, work and visit here.

Our vision is to make New Zealand the most liveable place in the world – putting people at the heart of our work and recognising the crucial role the environment plays in all aspects of the lives of New Zealanders. The Ministry takes a long-term view because, typically, the full impacts of the choices made today only become clear generations later.

An agency for the environment and agents of change

Our job as an organisation is second to none, making sure our amazing corner of the world stays that way. We want to be the most liveable place imaginable.

We look across the natural resources system to connect and mobilise all New Zealanders to make decisions that not only protect, but improve our natural resources.

Partnerships are key. The Treaty of Waitangi forms the foundation of partnership with Māori. We continue to support the Office of Treaty Settlements in negotiating natural resource redress and delivering obligations to Māori. Beyond obligations, these arrangements enable us to build partnerships that will provide opportunities, greater efficiency and effectiveness for Māori and the Crown.

We work alongside many people and organisations to improve freshwater quality, soil and ecosystems; move to a resilient and low-emissions economy; have healthy air and sustainable, liveable cities; and be world-leading in how we manage our oceans.

What we do

We connect, engage, influence and mobilise action across New Zealand to care for, manage and invest in our natural resources wisely, so our environment thrives along with our economy and people.

Our strategic direction

Our purpose is to make New Zealand the most liveable place in the world.

Our purpose

Aotearoa New Zealand is the most liveable place in the world
Aotearoa – he whenua mana kura mō te tangata

We are stewards for the environment, so that we continue to have a prosperous Aotearoa New Zealand, now and in the future

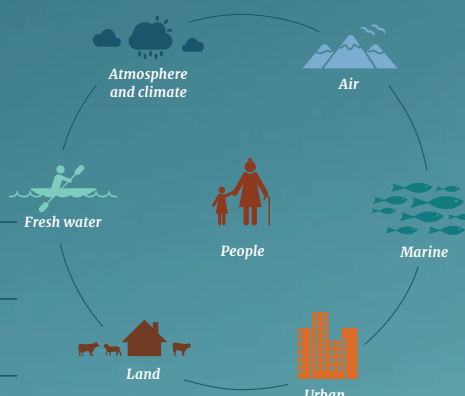
Our liveable future

We are committed to New Zealand having:

Atmosphere and climate – Innovative, productive, resilient and low emission

Fresh water – Improving quality, increasing value

Land – Improving soil and ecosystems, increasing value



Air – Healthy, with world-leading quality

Marine – World-leading in sustainable ecosystem management

Urban – Sustainable, liveable cities

The system – Developing practical policy, enabling good decisions and action

Our focus

Mana Taiao, Mana Tangata

Success means...

We **enable** people to act in a way that benefits society and the environment

We **optimise** how we use the environment and natural resources now and in the future

We **manage** risks to people and the environment

We **safeguard** the environment's capacity to sustain itself

Our edge

He rau mano, he rau kotahi tangata: we embrace our multiple talents

We are **curious**

We are **innovative**

We are **courageous**

We **take action**

We **lead**

We **help others succeed**



How we work

Our strategic direction (on the previous page) drives the way we work at the Ministry. It sets our purpose, our edge behaviours, and our shifts ('policy plus' and 'partnering with purpose'). Against this backdrop, we have continued to improve the way we work by responding to the 2016/17 performance improvement framework (PIF) review, bringing in a new approach to the way we plan, and by fixing some of the basics.

Actions since our performance improvement framework review

The PIF is designed to enable State Service leaders to identify opportunities for improvement, building positive outcomes for New Zealand. The PIF review is conducted by independent leaders; and in our case we were grateful for the work conducted and thinking delivered to us by Jenn Bestwick and Lester Levy.

PIF takes a four-year horizon generally, but we asked our reviewers to really test us as to whether we can make a long-term difference. They have, therefore, guided and recommended us on both a four-year and 10 to 15-year horizon to equip us to meet our kaitiaki or stewardship role.

The PIF confirmed our strategy and direction is right. Our purpose of making Aotearoa New Zealand the most liveable place in the world resonates, our strategy is on the mark and we have the leadership and commitment of our people to take it forward.

However, the fundamental challenge laid down in the PIF was we "can no longer afford to 'run the same race faster' (improvement), but needs to 'run a new race' (transformation)." It also told us we need to go further faster to make our strategy a lived reality. In particular, it recommended we shift up a gear in how we collaborate with our system partners and New Zealanders to achieve better environmental, social and economic outcomes.

We reviewed the early recommendations set down by the PIF and started responding to the challenge. We have continued stepping up into a lead role, working across the natural resources sector and with economic agencies.

We also established a new Partnerships and Customers division with the ultimate purpose of shifting mindsets and changing behaviours through effective partnering and engagement. Developing partnerships, building strong relationships with iwi and Māori, and bringing New Zealanders along on the journey with us is critical to increasing our influence and impact.

We are in the process of making some significant changes to how we operate, including investing in our organisational systems and changing the way we work so that we're well equipped to achieve this shift.

We have welcomed the recommendations of the PIF review and thank our many stakeholders who contributed their time and feedback.

Our new way of working and business planning

As environmental issues have become more prominent, demand for the Ministry's advice and services have continued to grow. We want to make sure we are having the greatest possible impact for the Government and for New Zealand, by focusing on the things that will make the biggest difference.

Looking ahead to the 2018/19 financial year, we also knew that we could not do all the work we were being commissioned to do across the four work streams for our new Ministers as well as our regulatory and long-term stewardship requirements.

With this in mind, we designed a new business planning process for the 2018/19 financial year. We have taken a first principles approach, looking at the outcomes we want to achieve before considering the level of investment we can make in different areas. As well as prioritising specific environmental outcomes, we have prioritised the range of different projects we could undertake, and looked at where we can join up different initiatives to achieve complementary results. Supporting the Ministry's ability to deliver in the future has also been a key focus.

We are now planning our work and resourcing using these four themes.

1. **Sustainable land use** – particularly how land use can affect climate and water outcomes.
2. **Integrated urban and environmental system** – bringing a holistic approach to the government policies and regulatory frameworks covering where and how we live.
3. **Changing how New Zealanders think about prosperity** – encouraging people to think about the environment when making decisions.
4. **A stronger, more integrated Ministry** – investing in our people and systems to support future delivery.

Within these themes, we have prioritised:

- **leading across Government** to effect system-wide environmental change
- enhancing our unique stewardship role through **innovative environmental reporting** that underpins change
- **taking our opportunity** to deliver Government priorities in climate, water, resource efficiency and liveable cities
- **moving to opportunity** in our relationship with iwi and Māori to deliver shared environmental outcomes
- **engaging and partnering** – working with change-makers to deliver action and impact
- **evolving into the future** – we learn, we adapt, and we continually focus our effort where we can have the greatest impact.

As well as focusing our resources in the right places, the new business planning process makes it easier for our people to see where they might be able to apply their skills and experience in different areas. We are now working through a process that allows people to say which projects they would like to be involved with, based on their abilities and where they would like to develop further. We plan to make this a quarterly activity, to provide opportunities for people as our work programme changes over time.

System leadership, science and data

We continue to play our leadership role in the Natural Resource Sector (NRS), driving collaborative action and systems thinking. Natural Resource Agencies worked collectively to achieve outcomes in the last year, including:

- coming together with business leaders to create the Sustainable Wealth Initiative. The initiative aims to put New Zealand's natural capital at the heart of our economy and use collective strength to drive action that will reverse the declining state of many of our natural assets.
- building comprehensive environmental indicators into New Zealand's emerging wellbeing framework and Budget 2019 priorities.

The sector is currently working together on a joint-prioritised budget package for Budget 2019 to ensure that we progress our priority natural resource outcomes. A critical component will be bringing together science capability and data acquisition to better understand and manage our natural resources.

Science is a critical foundation to enable the natural resource system to credibly understand risks and opportunities. It helps us understand where we are now, why, and what we can do about it.

To enable us to play our critical leadership role in the NRS, our Science Strategy was launched in May 2018. Our Science Strategy sets out a vision of “valued and trusted science for environmental stewardship” and shows how our own people, tools and processes contribute, and highlights the importance of collaborating and communicating with others in the system. Our Science Strategy has been built and tested with a wide variety of people in and outside of the Ministry including our NRS colleagues, and has included a review on what is working well and where there is room for improvement. During this process we found we had plenty of good initiatives already underway as well as a few gaps. Our Science Strategy acts as a framework to ensure we bring all these initiatives together and build from them to fill these gaps.

Data and evidence are critical for the Ministry and the NRS to carry out policy evaluation, regulation monitoring, and national environmental reporting.

We have been actively engaged across the NRS and the regional sector to identify fundamental datasets. These fundamental datasets, or core indicators, will be critical for Treasury's Wellbeing Framework and Budget 2019 priorities. Our commitment to NRS leadership, collaborative action and systems thinking has been demonstrated through the establishment of the Environmental Deputy Chief Executives (DCE's) group.

The purpose of the DCE's group is to bring government agencies, interconnected work programmes, ideas and data funding together to get greater scale and critical mass in efforts to build a sound approach to environmental data. The DCE's group will provide leadership and direction on what we do in the environmental data space.

We will continue developing internal capability and data management systems, drawing on the collective knowledge across the NRS, to better meet our future endeavours. With increased awareness of data needs, data management and data use we will be well positioned to provide even stronger leadership and collaboration across the NRS and with our Regional partners.

As noted above, data and evidence are critical for delivering environmental reporting. During 2017/18, two environmental reports were released under the environmental reporting programme. *Our atmosphere and climate 2017* was released in October 2017. A panel event brought together representatives from different sectors in Auckland to discuss the opportunities and challenges highlighted by the report. *Our land 2018* was released in April 2018 and generated some positive conversations on the best way to address the data gaps identified in the report to improve our understanding of land use. Both reports were the subject of extensive media coverage.

Policy plus

We are committed to exploring new methods of analysis and achieving our objectives outside of traditional regulatory tools. We call this *policy plus*.

Seeking and considering evidence on the ways people actually behave when we are designing our interventions is using 'behavioural insights'.

For example, one such insight shows that putting labels on new cars illustrating the expected five-year running and maintenance costs alongside the sticker price can increase the purchase of electric vehicles.

Information on how people behave is all around us. Academic literature from the social sciences is a rich resource to help us inform what interventions to prototype, and experimental and design thinking methods can help us refine those prototypes. For many governments around the world, bringing this evidence into policymaking is the cutting edge, and we are taking a leading role in bringing these methods to New Zealand.

We led the way when the Behavioural Insights Group co-hosted a new public and private sector forum – the Behavioural Insights Community of Practice. The event attracted a bigger crowd than expected, with around 70 people turning out for the event from across the public sector, academia and the private sector.



Policy plus

We are at the cutting edge of how policy is made and the difference it can make to people. **This means:**

We actively shape the agenda

We advise with impact: using storytelling, insights from data, real life examples, and the views of end users

We focus on supporting the decisions Ministers need to make

We problem solve in many ways: non-regulatory interventions, visual tools and more

We harness our diverse perspectives and the skills of our workforce

We see the whole system and play a brokering role



Partnering with purpose

We bring our ideas together with others' to give the best advice and delivery. **This means:**

We are clear about what we and others bring to the table and the results we all seek

We partner with Māori and iwi to make Aotearoa New Zealand uniquely liveable

We engage early in our thinking and doing, and others bring us into theirs

We work with people to inspire them to action and to get results

climate resilient economy. Part of that coverage included an online joint public meeting with a news organisation, which resulted in hundreds of live viewers, reaching thousands in the days after. Because we have taken people along for the journey, the resulting conversations have been really valuable and have led to some robust and well-informed debate.

We have also been working closely with the rural sector, supporting those with a vision for change. The Good Farming Practice Action Plan was launched with local government and primary industry bodies. The action plan is the cornerstone of a national approach to developing, implementing and monitoring good farming practices in the primary sector.

Working with our colleagues at Ministry for Primary Industries, the NZ Farm Environment Trust, Landcare Trust, and a core group of farmers, we also helped organise the 'Farming Sustainably for Profit' workshop for about 45 farmers from across the primary sector and the country, including Ballance Farm Environmental Award winners and others. The purpose of this 'farmer-led, pan-sector' initiative is to set and deliver a vision for sustainable primary production that connects all land users. The farmers behind this initiative see the current challenges farmers and growers are facing as an opportunity to shape the future of the primary sector and be part of the solution. We commend such drive and are keen to support such an initiative.

Find out more on climate change and what the government is doing by going to the relevant section of our website www.mfe.govt.nz/climate-change.

Partnering with purpose

Genuinely engaging New Zealanders in environmental issues requires having a conversation and inspiring people to act. It is this strategic shift that has inspired action in some key work areas in the past year.

There are some significant examples of success factors in this work. In the consultation for the Zero Carbon Bill, we have taken a completely fresh approach to engagement. This has seen a significant increase in engagement.

We focused on some key influencers as we worked through the consultation period earlier this year. We held in-depth workshops with iwi and Māori, environmental stakeholders, business, non-government organisations, and young people, and held public meetings for New Zealanders.

The result has been amazing. We have had some fantastic coverage in the media with some proactive media work, which has led to increased awareness of the real issues surrounding climate change and our transition to a low emissions and

Underpinning all of these conversations is a targeted social media strategy. In today's digital world conversations are happening more and more on social media, which is such a powerful 'community-building' tool that can galvanize seemingly unrelated people behind a common cause or issue to influence social change. Watching this space grow has been very exciting, with an increase on our Facebook page of 8000 followers in a year.

Sir Peter Blake Youth EnviroLeaders' Forum and YELF Interns

We partner with the Sir Peter Blake Trust to deliver the annual Sir Peter Blake Youth EnviroLeaders' Forum (YELF). YELF is a week-long adventure for 15–18 year olds passionate about the environment. It gives 55 students an opportunity to consider topical environmental matters facing New Zealand, and develop leadership skills to address them in their own communities.

YELF 2018 was held in Taranaki in the April school holidays and the theme was climate change. Specific topics covered included ocean acidification, resilience, liveable cities and urban planning, greenhouse gases, and climate trends. Over 330 applications were received and 56 students were selected to attend. After YELF, 95 per cent of delegates rated the event as well above expectations and identified climate change and water quality as the most important environmental issues facing New Zealand. Delegates' knowledge of the roles, responsibilities and objectives of the Ministry for the Environment increased from 54 per cent before YELF, to 87 per cent following YELF. Approximately half of the students who attend YELF, say the programme will influence their career choice.

After YELF, we offer five delegates short internships at the Ministry. This provides students with an opportunity to develop a deeper understanding of our role and work programme. Interns also gain insight into careers in the public service in an area they are passionate about. The interns provide youth's perspective on our work, challenge us to think differently and question our assumptions. This improves our advice and understanding of New Zealanders.

Fixing the basics

Since we moved back to Environment House in July 2017, we've upgraded some of our existing tools and introduced new ones. These improvements support our agile way of working by simplifying processes, managing risks and bringing in more modern technology.

We have:

- revised our policies and procedures' framework to make them simpler, and more visible and accessible for our people
- addressed some priority information and communication technology risks (eg, introduced resilient firewalls managed as a service, implemented the latest desktop operating system Windows 10 and the initial migration of email to the public cloud)
- enhanced existing service performance (eg, completed a version upgrade of the Ministry's content management system (Te Puna), introduced a seamless remote access solution, and simplified procedures and processes)
- made improvements to our meeting room technology.

Being a sustainable organisation

During the year we also developed our sustainability strategy. It complements our organisational strategy and outlines our vision for topics we feel strongly about. The strategy is a mixture of high-level goals, specific targets and actions for our own corporate operations in a number of areas, including:

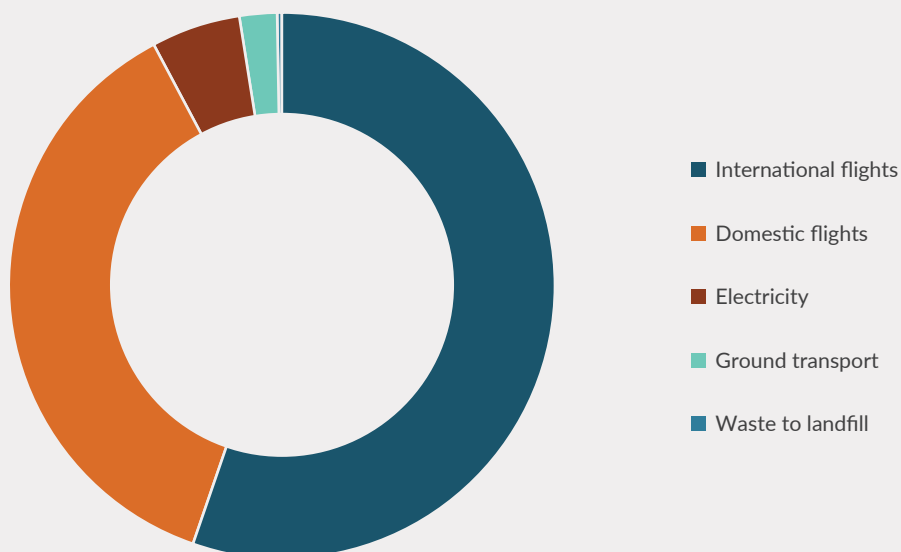
- emissions reduction
- sustainable procurement
- waste reduction
- diversity, inclusion, and equal opportunities.

The high-level goals relate to the 17 United Nations' Sustainable Development Goals that were set in 2015 and adopted by 193 countries. They form the global agenda for sustainable development to 2030. The targets, and the actions that support the high-level goals, echo our wider strategic direction by linking our actions as a Ministry with our goals for the wider environmental management system.

We are now implementing initiatives, starting with measuring our emissions, having the inventory externally audited, and putting in place an action plan to reduce them. We are sharing our strategy and results with other departments and stakeholders and look forward to reporting on progress next year.

An initial estimate of our first year's emissions source as a share of total business activity is shown below. Details on our emissions can be found on our website or the [Enviro-mark solutions website](#).

EMISSIONS SOURCES AS SHARE OF TOTAL BUSINESS ACTIVITY (ESTIMATES FOR 1 JULY 2017 TO 30 JULY 2018)



Note: the Ministry's waste to landfill is proportionately low compared with our other emission sources and is therefore not visible on this chart.

Our new approach to organisational risk management

In 2017/18, we refreshed the way we think about organisational risk management. The traditional approach is to think about risk as specific potential events with unwanted or negative impacts. Our new approach is to identify 'areas of uncertainty' related to achieving our strategic, tactical and operational objectives (or long, medium and short term).

These uncertainties may have outcomes better than planned, exactly as planned, or worse. To identify and assess the key areas of uncertainty we face in all aspects of our work, and work together to reduce the negative impacts (risks) and optimise the positive ones (opportunities) is important. While we have risk registers and risk profiles, where needed, to

monitor and report key risks and opportunities, our approach to risk management is not about compliance or undue process – it is about having the right conversations at the right times to make informed decisions at all levels.

Our people

Averages



Age



Length of service

2017/18

40 years

3.7 years

2016/17*

40 years

3.5 years

Position numbers



Full-time staff as at 30 June



Unplanned turnover



Part-time staff

2017/18

359.7

24.3%

11%

2016/17*

340.9

22%

11.1%

Gender



All staff



Management

2017/18

65.1%

34.9%

60.8%

39.2%

2016/17*

64.3%

35.7%

56%

44%

* 2016/17 data has been corrected after reporting enhancements were made, and broadened to include fixed-term and seconded staff.

Shaping our workforce

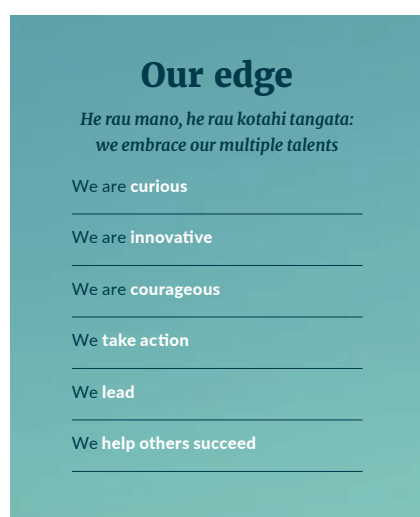
We've strengthened our foundations over the last year by continuing to invest in our workforce; building a more agile, dynamic and skilled team that delivers cutting edge policy and operates more effectively.

We continue to focus on building capability in six key areas:

- delivering 'policy plus'
- 'partnering with purpose'
- working with iwi and Māori and understanding Māori perspectives
- science and data stewardship
- new organisational behaviours
- leadership.

We are supporting our people with better processes, systems and workplace technology and these improvements are continuing. We have continued to embed *Our edge behaviours* as the six behaviours all Ministry people aspire to. This is how we work successfully with each other to achieve our vision of making New Zealand the most liveable place in the world.

FIGURE 1: OUR EDGE BEHAVIOURS



Our employee experience – a great place to work

We are a small Ministry, with people passionate about their work and always looking to make the biggest impact possible. Meeting our ambitions has been challenging and sometimes demanding for our people and teams—we are now getting more focused on balancing our priorities and supporting our people to succeed. This year we have made it a priority to ensure our people are well supported to work at their best and see a great future ahead at the Ministry.

Many initiatives, including the ones we've described below, have been developed and launched in the past year to enhance our employee experience and manage turnover. We are making sure we have the right support, teams, processes and systems in place for our people to grow and develop and to make the Ministry an even better place to work.

Attraction and recruitment

Our turnover rate has increased and we are actively considering how best to meet staff needs. We've focused on recruiting the talented people we need to deliver our ambitious work programme. We continue to refine our sourcing strategies to ensure we attract a diverse range of candidates who would build the wealth of thinking, experience and skills we need to succeed. We've also improved the recruitment experience for our candidates by streamlining the process with a refreshed online career portal and easier application process.

Manaakitanga

Manaakitanga at the Ministry is a personalised welcome to our new starters that resonates with a sense of genuine warmth and connection. We want every person who joins our team to feel recognised, not just for their skills, but for their culture and the life experiences they bring with them. *Manaakitanga* at the Ministry goes beyond developing a new induction event, process and templates. It's about how every one of us connects with our new people and helps them feel part of our shared purpose as one team.

Talent growth cycle

We have implemented an integrated talent management cycle as part of our commitment to focus more on the professional growth and development of our people. This is to ensure we retain our talented people by creating more opportunity for them to grow and contribute to the Ministry's success. Our talent growth cycle emphasises people getting regular feedback on their performance, supporting them to achieve their goals and growing an exciting career at the Ministry.

Gender pay action plan implemented in June 2017

We remain committed to eliminating our gender pay gap within five years. The Ministry's gender pay gap is restricted to a small number of roles, which we intend to address over the next five years through remuneration reviews and careful appointment of new hires at equitable rates.

Diversity and inclusion

A diverse and inclusive workplace is something our people value a great deal.

He rau mano, he rau Kotahi tangata – embracing our multiple talents

Embracing our multiple talents includes diversity of thought and experience as much as it does gender, ethnicity, physical capability, sexual orientation, cultural background and preferences, education and more. Inclusion is about valuing all our people's experiences and perspectives. We do this because it's part of how *Our edge* values come to life – how we best work together across all levels of the organisation. We succeed and are better placed to help others succeed when our staff represents our diverse communities.

Our people bring *He rau mano, he rau Kotahi tangata* to life right across the Ministry – it's something we all play a part in, as seen in these examples below.

- Our senior leaders model and support diversity and inclusion. For example, our Chief Executive Vicky Robertson is a member of Papa Pounamu, a steering group of 11 public sector chief executives who work together to accelerate sector-wide improvement in diversity and inclusion practices.
- We encourage flexible working practices (locations and hours). Many of our people now take advantage of our improved technology connecting them to the workplace so they can work more seamlessly from where they need to be.
- We have enhanced our parental leave provisions; one week of the two weeks of partners' leave is now paid. We have also enhanced the payment of annual holidays on return from primary carers' leave; subject to certain conditions, the annual holidays will now be paid based on ordinary hours prior to going to leave.
- We have hosted a number of internships for Māori and Pasifika through our iwi partnerships and the Tupu Tai Pasifika programme.
- Ngā Manu Taiao (our waiata group) has continued to build in strength. They also hosted a multi-agency Matariki celebration.
- Network groups have been established by staff; for example, the rainbow group, the international group, and the faith-based group. The women's group has been re-established.
- We promoted and celebrated a number of events to embrace a diverse and inclusive environment, including Mental Health Awareness Week, Māori Language Week, New Zealand Sign Language Week, International Women's Day and Pink Shirt Day.
- We supported a group of delegates to attend and bring back their learnings from the Women in Public Sector Summit.
- We also continue to support an active social club that promotes inclusive and diverse experiences in celebrating our passion for the environment and recognising the diversity of our people.
- We signed the Accessibility Charter, an all-of-government commitment to article 9 in the United Nations Convention on the Rights of Persons with Disabilities. It includes a commitment to work over the next five years to make sure that disabled people are able to interact with government agencies and to ensure that barriers are removed. Accessibility should be an essential element when we are purchasing or developing new information technology solutions or communicating both within and outside our organisation.

