

FORECAST FINANCIAL STATEMENTS



Financial Summary

REVENUE

The Department of Internal Affairs expects to receive \$148.997 million in revenue made up of:

- 51% Crown
- 49% Third Parties



EXPENDITURE

The Department expects to incur expenses of \$155.911 million to deliver outputs under 18 Department Output classes across 6 votes



INVESTMENT

The Department expects to receive a capital contribution from the Crown of \$11.556 million in the 2005/06 financial year:

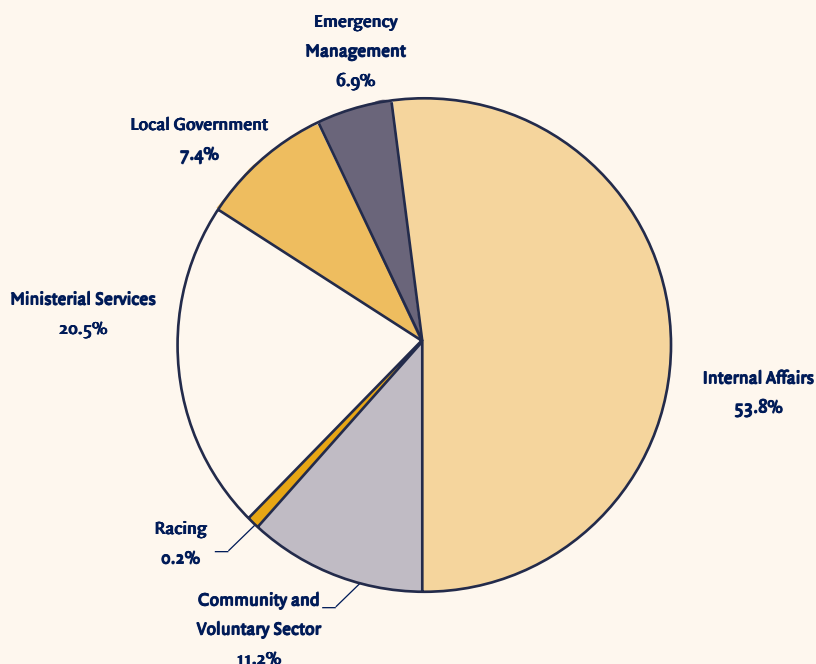
- \$7.461 million is to fund the Department's Information Technology infrastructure
- \$3.518 million is to fund a database to secure and protect New Zealanders' identity information
- \$0.564 million is to fund the fitout to accommodate an increase of staff in the Ministry of Civil Defence and Emergency Management
- \$0.013 million is to fund equipment required for monitoring of the Ruapehu Lahar

Financial Forecast

	2005/06 Forecast (Main Estimates)	2004/05 Budget (Supplementary Estimates)	2004/05 Estimated Actual
	\$000	\$000	\$000
Total Revenue	148,997	159,458	158,887
Less Total Expenses	155,911	164,359	163,487
Net Surplus/(Deficit)	(6,914)	(4,901)	(4,600)
Taxpayers' Funds*	31,175	26,232	26,533

*(Crown's Investment in the Department)

Percentage of Departmental Expense by Vote for 2005/06



Major Financial Changes

The main movements in revenue Crown between 2004/05 Supplementary Estimates and 2005/06 Main Estimates include:

- a decrease in revenue Crown of \$16.176 million for the transfer of Weathertight Homes Resolution Service to Department of Building and Housing from 1 July 2005,
- an increase of \$4.359 million for securing and protecting New Zealand identity information,
- an increase of \$2.578 million to enhance future departmental personnel capability,
- an increase of \$2.461 million to upgrade information and technology capabilities,
- an increase of \$2.455 million to enhance the capability for the Ministry of Civil Defence and Emergency Management,
- an increase of \$2.300 million for the National Civil Defence Emergency Management Public Education Programme,
- a decrease in funding of \$1.131 million relating to the Commission of Inquiry into Police Conduct,
- an increase of \$0.889 million to provide policy advice and support for the “Significant Community Based Projects fund”, and
- an increase of \$0.590 million to facilitate central/local government engagement in community outcome process.

Statement of Significant Underlying Assumptions

These statements have been compiled on the basis of government policies and the Department of Internal Affairs' output plan with the relevant Vote Ministers.

These forecast financial statements comply with generally accepted accounting practice. The measurement base applied is historical cost adjusted for revaluations of assets. Revaluations are made to reflect the forecast service potential or economic benefit to be obtained through the control of assets.

These statements have been prepared on an ongoing basis for the period 1 July 2005 to 30 June 2006. Accrual accounting has been used to prepare these financial statements.