Other initiatives, either underway or about to begin, include the following.

- In line with our strategic objective, we are moving from obligation to opportunity by incorporating a Māori world view in our work, and thus increasing our ability to engage meaningfully with Māori.
- A work programme is underway to refresh our approach to health, safety and wellness.
- We are revising our learning and development strategy and service offering to be more inclusive of the ways staff prefer to learn, with the aim of setting up supportive and inclusive groups who share and put it into practice what they have learned.

Equal employment opportunities

We provide equal opportunities for employment in our procedures for recruitment and selection; career development and progression; training; and conditions of employment.

We have a flexible working policy, allowing our staff to balance their obligations at work and outside of work.

How we are funded

Vote Environment

The following figure shows 2017/18 expenditure in Vote Environment split by:

- departmental funding, which we use for our work programme
- non-departmental funding, which we administer on behalf of Ministers and distribute externally (eg, for clean-up projects). Non-departmental funding also includes
 - Environmental Protection Authority funding
 - Emissions Trading Scheme funding (this covers the allocation of emission units to industry to mitigate the scheme's effects on international competitiveness, and to owners of post-1989 forests who choose to enter the scheme to earn units as their forests grow and sequester carbon).

We have shown these two types of non-departmental funding separately because of their size and significance.

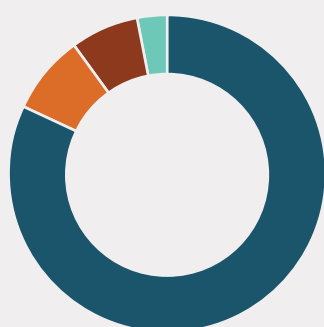
Departmental funding

Our departmental funding was spent in the following areas during 2017/18.

Other non-departmental funding

In 2017/18, we administered non-departmental funding in the following categories. This excludes EPA and funding for the allocation of units (within the Emissions Trading Scheme).

VOTE ENVIRONMENT



82% Emissions Trading Scheme, \$719,667

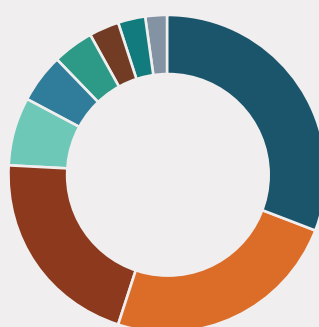
8% Departmental, \$68,132*

7% Non-departmental, \$64,254

3% Environmental Protection Authority, \$25,369

* Excludes costs associated with the administration and use of appropriation administered by the Ministry of Justice.

DEPARTMENTAL FUNDING



31% Resource management advice, \$21,062

24% Climate change policy advice, \$16,454

21% Water policy advice, \$14,118

7% Waste minimisation and environmental hazards advice, \$4,925

5% Marine policy advice, \$3,030

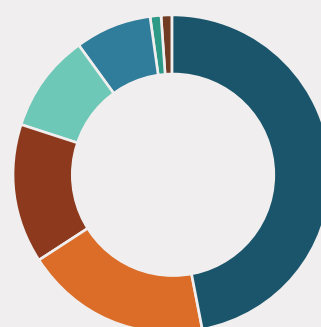
4% Treaty policy advice, \$2,778

3% Ministerial servicing, \$2,202

3% International advice, \$2,048

2% Administering grants, \$1,515

NON-DEPARTMENTAL FUNDING



47% Waste minimisation, \$30,061

19% Water initiatives, \$12,073

14% Treaty obligations, \$8,983

10% Contaminated sites, \$6,457

8% Community funding, \$5,360

1% International obligations, \$661

1% Climate change, \$659





02

Our performance

Part two looks at how we performed during 2017/18. The first section shows the longer-term results we want for New Zealand. The second section describes our day-to-day work programme performance.

Key topics

24 Our strategic intentions

56 Measuring our performance

Our strategic intentions

The outcomes we are working toward are set out in our strategic plan to 2045.



Our domains

Our domains of air, atmosphere and climate, fresh water, land, marine, and urban help us articulate the long-term change we want to see in the environment.

We have begun shifting to a new way of planning and allocating resources over the short term that helps us identify where a project might have beneficial results across a range of domains. We are now planning our work and resourcing using these four themes.

1. **Sustainable land use** – particularly how land use can affect climate and water outcomes.
2. **Integrated urban and environmental system** – bringing a holistic approach to the government policies and regulatory frameworks covering where and how we live.
3. **Changing how New Zealanders think about prosperity** – encouraging people to think about the environment when making decisions.
4. **A stronger more integrated Ministry** – investing in our people and systems to support future delivery.

We introduced our new approach to planning in 2017/18 for planning our 2018/19 work programme. We will discuss the ways we bring it to life in our next annual report.







Our long-term measures

To track our progress towards making New Zealand the most liveable place in the world, we have developed a set of 'headlight' performance measures across the environmental system, and determined where we want to get to by 2030. We set these out in our Statement of Intent 2017-2021.

The measures are not designed to capture everything we do, but combined, they enable us to communicate the impact of our work in a tangible and meaningful way – collectively they are our 'liveability targets'. We are reporting on them for the first time in this annual report.

In some cases we are unable to provide updated data for our measures in this section; we have explained why, and noted when and where it will be available in the future.

Our liveability targets – tracking our progress

DOMAIN	LONG-TERM GOALS	TARGETS	2017/18 INFORMATION
 Air – Āngi	New Zealand is a world leader in managing risks to human health and the environment that result from poor air quality.	By 2030: Health impacts from human-made sources of air pollution are reduced by 35% from 2012 levels.	Based on modelled data, in 2014 there were about 770 premature deaths ¹ in New Zealand associated with exposure to human-made particulate matter PM ₁₀ . ² No update available until <i>Our air</i> report 2018 is released in October. See p 27 for explanation.
 Atmosphere and climate – Kōhauhou me āhua o ngā rangi	New Zealand has an innovative and productive economy, with fewer greenhouse gas emissions, and is resilient to the physical and economic impacts of climate change and adverse climatic events.	By 2030: New Zealand's greenhouse gas emissions intensity (per unit of GDP) is half of what it was in 1990.	Emissions intensity per unit of GDP has now decreased 41% since 1990.
 Fresh water – Wai	New Zealand increases the value from, and improves the quality of, our fresh water.	By 2021: No native freshwater fish ³ decline from 'not threatened' to 'at risk', or from 'at risk' to 'threatened' from the 2013 assessment. By 2030: 80% of our rivers and lakes are swimmable; by 2040: 90% of rivers and lakes are swimmable.	In 2017, 57 native fish species were assessed. Twenty-two species were 'Threatened', and 17 were 'At Risk'. We expect to see improvements over the 2016/17 baseline but with councils yet to report their final targets it is too early to say what the improvement will be. These targets will be available on 31 December 2018.
 Land – Whenua	New Zealand improves the quality of our soils and terrestrial ecosystems and increases the value from our land-based resources.	By 2030: Estimated annual erosion from managed grassland is reduced by 50% (42 million tonnes/year), from the 2012 baseline of 84 million tonnes/year.	Total estimated soil erosion from managed grassland across New Zealand at 2012, is 84 million tonnes/year. No update available. See p 44 for explanation.
 Marine – Wai tai	New Zealand is a world leader in the sustainable management of marine ecosystems that support New Zealand's marine life, society and the economy.	By 2030: The resilience of marine ecosystems is improved because a representative 10% of ecosystems in each biogeographic region of New Zealand's territorial sea are marine protected areas.	No change because policy reform was delayed and no new marine protected areas have been established.
 Urban – Tāone	New Zealand is a leader of environmentally sustainable cities, leveraging the benefits that cities offer while reducing the costs and impacts that they impose.	By 2047: Housing supply in all high-growth urban areas keeps pace with demand. Auckland issues building consents for at least 400,000 new dwellings (approximately 13,500 per year). Targets for other high-growth areas will be established in December 2018.	12 months to 30 June 2018: 12,369

¹ NIWA. 2016. *PM_{2.5} in New Zealand; Modelling of current state*. Health impacts from exposure to air pollution are calculated using a statistical model. This figure represents the estimated mortality from the collective shortening of life experienced by the whole population from exposure to particulate matter pollution.

² PM₁₀ are particles with a diameter of 10 microns or less.

³ Fish includes taxonomically indeterminate and determinate taxa.



Air – Āngi

New Zealand is a world leader in managing risks to human health and the environment that result from poor air quality.

TARGET	2016/17 BASELINE	2017/18 RESULT
By 2030: Health impacts from human-made sources of air pollution are reduced by 35% from 2012 levels.	Based on modelled data, in 2014 there were about 770 premature deaths ⁴ in New Zealand associated with exposure to human-made particulate matter PM ₁₀ , ⁵ such as emissions from home heating, industry, and transport.	New data will be available once the <i>Our air 2018</i> report is released in October 2018. Read this section of our website after that date.

Good air quality is fundamental to our well-being. An average person inhales about 14,000 litres of air every day (*Air domain report 2014*), and the presence of contaminants in this air can adversely affect people's health. Poor air quality can also cause damage to the natural and built environment.

Based on modelled data from NIWA, in 2014 it was estimated there were about 770 premature deaths⁶ in New Zealand associated with exposure to human-made particulate matter PM₁₀; such as emissions from home heating, industry, and transport. This estimate used a different methodology from the 2006 and 2012 health impact assessments. As such, it cannot be directly compared with previous years' estimates. New information will be released as part of the *Air domain* report in October 2018, after this annual report is finalised.

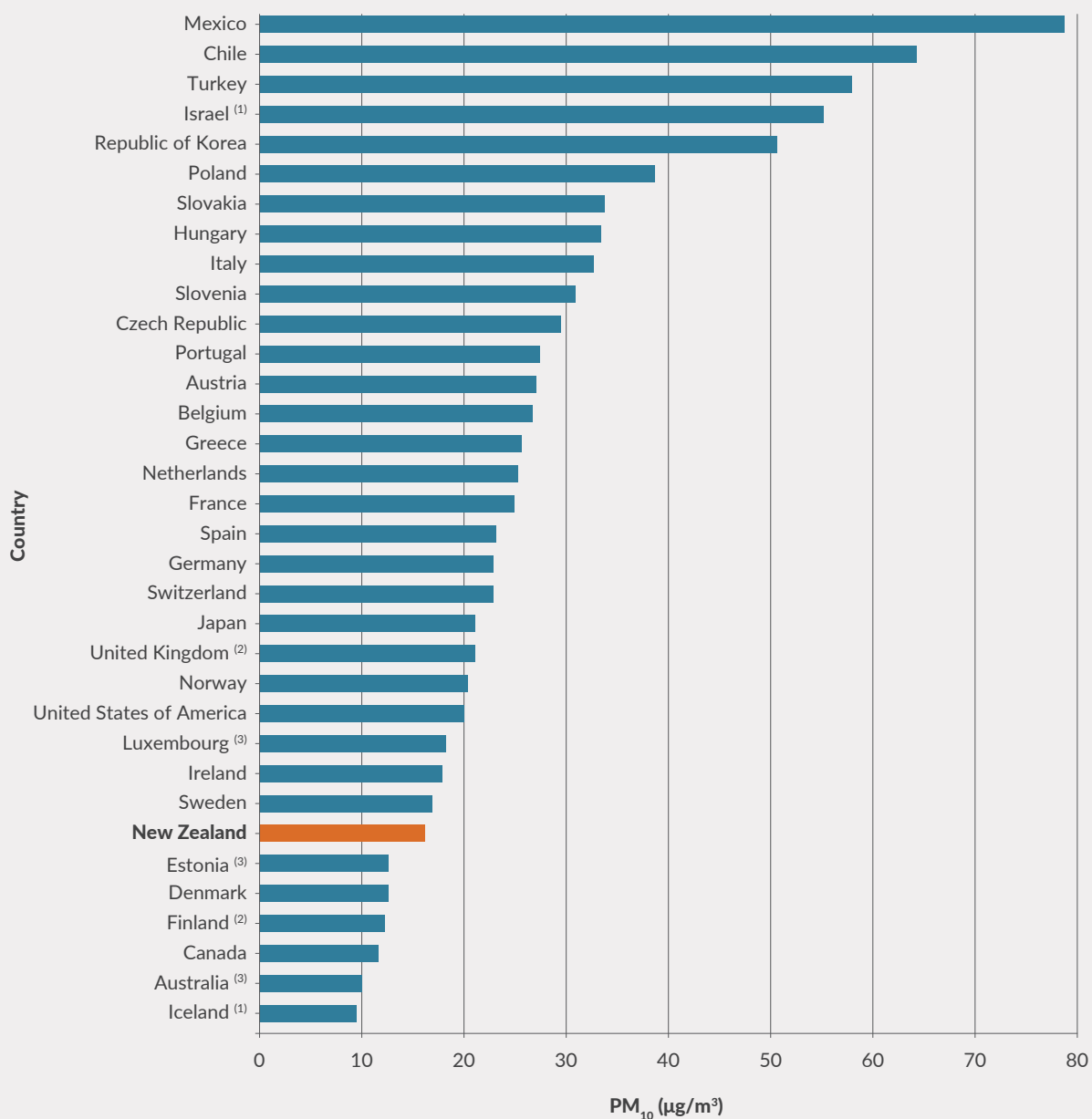
Figure 2 presents a snapshot of annual average PM₁₀ concentrations in Organisation for Economic Co-operation and Development member countries. New Zealand's national PM₁₀ concentration is seventh lowest out of these 34 countries. However, international comparisons are indicative only since countries can use different monitoring approaches.⁷

⁴ NIWA. 2016. *PM_{2.5} in New Zealand; Modelling of current state*. Health impacts from exposure to air pollution are calculated using a statistical model. This figure represents the estimated mortality from the collective shortening of life experienced by the whole population from exposure to particulate matter pollution.

⁵ PM₁₀ are particles with a diameter of 10 microns or less.

⁶ NIWA. 2016. *PM_{2.5} in New Zealand; Modelling of current state*. Health impacts from exposure to air pollution are calculated using a statistical model. This figure represents the estimated mortality from the collective shortening of life experienced by the whole population from exposure to particulate matter pollution.

⁷ This international comparison covers only urban areas selected by the World Health Organization (WHO), unlike our estimate, which covers all monitored urban areas in New Zealand. As a result, the WHO estimate and our own differ.

FIGURE 2: ANNUAL AVERAGE PM₁₀ CONCENTRATION IN OECD URBAN AREAS

(1) Data is for 2008. (2) Data is for 2010. (3) Data is for 2012.

Note: PM₁₀ concentrations are given in micrograms per cubic metre of air, or µg/m³.

Our role

We provide policy oversight of systems and direction for environmental management. Our responsibilities include the following.

- We are responsible for the National Environmental Standards for Air Quality (NES for Air Quality) under the RMA. The NES for Air Quality sets minimum requirements for councils to manage air pollution.
- The Environmental Reporting Act 2015 requires regular reports on New Zealand's environment, including the air domain. The Government Statistician and the Secretary for the Environment have joint responsibility for producing and publishing environmental reports independently from the government of the day.
- We help councils understand their responsibilities in meeting the NES for Air Quality.

Regional councils and unitary authorities monitor and manage air quality within their regions. Regional councils have developed regional plans to manage activities that discharge contaminants into the air. Territorial authorities observe and enforce the NES for Air Quality by ensuring that wood burners installed in urban properties comply with the wood burner design standards.

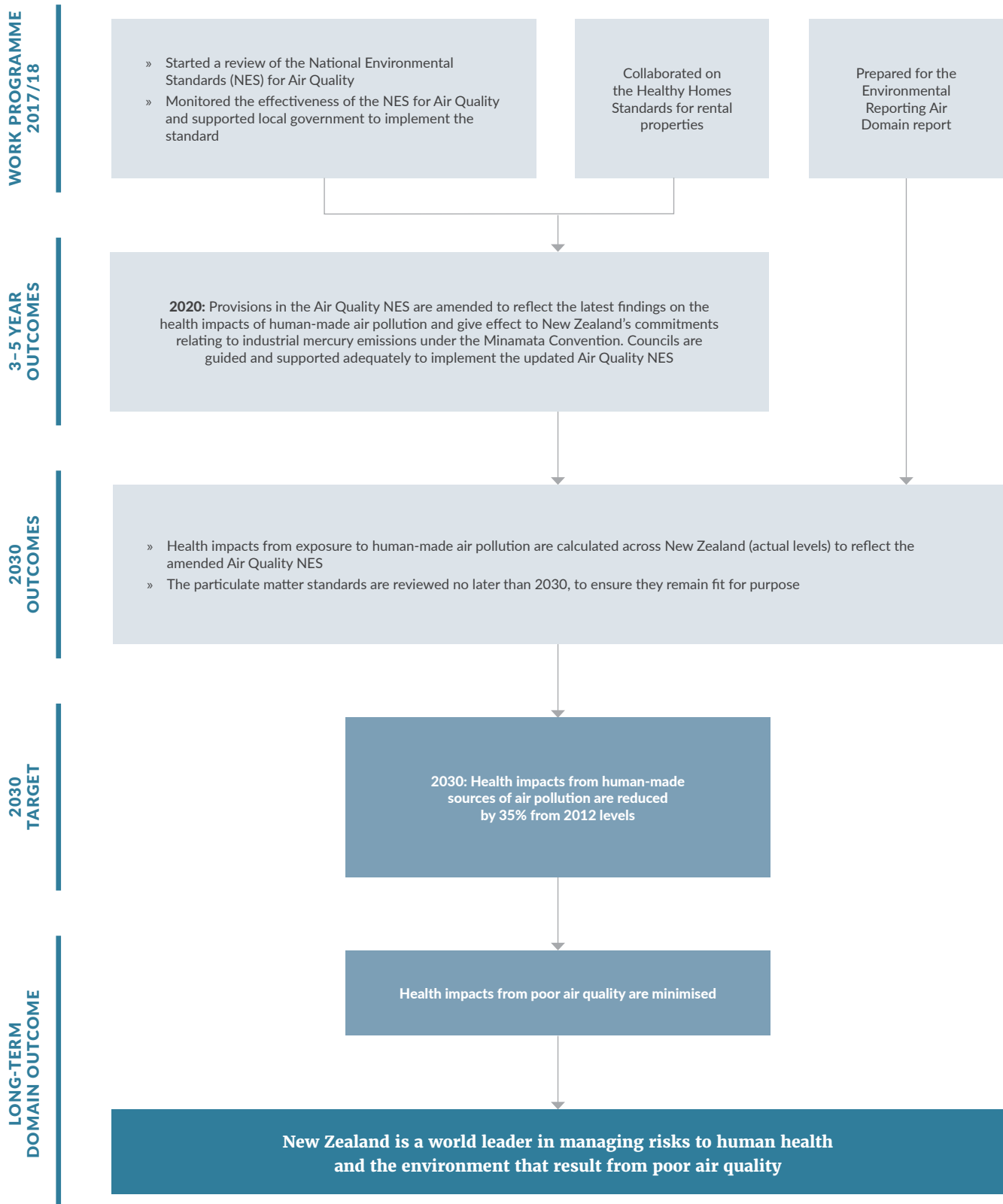
Other central government agencies also have roles and responsibilities for managing various sources of air pollutants in New Zealand.

The Ministry of Transport is responsible for the government policy on managing air pollution from transport, which includes the Land Transport Rule: Vehicle Exhaust Emissions 2007 (Vehicle Emissions Rule). The New Zealand Transport Agency implements these policies, plans the state highway system, and undertakes land transport planning.

The Ministry of Business, Innovation and Employment administers the Building Act 2004, the Healthy Homes Guarantee Act and the Engine Fuel Specifications Regulations 2011 (Fuel Standards). The Building Act 2004 helps in air quality management by improving the energy efficiency of dwellings (eg, minimum requirement for insulation), which reduces the amount of heating required in the home. The Fuel Standards control the level of contaminants released through combustion by controlling the amount of contaminants found in different types of fuels.

Air outcomes and 2017/18 work programme

The following flow chart shows how our 2017/18 work programme links to our outcomes.



More on our achievements in air

Aligning our regulations with latest evidence on air quality and health

The NES for Air Quality came into effect in 2004. The standards are regulations made under the Resource Management Act 1991 to set a guaranteed level of health protection for all New Zealanders. In 2016/17, we began a review of these standards to ensure they are still fit-for-purpose, which continued through 2017/18. The review aims to align with the latest scientific findings on the health impacts of air quality, including exposure to PM_{2.5}⁸ and to adopt a more integrated approach to managing home heating emissions nationally and regionally.

Monitoring progress of the NES for Air Quality

We monitored progress regional councils have made toward achieving the standards set in the NES for Air Quality during 2017/18. We have focused on evaluating the implementation of the standards, which includes working with local government to encourage ongoing compliance with the NES for Air Quality.

Working with others to implement the NES for Air Quality

We supported and guided councils, stakeholders and the public in 2017/18. We worked with central government agencies managing air quality and its impacts.

Air quality reporting

We are working with Statistics New Zealand on *Our air 2018*, coming out in October 2018. This report will show the current state of air quality, trends over time and associated pressures and impacts. It will help us to understand current and emerging air quality issues at a national level.

Healthy Homes Standards for rental properties

We are working closely with the Ministry of Business, Innovation and Employment to develop standards to improve the quality of rental housing stock under the Healthy Homes Guarantees Act 2017. These standards will supplement clean air provisions of the NES for Air Quality by ensuring rental properties are warm, dry and more energy efficient.

8 PM_{2.5} are particles with a diameter of 2.5 micrometres or less. PM_{2.5} is a component of PM₁₀.

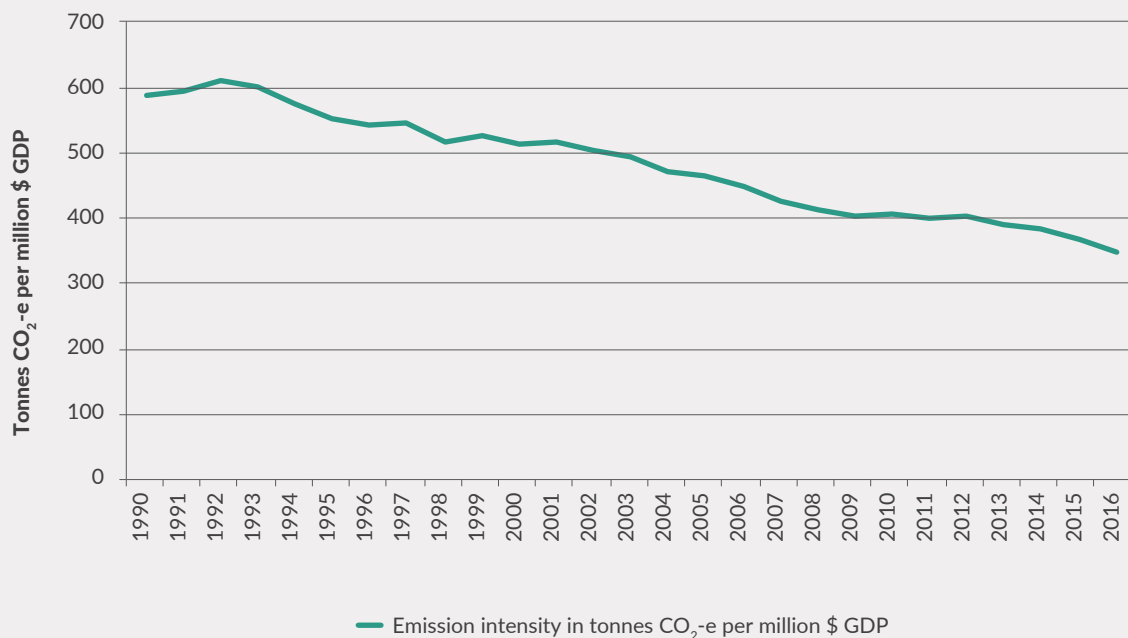


Atmosphere and climate – Kōhauhau me āhua o ngā rangi

New Zealand has an innovative and productive economy, with fewer greenhouse gas emissions, and is resilient to the physical and economic impacts of climate change and adverse climatic events.

TARGET	2016/17 BASELINE	2017/18 RESULT
By 2030: New Zealand's greenhouse gas emissions intensity (per unit of GDP) is half of what it was in 1990.	By 2016/17, the emissions intensity of the economy has decreased by 36% since 1990.	Emissions intensity per unit of GDP has now decreased 41% since 1990.

FIGURE 3: GROSS EMISSIONS PER UNIT OF GDP



Climate change is a complex, contentious and multi-generational issue. The climate is already changing. As we prepare for future change, policies across all sectors must contribute to reducing emissions; helping us adapt to inevitable environmental, economic and social impacts; and making the most of new opportunities.

New Zealand's human and environmental systems (eg, existing infrastructure) may not cope with the rate of change or the frequency and intensity of extreme weather events. These events could cause costly damage, create fiscal burden such as higher insurance premiums, loss of taonga, lowered productivity, and affect our ability to trade.

We need long-term, effective and stable policy solutions supported by society and iwi/hapū to move to a resilient, low-emissions economy. For this, we need climate change to be seen not only as an environmental issue, but as a broader societal one; where the economic and socio-cultural foundations need to be reshaped for the future.

Emissions reductions targets

The atmosphere and climate section talks about different emissions reductions targets. Here is their background.

2020

In 2013, the Government announced an unconditional target to reach 5 per cent below our 1990 greenhouse gas emissions levels by 2020. This is our current target as it covers the years from 2013 until 2020.

2030

New Zealand's target under the Paris Agreement is to reduce greenhouse gas emissions by 30 per cent below 2005 levels by 2030. This target is equivalent to about 11 per cent below 1990 levels by 2030.

2050

The current 2050 target is to reduce greenhouse gas emissions to 50 per cent below 1990 levels by 2050. This was notified in the New Zealand Gazette in March 2011.

In mid-2018, the Government consulted on a new 2050 target as part of the Zero Carbon Bill. A new 2050 target would bring New Zealand more in line with the global ambition set under the Paris Agreement.

For more information see:

www.mfe.govt.nz/climate-change/what-government-doing/new-zealands-emissions-reduction-targets/about-our-emissions#2020

Our role

We have an environmental stewardship role and we are the lead agency on domestic climate change policy. It is important we work closely with other government agencies and key stakeholders (eg, local government) to ensure our approach to climate change policy is well-led, well-coordinated, and effective.

The Natural Resources Sector group provides opportunities to address climate change in a way that can support outcomes across multiple portfolios (including through their own measures and targets). An economy-wide approach is needed to create lasting changes in behaviour and practices to lower our emissions. There are multiple levers and opportunities across these agencies and organisations.

In 2016, New Zealand committed to reducing its emissions to 30 per cent below 2005 levels by 2030 under the Paris Agreement on climate change. We will need to meet this ambitious target through a combination of approaches: domestic emissions reductions, removals of carbon dioxide by forests, and purchasing international emissions reductions that have high environmental integrity. Options to establish a new emissions reduction target for 2050 were part of consultation on the Zero Carbon Bill in mid-2018.

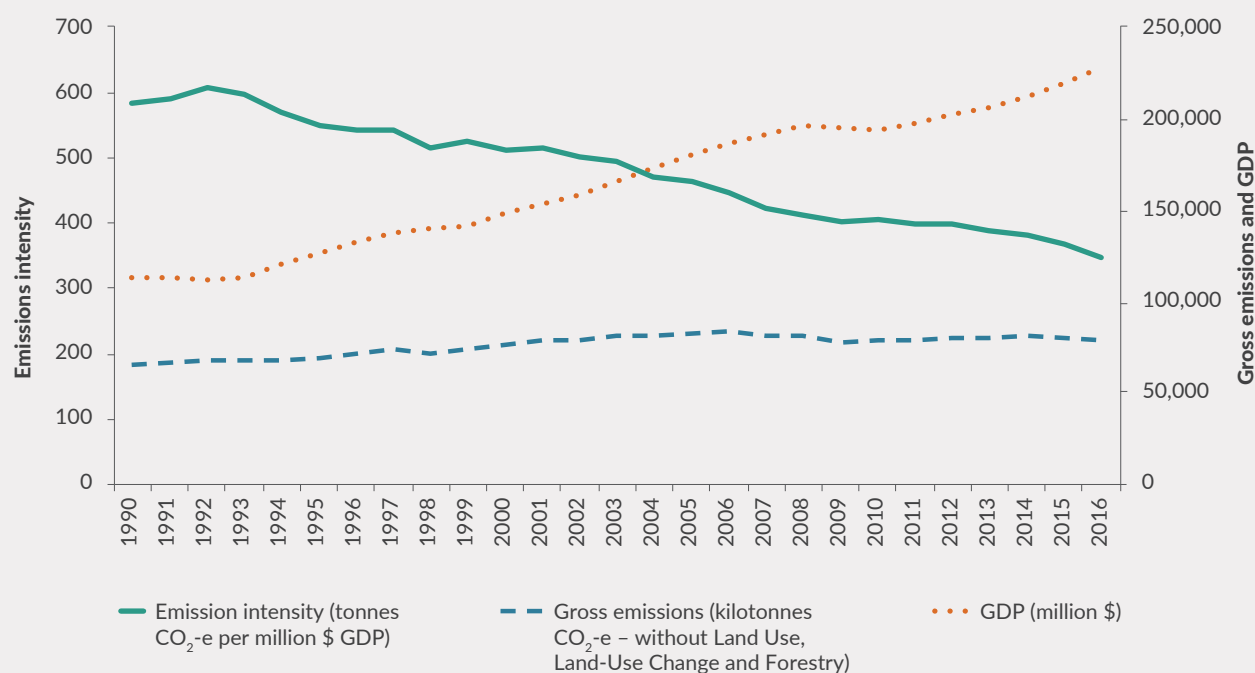
The structure of our economy and our greenhouse gas emissions profile make reducing gross emissions to zero difficult. It requires innovation in the short term, particularly to reduce our large proportion of biological methane emissions. However, we are committed to playing our part in responding to the global climate change challenge. This also poses a challenge for our urban areas. The ability of our towns and cities to grow and adapt to a lower emissions economy in future will be critical to New Zealand's overall performance.

Our impact measure, the gross emissions intensity of our economy per unit of GDP, helps us understand if we are headed in the right direction. We want our economy to yield fewer emissions for each unit of GDP it produces. Our goal is for the emissions intensity to be half of what it was in 1990 by 2030.

This goal supports achieving our target under the Paris Agreement and an updated 2050 target to be decided as part of the Zero Carbon Bill. The impact measure also captures progress on our work towards decoupling emissions from economic growth.

The emissions intensity of the economy has decreased by 41 per cent since 1990. As seen in figure 4 though, the decrease has been driven by GDP increasing at a higher rate than our emissions have since 1990. The emissions intensity of our economy has improved, but our gross emissions have increased by nearly a quarter since 1990, a trend that we need to reverse.

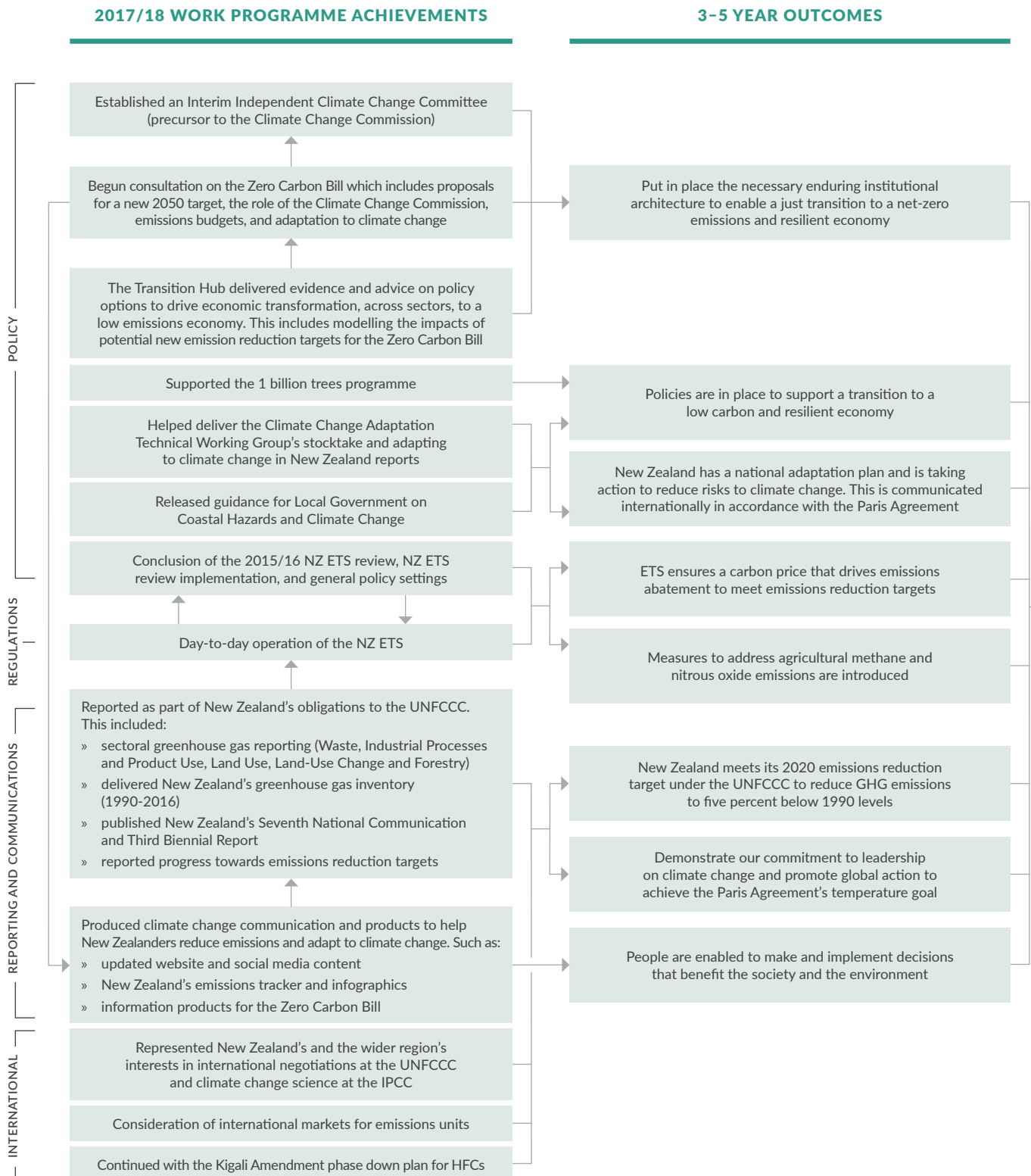
FIGURE 4: GROSS DOMESTIC PRODUCT (GDP), GROSS EMISSIONS, AND EMISSIONS INTENSITY SINCE 1990



While our gross emissions have been stable for more than 10 years and GDP has continued to increase (see figure 4), we want our gross emissions to decrease, and our economy to keep growing. In other words, we want our emissions to further decouple from economic growth.

Atmosphere and climate outcomes and 2017/18 work programme

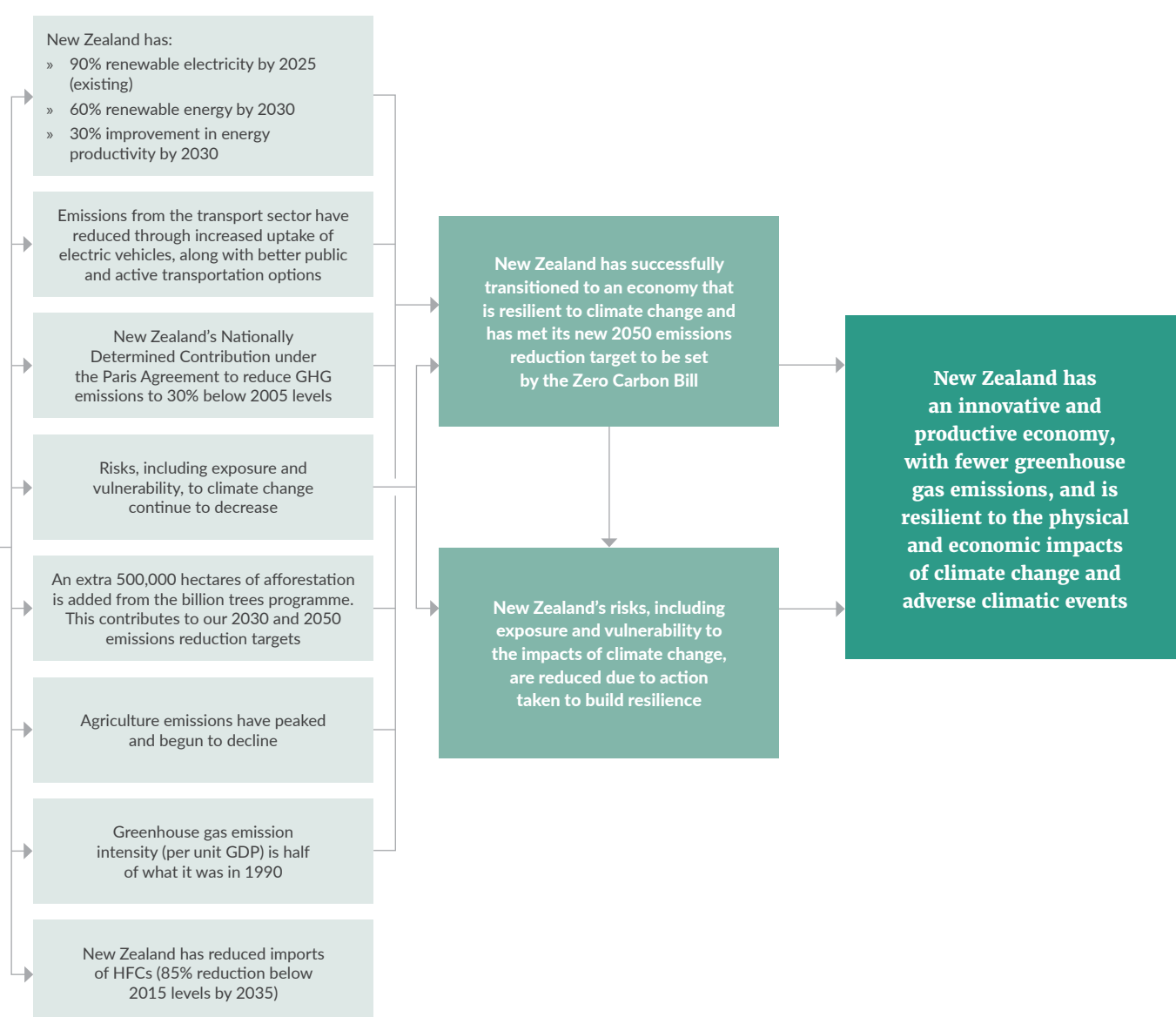
The following flow chart shows how our 2017/18 work programme links to our outcomes.



2030 TARGETS

2050 TARGETS

LONG-TERM DOMAIN OUTCOMES



More on our achievements in atmosphere and climate

New Zealand's emissions intensity target is linked to our current work programme which aims to reduce emissions to net zero and support an innovative, productive and resilient economy.

The Government is working to introduce a Zero Carbon Bill. The Zero Carbon Bill will set the long-term commitment to transition New Zealand to a low-emissions, climate-resilient economy. The Bill puts in place the core building blocks to give New Zealanders certainty of a long-term approach to climate change, irrespective of the political cycles. The Bill aims for a more ambitious 2050 target than the current one. It also aims to establish a Climate Change Commission to provide independent, expert advice to the Government on emissions budgets to reach the new 2050 target. We have already put in place the Interim Climate Change Committee, which is working on how we manage agricultural emissions and how we get to 100 per cent renewable electricity.

In June and July 2018 we widely and innovatively consulted New Zealanders on the Zero Carbon Bill. Submissions received as part of this public consultation will inform further policy development and shape the Zero Carbon Bill to be introduced to Parliament. Once the Bill has been introduced to Parliament, a select committee process will follow with a view to passing the Zero Carbon Act by mid-2019.

To transition to a low-carbon economy, the Government has set up a 'transition hub' to analyse and advise on transition pathways, what a 'just transition' could look like, and the economic impact of a new 2050 climate change target. The hub will deliver advice to Cabinet in 2018 on the range of costs and benefits of policies available for the Government to reduce emissions.

We were a key agency partner in shaping the goal to plant one billion trees over 10 years (between 2018 and 2027). Forestry not only helps in reducing greenhouse gas emissions but it also reduces erosion, which is one of the Ministry's land domain outcomes (see p 44).

International reporting

Our international reporting under the United Nations Framework Convention on Climate Change and the Kyoto Protocol are important and mandatory aspects of our work programme.

In December 2017, New Zealand submitted its *Seventh National Communication* and *Third Biennial Report* to the United Nations Framework Convention on Climate Change. These reports summarise New Zealand's domestic greenhouse gas emissions profile, climate change policy measures, support for developing countries, and progress on implementing New Zealand's obligations under the UNFCCC and Kyoto Protocol.

We released [the annual greenhouse gas inventory](#) in April 2018 showing that since 1990 gross greenhouse gas emission have increased 19.6 per cent and net emissions have increased by 54.2 per cent. The annual greenhouse gas inventory is our key measure on how New Zealand is tracking against its emissions reduction targets and the data collected through this programme is used to report on this impact.

Domestic reporting

In addition to international climate change reporting, we report progress on New Zealand's 2020 emissions reduction target to reduce emissions to 5 per cent below 1990 levels. Currently New Zealand is projected to meet its 2020 target.

Adaptation

In December 2017 the Minister for Climate Change released the Climate Change Adaptation Technical Working Group's (CCATWG) stocktake report. This report identified three characteristics for effective adaptation to develop in New Zealand:

1. being informed about how our climate is changing and what this means for us
2. being organised, with a common goal, a planned approach, the right tools, and clear roles and responsibilities
3. taking dynamic action to proactively reduce exposure to the social, cultural, environmental and economic consequences of climate change.

At the same time we released guidance for local government on [Coastal Hazards and Climate Change](#). The guidance is to help decision-makers manage and adapt to the increased coastal hazard risks posed by climate change and sea-level rise. Updated in December 2017, it highlights the impacts climate change is expected to have on coastal hazards.

The guidance details the impacts expected through sea-level rise, storm surge, wind and waves and has been updated to include:

- the latest science and legislation
- information from the Parliamentary Commissioner for the Environment's 2015 report on sea-level rise and feedback from stakeholders.

The guidance also provides a risk management framework for considering the consequences of these hazards. There is new content on implementing a risk-based approach, adaptive planning, and community engagement.

In May 2018 the Minister released the CCATWG's second and final report, the *Recommendations report*. The report recommends the actions New Zealand needs to take to build resilience to the effects of climate change while growing the economy sustainably. The report:

- emphasises the urgency for action
- sets out foundational actions, which are essential for effective adaptation
- sets out immediate actions that can be achieved relatively quickly and address a specific opportunity to act
- requests a timely government response to its recommendations which defines how and when these actions will be implemented.

The Ministry is considering the actions in the *Recommendations report* and is working with other government agencies to develop a response.

The most important foundational actions, including a National Climate Change Risk Assessment and National Adaptation Plan, are proposed to be included in the Zero Carbon Bill.



Fresh water – Wai

New Zealand increases the value from, and improves the quality of, our fresh water.

TARGETS	2016/17 BASELINES	2017/18 RESULTS
<p>By 2030: 80% of our rivers and lakes are swimmable.</p> <p>By 2040: 90% of rivers and lakes are swimmable.</p>	71% of New Zealand's lakes and rivers are currently swimmable.	<p>We expect to see improvements over the 2016/17 baseline but with councils yet to report their final targets it is too early to say what the improvement will be.</p> <p>These targets will be available on 31 December 2018.</p>
By 2021: No native freshwater fish decline from 'not threatened' to 'at risk', or from 'at risk' to 'threatened' from the 2013 assessment.	In 2014, 57 native fish species were assessed. Twenty-one species were 'threatened', and 19 were 'at risk'.	In 2017, 57 native fish species were assessed. Twenty-two species were 'threatened', and 17 were 'at risk'.

New Zealanders see water-related issues as the most important environmental issue facing this country. Eight in 10 New Zealanders feel it is important to improve the quality of our water.⁹

This commitment to clean, fresh water reflects that our rivers and lakes are central to our natural environment, economy, our well-being, and way of life in New Zealand. Fresh water supports diverse communities of native flora and fauna. It underpins much of the New Zealand economy – it is used to irrigate crops and pastures, for industrial and manufacturing purposes, to produce hydro-electric energy, and it has tourism value in many regions.

For Māori, fresh water is a taonga. All iwi and hapū have strong connections with local lakes and rivers, reflected in their whakapapa and history. This relationship with water is recognised under the Treaty of Waitangi. Healthy, fresh water also provides mahinga kai (customary food and resource gathering).

New Zealand has plenty of fresh water – 145 million litres per person per year. However, more than 150 years of changing land uses and population growth have put pressure on our rivers and lakes. In some areas we do not always have enough fresh water where and when we need it; while in others, freshwater quality is under pressure. This affects our native biodiversity and the extent water can provide for our needs, such as recreation, cultural well-being, tourism, and economic production.

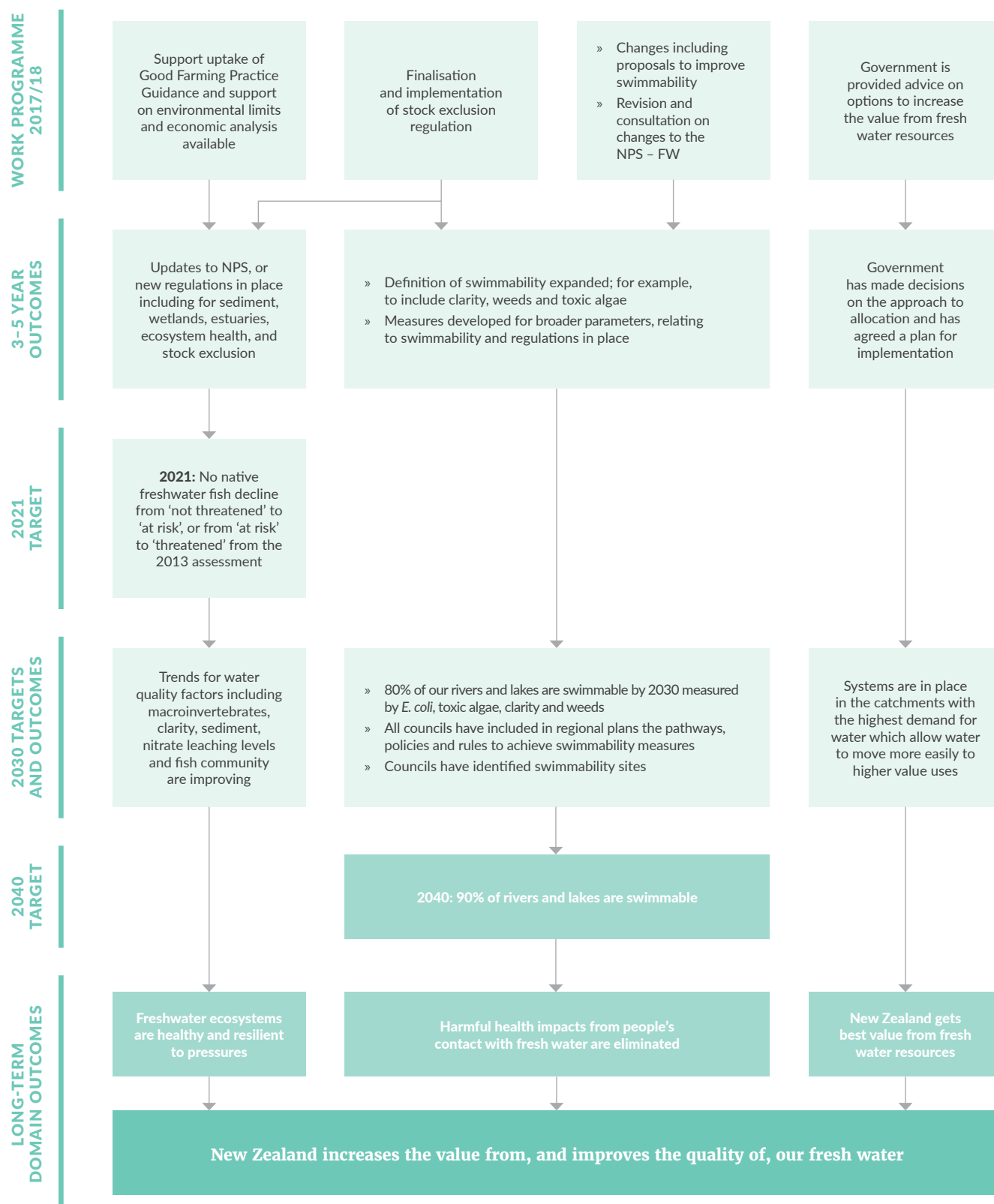
Our role

Together with the Ministry for Primary Industries, we are responsible for developing and overseeing the freshwater management system. We work closely with other Natural Resources Sector agencies because fresh water underpins the economy in many ways, including through agriculture.

We support the implementation of policy by regional councils and unitary authorities who are responsible for managing fresh water within their regions. We also provide funding to councils and communities for freshwater clean-up. Outside of government, we work with many different groups including Māori, industry, councils, NGOs and other interested parties to broker solutions and understand the range of different values these groups represent.

Freshwater outcomes and 2017/18 work programme

The following flow chart shows how our 2017/18 work programme links to our outcomes.



More on our achievements in fresh water

Towards a new freshwater national policy statement

Progress on freshwater since the change of government

We have been working on the priorities of the new Government contained in the coalition agreement, and the confidence and supply agreement. This includes advice on options to improve water quality, achieve healthy rivers, lakes and aquifers, and protect wetlands and estuaries. Progress includes:

- developing thresholds for sediment in freshwater ecosystems, including preliminary national bottom lines for water clarity, turbidity, and deposited fine sediment
- preparing options to address the key issue of controlling agricultural intensification
- developing advice on compulsory exclusion of stock from waterways and high-risk land management practices
- ongoing research to identify appropriate bottom-line attributes for estuaries
- initial advice on how to give effect to the Labour/New Zealand First coalition agreement to introduce a royalty on exports of bottled water
- identifying high priority pollutants and pressures on fresh water and coastal ecosystems related to urban land use
- working with key stakeholders, including some councils, to establish a set of urban good management principles
- ongoing input to the three waters infrastructure review and the Urban Growth Agenda.

Land and Water Forum

In June 2018 we received a report from the Land and Water Forum, in response to a request from the Environment and Agriculture Ministers for advice on avoiding further degradation of fresh water, managing sediment, and nutrient allocation. The Forum brings together iwi and Māori, and many stakeholders like industry groups, electricity generators, environmental and recreational NGOs, scientists, and other organisations with a stake in freshwater and land management.

This report built on previous recommendations by the forum and will inform ongoing work on freshwater management.

Partnership on Good Farming Practice

The *Good Farming Practice: Action Plan for Water Quality 2018* is the main industry-led partnership with regional councils and government to support farmers and growers to improve water quality. The Action Plan was launched on 5 June 2018 at an event, bringing together primary sector and regional council leaders, the Minister for the Environment and the Minister of Agriculture.

The purpose of the Action Plan is to speed up the uptake of good farming practices for improving water quality, to measure and demonstrate this uptake, to assess the impact and benefit of those farming practices, and to communicate progress to the wider public.

The Action Plan aims for all farmers and growers to have a farm environmental plan, with actions targeted to priority water quality risks, as well as reporting annually on progress.

The Action Plan is an example of partnership in action, as the primary sector, regional councils and Ministry staff worked together for over a year to develop the plan and picked up on recommendations from the Land and Water Forum.

Senior leaders from the primary sector (primarily chief executives), regional councils and the Ministry for the Environment's and Ministry for Primary Industries' Water Directorate form the members of the project governance group. The project is now moving into the implementation phase, including implementing the Action Plan in priority catchments and developing the monitoring and reporting approach.

While the initial focus of the Action Plan is improving water quality, the partners will continue to look for opportunities to take a holistic approach that considers climate change, biodiversity and land-use outcomes.

We are also working with the same partners to develop a certification programme for farm plan writers.

This partnership is an important part in our wider engagement programme with the Ministry of Primary Industries, primary sector groups, and grass-roots farmers.

Regional council taskforce on swimmability

We worked in partnership with regional councils to progress towards recording and reporting on plans and towards our swimmability target, that by 2030 80 per cent of our rivers and lakes are swimmable.

Regional councils, the Ministry for the Environment, and the Ministry for Primary Industries created a governance group and a taskforce to manage and oversee the response to the targets.

In March 2018 the taskforce published a report on work underway to improve water quality in terms of effects on human health. The report provided information to support each regional council to set draft targets, as required by the NPS.

Urban water principles

In October 2017 the Ministry established an external working group of 45 experts in the field of urban water management and water-sensitive design. We are using a collaborative design-thinking process with this

group to establish a national vision for improving urban water management and liveability. We held three workshops with the group in 2017/18, through which we have developed a list of high-level principles and more specific practices. We are now exploring implementation options.

CASE STUDY

Urban water

New Zealanders love getting out on our waterways – swimming, kayaking, fishing and gathering food. For Māori, fresh water is a taonga. We want New Zealand to be the most liveable place in the world, with healthy lakes, rivers and the best possible water quality in coastal environments.

The Government is committed to improving water ecosystem health in both rural and urban areas. A number of the urban ecosystem pressures – like pollution from stormwater running off roads or the artificial channelling and piping of streams – are related to the planning and design of our cities and towns. These pressures not only place stress on the natural environment but can also have negative impacts on urban resilience to flooding and climate change. However there are ways of working with nature to create more resilient and sustainable cities.

Concrete examples of this sort of design in New Zealand include the new urban development in Auckland's Hobsonville Point neighbourhood, where constructed

wetlands, rainwater tanks and other elements of 'water sensitive design' have been incorporated. These design features slow down storm water running off impervious surfaces like roads and roofs, allowing pollutants to slowly filter out before the water runs into the harbour. These same features also enhance the beauty and recreational opportunities of the communities in which we live. A number of other cities and towns have also started to include water sensitive or low impact design in new developments, including in Hamilton, Wellington, Christchurch and Wanaka.

During the year, we set up a project team to come up with a national vision for addressing urban water issues. The team has been working closely with external experts to develop high-level principles to help align the actions of regional and district councils, developers and consultants. We have been building on successful examples of water sensitive planning and design, becoming common practice in many of the world's most liveable

cities, like Copenhagen, Stockholm, Melbourne, and Philadelphia.

The project team has taken an innovative approach to developing these principles by employing design-thinking methods like rapid prototyping and collaboratively testing ideas. It has also worked in short, defined sprints to develop the principles, helping maintain momentum for this work. As a result, the external expert group has been highly engaged and productive and our team has benefitted from gaining a real-life understanding of our analysis. In comparison to 'traditional' policy development and consultation processes, this method has built a shared ownership of the policy vision with stakeholders, which we hope will translate into adoption of the principles in the future. This project is still underway and we expect the draft urban water principles to be fully developed by later this year.

Find out more on water and what the government is doing on our website www.mfe.govt.nz/fresh-water.



Land – Whenua

New Zealand improves the quality of our soils and terrestrial ecosystems and increases the value from our land-based resources.

TARGET	2016/17 BASELINE	2017/18 RESULT
By 2030: Estimated annual erosion from managed grassland is reduced by 50% (42 million tonnes/year), from the 2012 baseline of 84 million tonnes/year.	Total estimated soil erosion from managed grassland across New Zealand at 2012, is 84 million tonnes/year.	Work is underway to commission the development of a 2018 update to the Land Cover dataset, which will allow this erosion measure to be updated. See note below for more.

Our land 2018 report highlighted significant gaps in data coverage, consistency, and scale that prevent the presentation of a complete picture of the state of, pressures on, and impacts from land and how it is used. One of the data gaps highlighted was the lack of an update to our national land cover mapping (the Land Cover Database). This 2012 data set underpins the calculation of estimated annual erosion for this measure. Work is underway to commission the development of a 2018 update to the Land Cover database which will allow this erosion measure to be updated.

Improvements to environmental monitoring work programmes are also being considered as part of a long-term solution to reporting *actual* observed erosion. This will require cross government cooperation. A comprehensive national monitoring programme could fill a number of data gaps for soil erosion, including an improved understanding of how vulnerable different landscapes are to erosion and where erosion processes are completely natural versus where they are accelerated by human activity.

In New Zealand, our land is a complex weave of ownership, identity, and connection. Policies on almost every aspect of the economy and society connect to land and its use: housing, transport and energy networks, biosecurity, trade and investment, biodiversity, water storage and use, climate change adaptation and mitigation, health, and employment. Protecting and preserving our *tūrangawaewae* (place to stand) is one of our society's most complex and important challenges. Our land is where most of our environmental issues converge and underpins the natural resources we rely on.

- The health and quality of our fresh water and coastal marine environment are driven by land use, through the impact of sediment and accumulation of contaminants and nutrients in water bodies.

- New Zealand's unique biodiversity relies on our land. We know we have lost a lot of indigenous environments and the remainders are not representative of original ecosystems. Additionally, many of our indigenous plants and animals are at risk of extinction, and for a large proportion of these, this risk of extinction is increasing.
- Our choices about how we use our land, such as forestry and pastoral agriculture, affect how we mitigate and adapt to climate change.
- The future capability of our land is affected by current and legacy contamination.

New Zealand is heavily dependent on natural resources for economic prosperity and well-being. Land is a significant component of

New Zealand's natural capital asset base. To ensure ongoing prosperity, we will need to carefully manage resource use while maintaining and enhancing the resilience of our land-based ecosystems.

Our land is a legacy from our ancestors and our generation's legacy to pass on to our descendants; so what we do with it is important. The investments and decisions we make today will influence our children's future. Soil takes millennia to be replaced if lost through erosion; contamination of our land may persist decades after the original event; and competition for land in our fast-growing urban areas is putting pressure on other resources such as fresh water and soil. A long-term and intergenerational approach to use and manage our land resource is fundamental.

Our role

Most aspects of our work relate to soil, how we use land, and what results from land use. Our work on achieving our urban, water and marine outcomes all benefit or relate to land in some way. Additionally, the Emissions Trading Scheme puts a price on greenhouse gas emissions, which incentivises businesses to reduce emissions and plant forests to absorb carbon dioxide. This is likely to have co-benefits for land, such as reducing the risk of erosion.

The Ministry is responsible for several statutes governing our land. These statutes are supported by statutory instruments (regulations, national policy statements, and national environmental standards), non-statutory guidance, funding mechanisms, research programmes, collaborative bodies, and other initiatives. Our responsibilities for managing land are broad, including numerous aspects of resource management, hazardous substances, and waste.

Some specific responsibilities are:

- The Resource Management Act 1991 (RMA) is New Zealand's primary environmental management legislation that manages competing demands for land and other natural resources.
- We are responsible for the Hazardous Substances and New Organisms Act 1996 (HSNO), a framework for managing risks to the New Zealand environment posed by the use of hazardous substances and introduction of new organisms. HSNO and the regulations made under it form a rigorous regime, controlling hazardous substances to prevent harm to people and the environment from occurring.

- The Waste Minimisation Act 2008 is designed to decrease waste disposal to protect the environment from harm and encourage waste minimisation. By taking a circular economy approach, we can support the provision of environmental, social, economic, and cultural benefits.
- The National Environmental Standard for Assessing and Managing Contaminants in Soil to Protect Human Health (NESCS) is a regulation under the RMA implemented by councils to manage the risks to human health on sites that are being redeveloped.
- The Contaminated Sites Remediation Fund puts in place mechanisms to help regional councils address priority contaminated sites in their regions.

Unitary, regional, and territorial councils have a major role in managing soil and land use through regional and district plans under the RMA, as well as non-regulatory measures (such as training with farmers or rates rebates for good practice). We set the framework for councils' land management through the RMA and national direction made under the RMA, and provide targeted support for councils on land issues. We also work with industry and environmental non-governmental organisations to both build robust policy and support these groups to implement our policy.

Other government agencies also have a role in land.

- MPI has work programmes that intersect with land outcomes, including maximising export opportunities from land-based activities, improving primary industry practice, and protecting New Zealand from biological risk. We frequently partner with MPI to deliver on both agencies' outcomes.
- The Department of Conservation administers public conservation land, which covers 30 per cent of New Zealand. The department is the lead agency for the Conservation Act and the Conservation General Policy and its biodiversity work extends onto private land. The Minister for Conservation is also responsible for the New Zealand Coastal Policy Statement, which can be a driver for improved land-use practices to manage land-use effects on the coast.

Our 2017/18 work programme

National Environmental Standard for Plantation Forestry now in force

Together with the Ministry for Primary Industries (MPI), we have developed the National Environmental Standard for Plantation Forestry (NES-PF). The standards were published on 3 August 2017 and came into force on 1 May 2018. The NES-PF objectives will maintain or improve the environmental outcomes associated with plantation forestry activities and increase the efficiency and certainty of managing plantation forestry activities. We expect the following improved outcomes for land.

- Forestry setbacks when planting next to rivers, lakes, wetlands, and coastal areas, which will help protect against erosion and sedimentation from afforestation.
- Management plans for earthworks, forest quarrying, and harvesting activities to identify and better manage environmental risks.
- Maintaining storm water and sediment control measures for forestry activities.

Improving biodiversity

A draft National Policy Statement for Indigenous Biodiversity and recommendations for complementary measures are being developed through a stakeholder-led collaborative process to manage terrestrial, freshwater and coastal biodiversity on public and private lands.

The Biodiversity Collaborative Group will deliver the draft recommendations in September 2018. The main drivers of this work are to improve biodiversity outcomes on land and in fresh water and coastal areas. This work is likely to produce co-benefits including reducing the risk of erosion, improving soil health, and maintaining and increasing soil carbon.

Reducing levels of sedimentation in fresh water

The National Policy Statement for Freshwater Management (NPS-FM) requires councils to set limits by 2025 to maintain and improve water quality. Amendments to the NPS-FM, which took effect on 7 September 2017, aim to deliver better environmental and economic outcomes and better outcomes for iwi. We are now working on including measures in the NPS-FM to reduce the amount of sedimentation flowing from the land into freshwater.

Managing risks from natural hazards

The Resource Legislation Amendment Act 2017 introduced a new requirement for councils to recognise and provide for the management of significant risks from natural hazards. We are considering the scope of the legislation and national direction governing the management of natural hazards to ensure councils are well supported to manage increasing natural hazards and adapt to climate change.

Improving the framework for contaminated land

In August 2017 an exposure draft of the amended National Environmental Standard Contaminated Soil was tested with a technical working group and they recommended that more policy work be done for the proposed amendments. Current work on the National Environmental Standard Contaminated Soil is focusing on improving guidance on contaminated land management and implementation, including addressing emerging soil contaminants such as per- and poly-fluoroalkyl substances (PFAS). This work includes Hazardous Activities and Industries List (HAIL) guidance and completion of the contaminated land management guidelines No. 1 and No. 5. These guidance documents will include references to PFAS.

Outdoor storage of tyres

We held a public consultation on the proposed National Environmental Standard for the Outdoor Storage of Tyres (NEST) in mid-2017. The NEST aims to protect the land, water and the environment, human health and communities from the adverse effects associated with the outdoor storage of tyres. We will continue to work on the proposed NES along with council waste management experts to ensure it is fit-for-purpose. We expect the NEST to be completed mid-2019.

PFAS and health and safety at work

We are leading the all of government per- and poly-fluoroalkyl substances (PFAS) programme. We are working with national and international government agencies, local government, industry and affected communities to provide leadership, confidence and a nationally consistent management approach to PFAS. The initial PFAS investigations stemmed from the historic use of firefighting foams on New Zealand Defence Force sites. Firefighting foam is not the only use of PFAS so other industries and sites will be identified and, where required, investigated. These are new contaminants with unique properties and their interaction with humans and the environment are only partially understood. The programme is adopting a precautionary approach to the issue, consistent with other administrations worldwide.

We also completed work on the Health and Safety at Work (Hazardous Substances) Regulations 2017 transferring the control of hazardous substances in the workplace to WorkSafe – making them the go-to for all workplace health and safety matters. The regulation came into force in November 2017.

Funding to remediate contaminated sites

The Contaminated Sites Remediation Fund (CSRF) provides \$2.63 million in annual funding to regional councils and unitary authorities to remediate contaminated sites that pose a risk to human health and the environment. Funding is available to regional councils to help them fulfil their obligations for contaminated land management under the Resource Management Act 1991. Funding is directed towards site investigation, remedial planning, and remediation of eligible contaminated sites. The majority of the projects funded are on the CSRF priority list. The CSRF was fully allocated in 2017/18.

Four new projects received funding in addition to many ongoing projects. Remediation works were undertaken for two complex sites including the Calwell Slipway Remediation Project, which was successfully completed in June 2018, and the Kopeopeo Canal Remediation Project (due for completion in December 2018). These projects have received \$4.2 million and \$7 million respectively from the fund. Funding for the first round of applications to the CSRF for the 2018/19 financial year has been granted for two projects. There will be \$1.855 million remaining for round 2 in September 2018.

Other work in land

We supported MPI with its policy thinking on an NPS for Versatile Land and High Class Soils in May, following the Minister's announcement of national direction in mid-April.

A circular economy approach to designing waste out of the system

We have begun scoping work to implement recommendations made in the 2017 *Review of the Effectiveness of the Waste Disposal Levy*. This will include:

- **Strategy:** providing direction – we are focusing on strategic use of investments to support a circular economy, as demonstrated by the focus of the 2018 round. The Waste Minimisation Fund will continue to fund rounds with increased strategic and outcomes-focused projects, including targeted rounds for high harm waste streams and projects that will return the greatest waste minimisation outcomes.
- **Data:** improving access to data and information – we have signalled that we will be working on a national waste data collection and evaluation framework. This will allow us to better understand our country's waste streams to enable us to prioritise waste issues and measure the effectiveness of the waste disposal levy.
- **Approach:** maximising the effectiveness of the levy – we are looking at options to expand the levy across additional classes of landfill. This will allow us to create a consistent approach across the country, while being able to more effectively incentivise the reduction of waste to landfill and ensure a fairer and more transparent system. A strong levy is one of the building blocks required to support a circular economy.



Marine – Wai tai

New Zealand is a world leader in the sustainable management of marine ecosystems that support New Zealand's marine life, society and the economy.

TARGET	2016/17 BASELINE	2017/18 RESULT
By 2030: The resilience of marine ecosystems is improved because a representative 10% of ecosystems in each biogeographic region of New Zealand's territorial sea are marine protected areas.	Proportions range from 0% in the Three Kings, Chatham and Snares Islands to 99% in the Sub-Antarctic Islands and 100% in the Kermadec Islands, averaging 12% of New Zealand's total territorial sea, as at December 2016.	<p>No change because policy reform is under consideration by the Government and no new marine protected areas have been established.</p> <p>The Convention of Biological Diversity (CBD) set global targets, including "...10 per cent of coastal and marine areas, especially areas of particular importance for biodiversity and ecosystem services...through effectively and equitably managed, ecologically representative and well-connected systems of protected areas and other effective area-based conservation measures..."</p> <p>The CBD will report on our performance against these targets in December 2018.</p>

Our marine environment has a rich and unique array of animals, plants, and habitats. Scientists estimate that as much as 80 per cent of New Zealand's indigenous biodiversity may be found in the sea. More than 15,000 marine species have been identified in our waters. Our isolation means many of these species are not found anywhere else in the world.

The ocean also supports our economy, and most of us live near the coast and use the ocean for recreational activities. Given our reliance on the ocean, we need to ensure a system is in place to support its ongoing health and productivity.

Human activities place increasing pressure on our marine environment. Global greenhouse gas emissions are causing ocean acidification and warming; many of our native marine

birds and mammals are threatened or at risk of extinction; and our coastal areas are degraded from the constant pressure of introduced species, seabed trawling and dredging. Land-based activities and practices are resulting in loading of sediment, nutrients, contaminants and waste into our waters.

Supporting and building the resilience of our habitats and species will help to ensure they are able to withstand these pressures.

How we improve the resilience of marine ecosystems

Effective area-based protection through marine protected areas (MPAs) helps maintain coastal and marine ecosystem health and productivity, while safeguarding social and economic development. MPAs are most effective when they form a representative and adaptable network.

MPA networks can improve the resilience of marine ecosystems by helping to stem the losses of marine resources, recover both marine life and entire ecosystems, magnify benefits of individual sites, protect large-scale processes, slow the loss of endangered marine species, and restore depleted fisheries.

However, resilience of ecosystems also depends on a broader approach to best practice science and management. MPAs are more effective when they are integrated within the marine management regime or supported by other protective approaches. For example, the impacts of land use, including the discharge of pollutants and plastics to coasts, and anthropogenic-driven ocean acidification and warming extend beyond the artificial boundaries of MPAs.

How we measure our progress against our target

In 2011 the Convention of Biological Diversity (CBD) set global targets, commonly known as the Aichi Biodiversity targets, which New Zealand supports. Target 11 encourages states to conserve "...10 per cent of coastal and marine areas, especially areas of particular importance for biodiversity and ecosystem services, ... through effectively and equitably managed, ecologically representative and well-connected systems of protected areas and other effective area-based conservation measures...".

The CBD will report on our performance against these targets in December 2018. To support reporting against New Zealand's target the Department of Conservation is working with the Ministry for Primary Industries and us to establish a process to assess New Zealand's protected areas against the International Union for Conservation of Nature (IUCN) guidelines for best practice.

Progress towards achieving our target

Designing a strategic and representative MPA network

During the 2017/18 period we led Marine Protected Areas (MPA) legislative reform, working closely with the Department of Conservation and Ministry for Primary Industries, to propose reforms to repeal the Marine Reserves Act 1971 and introduce new marine protected areas legislation. We undertook extensive national consultation on the proposed reforms in early 2017 and provided detailed advice to Ministers on options for reform and establishing MPAs.

Together with the Department of Conservation (DOC) and the Ministry for Primary Industries (MPI), we established two working parties: the Marine Hub (policy development and advice group) and the interim Science Advisory Group.

This group has worked with external science agencies to advance scientific understanding of network design, classification of New Zealand's biogeographic regions and identification of special ecological areas against international criteria. This will support the identification of areas to be prioritised in future MPA planning.

Since October 2017 the Department of Conservation has led the development and provision of policy advice for MPAs. We continue to collaborate with DOC and MPI in preparing policy advice and participating in the interim Science Advisory Group.

Integrated approach to managing plastics

Measures to address the impacts of land-based plastics in the marine domain will be implemented through a strategic and integrated approach to managing plastics. Minister Sage recently announced \$2.7 million in funding for national charity Sustainable Coastlines to develop an education programme and a national litter database. The programme will train citizen scientists in New Zealand to input their own data using a standard methodology to assess beach cast litter.

- To protect the marine environment, international best practice regulatory approaches will be implemented for activities in the Exclusive Economic Zone (EEZ); including legislating Environmental Protection Authority cost recovery provisions related to Boards of Inquiry under the EEZ Act and developing regulations to implement changes to the EEZ Act that address decommissioning of offshore oil and gas installations.
- New regulations governing depositing of jettisoned material in the EEZ and Continental Shelf (rocket regulations) are now in force.

Other achievements in marine

Other work that contributes to improving the resilience of ecosystems are listed below.

- We are considering a paradigm shift for the future marine management framework in our strategic Marine Futures project.
- The New Zealand Government joined the International Alliance to Combat Ocean Acidification, alongside 23 other government agencies and 38 science, industry and non-government organisations, including Fiji, Secretariat of the Pacific Regional Environment Programme, the University of Otago and the New Zealand Ocean Acidification Community. A government, science and industry working group was formed to consider the development of a New Zealand ocean acidification action plan. A stocktake of past, current and future work of relevance to ocean acidification has been completed, and a gap analysis has begun to inform an action plan.

Future targets

We are exploring how we could report on other aspects of marine. Our environmental report on the marine environment released in 2016 demonstrates the many gaps in our knowledge on the marine environment. We are working to prioritise and fill those gaps before our next marine report in October 2019.

CASE STUDY

Marine environment and the circular economy

Plastic is one, although significant, component of litter and marine debris. International production (322 million tonnes in 2015) is predicted to quadruple by 2050. The growing volume of plastics in the environment is acknowledged as an issue of national and global significance because once discarded, the materials last for decades and pollute our oceans.

It is timely, then, that the Government has committed to a significant reduction in waste disposed of to landfill. The Ministry is working towards achieving the goals set out in the Waste Minimisation Act 2008, through multiple work streams, including investigating product stewardship for priority waste streams, and taking a circular economy approach to resource efficiency in which waste is designed out of the system.

Using circular economy approaches is about moving away from a 'take, make and dispose' concept to one that is restorative and regenerative by design. The circular economy seeks to hold products, components and materials at their highest possible value at all times, reducing resource waste, energy wastage and carbon emissions by design, as well as ongoing maintenance, repair, or reuse of materials, remanufacturing product parts, and having closed recycling loops.

The Ellen MacArthur Foundation's Andrew Morlet said it is more an industrial design challenge than educating consumers. The essential concept is to be able to unmake everything we make.

The Government this year announced that the 2018 Waste Minimisation Fund contestable round (worth a little over \$14 million annually) would encourage applicants to focus on how their projects support a circular economy. This coincided with the second-highest number of applications received to date (149).

Sustainable Coastlines were funded under the previous year's round for a project to obtain and review all accessible data on New Zealand's coastal litter and the existing education interventions in place. They have also been supported under the 2018 funding round to develop the methodology to produce a marine litter data framework.

We are also working with international partners on marine litter because the transboundary impacts of plastic pollution need international cooperation to combat the problem. In the broader Asia-Pacific we support work in political and economic forums to encourage members to reduce plastic pollution. We also seek progress

on international commitments to reduce plastic pollution through our work in multilateral organisations such as the UN Environment Programme's marine litter working group, which is examining the barriers to combating marine litter and identifying national, regional and international response options.

During the year, 12 local and international businesses committed to the New Zealand Plastics Declaration. Its signatories will use 100 per cent reusable, recyclable or compostable packaging by 2025. It is also noteworthy that a ban on products containing plastic microbeads came into effect in June 2018 and work on the phase out of single-use plastic shopping bags continued, with more announcements in this area due for 2018/19.

By working with others to develop circular economy approaches we will be taking long-term action to prevent the harmful impacts of plastic in our oceans by stopping land-based litter from entering our marine environments in the first place.

For more information about the circular economy and Waste Minimisation Fund, visit the relevant section of our website www.mfe.govt.nz/waste.



Urban – Tāone

New Zealand is a leader of environmentally sustainable cities, leveraging the benefits that cities offer while reducing the costs and impacts that they impose.

TARGETS	2016/17 BASELINES	2017/18 RESULTS
<p>By 2047: Housing supply in all high-growth urban areas keeps pace with demand.</p> <p>Auckland issues building consents for at least 400,000 new dwellings (approximately 13,500 per year).</p> <p>Targets for other high-growth areas will be established in December 2018.</p>	<p>In the 12 months to 30 June 2017, Auckland issued consents for 10,364 new dwellings.</p>	<p>Auckland issued the following consents for new dwellings:</p> <p>12 months to 30 June 2018: 12,369.</p>
<p>Future measure: Sustainable, Liveable Cities Index.</p>	<p>Targets to be established after measure is developed and baselines are known.</p>	<p>Until a Sustainable Liveable Cities Index is developed, the results of these surveys are an indirect means of showing liveability.</p> <p>New Zealand's Quality of Life survey (2016):</p> <ul style="list-style-type: none"> • 81% rated life positively • 27% reported their quality of life had improved in the past 12 months • 79% think their city is a great place to live. <p>Mercer's Quality of Living index (2018):</p> <ul style="list-style-type: none"> • Auckland = 3rd • Wellington = 15th

By ensuring our cities are great places to live, we can make a big difference to making Aotearoa New Zealand the most liveable country in the world, as the majority of us live in urban areas.

Our cities are facing significant challenges from population growth: rapidly increasing housing costs, congestion, vehicle emissions, declining biodiversity, and the need to respond to natural hazards and climate change. We must address these challenges to secure long-term liveability, resilience, and sustainability in our cities.

Improving the performance and productivity of our cities and towns will help ensure New Zealand has a resilient economy, capable of responding to changing social and economic conditions, and to the physical and economic impacts of climate change and adverse climatic events.

The liveability of our cities affects our well-being, and the ways in which our cities are planned, designed, built and regulated impacts New Zealand's economic performance and the diversity of our economy.

The changing nature of our cities affords us with abundant opportunities to improve the quality of our built and natural environment. By recognising and leveraging these opportunities and working with our stakeholders, we can improve the performance of our cities across economic, social, cultural, and environmental outcomes.

Our role

We provide policy oversight of urban planning and environmental management, providing a system-wide perspective with the goal of creating sustainable, liveable cities.

Our role involves:

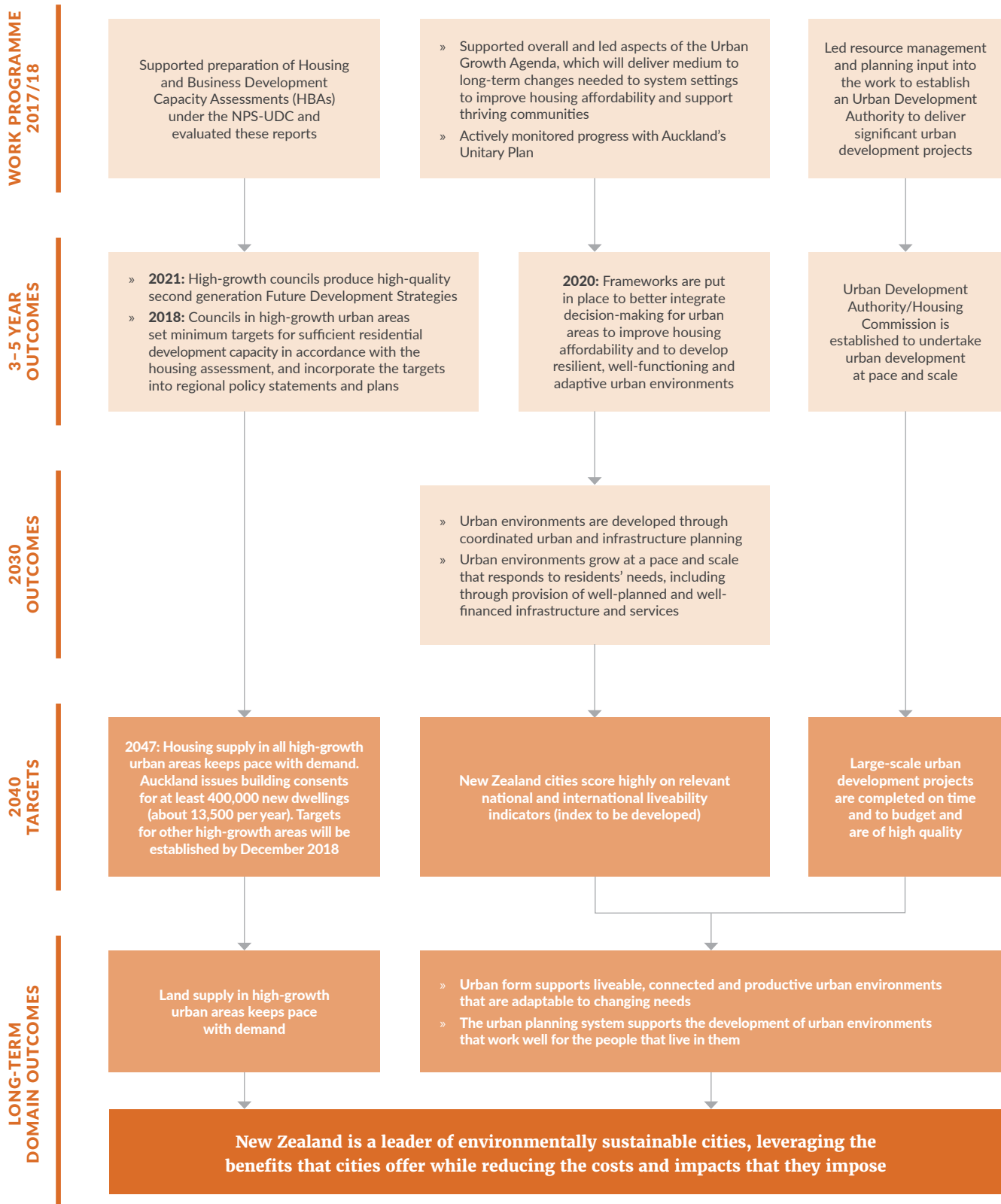
- providing advice to government on how to better achieve well-functioning urban areas through the resource management, planning, and related systems
- designing bespoke planning processes to support councils to respond to changing needs and conditions in urban areas
- responding to failures in the urban system by developing national direction, such as implementing the National Policy Statement on Urban Development Capacity to address insufficient supply for housing and business development, together with the Ministry of Business, Innovation and Employment
- monitoring, evaluating, and reporting on planning outcomes in urban areas across the country
- supporting local authorities to achieve better urban planning outcomes and implement national direction by providing guidance, and working with our stakeholders to build capability and facilitate knowledge sharing

- providing thought leadership on the quality of the built environment (eg, on urban design and urban form)
- working with other agencies in the Auckland Policy Office to support the achievement of government objectives in Auckland, our biggest city.

While the urban domain takes a systems approach to issues and opportunities, the outcomes in other domains also apply in urban areas. Urban residents should be able to enjoy clean waterways, breathe fresh air, enjoy a protected marine environment, and make positive contributions to our climate change goals. Various interventions across these domains also contribute to liveable, sustainable cities.

Urban outcomes and 2017/18 work programme

The following flow chart shows how our 2017/18 work programme links to our outcomes.



More on our achievements in urban

Supporting councils to plan for growth

National Policy Statement on Urban Development Capacity (NPS-UDC)

This is a key tool to ensure housing supply keeps pace with demand. This NPS came into force in 2016 and requires councils to focus on ensuring the market is enabled to provide ample supply of housing and business space. In 2017/18, together with the Ministry of Business, Innovation and Employment (MBIE), we focused on supporting high-growth councils to complete their first Housing and Business Development Capacity Assessments (HBAs), and evaluating those HBAs. It is the first major deliverable under this NPS. We have also been providing support to high-growth councils to prepare Future Development Strategies, supporting newly-defined, high-growth areas to prepare HBAs, and supporting medium-growth councils to prepare HBAs. These are the next major milestones in implementing the NPS-UDC.

Using our planning expertise to help establish an Urban Development Authority

We have supported MBIE to develop resource management and planning system elements of the legislation to establish an Urban Development Authority (UDA). This will contribute to both our key targets: ensuring housing supply keeps pace with demand, and delivering liveable urban environments. The UDA will have enabling development powers to deliver nationally or locally significant urban development projects which provide quality housing and infrastructure.

Changing system settings to improve housing affordability and support communities

Together with other government agencies (including MBIE, Department of Internal Affairs, The Treasury, Ministry of Transport), we have made progress on the Urban Growth Agenda (UGA), which will deliver medium- and long-term changes needed to system settings to improve housing affordability and support thriving communities.

This work programme will deliver on our key targets of ensuring housing supply keeps pace with demand, and delivering liveable urban cities. We co-lead the UGA programme with MBIE, we lead the Urban Planning pillar of the UGA, and co-lead the legislative reform (long-term) pillar of the UGA.

Supporting Auckland's Development

In 2017/18 we have provided advice on progress of the Auckland Unitary Plan, as well as significant individual projects, such as the America's Cup.

Measuring our performance

In this section we report financial and non-financial performance against our appropriations.

Ministerial servicing

This appropriation is intended to achieve the provision of support to Ministers, especially in relation to their accountability to Parliament and the public.

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	2,150	2,150	2,150	2,150	2,150
Departmental	5	20	45	1	20
Other	7	13	14	1	13
Total revenue	2,162	2,183	2,209	2,152	2,183
Total expenses	2,111	2,183	2,209	2,202	2,183
Net surplus (deficit)	51	-	-	(50)	-

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Quality of advice			
Percentage of all regulatory impact statements that partially or fully meet quality assurance criteria	100% (with 38% of regulatory impact statements fully meeting quality assurance criteria)	At least 90% (with 70% fully meeting criteria)	100% (with 59% of regulatory impact statements fully meeting quality assurance criteria)
The satisfaction of the Minister for the Environment and the Minister for Climate Change Issues with the advice service as per the common satisfaction survey	82% (based on a survey result from the Minister for the Environment and the Associate Minister for the Environment)	At least 80%	81% ¹⁰ Includes results from 3 Ministers
The total cost per hour of producing outputs	\$206.40	\$200	\$219.78

Ministerial services

Percentage of responses to parliamentary questions that are completed within required timeframes	91.5%	100%	80%*
Percentage of responses to ministerial correspondence submitted to the Minister within agreed timeframes	57.5%	95%	42%*
Percentage of Ministerial Official Information Act requests submitted within the timeframes agreed with the Minister's office	73%	95%	86%
Percentage of responses to departmental Official Information Act requests sent within statutory deadlines	75.4%	90%	91%

* The number of written parliamentary questions and ministerial correspondence that we handled unexpectedly tripled in 2017/18. This was a key factor in not reaching the targets.

10 Note that the performance measure was set before two associate Ministers were appointed. Their results have also been included.

Explanation

Regulatory impact statements results

In 2017/18, 17 regulatory impact statements (RISs) we developed were subject to quality assessment. Of these, 14 were assessed by our internal assessment panel and three by The Treasury. Seven RISs partially met, rather than fully met the criteria, due to either limited consultation or it being considered that the RIS did not fully identify the impacts or potential costs of the outlined options.

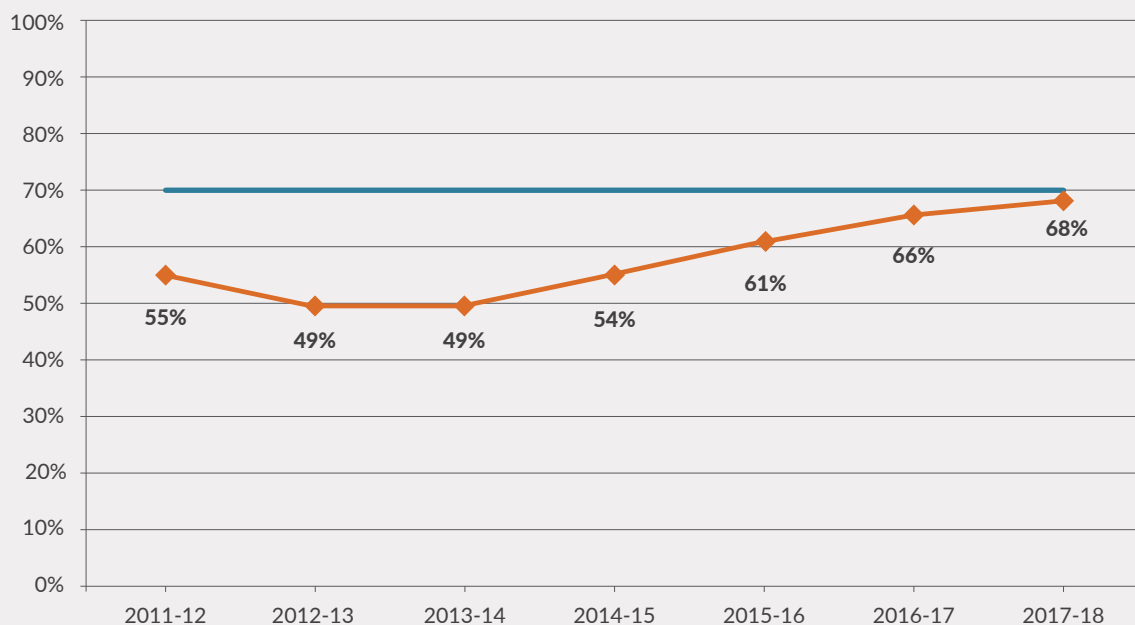
Quality of advice results

Since 2015/16, we have reported performance against our quality of advice standard by multi-category appropriation. Results can be found underneath each of these appropriations.

The Ministry has sustained its improvement over recent years against an ambitious target by using updated tools and providing support at crucial stages of commissioning and peer review, as well as through processes that combine advice for authors with development for people providing the support.

Figure 5 shows our quality of advice results since 2011/12, including those not covered by multi-category appropriations.

FIGURE 5: MINISTRY FOR THE ENVIRONMENT'S PERFORMANCE AGAINST QUALITY OF ADVICE STANDARD



Note: The target is that 70% of briefing notes and Cabinet papers score 7 or better: 70 to 100 papers are assessed each year, 15–20% of the total.

Climate Change Multi-Category Appropriation

This appropriation is intended to achieve quality policy advice to Ministers on domestic and international climate change issues.

Departmental Output Expense: Domestic Climate Change Programme Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	5,990	6,429	8,563	8,563	10,891
Departmental	22	42	143	275	42
Other	29	25	31	72	25
Total revenue	6,041	6,496	8,737	8,910	10,958
Total expenses	5,711	6,496	8,737	7,848	10,958
Net surplus (deficit)	330	-	-	1,062	-

At Main Estimates, the 2017/18 budget for this output class was \$6.496 million. During the year, this output class increased by \$2.241 million to \$8.737 million for 2017/18. This increase was due to:

- additional funding of \$1.234 million allocated to progress work on the Zero Carbon Bill and establish an Interim Climate Change committee
- a fiscally neutral transfer of \$500,000 from the Ministry of Business, Innovation and Employment to support the provision of advice and decision-making by Ministers on domestic climate change
- an expense transfer of \$300,000 from 2016/17 to continue work on a New Zealand Unit auctioning scheme under the NZ ETS
- a fiscally neutral transfer of \$100,000 from other departmental output expenses to progress climate change related work programmes
- an increase of \$107,000 related to cost recovery from other parties.

Total expenditure for this output class was lower than the revised budget due to changes in the timing for establishing an Interim Climate Change Committee. The Ministry has sought an in-principle expense transfer to continue the work of the committee in 2018/19.

Departmental Output Expense: International Climate Change Programme Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	3,733	3,665	4,065	4,065	3,892
Departmental	79	37	93	183	37
Other	12	24	31	66	24
Total revenue	3,824	3,726	4,189	4,314	3,953
Total expenses	3,487	3,726	4,189	4,784	3,953
Net surplus (deficit)	337	-	-	(470)	-

At Main Estimates, the 2017/18 budget for this output class was \$3.726 million. During the year, this output class increased by \$463,000 to \$4.189 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$400,000 from other departmental output expenses to progress negotiations on International Carbon Markets, the Paris Agreement and to represent New Zealand in various climate change meetings
- an increase of \$63,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was higher than the revised budget due to an increase in the climate change work programme after the Budget.

Departmental Output Expense: Synthetic Greenhouse Gas Levy

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	49	49	49	49	49
Departmental	-	-	-	-	-
Other	-	-	-	-	-
Total revenue	49	49	49	49	49
Total expenses	47	49	49	45	49
Net surplus (deficit)	2	-	-	4	-

Departmental Output Expense: Carbon Monitoring Programme

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	2,667	2,167	3,499	3,499	2,167
Departmental	6	13	61	15	13
Other	10	7	10	17	7
Total revenue	2,683	2,187	3,570	3,531	2,187
Total expenses	2,637	2,187	3,570	3,777	2,187
Net surplus (deficit)	46	-	-	(246)	-

At Main Estimates, the 2017/18 budget for this output class was \$2.187 million. During the year, this output class increased by \$1.383 million to \$3.570 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$800,000 from other departmental output expenses for progressing work on the LUCAS mapping programme and geospatial system upgrade
- an expense transfer of \$532,000 from 2016/17 to continue work on upgrading land-use mapping (geospatial system)
- an increase of \$51,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was higher than the revised budget to progress work on the LUCAS mapping programme.

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Technical quality of advice papers assessed by a survey with a methodical robustness of 100%	63%	70%	83% (out of 18 papers) Full, aggregated result on p 58

Carbon Monitoring Programme

This category is intended to achieve compliance with reporting requirements under the United Nations Framework Convention on Climate Change and the Kyoto Protocol.

The LUCAS system is available for use during business hours by the Ministry for the Environment and the Ministry for Primary Industries (as provided for in the Memorandum of Understanding)	99% (including during the aftermath of the Kaikōura earthquake)	99%	99%
The land use and land-use change and forestry and the Kyoto Protocol portions of the National Inventory Report are completed to quality specifications and submitted on time	Achieved	Achieved	Achieved

Domestic Climate Change Programme Policy Advice

This category is intended to achieve quality policy advice on domestic climate change issues.

Provide advice to Ministers on the plan for a transition to a low emissions economy with evidence collation	New measure	By January 2018	Partially achieved Explanation: context changed due to new Government's Zero Carbon Bill, advice is ongoing
Climate Change Adaptation Technical Working Group (CCATWG) provide stocktake report and draft options report to Ministers in line with terms of reference	New measure	31 December 2017	Achieved

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Key deliverables met in line with the Strategic Relationship Agreement between the Natural Resources Iwi Advisory Group and the Ministry for the Environment	New measure	Achieved	Achieved

International Climate Change Programme Policy Advice

This category is intended to achieve developing effective quality policy advice on international climate change.

Percentage of New Zealand's international greenhouse gas reporting that meets agreed deadlines and is accepted by international institutions as meeting UNFCCC and the Kyoto Protocol reporting requirements	100%	100%	100% (Compliance assessed against reporting deadlines. Reports are reviewed by internationally qualified experts who assess the reports against internationally agreed guidelines. Feedback is provided with areas for improvement. Each year, we work on improving reporting, based on the latest feedback received.)
The outcome of international negotiations for NZ's priority areas is consistent with the negotiating mandate as agreed by Cabinet	Achieved	Achieved	Achieved

Synthetic Greenhouse Gas Levy

This category is intended to achieve the efficient administration of the Synthetic Greenhouse Gas Levy Collection System.

Administer the funding for the ongoing costs of collecting the Synthetic Greenhouse Gas Levy by the New Zealand Transport Agency and New Zealand Customs Service in accordance with respective Memoranda of Understanding	Achieved	Achieved	Achieved
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Improving Environmental Management Multi-Category Appropriation

This appropriation is intended to achieve quality advice with a focus on improving environmental management frameworks.

Departmental Output Expense: Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	1,874	1,874	3,084	3,084	1,874
Departmental	59	17	59	150	17
Other	25	9	11	20	9
Total revenue	1,958	1,900	3,154	3,254	1,900
Total expenses	1,721	1,900	3,154	2,778	1,900
Net surplus (deficit)	237	-	-	476	-

At Main Estimates, the 2017/18 budget for this output class was \$1.900 million. During the year, this output class increased by \$1.254 million to \$3.154 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$1.210 million from other departmental output expenses for progressing policy work to negotiate and implement Treaty settlements
- an increase of \$44,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was lower than the revised budget. This represents cost savings.

Departmental Output Expense: Marine Environment Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	3,891	4,141	3,241	3,241	3,891
Departmental	91	18	63	46	18
Other	20	10	12	32	10
Total revenue	4,002	4,169	3,316	3,319	3,919
Total expenses	3,700	4,169	3,316	3,030	3,919
Net surplus (deficit)	302	-	-	289	-

At Main Estimates, the 2017/18 budget for this output class was \$4.169 million. During the year, this output class decreased by \$853,000 to \$3.316 million for 2017/18. This decrease was due to:

- a fiscally neutral transfer of \$1.350 million to other departmental output expenses to support the implementation of the National Policy Statement for Urban Development Capacity and economic research on genetic technology and waste strategy

This decrease was partially offset by:

- an expense transfer of \$450,000 from 2016/17 for progressing policy work on Marine Protected Areas
- an increase of \$47,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was lower than the revised budget. This represents cost savings.

Departmental Output Expense: Resource Management Implementation

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	11,513	11,783	14,158	14,158	12,427
Departmental	115	85	284	151	85
Other	99	44	55	149	44
Total revenue	11,727	11,912	14,497	14,458	12,556
Total expenses	11,688	11,912	14,497	14,436	12,556
Net surplus (deficit)	39	-	-	22	-

At Main Estimates, the 2017/18 budget for this output class was \$11.912 million. During the year, this output class increased by \$2.585 million to \$14.497 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$1.625 million from other departmental output expenses to support the implementation of the National Policy Statement for Urban Development Capacity
- an expense transfer of \$750,000 from 2016/17 to progress work on National Planning Standards and an environmental integrated data infrastructure project
- an increase of \$210,000 related to cost recovery revenue from other parties.

Departmental Output Expense: Resource Management Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	7,557	6,942	6,192	6,192	6,542
Departmental	48	80	166	49	80
Other	121	44	49	68	44
Total revenue	7,726	7,066	6,407	6,309	6,666
Total expenses	7,568	7,066	6,407	6,626	6,666
Net surplus (deficit)	158	-	-	(317)	-

At Main Estimates, the 2017/18 budget for this output class was \$7.066 million. During the year, this output class decreased by \$659,000 to \$6.407 million for 2017/18. This decrease was due to:

- a fiscally neutral transfer of \$750,000 to other departmental output expenses to support the implementation of the National Policy Statement for Urban Development Capacity.

This decrease was partially offset by an increase of \$91,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was higher than the revised budget due to progressing work on resource management reforms.

Departmental Output Expense: Water Management Implementation

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	3,171	2,725	2,075	2,075	2,225
Departmental	66	55	84	68	55
Other	39	25	27	14	25
Total revenue	3,276	2,805	2,186	2,157	2,305
Total expenses	3,055	2,805	2,186	2,078	2,305
Net surplus (deficit)	221	-	-	79	-

At Main Estimates, the 2017/18 budget for this output class was \$2.805 million. During the year, this output class decreased by \$619,000 to \$2.186 million for 2017/18. This decrease was due to a fiscally neutral transfer of \$650,000 to other departmental output expenses for economic research on genetic technology and waste strategy, and climate change work.

This decrease was partially offset by an increase of \$31,000 related to cost recovery revenue from other parties.

Departmental Output Expense: Water Management Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	12,402	12,402	12,959	12,959	12,998
Departmental	78	75	254	274	75
Other	59	135	145	75	135
Total revenue	12,539	12,612	13,358	13,308	13,208
Total expenses	11,674	12,612	13,358	12,040	13,208
Net surplus (deficit)	865	-	-	1,268	-

At Main Estimates, the 2017/18 budget for this output class was \$12.612 million. During the year, this output class increased by \$746,000 to \$13.358 million for 2017/18. This increase was due to:

- additional funding of \$2.367 million allocated to support freshwater reforms
- an expense transfer of \$200,000 from 2016/17 for Water Conservation Orders
- an increase of \$189,000 related to cost recovery revenue from other parties.

These increases were partially offset by a fiscally neutral transfer of \$2.010 million to other departmental output expenses for progressing policy work to negotiate and implement Treaty settlements, and the LUCAS mapping programme and geospatial system upgrade.

Total expenditure for this output class was lower than the revised budget because the Special Tribunals considering Water Conservation Orders were delayed (in one instance to consider more evidence, and in another as a result of ex-tropical cyclone Gita). The greater proportion of the work will now happen in 2018/19. The Ministry has sought an in-principle expense transfer to continue the work in 2018/19.

Non-departmental Output Expense: Water Science and Economics

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Expenses					
Water science and economics	1,358	4,320	4,962	3,411	1,500

At Main Estimates, the 2017/18 budget for this output class was \$4.320 million. During the year, this output class increased by \$642,000 to \$4.962 million for 2017/18 due to an expense transfer from 2016/17.

Total expenditure for this output class was lower than the revised budget due to delays caused by limited capacity in the research sector to deliver the research in the required timeframes, and delays in contracting due to protracted legal negotiations with suppliers on standard terms and conditions. The Ministry has sought an in-principle expense transfer to continue the work in 2018/19.

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Technical quality of advice papers (assessed by a survey with a methodical robustness of 100%)	67%	70%	69% (out of 49 papers) Full, aggregated result on p 58

Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice

This category is intended to achieve quality policy advice to Ministers in relation to negotiating and implementing Treaty settlements and environmental accords.

Number of negotiations supported	10	15	20
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Marine Environment Policy Advice

This category is intended to achieve quality advice to Ministers on New Zealand's marine environment.

Review Exclusive Economic Zone regulations	New measure	By 30 June 2018	Achieved Racket regulations came in force on 5 April 2018 Also: Exclusive Economic Zone and Continental Shelf (Environmental Effects) Amendment Bill 2018 signed into law on 10 July 2018. This allows for cost recovery for boards of inquiry Decommissioning of offshore platform and infrastructure regulations approved for release for consultation in July
Provide advice on draft Marine Protected Areas Bill	New measure	By 15 August 2017	Achieved Detailed advice in policy package, including a White Paper

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
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Resource Management Implementation

This category is intended to achieve support for improvements to the resource management framework, as well as environmental reporting.

Number of domain and synthesis reports published under the environmental reporting regime	Achieved (Marine: October 2016; Fresh water: April 2017)	Two domain reports	<i>Our atmosphere and climate</i> (Oct 2017) <i>Our land</i> (April 2018)
Percentage of local authorities that submit information for the National Monitoring System to support publically available monitoring and evaluation across the environmental management system	100%	100%	100% All local authorities have returned their data
Number of guidance documents produced to support effective implementation of the Resource Legislation Amendment Bill	New measure	6	7 Collaborative planning guidance completed (draft) Streamlined Planning Guidance completed Mana Whakahono ā Rohe guidance completed Consenting guidance completed Quality Planning guidance updated (consenting changes) Everyday guide update is in progress National Planning Standards Guidance (draft)
Provide ongoing policy advice to the Minister on the process for developing the National Planning Standards	New measure	30 June 2018	Achieved
Provide guidance to local authorities on the production of the future development strategy and on the minimum target requirements for Regional Policy Statements and District Plans	New measure	30 June 2018	Achieved

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
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Resource Management Policy Advice

This category is intended to achieve the provision of policy advice to Ministers in relation to improving the resource management framework.

Number of pieces of guidance to support effective implementation of National Direction	New measure	18	14 pieces of guidance (plus 21 subject specific chapters published separately)
Number of national direction workstreams released for public consultation	<p>Achieved – Six:</p> <ol style="list-style-type: none"> 1. National Environmental Standard for Assessing and Managing Contaminants in Soil to Protect Human Health amendments (September–October 2016) 2. National Policy Statement for Freshwater Management amendments (March–April 2017) 3. Stock Exclusion Regulations (February–April 2017) 4. proposed National Environmental Standard for Aquaculture (June–July 2017) 5. proposed National Environmental Standard for Plantation Forestry consultation on permitted activity monitoring (May–June 2017) 6. proposed National Environmental Standard for the Outdoor Storage of Tyres (June–August 2017) 	Two	<ol style="list-style-type: none"> 1. National Planning Standards – June 2018 (plus, the continuation of consultation on the 2. Outdoor Storage of Tyres NES during the financial year – 22 June to 4 August 2017)

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Provide advice on Resource Management reform policy to Minister	New measure	30 June 2018	Partially achieved Initial advice provided, but it remains on-going
Provide ongoing policy advice to the Minister on the process for developing the National Planning Standards	Achieved	30 June 2018	Achieved

Water Management Implementation

This category is intended to achieve effective support for improvements to the freshwater management framework.

Report on the progress each council has made to progress the implementation of the National Policy Statement for Freshwater Management in their region, including how they intend to meet the swimming targets	Achieved	Achieved	Achieved The Ministry has clarified how councils should report their final targets and supplied a template for councils to use. Councils are working to report their swimming targets by 31 December
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Water Management Policy Advice

This category is intended to achieve effective policy advice on freshwater management.

Policy advice on options for the allocation of fresh water and discharges	New measure	31 January 2018	Not achieved Ministry developing options reflecting incoming Government priorities
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Non-departmental output expenses

Water Science and Economics

This category is intended to build science and economics knowledge and capability through the development of the science which underpins the attributes for the National Objectives Framework, and the understanding of the economic impacts associated with setting limits for these attributes.

Percentage of completed Water Science and Economics projects that achieved stated objectives	New measure	80%	75%
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Mitigating Environmental Hazards and Waste Multi-Category Appropriation

This appropriation is intended to achieve quality advice on managing chemical and biological hazards, and waste.

Departmental Output Expense: Environmental Hazards and Waste Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	1,265	1,265	1,548	1,548	2,365
Departmental	8	20	40	15	20
Other	6	11	12	13	11
Total revenue	1,279	1,296	1,600	1,576	2,396
Total expenses	1,215	1,296	1,600	1,554	2,396
Net surplus (deficit)	64	-	-	22	-

At Main Estimates, the 2017/18 budget for this output class was \$1.296 million. During the year this output class increased by \$304,000 to \$1.600 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$185,000 from other departmental output expenses for economic research on genetic technology
- additional funding of \$98,000 allocated to lead the next phase of the investigation into sites contaminated with Per- and Poly-Fluorinated Alkyl substances (PFAS)
- an increase of \$21,000 related to cost recovery revenue from other parties.

Departmental Output Expense: Waste Management and Minimisation

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	585	585	845	845	585
Departmental	35	19	31	32	19
Other	14	18	19	33	18
Total revenue	634	622	895	910	622
Total expenses	477	622	895	936	622
Net surplus (deficit)	157	-	-	(26)	-

At Main Estimates, the 2017/18 budget for this output class was \$622,000. During the year, this output class increased by \$273,000 to \$895,000 for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$260,000 from other departmental output expenses to progress waste strategy work
- an increase of \$13,000 related to cost recovery revenue from other parties.

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Technical quality of advice papers (assessed by a survey with a methodical robustness of 100%)	50%	70%	20% (out of five papers: papers are randomly selected for assessment across the whole Vote, so there may not be sufficient papers assessed in any given MCA to produce meaningful results) Full, aggregated result on p 58

Environmental Hazards and Waste Policy Advice

This category is intended to achieve quality advice to Ministers on the hazardous substances and new organisms management regime.

Number of EPA notices developed and associated regulations amended or revoked	Two notices approved (nine more notices will come into force when the Health and Safety at Work (Hazardous Substances) Regulations comes into force in December 2017)	Two EPA notices developed	Achieved Nine notices developed, six regulations promulgated, 14 regulations revoked or partially revoked, plus one transitional regulation promulgated
Number of case studies into the potential benefits of new organisms to New Zealand	One case study was undertaken on rye grass.	Four	Not achieved Two case studies drafted on Citrus Greening and Cell-free Biology

Waste Management and Minimisation

This category is intended to achieve support to ensure Crown's obligations under the Waste Minimisation Act are met.

Secretariat functions for the Waste Advisory Board are undertaken in accordance with the Board's terms of reference	The Waste Advisory Board has met three times and a new Board inducted. The Board has been satisfied with the Secretariat functions.	Achieved	Achieved
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Environmental Management Obligations and Programmes Multi-Category Appropriation

This appropriation is intended to achieve solutions to environmental problems through community involvement and international cooperation.

Departmental Output Expense: Domestic Obligations and Programmes

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	1,528	1,528	1,448	1,448	1,528
Departmental	18	17	37	17	17
Other	8	15	16	12	15
Total revenue	1,554	1,560	1,501	1,477	1,560
Total expenses	1,301	1,560	1,501	1,515	1,560
Net surplus (deficit)	253	-	-	(38)	-

At Main Estimates, the 2017/18 budget for this output class was \$1.560 million. During the year, this output class decreased by \$59,000 to \$1.501 million for 2017/18. This decrease was due to a fiscally neutral transfer of \$80,000 to other departmental output expenses to progress work on International Environmental Cooperation Agreements.

This decrease was partially offset by an increase of \$21,000 related to cost recovery revenue from other parties.

Departmental Output Expense: International Obligations and Institutions Policy Advice

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	1,830	1,830	2,090	2,090	1,830
Departmental	22	70	99	28	70
Other	15	7	9	17	7
Total revenue	1,867	1,907	2,198	2,135	1,907
Total expenses	1,841	1,907	2,198	2,048	1,907
Net surplus (deficit)	26	-	-	87	-

At Main Estimates, the 2017/18 budget for this output class was \$1.907 million. During the year, this output class increased by \$291,000 to \$2.198 million for 2017/18. This increase was due to:

- a fiscally neutral transfer of \$260,000 from other departmental output expenses to progress work on International Environmental Cooperation Agreements
- an increase of \$31,000 related to cost recovery revenue from other parties.

Total expenditure for this output class was lower than the revised budget. This represents cost savings.

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Technical quality of advice papers (assessed by a survey with a methodical robustness of 100%)	50%	70%	33% (out of three papers: papers are randomly selected for assessment across the whole Vote, so there may not be sufficient papers assessed in any given MCA to produce meaningful results) Full, aggregated result on p 58

Domestic Obligations and Programmes

This category is intended to achieve the efficient administration of grant schemes through which parties can seek funding to achieve environmental objective.

Stage 1 (see note ¹¹) of the Community Environment Fund is completed in under 60 working days	Not achieved Due to a larger number of applications being received than expected Stage 1 took slightly longer than anticipated; it was completed in 61 working days.	Achieved	Not Achieved (Explanation: the completion of Stage 1 took 67 days. Due to panel availability the assessment panel meeting was held slightly later than expected and the recommendations briefing was delivered seven days later than planned)
The Contaminated Sites Remediation Fund Priority List is reviewed by the Ministry and provided to the Minister for the Environment	Achieved The Contaminated Sites Remediation Fund Priority List was reviewed by the Ministry in November 2016 and May 2017 and approved by the Minister for the Environment in May 2017.	30 June 2018	Achieved

¹¹ Stage 1 commences when applications to the Fund close, and ends once assessment of applications is complete and funding recommendations are provided to the Minister.

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
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International Obligations and Institutions Policy Advice

This category is intended to achieve cooperation with other countries to promote action on international environmental issues and to ensure that New Zealand's interests are protected and advanced, and obligations met.

Percentage of treaties (entered into force) Ministry is responsible for that New Zealand ratifies and complies with	New measure	100%	90% The Ministry is intending to complete the Kigali Amendment Treaty Ratification Process in the second half of 2018 and to work with Parliamentary Counsel Office to draft new regulations under the Ozone Layer Protection Act. We intend to ratify in 2019.
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Waste Minimisation Administration

This appropriation is intended to achieve the effective and efficient administration of the functions required under the Waste Minimisation Act 2008.

Departmental Output Expense: Waste Minimisation Administration

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Revenue					
Crown	2,500	2,500	2,500	2,500	2,500
Departmental	-	-	-	-	-
Other	-	-	-	-	-
Total revenue	2,500	2,500	2,500	2,500	2,500
Total expenses	1,922	2,500	2,500	2,435	2,500
Net surplus (deficit)	578	-	-	65	-

Performance information for the appropriation

PERFORMANCE MEASURE	2016/17 PERFORMANCE	2017/18 TARGET	2017/18 PERFORMANCE
Stage one of the Waste Minimisation Fund funding round (recommendations for funding) is completed within four months of round closing	New measure	Achieved	Achieved
Percentage of instances when action is taken against disposal facility operators who have outstanding levy payments (over 120 days)	No disposal facility operator has had an outstanding levy payment of over 120 days. The levy collector ensures payment schedules are maintained. We have a comprehensive compliance programme in place to ensure payments are made.	100%	Achieved No disposal facility operator has had an outstanding levy payment of over 120 days. The levy collector ensures payment schedules are maintained. We have compliance assurance in place to ensure landfill operators comply with the requirements of the regulations.

Capital Expenditure

This appropriation is intended to achieve the renewal, upgrade and/or redesign of assets in support of the delivery of the Ministry for the Environment's service.

	2016/17 Actual \$000	2017/18 Budget \$000	2017/18 Revised budget \$000	2017/18 Actual \$000	2018/19 Unaudited forecast \$000
Expenditure is in accordance with the Ministry's capital asset management plan					
Property, plant and equipment	2,541	9,813	597	(1,128)	200
Intangibles	330	20	1,181	483	1,100
Total	2,871	9,833	1,778	(645)	1,300

At Main Estimates, the 2017/18 budget for this output class was \$9.833 million. During the year, this output class decreased by \$8.055 million to \$1.778 million for 2017/18. This decrease was mainly due to the Ministry handing over the lead agency role for Charles Fergusson Tower (part of the Wellington Office Accommodation Project (2)) to the Ministry for Primary Industries. The Ministry budgeted to spend \$9.673 million in 2017/18 for this project. This decrease was partially offset by an increase in expenditure related to:

- upgrading software (such as the document management system, Microsoft operating system, human resource system transition to the cloud and the geospatial mapping programme) – \$1.161 million
- purchasing furniture and fixtures following the Kaikōura earthquake and backup infrastructure for business continuity – \$457,000.

Total expenditure in this output class was lower than the revised budget due to:

- receiving reimbursement from the Ministry for Primary Industries (as the new lead agency) for the fit-out of Charles Fergusson Tower, for which the Ministry for the Environment incurred costs in 2016/17
- delays in progressing work on the upgrade of the document management system (stage 3) and the funds management system.





03

Our finances

In part three we report on the financial resources we have used to deliver our services. This part also includes an independent audit report on our annual report.

Key topics

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Financial statements for the Ministry for the Environment

for the year ended 30 June 2018

Performance indicators for the year ended 30 June 2018

	Unit	2017/18 Actual	2017/18 Revised Budget*
Operating results			
Revenue: Crown	\$000	68,466	68,466
Revenue: Departmental and other	\$000	1,927	1,900
Output expenses	\$000	68,166	70,366
Gain on sale of assets	\$000	–	5
Net surplus	\$000	2,227	5
Working capital			
Net current assets	\$000	5,419	5,009
Current ratio	Ratio	1.54	1.52
Resource utilisation			
Plant and equipment			
Plant and equipment at year end	\$000	974	908
Value per employee	\$000	2.7	2.5
Additions as % of plant and equipment	%	58.4	65.7
Plant and equipment as % of total assets	%	5.5	5.3
Intangible assets			
Intangible assets at year end	\$000	1,242	1,652
Value per employee	\$000	3.5	4.6
Additions as % of intangible assets	%	58.5	71.5
Intangible assets as % of total assets	%	7.0	9.6
Taxpayers' funds			
Level at year end	\$000	5,992	5,992
Level per employee	\$000	16.6	16.6
Net cash flows			
Surplus/(deficit) from operating activities	\$000	2,103	3,745
Surplus/(deficit) from investing activities	\$000	646	169
Surplus/(deficit) from financing activities	\$000	(3,667)	(3,666)
Net increase/(decrease) in cash held	\$000	(918)	248
Human resources			
Staff turnover	%	24.3	21.6
Average length of service	Years	3.7	3.8
Total staff	No.	360	360

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

Statement of comprehensive revenue and expense for the year ended 30 June 2018

	Notes	2016/17 Actual \$000	2017/18 Budget* \$000	2017/18 Actual \$000	2018/19 Forecast* \$000
Revenue					
Funding from the Crown		62,705	62,035	68,466	67,914
Other revenue	2	1,125	955	1,927	955
Gains		–	5	–	5
Total revenue		63,830	62,995	70,393	68,874
Expenses					
Personnel costs	3	33,627	35,674	38,030	41,865
Depreciation and amortisation expense	8, 9	751	1,107	929	1,326
Capital charge	4	389	389	360	360
Finance cost	5	38	35	35	–
Other operating expenses	6	25,359	25,785	28,812	25,318
Total expenses		60,164	62,990	68,166	68,869
Net surplus and total comprehensive revenue and expense		3,666	5	2,227	5

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

Explanations of significant variances against budget are detailed in note 18.

Statement of financial position as at 30 June 2018

	Notes	2016/17 Actual \$000	2017/18 Budget* \$000	2017/18 Actual \$000	2018/19 Forecast* \$000
Assets					
Current assets					
Cash and cash equivalents		4,075	4,050	3,157	4,349
Receivables**	7	10,746	100	12,183	10,028
Pre-payments		423	300	206	300
Total current assets		15,244	4,450	15,546	14,677
Non-current assets					
Plant and equipment	8	2,735	12,856	974	373
Intangible assets	9	1,055	1,058	1,242	2,161
Total non-current assets		3,790	13,914	2,216	2,534
Total assets		19,034	18,364	17,762	17,211
Liabilities					
Current liabilities					
Payables and deferred revenue**	10	5,476	8,315	5,207	7,330
Return of operating surplus	11	3,666	5	2,227	5
Provisions	12	51	-	32	-
Employee entitlements	13	2,307	2,272	2,661	2,307
Total current liabilities		11,500	10,592	10,127	9,642
Non-current liabilities					
Employee entitlements	13	800	1,003	866	800
Provisions	12	742	777	777	777
Total non-current liabilities		1,542	1,780	1,643	1,577
Total liabilities		13,042	12,372	11,770	11,219
Net assets		5,992	5,992	5,992	5,992
Equity					
Taxpayers' funds		5,992	5,992	5,992	5,992
Total equity		5,992	5,992	5,992	5,992

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

** PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for receivables from non-exchange transactions, receivables from exchange transactions, taxes and transfers payable, and payables under exchange transactions. The Ministry considers that it will be rare that this analysis will provide material information. Therefore, due to the current uncertainties about whether some transactions are exchange or non-exchange, the Ministry has chosen to focus on providing a meaningful breakdown in the notes.

Explanations of significant variances against budget are detailed in note 18.

Statement of changes in equity for the year ended 30 June 2018

		2016/17 Actual \$000	2017/18 Budget*	2017/18 Actual \$000	2018/19 Forecast*
	Notes				
Balance at 1 July		5,992	5,992	5,992	5,992
Comprehensive revenue and expense					
Surplus for the year		3,666	5	2,227	5
Total comprehensive revenue		3,666	5	2,227	5
Return of operating surplus to the Crown	11	(3,666)	(5)	(2,227)	(5)
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.

Statement of cash flows for the year ended 30 June 2018

	2016/17 Actual \$000	2017/18 Budget*	2017/18 Actual \$000	2018/19 Forecast*
Cash flows from operating activities				
Receipts from the Crown	64,340	71,708	67,593	67,914
Receipts from other revenue	1,156	955	1,510	955
Payments to suppliers	(26,222)	(25,785)	(29,487)	(25,318)
Payments to employees	(33,463)	(35,674)	(37,629)	(41,865)
Payments for capital charge	(389)	(389)	(180)	(360)
Goods and services tax (net)	(196)	–	296	–
Net cash flow from operating activities	5,226	10,815	2,103	1,326
Cash flows from investing activities				
Receipts from sale of plant and equipment	–	5	1,698	5
Purchase of plant and equipment	(2,283)	(9,813)	(569)	(200)
Purchase of intangible assets	(271)	(20)	(483)	(1,100)
Net cash flow from investing activities	(2,554)	(9,828)	646	(1,295)
Cash flows from financing activities				
Return of operating surplus	(3,818)	(5)	(3,667)	(5)
Net cash flow from financing activities	(3,818)	(5)	(3,667)	(5)
Net increase/(decrease) in cash	(1,146)	982	(918)	26
Cash at the beginning of the year	5,221	3,068	4,075	4,323
Cash at the end of the year	4,075	4,050	3,157	4,349

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

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.

Statement of cash flows (continued)

for the year ended 30 June 2018

Reconciliation of net surplus to net cash from operating activities

	2016/17 Actual \$000	2017/18 Actual \$000
Net surplus	3,666	2,227
Add/(less) non-cash items:		
Depreciation and amortisation expense	751	929
Restoration costs	37	35
Total non-cash items	788	964
Add/(less) items classified as investing or financing activities:		
(Gains)/losses on disposal of plant and equipment	94	–
Add/(less) movements in statement of financial position items:		
(Increase)/decrease in receivables	1,612	(1,437)
(Increase)/decrease in pre-payments	(130)	217
Increase/(decrease) in payables ¹²	(968)	(269)
Increase/(decrease) in provisions	51	(19)
Increase/(decrease) in employee entitlements	113	420
Total net movement in working capital items	678	(1,088)
Net cash flow from operating activities	5,226	2,103

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

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

Statement of commitments as at 30 June 2018

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 \$131,653 (2016/17: \$188,661).

	2016/17 Actual \$000	2017/18 Actual \$000
Capital commitments		
Fit-out at Charles Fergusson Tower	1,892	–
Intangible assets	192	69
Total capital commitments	2,084	69
Operating leases as lessee		
The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:		
Not later than one year	2,475	2,425
Later than one year but not later than five years	4,185	2,020
Later than five years	–	–
Total non-cancellable operating lease commitments	6,660	4,445
Total commitments	8,744	4,514

Statement of contingent liabilities and contingent assets as at 30 June 2018

Contingent liabilities

There is one potential liability in relation to a legal matter at up to \$30,000 as at 30 June 2018 (2016/17: \$nil).

Contingent assets

There were no contingent assets as at 30 June 2018 (2016/17: The Ministry had one non-quantifiable contingent asset relating to an insurance claim for material damage and business interruption as a consequence of the November 2016 Kaikoura earthquake).

Notes to the financial statements

1. Statement of accounting policies for the year ended 30 June 2018

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 and operates in New Zealand. The relevant legislation governing the Ministry's operations includes the Public Finance Act 1989 and the Environment Act 1986. The Ministry's ultimate parent is the New Zealand Crown.

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

The primary objective of the Ministry is to provide advice to the Government on the New Zealand environment and international matters that affect the environment. The Ministry does not operate to make financial returns. Accordingly, the Ministry has designated itself as a public benefit entity (PBE) for the purpose of financial reporting.

The financial statements of the Ministry are for the year ended 30 June 2018. The financial statements were authorised for issue by the Chief Executive of the Ministry on 28 September 2018.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

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 Tier 1 Public Benefit Entity (PBE) accounting standards 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) unless otherwise stated. The functional currency of the Ministry is New Zealand dollars.

Accounting policies

There have been no changes in accounting policies during the 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.

Accounting standards and interpretations issued but not yet effective and not early adopted:

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

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for financial years beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

The Treasury has decided that the Financial Statements of the Government will early adopt PBE IFRS 9 for the 30 June 2019 financial year. The Ministry will also early adopt PBE IFRS 9 for the 30 June 2019 financial year to be consistent with Crown's accounting policy for financial instruments. The Ministry has not yet assessed in detail the impact of the new standard. Based on an initial assessment, the Ministry anticipates that the standard will not have a material effect on the Ministry's financial statements.

Interests in other entities

In January 2017, the XRB issued new standards for interests in other entities (PBE IPSAS 34 – 38). These new standards replace the existing standards for interests in other entities (PBE IPSAS 6 – 8). The new standards are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The Ministry plans to apply the new standards in preparing the 30 June 2020 financial statements. The Ministry has not yet assessed the effects of these new standards.

Impairment of Revalued Assets

In April 2017, the XRB issued Impairment of Revalued Assets, which now clearly scopes in revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost were scoped into the impairment accounting standards.

Under the amendment, a revalued asset can be impaired without having to revalue the entire class of asset to which the asset belongs. This amendment is effective for the 30 June 2020 financial statements, with early adoption permitted. The timing of the Ministry adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of Government will adopt the amendment.

Significant accounting policies

Budgeting and forecasting figures

The budget figures are those included in the Estimates of Appropriations (Budget) for the year ending 30 June 2018 (the Budget is 2017 Budget Economic and Fiscal Update (BEFU 2017) out-year 1 figures) and were published in the 2016/17 annual report.

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 PBE accounting standards.

The forecast figures are those included in the Estimates of Appropriations for the year ending 30 June 2019 (the Forecast is 2018 Budget Economic and Fiscal Update (BEFU 2018) 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 Tier 1 PBE accounting standards and other applicable financial reporting standards, as appropriate for public benefit entities. They are to be used in the future for reporting historical general purpose financial statements.

The forecast figures contained in these financial statements reflect the Ministry's purpose and activities and are based on a number of assumptions on what may occur during the year 2018/19. Events and circumstances may not occur as expected. Factors that could lead to material differences between the forecast financial statements and the 2018/19 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 2018 was finalised.

The main assumptions were as follows:

- The Ministry'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 the Hazardous Substances and New Organisms framework, and the management of the Exclusive Economic Zone.
- Personnel costs were based on 355 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 2017/18 was used as the opening position for the 2018/19 forecasts.

These assumptions were adopted as at 9 April 2018.

Expenses

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 2017/18 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 2018, direct costs accounted for 50 per cent of the Ministry's costs (2016/17: 51 per cent) and indirect costs accounted for 50 per cent of the Ministry's costs (2016/17: 49 per cent).

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 revenue and expense.

Cash and cash equivalents

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

The Ministry is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

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.

Goods and Services Tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except where otherwise stated. Receivables and payables 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 payables or receivables in the statement of financial position.

Income tax

The Ministry is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with PBE accounting standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses.

The estimates and associated assumptions are based on historical experience and 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 provides the key assumptions used in determining the estimates for long service leave and retirement gratuities.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into as at balance date. Information on non-cancellable capital and lease commitments are reported in the statement of commitments.

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.

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. Revenue

Accounting policy

Revenue Crown

Revenue from the Crown is measured based on the Ministry's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Ministry can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

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.

Breakdown of other revenue

	2016/17 Actual \$000	2017/18 Actual \$000
Departmental	661	1,338
Other	464	589
Total other revenue	1,125	1,927

3. Personnel costs

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Defined contribution schemes

Employee contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Breakdown of personnel costs

	2016/17 Actual \$000	2017/18 Actual \$000
Salaries and wages	32,085	35,886
Employer contributions to defined contribution plans	993	1,118
ACC Levy	(46)	88
Net employee entitlements	555	781
Other	40	157
Total personnel costs	33,627	38,030

4. Capital charge

Accounting policy

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

Further information

The Ministry pays a capital charge to the Crown on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2018 was 6% (2016/17: 7% from 1 July 2016 to 31 December 2016 and then 6% from 1 January 2017).

5. Finance costs

	2016/17 Actual \$000	2017/18 Actual \$000
Discount unwind on provisions (note 12)	37	35
Other	1	–
Total finance costs	38	35

6. Other expenses

Accounting policy

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.

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.

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other expenses and further information

	2016/17 Actual \$000	2017/18 Actual \$000
Audit fees for the financial statement audit	202	206
Operating lease expenses	3,033	2,503
Advertising and publicity	474	760
Contributions and sponsorship	604	541
External resources:		
Advisory groups	598	459
Services provided by other government agencies	3,224	2,858
Data/imagery	223	1,011
Annual outsourced specialist services	3,414	3,623
Other professional consulting fees	6,470	8,640
Contracted research	934	1,097
General and administration	2,798	3,486
Net loss on disposal of property, plant and equipment	94	-
Other expenses	3,291	3,628
Total other operating expenses	25,359	28,812

7. Receivables

Accounting policy

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

Breakdown of receivables and further information

	2016/17 Actual \$000	2017/18 Actual \$000
Receivables from non-exchange transactions		
Debtor Crown	10,537	11,410
GST refund	54	–
Total receivables from non-exchange transactions	10,591	11,410
Receivables from exchange transactions		
Debtors other	155	773
Total receivable from exchange transactions	155	773
Total receivables	10,746	12,183

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

	Gross \$000	2016/17 Impairment \$000	Net \$000	Gross \$000	2017/18 Impairment \$000	Net \$000
Not past due	10,661	–	10,661	12,183	–	12,183
Past due 1 – 30 days	20	–	20	–	–	–
Past due 31 – 60 days	12	–	12	–	–	–
Past due 61 – 90 days	44	–	44	–	–	–
Past due > 91 days	9	–	9	–	–	–
Total	10,746	–	10,746	12,183	–	12,183

The carrying value of receivables approximates their fair value.

As at 30 June 2018 and 2017, 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.

8. Plant and equipment

Accounting policy

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.

Work in progress is recognised at cost less impairment and is not depreciated.

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 revenue and expense 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 revenue and expense. 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	2–13	8.39–20.0
Office equipment	2–5	20.0
Computer hardware	2–4	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.

Breakdown of property, plant, and equipment and further information

	Furniture and fixtures \$000	Office equipment \$000	Computer hardware \$000	Total \$000
Cost				
Balance at 1 July 2016	2,429	348	2,202	4,979
Additions	–	–	843	843
Add: Closing work in progress	1,698	–	–	1,698
Less: Opening work in progress	–	–	–	–
Disposals	–	–	(675)	(675)
Balance at 30 June 2017	4,127	348	2,370	6,845
Balance at 1 July 2017	4,127	348	2,370	6,845
Additions	285	5	234	524
Add: Closing work in progress	–	–	46	46
Less: Opening work in progress	(1,698)	–	–	(1,698)
Disposals	–	–	–	–
Balance at 30 June 2018	2,714	353	2,650	5,717
Accumulated depreciation and impairment losses				
Balance at 1 July 2016	2,121	286	1,790	4,197
Depreciation expense	127	27	340	494
Elimination on disposal	–	–	(581)	(581)
Balance at 30 June 2017	2,248	313	1,549	4,110
Balance at 1 July 2017	2,248	313	1,549	4,110
Depreciation expense	176	24	433	633
Balance at 30 June 2018	2,424	337	1,982	4,743
Carrying amounts				
At 1 July 2016	308	62	412	782
At 30 June/1 July 2017	1,879	35	821	2,735
At 30 June 2018	290	16	668	974

Restrictions

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

9. Intangible assets

Accounting policy

Software acquisition and development

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

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

Costs associated with staff training and the maintenance of computer software is recognised as an expense when incurred.

Costs of software updates or upgrades are only capitalised when they increase the usefulness or value of the software.

Costs associated with development and maintenance of the Ministry's website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive revenue and expense.

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	3–6	16.67–33.33
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 revenue and expense 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.

Critical accounting estimates and assumptions

Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Ministry will receive benefits from the software, but not exceeding the licence term. For internally generated software developed by the Ministry, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

Breakdown of intangible assets and further information

Movements in the carrying value for each class of intangible asset are as follows:

	Acquired software \$000	Acquired software licences \$000	Internally generated software (others) \$000	Internally generated software (LUCAS) \$000	Total \$000
Cost					
Balance at 1 July 2016	2,630	25	1,429	1,843	5,927
Additions	87	–	–	–	87
Add: Closing work in progress	243	–	–	–	243
Less: Opening work in progress	–	–	–	–	–
Balance at 30 June 2017	2,960	25	1,429	1,843	6,257
Balance at 1 July 2017	2,960	25	1,429	1,843	6,257
Additions	633	–	–	–	633
Add: Closing work in progress	93	–	–	–	93
Less: Opening work in progress	(243)	–	–	–	(243)
Balance at 30 June 2018	3,443	25	1,429	1,843	6,740
Accumulated amortisation and impairment losses					
Balance at 1 July 2016	1,756	25	1,321	1,843	4,945
Amortisation expense	249	–	8	–	257
Balance at 30 June 2017	2,005	25	1,329	1,843	5,202
Balance at 1 July 2017	2,005	25	1,329	1,843	5,202
Amortisation expense	291	–	5	–	296
Balance at 30 June 2018	2,296	25	1,334	1,843	5,498
Carrying amounts					
At 1 July 2016	874	–	108	–	982
At 30 June/1 July 2017	955	–	100	–	1,055
At 30 June 2018	1,147	–	95	–	1,242

Restrictions

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

10. Payables and deferred revenue

Accounting policy

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.

Breakdown of payables and further information

	2016/17 Actual \$000	2017/18 Actual \$000
Payables and deferred revenue under exchange transactions		
Creditors	3,085	2,904
Accrued expenses	2,391	2,062
Total payables and deferred revenue under exchange transactions	5,476	4,966
Payables and deferred revenue under non-exchange transactions		
GST payable	–	241
Total payables and deferred revenue	5,476	5,207

11. Return of operating surplus

	2016/17 Actual \$000	2017/18 Actual \$000
Net surplus	3,666	2,227
Total return of operating surplus	3,666	2,227

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

12. Provisions

Accounting policy

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 resources embodying economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for net deficits from future operating activities.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate based on market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash outflows. The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs' (see note 5).

Restructuring

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or for which implementation has already begun.

Breakdown of provisions and further information

	2016/17 Actual \$000	2017/18 Actual \$000
Current portion		
Holiday pay	51	32
Total current portion	51	32
Non-current portion		
Restoration costs	742	777
Total provisions	793	809

Movements for each class of provision are as follows:

	Restoration costs \$000	Holiday pay \$000	Total \$000
Balance at 1 July 2016	705	-	705
Additional provisions made	-	51	51
Discount unwind (note 5)	37	-	37
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Balance at 30 June 2017	742	51	793
Balance at 1 July 2017	742	51	793
Additional provisions made	-	-	-
Discount unwind (note 5)	35	-	35
Amounts used	-	(19)	(19)
Unused amounts reversed	-	-	-
Balance at 30 June 2018	777	32	809

Provisions represent:

- 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.
- holiday pay costs arising from a review of the application of the Holidays Act 2003 to annual leave payments.

13. Employee entitlements

Accounting policy

Short-term employee entitlements

Employee entitlements that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, long service leave, and retirement gratuities expected to be settled within 12 months.

Long-term employee entitlements

Employee entitlements that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retirement gratuities, are calculated on an actuarial basis. The calculations are based on:

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

Presentation of employee entitlements

Salaries and wages accrued, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

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 revenue and expense as incurred.

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

The measurement of the long service leave and retirement gratuities obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The rates used range from 1.78 per cent to 3.55 per cent (2016/17: 1.97 per cent to 3.92 per cent) and a long-term salary growth of 3.1 per cent (2016/17: 3.1 per cent) were used. The discount rates and salary inflation factor used are those advised by the Treasury.

If the discount rate were to differ by 1 per cent from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated \$9,000 higher/lower.

If the salary inflation factor were to differ by 1 per cent from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated \$10,000 higher/lower.

Breakdown of employee entitlements

	2016/17 Actual \$000	2017/18 Actual \$000
Current portion		
Salary accruals	243	274
Annual leave	1,822	2,063
Long service leave and retirement gratuities	242	324
Total current portion	2,307	2,661
Non-current portion		
Long service leave and retirement gratuities	800	866
Total employee entitlements	3,107	3,527

14. Capital management**Accounting policy**

The Ministry's capital is its equity, which comprise taxpayers' funds, memorandum accounts, and property revaluation reserves. Equity is represented by net assets.

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

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

15. 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.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Ministry would have adopted in dealing with the party at arm's length in the same circumstances.

The Ministry enters into transactions with government departments, Crown entities, and state-owned enterprises on an arm's length basis. Transactions with other government agencies are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Key management personnel compensation

	2016/17 Actual	2017/18 Actual
Environmental Leadership Team, including the Chief Executive		
Remuneration	\$1,500,831	\$1,830,387
Full-time equivalent staff	4.6	5.4

The above key management personnel compensation excludes the remuneration and other benefits received by the Minister for the Environment and the Minister for Climate Change. 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.

16. 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.

17. Financial instruments

Financial instrument categories

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

	2016/17 Actual \$000	2017/18 Actual \$000
Loans and receivables		
Cash and cash equivalents	4,075	3,157
Receivables	10,746	12,183
Total loans and receivables	14,821	15,340
Financial liabilities measured at amortised cost		
Payables (excluding revenue in advance)	5,476	5,207

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.

Fair value 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 because it has no interest-bearing 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 receivables and deposits with banks.

The Ministry is permitted to deposit funds only with Westpac, a registered bank. Westpac bank has a high credit rating of AA- (Standard and Poor's credit rating). 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 receivables. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Management of liquidity risk

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

As part of 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.

Contractual maturity analysis of financial liabilities, excluding derivatives

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
2018						
Payables (note 10)	5,207	5,207	5,207	–	–	–
2017						
Payables (note 10)	5,476	5,476	5,476	–	–	–

18. Explanations of major variances against budget

Explanations for major variances from the Ministry's original 2017/18 budget figures are:

(i) Statement of comprehensive income

	2017/18 Actual \$000	2017/18 Budget \$000	2017/18 Variance \$000
Revenue Crown	68,466	62,035	6,431
Revenue other	1,927	955	972
Personnel costs	38,030	35,674	2,356
External resources	17,688	15,606	2,082

Revenue Crown: The actual Crown revenue was higher than budget due to:

- a transfer of funding from 2016/17 for progressing work on National Planning Standards, part of resource management reforms and data acquisition for environmental reporting
- a transfer of funding from 2016/17 for progressing work on processing applications for water conservation orders
- a transfer of funding from 2016/17 for progressing marine protection legislative work including the proposed Marine Protected Areas bill
- a transfer of funding from 2016/17 to continue work on a New Zealand Unit auctioning scheme under the NZ ETS and the LUCAS mapping programme
- additional funding allocated to progress work to support freshwater reforms
- additional funding allocated to work on an All-of-Government response to PFAS contamination
- additional funding allocated to progress work on the Zero Carbon Bill and establish an Interim Climate Change committee.

Revenue other: The actual other revenue was higher than budget primarily due to: revenue received from other agencies for staff secondments, international travel reimbursements, and other services provided by the Ministry.

Personnel costs and external resources: The actual personnel and the external resources costs were higher than budget because additional resources were employed to continue the Ministry's work programmes. The Ministry received additional funding for progressing water management reforms and the climate change work programme.

(ii) Statement of financial position

	2017/18 Actual \$000	2017/18 Budget \$000	2017/18 Variance \$000
Cash and cash equivalents	3,157	4,050	(893)
Debtors and receivables	12,183	100	12,083
Property, plant and equipment	974	12,856	(11,928)
Payables	5,207	8,315	(3,108)

Cash and cash equivalents: The actual cash position was lower than budget largely due to lower than forecast year end accruals.

Debtors and receivables: The higher level of debtors and receivables primarily relates to amounts receivable from the Crown. The Ministry did not budget for debtor Crown because it anticipated to draw down funding to use for the fit-out costs at Charles Fergusson Tower.

Property, plant and equipment: The actual property, plant and equipment position was lower than budget because the Ministry had budgeted for the fit-out costs at Charles Fergusson Tower. However, Cabinet decided to transfer the lead agency role for the Charles Fergusson Tower project to the Ministry for Primary Industries. All costs incurred and contractual commitments associated with the project were transferred to the Ministry for Primary Industries.

Payables: The actual payables were lower than budget due to lower than expected year-end accruals. A larger number of 2017/18 liabilities were paid out prior to year-end than expected.

(iii) Statement of cash flows

	2017/18 Actual \$000	2017/18 Budget \$000	2017/18 Variance \$000
Receipts from the Crown	67,593	71,708	4,115
Receipts from revenue other	1,510	568	942
Payments to suppliers	29,487	25,901	3,586
Payments to employees	37,629	35,558	2,071

Explanations for variances in the Statement of cash flows are explained above.

Non-departmental statements and schedules

for the year ended 30 June 2018

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

Schedule of non-departmental revenue for the year ended 30 June 2018

	2016/17 Actual \$000	2017/18 Mains Forecast*	2017/18 Actual \$000	2018/19 Forecast* \$000
Revenue				
Royalties	784	500	616	750
Levies	35,826	37,100	37,786	38,100
Emissions trading	444,377	542,507	669,392	783,818
Emissions Trading Scheme penalty revenue	117	–	103	–
Grants refund	–	–	23	–
Net changes in carbon price of New Zealand units	72,639	–	–	–
Total non-departmental revenue	553,743	580,107	707,920	822,668

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

Explanations of significant variances against budget are detailed in note 8.

Schedule of non-departmental capital receipts for the year ended 30 June 2018

The Ministry on behalf of the Crown has no capital receipts (2016/17: \$nil).

Schedule of non-departmental expenses for the year ended 30 June 2018

	Notes	2016/17 Actual \$000	2017/18 Mains Forecast* \$000	2017/18 Actual \$000	2018/19 Forecast* \$000
Expenses					
Grants and settlements		38,215	58,460	41,352	53,122
Promotions		800	800	800	800
Subscriptions and contributions to international forums		1,025	1,185	1,092	1,185
Crown entity funding		25,267	25,267	25,369	25,217
Levy disbursement		17,398	18,000	17,371	18,000
Allocation of New Zealand Units		295,488	482,095	719,667	521,093
Net changes in carbon price of New Zealand units	5	–	58,296	462,273	–
GST input expense		9,974	13,988	10,864	13,295
Other		1,498	4,497	3,607	1,677
Total non-departmental expenses		389,665	662,588	1,282,395	634,389

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

Explanations of significant variances against budget are detailed in note 8.

Schedule of non-departmental assets as at 30 June 2018

	Notes	2016/17 Actual \$000	2017/18 Mains Forecast*	2017/18 Actual \$000	2018/19 Forecast*
Assets					
Current assets					
Cash and cash equivalents		5,147	4,297	5,900	4,715
Receivables	2	8,861	8,500	8,997	8,750
Total current assets		14,008	12,797	14,897	13,465
Non-current assets					
Total non-departmental assets		14,008	12,797	14,897	13,465

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

Explanations of significant variances against budget are detailed in note 8.

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 2018

	Notes	2016/17 Actual \$000	2017/18 Mains Forecast* \$000	2017/18 Actual \$000	2018/19 Forecast* \$000
Liabilities					
Current liabilities					
Payables	3	34,259	27,803	45,462	36,139
Provisions	5	2,061,331	2,003,235	2,541,706	2,357,436
Total current liabilities		2,095,590	2,031,038	2,587,168	2,393,575
Non-current liabilities					
Payables	3	116,688	114,230	114,230	107,687
Provisions	5	2,000	–	1,575	4,182
Total non-current liabilities		118,688	114,230	115,805	111,869
Total non-departmental liabilities		2,214,278	2,145,268	2,702,973	2,505,444

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

Explanations of significant variances against budget are detailed in note 8.

Schedule of non-departmental commitments as at 30 June 2018

The Ministry, on behalf of the Crown, has no non-cancellable capital or lease commitments (2016/17: \$nil).

Schedule of non-departmental contingent liabilities and contingent assets as at 30 June 2018

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 PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets. Obligations for the clean up of contaminated sites expressed in announcements or legislation are not recognised where they are executory in nature or have not created a valid expectation in other parties that the Crown will discharge the obligation.

New Zealand Emissions Trading Scheme

Post-1989 forest land

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

Those landowners who have not yet registered their post-1989 forest land or who have deregistered from the scheme have until the end of 2022 (the third five year period beginning 1 January 2018 to 31 December 2022) to decide whether to re-register and receive NZUs for the period beginning from 1 January 2018. If they do, they can claim NZUs for all the carbon stored in their forest from 1 January 2018 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 2018.

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 2018, there may be some deforestation which has not yet been reported to the Crown.

The Ministry on behalf of the Crown has no other contingent liability or assets (2016/17: \$nil).

Notes to the non-departmental financial statements

1. Statement of accounting policies for the year ended 30 June 2018

Reporting entity

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

These non-departmental balances are consolidated into the Financial Statements of the Government. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the Financial Statements of the Government for the year ended 30 June 2018.

Basis of preparation

These non-departmental statements and schedules 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 statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

The accounting policies adopted in these financial statements are consistent with those of the previous 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 Estimates of Appropriations (Budget) for the year ending 30 June 2018 and the Supplementary Estimates of Appropriations (Revised Budget) for the year ending 30 June 2018 (the Budget is 2017 Budget Economic and Fiscal Update (BEFU 2017) out-year 1 figures and the Revised Budget is SUPPS 2018 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 PBE standards.

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 the 2017 Per-election Economic and Fiscal Update (PREFU 2017) forecast. Similarly, the liability provision for the NZ ETS was valued using market price per carbon unit at the time of PREFU 2017 forecast. Budget (PREFU forecast and the revised forecast) figure for the appropriation of Allocation of New Zealand Units is based on NZ\$25 per carbon unit to mitigate the risk of breaching the appropriation.

The forecast figures are those included in the Estimates of appropriations for the year ending 30 June 2019 (the Forecast is 2018 Budget Economic and Fiscal Update (BEFU 2018) out-year 1 figures) except for the figures used in these financial statements for the NZ ETS surrender of units and allocation of NZUs. These are valued using market prices per carbon unit at the time of the BEFU 2018 forecast. Similarly, the liability provision for the NZ ETS is valued using market prices per carbon unit at the time of BEFU 2018 forecast. The forecast figure for the appropriation of Allocation of New Zealand Units was valued at NZ\$25 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 Tier 1 PBE accounting standards and other applicable financial reporting standards, as appropriate for public benefit entities. 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 2018/19. Events and circumstances may not occur as expected. Factors that could lead to material differences between the forecast financial statements and the 2018/19 actual financial statements include changes to the baseline forecast through new initiatives, or technical adjustments.

New Zealand Emissions Trading Scheme

The NZ Emissions Trading Scheme (NZ ETS) is New Zealand's primary response to global climate change. It puts a price on greenhouse gases to provide an incentive to reduce emissions, invest in energy efficiency, and plant trees.

The purpose of the scheme is to help reduce New Zealand's emissions to below business-as-usual levels and help New Zealand meet its international obligations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol. This is achieved by establishing a price on emissions, which creates a financial incentive for emitters to reduce their emissions.

In operation since 2008, the mandatory NZ ETS currently covers emissions from forestry, stationary energy, industrial processes and liquid fossil fuels, which are collectively responsible for roughly 50 per cent of New Zealand's emissions. Emissions from waste are covered by the NZ ETS from 2013, while emissions from synthetic gases are covered by the NZ ETS or a levy from 2013. Since 1 January 2012, the agricultural sector has had mandatory reporting obligations under the NZ ETS. The New Zealand Emissions Trading Scheme is the system in which New Zealand Units (NZUs) are traded. Under the NZ ETS, certain sectors are required to acquire and surrender NZUs or other eligible emission units to account for their direct greenhouse gas emissions or the emissions associated with their products.

Detailed information can be found on the Ministry for the Environment's website: www.mfe.govt.nz/ets.

The Ministry collects forecast information in relation to the allocation and surrender of units from different agencies:

- The Ministry for Primary Industries provides information on Post 89 and PFSI allocation, deforestation and deregistration forecast.
- The Ministry of Business, Innovation and Employment provides information for surrender of units for Liquid fossil fuels and Stationary energy and industrial processes.
- The Environmental Protection Authority provides information on allocation of units to industrial sectors and other removable activities.
- The Ministry for the Environment provides surrender forecast for Synthetic Greenhouse Gases (SGG) and the Waste sectors; and allocation forecast for SGG, Waste sectors and the Negotiated Greenhouse Agreements.

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 in the month when waste is disposed at landfill.

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

Revenue (including accruals) arising from the NZ ETS is recognised when a participant makes emissions or a liability to the Crown is incurred.

Expenses

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 discretionary grants without substantive conditions, the total committed funding over the life of the funding agreement is recognised as expenditure when the grant is approved by the relevant committee or body and the approval has been communicated to the applicant for example, Environmental Legal Assistance.

Grants with substantive conditions are recognised as an expense at the earlier of the grant payment date or when the grants conditions have been satisfied.

Allocation of New Zealand Units (NZUs) under the NZ ETS

Expenses (including accruals) arising from the allocation of NZUs under the NZ ETS is recognised as follows:

- 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.
- 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 monthly average NZU price and the spot NZU 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 revenue 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 Financial Statements of the Government.

Commitments

Future expenses and liabilities to be incurred on non-cancellable contracts that have been entered into as 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.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with PBE accounting standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue 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 5 provides the key assumptions used in determining the provision for the allocation of NZUs.

2. Receivables

Accounting policy

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

Breakdown of receivables and further information

	2016/17 Actual \$000	2017/18 Actual \$000
Receivables	5,931	5,855
Fines and penalties receivable	4	46
Accrued revenue	2,937	3,194
Total receivables	8,872	9,095
Less provision for impairment	(11)	(98)
Total receivables – non-exchange	8,861	8,997

The carrying amounts of receivables approximates their fair value and are all current.

As at 30 June 2018 and 2017, all receivables have been assessed for impairment. The Ministry has identified one receivable that is not likely to be collected and accordingly it is impaired \$97,979 (2016/17: \$10,836).

	Gross \$000	2016/17 Impairment \$000	Net \$000	Gross \$000	2017/18 Impairment \$000	Net \$000
Not past due	8,869	(11)	8,857	8,982	–	8,982
Past due 1 – 90 days	2	–	2	13	–	13
Past due 90 – 180 days	2	–	2	–	–	–
Past due 180 – 360 days	–	–	–	–	–	–
Past due > 360 days	–	–	–	100	(98)	2
Total	8,872	(11)	8,861	9,095	(98)	8,997

3. Payables

	2016/17 Actual \$000	2017/18 Actual \$000
Current payables are represented by:		
Waikato River Co-management	5,708	5,708
Waikato River Clean-up Fund	6,904	6,904
Te Pou Tupua	–	590
GST payable	527	521
Other payables	21,120	31,739
Total current portion	34,259	45,462
Non-current payables are represented by:		
Waikato River Co-management	38,198	35,863
Waikato River Clean-up Fund	78,490	76,459
Te Pou Tupua	–	1,908
Total non-current portion	116,688	114,230
Total payables – non-exchange	150,947	159,692

The carrying value of payables approximates their fair value.

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

	Payables					Total
	2018–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	2036–2040 \$000	\$000
Co-management						
Nominal	11,000	25,000	23,000	–	–	59,000
Discount	(860)	(6,414)	(10,155)	–	–	(17,429)
Recognised	10,140	18,586	12,845	–	–	41,571
Clean up						
Nominal	14,666	36,665	36,665	36,665	22,008	146,669
Discount	(1,261)	(9,410)	(16,347)	(21,482)	(14,806)	(63,306)
Recognised	13,405	27,255	20,318	15,183	7,202	83,363

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

Recognition of future discounted cash flows for the Waikato River Funds

	Payables				Total
	2018-2020 \$000	2021-2025 \$000	2026-2030 \$000	2031-2035 \$000	\$000
Te Pou Tupua					
Nominal	800	1,000	1,000	800	3,600
Discount	(30)	(230)	(412)	(431)	(1,102)
Recognised	770	770	588	369	2,498

The table above reconciles the cash outflows that will occur over the next 16 years.

4. Financial instruments

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

	2016/17 Actual \$000	2017/18 Actual \$000
Loans and receivables		
Cash and cash equivalents	5,147	5,900
Receivables (excludes fines and penalties receivable)	8,857	8,997
Total loans and receivables	14,004	14,897
Financial liabilities measured at amortised cost		
Payables	150,947	159,692

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 deposits with banks and receivables.

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 receivables. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

5. Provisions

Accounting policy

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 spot price at each reporting date.

	2016/17 Actual \$000	2017/18 Actual \$000
Current portion		
Allocation of New Zealand Units*	2,028,535	2,541,706
Te Awa Tupua Putea	30,000	–
Te Awa Tupua Whole of River Strategy	430	–
Te Pou Tupua	791	–
Transitional Support for Local Government and Iwi**	1,575	1,575
Total current portion	2,061,331	2,543,281
Non-current portion		
Te Pou Tupua	2,000	–
Total non-current portion	2,000	–
Total provisions	2,063,331	2,543,281

* Allocation of New Zealand Units provisions

** Transitional Support for Local Government and Iwi payments relate to:

- Tauranga Moana Framework Co-management arrangements – \$575,000
- Hauraki Collective: Natural Resources Arrangements – \$500,000
- Ngati Tuwharetoa: Final redress – \$400,000
- Ahuriri Hapu Deed of Settlement Natural Resources Arrangements – \$100,000.

	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	Allocation of New Zealand Units \$000	Total \$000
Balance at 1 July 2016	30,000	430	2,687	575	2,250,017	2,283,709
Additional provisions made	–	–	104	1,000	295,488	296,592
Amounts used	–	–	–	–	(444,331)	(444,331)
(Gains)/losses	–	–	–	–	(72,639)	(72,639)
Balance at 30 June 2017	30,000	430	2,791	1,575	2,028,535	2,063,331
Balance at 1 July 2017	30,000	430	2,791	1,575	2,028,535	2,063,331
Additional provisions made	–	–	107	–	719,667	719,774
Amounts used	(30,000)	(430)	(400)	–	(668,769)	(699,599)
Amounts transferred	–	–	(2,498)	–	–	(2,498)
(Gains)/losses	–	–	–	–	462,273	462,273
Balance at 30 June 2018	–	–	–	1,575	2,541,706	2,543,281

Provision for NZ ETS credits

	2016/17 Units in million	2016/17 Amount in \$million	2017/18 Units in million	2017/18 Amount in \$million
Opening provision	126.8	2,250	118.0	2,028
New provision recognised during the period	17.2	295	34.3	720
Provision used during the period	(26.0)	(444)	(31.8)	(669)
(Gains)/losses	–	(73)	–	462
Closing provision	118.0	2,028	120.5	2,541

Recognition of future discounted cash flows for the Transitional Support for Local Government and Iwi

	Provisions				Total
	2018–2020 \$000	2021–2025 \$000	2026–2030 \$000	2031–2035 \$000	\$000
Transitional Support for Local Government and Iwi	1,575	–	–	–	1,575
Additional provision made	–	–	–	–	–
Discount	–	–	–	–	–
Recognised	1,575	–	–	–	1,575

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 NZ\$25 price option to settle their emission obligation.

The Ministry has classified the provision for allocation of NZ Units as a current liability, because it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Based on forecasts of ETS activity, expected recovery/settlement is expected to occur as follows:

- within 12 months: \$785.680 million (2016/17: \$527.180 million)
- after more than 12 months: \$1,756.026 million (2016/17: \$1,501.355 million).

The carbon price of NZ\$21.10 (2016/17: NZ\$17.20) has been used to value NZ Units. This price is determined based on the current quoted NZ Units spot price at the end of the reporting date published by OM Financial Limited and reported on their CommTrade carbon website.

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

New Zealand's obligation under the Kyoto Protocol

New Zealand has fully complied with its CP1 commitments and met obligations under the Kyoto Protocol with a surplus of 123.7 million units.

New Zealand's CP1 surplus units have no market value as they cannot be traded (2016/17: \$nil). However, New Zealand will recognise these surplus units to meet its 2020 emissions reduction target.

New Zealand's 2020 target under the UNFCCC

On 16 August 2013, the Government announced an unconditional 2020 climate change target of 5 per cent below 1990 emissions. For the period 2013-2020, New Zealand has chosen not to commit to a climate change target under the Kyoto Protocol's second commitment period. Instead, New Zealand has taken its target under the United Nations Framework Convention on Climate Change (UNFCCC). New Zealand will apply the Kyoto Protocol framework of rules to its unconditional 2020 target to ensure that its actions are transparent and have integrity. Because the 2020 target was taken under the UNFCCC it does not place any legally binding fiscal liability on the Crown. Therefore, this does not give rise to an obligation under PBE IPSAS 19: Provisions, Contingent Liabilities, and Contingent Assets.

However, the Ministry continues to report progress towards this target through its [2020 net position web page](#) and in its [biennial reports under the UNFCCC](#).

New Zealand's 2030 climate change target under the UNFCCC

New Zealand signed the Paris Agreement on 22 April 2016 at a ceremony in New York and ratified the Paris Agreement on 4 October 2016 (New York time).

On 4 October 2016, New Zealand helped make history by depositing an 'instrument of ratification' with the UN Secretary General, therefore agreeing to be bound by the terms of the agreement. The following day, the threshold for the agreement to enter into force was met (when 55 countries responsible for 55 per cent of global emissions ratified the agreement). The agreement entered into force on 4 November 2016, 30 days after the threshold was met.

By ratifying the agreement New Zealand commits to having an emissions reduction target and regularly updating it.

Ratification also commits New Zealand to:

- continue to regularly report on our emissions and how we're tracking towards meeting our target
- continue to provide financial support to assist developing countries' mitigation and adaptation efforts
- plan for adaptation.

Though the Paris Agreement has been ratified, by other countries including New Zealand, the greenhouse gas target accounting rules for this framework have yet to be finalised. In addition, the target itself does not place any legally binding obligations on the Parties. The fiscal risk that could be imposed is therefore unknown. For more information on the Paris Agreement, refer to the Ministry's [Paris Agreement web page](#).

6. Events after the balance sheet date

After balance date the price of the New Zealand Unit (NZU) has increased to \$25.15 per carbon unit as at 11 September 2018. This increase has effect on the Allocation of New Zealand Units provision which has increased to \$3,029.569 million from \$2,541.706 million.

There have been no other significant events after the balance date.

7. Memorandum account for the Waste Minimisation Fund

	2016/17 Actual \$000	2017/18 Actual \$000
Provision for statutory information		
Balance at 1 July	38,997	44,058
Revenue from waste levy collection	34,874	34,804
Expenses	(29,813)	(32,496)
Balance at 30 June	44,058	46,366

The memorandum account records the Waste Disposal Levy collected which has not been spent to date. As at 30 June 2018, the Waste Minimisation Fund has \$27.3 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 revenue and expenses.

8. Explanations of major variances against mains forecast

Explanations for major variances from the Ministry's non-departmental main forecast figures are as follows:

(i) Schedule of non-departmental revenue

	2017/18 Actual \$000	2017/18 Mains Forecast \$000	Variance \$000
Emissions trading	669,392	542,507	126,885

Emissions trading: The actual revenue from surrendering units under the New Zealand Emissions Trading Scheme from emitters was higher than mains forecast primarily due to an increase in the price of New Zealand Units. Further, higher than forecast units were surrendered by the forestry sector.

There were no other significant variances to mains forecast.

(ii) Schedule of non-departmental expenses

	2017/18 Actual \$000	2017/18 Mains Forecast \$000	Variance \$000
Grants and settlements	41,352	58,460	(17,108)
Allocations of New Zealand Units	719,667	482,095	237,572
Net changes in carbon price of New Zealand units	462,273	58,296	403,977

Grants and settlements: Expenditure on grants and settlements were lower than mains forecast primarily due to the following:

- **Community Environment Fund:** Expenditure was lower than the mains forecast due to delays in the delivery of milestones. An expense transfer of funding from 2017/18 to 2018/19 is sought for projects that support the implementation of freshwater and resource management reforms, and other initiatives. This transfer represents the rephasing of funds to match the expected delivery of project milestones.
- **Contestable Waste Minimisation Fund:** Expenditure was lower than the mains forecast due to projects experiencing delays. Further, each year there is a time lag between the Waste Disposal Levy and the funding round opening. Baseline updates are used to match expected spend over the forecast period, once it is known following the funding round.
- **Fresh Start for Fresh Water: Rotorua Te Arawa Lakes Programme** (a multi-year appropriation): Expenditure was lower than the mains forecast due to delays in the delivery of milestones. Funding has been rephased to match the amount with the revised timing of project deliverables.
- **Te Mana o Te Wai:** Expenditure was lower than the mains forecast due to delays in the delivery of milestones. An expense transfer of funding from 2017/18 to 2018/19 is sought to match the expected delivery of project milestones.
- **The Freshwater Improvement Fund:** Expenditure was lower than the mains forecast due to delays in contract negotiations with successful applicants. The majority of the contracts are likely to begin in 2018/19 financial year. An expense transfer of funding from 2017/18 to 2018/19 is sought to meet the funding needs of the projects once they begin to ensure each project has sufficient funds to complete their programme of work.

Allocation of New Zealand Units: Expenditure for Allocation of New Zealand Units was higher than mains forecast due to:

- an increase in the price of New Zealand Units.
- phased removal of one carbon unit allocation/surrender for two tonnes of emissions reductions policy settings under the New Zealand Emissions Trading Scheme following the review, and
- an increase in the allocation of units because 2017 is a mandatory reporting period for the post-1989 forestry sector. Post-1989 forestry sector participants can file an emissions return every year or at the end of the five-year period and claim units for the carbon sequestered in the forest. The mandatory reporting period occurs every five years.

Net changes in carbon price of New Zealand units: The actual expense for net changes in carbon price of New Zealand Units is higher than forecast due to increases in the price of carbon units during the year. These changes are considered to be a remeasurement under the Public Finance Act 1989 and do not require appropriation.

(iii) Statement of assets

	2017/18 Actual \$000	2017/18 Mains Forecast \$000	Variance \$000
Cash and cash equivalents	5,900	4,297	1,603

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

(iv) Statement of liabilities

	2017/18 Actual \$000	2017/18 Mains Forecast \$000	Variance \$000
Payables	159,692	142,033	17,659
Provisions	2,543,281	2,022,723	520,558

Payables: The actual payables were higher than mains forecast due to higher than anticipated accruals.

Provisions: Provisions include Allocation of New Zealand Units and the Transitional Support for Local Government and Iwi (co-management arrangements payments).

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

- an increase in the price of New Zealand Units
- a higher allocation of units to post-1989 forestry and industrial sectors.

The provision relating to the Transitional Support for Local Government and Iwi (co-management arrangements payments) is expected to be paid once legislation is enacted.

Statement of expenses and capital expenditure

for the year ended 30 June 2018

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Ministry for the year ended 30 June 2018.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2018

Annual and permanent appropriations for Vote Environment

	2016/17 Expenditure \$000	2017/18 Budget* \$000	2017/18 Revised Budget* ¹³ \$000	2017/18 Expenditure ¹⁴ \$000	2018/19 Forecast* \$000	Location of end-of-year performance information ¹⁵
Departmental output expenses						
Ministerial Services	2,111	2,183	2,209	2,202	2,183	1
Waste Minimisation Administration	1,922	2,500	2,500	2,435	2,500	1
Total departmental output expenses	4,033	4,683	4,709	4,637	4,683	
Departmental capital expenditure						
Capital Expenditure – Permanent Legislative Authority under section 24(1) of the PFA	2,871	9,833	1,778	(645)	1,300	1
Non-departmental output expenses						
Administration of New Zealand Units held on Trust	165	177	177	130	177	4
Community Environment Fund	1,711	2,362	2,456	2,065	2,822	4
Contaminated Sites Remediation Fund	3,364	5,780	6,832	6,457	4,117	2
Contestable Waste Minimisation Fund	10,493	16,797	16,797	12,690	16,797	2
Emissions Trading Scheme	6,392	6,392	6,392	6,392	6,392	3
Environmental Protection Authority: Decision Making functions	12,613	11,631	12,383	12,383	12,383	3
Environmental Protection Authority: Monitoring and Enforcement functions	6,262	7,244	6,594	6,594	6,442	3
Environmental Training Programmes	1,900	1,900	1,900	1,900	1,900	4
Lake Taupo Protection Programme	3,767	2,950	2,950	2,950	–	4
Promotion of Sustainable Land Management	800	800	800	800	800	4
Te Mana o Te Wai – restoring the life-giving capacity of fresh water	2,020	3,200	1,751	1,535	1,500	4
The Freshwater Improvement Fund	–	7,000	3,700	1,433	10,800	4
Total non-departmental output expenses	49,487	66,233	62,732	55,329	64,130	

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

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

14 Departmental appropriations amounts exclude remeasurement of \$151,719 (2016/17: \$50,809).

15 The numbers in this column represent where the end-of-year performance information has been reported for each appropriation administered by the Ministry, as detailed below:

1. The Ministry's annual report.
2. To be reported by the Minister for the Environment in a report appended to this annual report.
3. To be reported by the Environmental Protection Authority in their annual report.
4. No reporting due to an exemption obtained under section 15D of the Public Finance Act.

	2016/17 Expenditure \$000	2017/18 Budget* \$000	2017/18 Revised Budget**13 \$000	2017/18 Expenditure14 \$000	2018/19 Forecast* \$000	Location of end-of-year performance information15
Non-departmental other expenses						
Allocation of New Zealand Units	295,488	680,925	933,025	719,667	618,875	2
Climate Change Development Fund	300	300	300	300	300	4
Environmental Legal Assistance	600	600	600	595	600	4
Exclusive Economic Zone Major Prosecutions Fund	-	-	500	-	-	4
Framework Convention on Climate Change	121	140	140	131	140	4
Fresh Start for Fresh Water: Waikato River Clean-up Fund	5,398	5,302	5,302	5,302	5,178	2
Impairment of Debt relating to Climate Change Activities	11	12,200	22,750	98	22,750	4
Impairment of Debt relating to Environment Activities	-	1,500	1,500	-	1,500	4
International Subscriptions	97	152	152	137	152	4
Rotorua Water Supply	1,075	-	-	-	-	4
Te Pou Tupua	104	107	107	107	109	4
Transitional Support for Local Government and Iwi	1,000	620	-	-	1,470	4
United Nations Environment Programme	507	593	593	524	593	4
Waikato River Co-governance	910	910	910	910	910	4
Waikato River Co-management	2,793	2,664	2,664	2,664	2,519	4
Waste Disposal Levy Disbursement to Territorial Authorities	17,398	18,000	18,000	17,371	18,000	2
Total non-departmental other expenses	325,802	724,013	986,543	747,806	673,096	
Multi-category appropriations						
Climate Change MCA	11,882	12,458	16,545	16,454	17,147	1
Departmental output expenses						
Carbon Monitoring Programme	2,637	2,187	3,570	3,777	2,187	
Domestic Climate Change Programme Policy Advice	5,711	6,496	8,737	7,848	10,958	
International Climate Change Programme Policy Advice	3,487	3,726	4,189	4,784	3,953	
Synthetic Greenhouse Gas Levy	47	49	49	45	49	
Environmental Management Obligations and Programmes MCA	3,142	3,467	3,699	3,563	3,467	1
Departmental output expenses						
Domestic Obligations and Programmes	1,301	1,560	1,501	1,515	1,560	
International Obligations and Institutions Policy Advice	1,841	1,907	2,198	2,048	1,907	

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

	2016/17 Expenditure \$000	2017/18 Budget* \$000	2017/18 Revised Budget* ¹³ \$000	2017/18 Expenditure ¹⁴ \$000	2018/19 Forecast* \$000	Location of end-of-year performance information ¹⁵
Improving Environmental Management MCA	40,764	44,784	47,880	44,399	42,054	1
Departmental output expenses						
Developing and Implementing Treaty Settlements and Environmental Accords Policy Advice	1,721	1,900	3,154	2,778	1,900	
Marine Environment Policy Advice	3,700	4,169	3,316	3,030	3,919	
Resource Management Implementation	11,688	11,912	14,497	14,436	12,556	
Resource Management Policy Advice	7,568	7,066	6,407	6,626	6,666	
Water Management Implementation	3,055	2,805	2,186	2,078	2,305	
Water Management Policy Advice	11,674	12,612	13,358	12,040	13,208	
Non-departmental output expenses						
Water science and economics	1,358	4,320	4,962	3,411	1,500	
Mitigating Environmental Hazards and Waste MCA	1,692	1,918	2,495	2,490	3,018	1
Departmental output expenses						
Environmental Hazards and Waste Policy Advice	1,215	1,296	1,600	1,554	2,396	
Waste Management and Minimisation	477	622	895	936	622	
Total multi-category appropriations	57,480	62,627	70,619	66,906	65,686	
Total annual and permanent appropriations	439,673	867,389	1,126,381	874,033	808,895	

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

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations (*continued*) for the year ended 30 June 2018

Remeasurement

In 2017/18, the Crown has reported a remeasurement loss of \$462 million in relation to the provision of the allocation of New Zealand Units under the Emissions Trading Scheme (2016/17: the Crown reported a remeasurement gain of \$73 million).

The remeasurement of the provisions takes account of the revisions in the prices of emission units. 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.

Details of multi-year appropriations

On 1 July 2015, a multi-year appropriation, Fresh Start for Fresh Water: Rotorua Te Arawa Lakes Programme was established in Vote Environment, non-departmental output expenses for maintaining and improving the water quality of the Rotorua Lakes. This appropriation expires on 30 June 2020.

	2016/17 Actual \$000	2017/18 Revised Budget* ¹³ \$000	2017/18 Actual \$000
Appropriation for non-departmental output expenses:			
Fresh Start for Fresh Water: Rotorua Te Arawa Lakes Programme**			
Cumulative expenses to 1 July	–	3,080	3,080
Current year expenses	3,080	4,152	2,744
Cumulative expenses to 30 June	3,080	7,232	5,824
Remaining appropriation	19,920	15,768	17,176
Total appropriation	23,000	23,000	23,000

** The year-end information for the above multi-year appropriation is reported by the Minister for the Environment in a report appended to this annual report.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority for the year ended 30 June 2018

In the 2017/18 financial year there were no instances of expenses, and capital expenditure incurred without, or in excess of, appropriation or other authority, or outside of the scope of appropriation (2016/17: \$nil).

Statement of departmental capital injections for the year ended 30 June 2018

The Ministry did not have any capital injections for the year ended 30 June 2018 (2016/17: \$nil).

Statement of departmental capital injections without, or in excess of, authority for the year ended 30 June 2018

The Ministry has not received any capital injections during the year without, or in excess of, authority.

Statement of responsibility

I am responsible, as Chief Executive of the Ministry for the Environment (the Ministry), for:

- the preparation of the Ministry's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the Ministry is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report
- the accuracy of any end-of-year performance information prepared by the Ministry, whether or not that information is included in the annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2018 and its operations for the year ended on that date
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2019 and its operations for the year ending on that date.



Vicky Robertson

Chief Executive

28 September 2018

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of the Ministry for the Environment's annual report for the year ended 30 June 2018

The Auditor-General is the auditor of Ministry for the Environment (the Ministry). The Auditor-General has appointed me, Chrissie Murray, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Ministry on pages 84 to 107, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity, 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 performance information prepared by the Ministry for the year ended 30 June 2018 on pages 23 to 79;
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2018 on pages 126 to 131; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 108 to 125 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2018;
 - the schedules of expenses and revenue for the year ended 30 June 2018; 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 84 to 107:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.
- the performance information of the Ministry on pages 23 to 79:
 - presents fairly, in all material respects, for the year ended 30 June 2018:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.
- The statements of expenses and capital expenditure of the Ministry on pages 126 to 131 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- The schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 108 to 125 present fairly, in all material respects, in accordance with the Treasury Instructions:
 - the assets, liabilities, commitments, and contingent liabilities and assets as at 30 June 2018; and
 - expenses and revenue for the year ended 30 June 2018.

Our audit was completed on 30 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Chief Executive for the information to be audited

The Chief Executive is responsible on behalf of the Ministry for preparing:

- Financial statements that present fairly the Ministry's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- Performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- Statements of expenses and capital expenditure of the Ministry that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- Schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Ministry on behalf of the Crown.

The Chief Executive is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Chief Executive is responsible on behalf of the Ministry for assessing the Ministry's ability to continue as a going concern. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Ministry, or there is no realistic alternative but to do so.

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

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Ministry's Statement of Intent 2017-2021 and Estimates and Supplementary Estimates of Appropriation 2017/18, and the 2017/18 forecast financial figures included in the Ministry 2016/17 Annual Report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.
- We evaluate the appropriateness of the reported performance information within the Ministry's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief Executive and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Chief Executive regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Chief Executive is responsible for the other information. The other information comprises the information included on pages 1 to 136 but does not include the information we audited, and our auditor's report thereon.

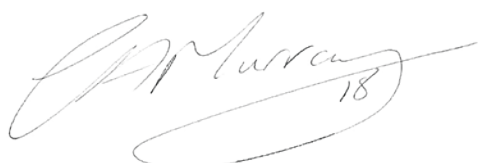
Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Ministry in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out an assurance and probity advice engagement for the Ministry's Science and Research Panel, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Ministry.



Chrissie Murray

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

Appendix 1

Implementation requirements for the New Zealand Business Number

New Zealand Business Number Act 2016

The Ministry is required to report on its progress to give effect to and have regard to requirements under the provisions of the New Zealand Business Number Act 2016. As a Tier 3 agency where NZBNs are concerned, we are required to have regard to requirement 1 by 31 December 2018; and to have regard to requirements 2 – 6 by 31 December 2020. We maintain links with agencies in tiers 1 and 2 to learn from the way they implement the requirements and will give them due consideration.



Ministry for the
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Manatū Mo Te Taiao

New Zealand Government

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