Statement of Significant Accounting Policies

REPORTING FRAMEWORK

The forecast financial statements for the Department of Internal Affairs have been prepared in accordance with Section 38 of the Public Finance Act 1989.

The reporting entity is the Department of Internal Affairs. The reporting entity consists of those activities represented by outputs supplied by the Department and related assets, liabilities and taxpayers' funds.

The forecast financial statements show the financial performance and financial position after eliminating all significant intra entity transactions between output classes.

Actual results for 2005/06 are likely to vary from the information presented and the variations could be material. These variations would be mainly attributed to changes in the level of demand for services produced by the Department.

INVENTORIES

Inventories or stock holdings are stated at the lower of cost or net realisable value. Costs are determined on a first in-first out basis.

ACCOUNTS RECEIVABLE

Accounts receivable are shown at expected net realisable value after making allowance for doubtful debts.

FINANCIAL INSTRUMENTS

The Department is party to financial instrument arrangements as part of its daily operations. These include bank, accounts receivable, accounts payable and provisions, accrued expenses and foreign currency. Financial instruments are recognised in the Statement of Financial Position, except for foreign exchange contracts.

All revenue and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

CAPITAL EXPENDITURE

The Departmental capital expenditure is incurred in accordance with section 24 of the Public Finance Act 1989.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings are recorded at fair value, which has been determined by reference to the highest and best use of those assets, with buildings subsequently depreciated over their useful lives. Valuations are undertaken on a systematic basis with sufficient regularity to ensure that no individual item of property, plant or equipment within a class is included at a valuation that is materially different from its fair value at a minimum, every five years. Antiques and works of art are recorded at fair value and are not depreciated. All other fixed assets costing more than \$3,000 are capitalised at cost and subsequently depreciated over their useful lives. Capital work in progress is recognised as costs are incurred. Depreciation is not recorded until the asset is fully acceptance tested and operational.

DEPRECIATION

Depreciation is charged on all fixed assets except land, antiques and works of art and capital work in progress. Assets are depreciated on a straight-line basis over the estimated useful life after allowing for residual values where appropriate. Revalued assets are depreciated on their revalued amount on a straight-line basis over their estimated useful life.

The estimated useful life of the buildings have been estimated to be 33 years, plant and equipment 5-20 years, furniture and fittings 5-10 years, office equipment 5-10 years, motor vehicles 2-6 years, and IT equipment and software 3-5 years. The estimated useful life of the Births, Deaths and Marriages Historical Records Database is 10 years.

The cost of leasehold improvements is capitalised and amortised over the unexpired period of the lease, or the estimated remaining useful life of the improvements, whichever is the shorter.

Capital work in progress is not depreciated. The total cost of the capital project is transferred to the appropriate asset on its completion and then depreciated.

LEASES

The Department leases accommodation, motor vehicles, and office equipment.

OPERATING LEASES

The accommodation and motor vehicle leases are operating leases where the lessor effectively retains substantial risks and benefits of ownership of the leased items. Operating lease costs are expensed in the period in which they are incurred.

FINANCE LEASES

Leases, which effectively transfer to the Department substantially the entire risks and benefits incident to ownership of the leased items, are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the statement of financial position. The leased assets and leased liabilities depreciate over the period the Department is expected to benefit from their use. Office equipment leases are identified as finance leases.

EMPLOYEE ENTITLEMENTS

Employee entitlements are recognised for annual leave at the time of entitlement based on current rates of pay. Retirement and long service leave are recognised on an actuarial basis according to entitlement based on service to date after making allowance for the average attrition rate.

COST ALLOCATION

The methods used in the allocation of costs are consistent between projected (budgeted) and actual figures. Costs of outputs are derived using the following cost allocation system:

“Direct Costs” are those costs directly attributed to an output and are treated as follows:

- personnel costs are allocated on the basis of estimated time engaged in the delivery of a particular output;
- operating costs are allocated on the basis of usage;
- depreciation and capital charge are allocated on the basis of estimated asset utilisation; and
- accommodation costs are allocated on the basis of floor space occupied.

“Indirect Costs” are those costs incurred by support units that are not directly attributable to an output.

- Indirect costs are allocated to outputs on an activity costing basis reflecting a mix of perceived benefit, personnel numbers, floor space and estimated allocation of time.

TAXATION

The Department is exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided. The Department is subject to fringe benefit tax (FBT), and goods and services tax (GST). It administers pay as you earn tax (PAYE).

GOODS AND SERVICES TAX (GST)

The Departmental financial statements are prepared GST exclusive. The amount of GST owing to or from Inland Revenue at balance date is included in accounts receivable or payable as appropriate.

FOREIGN CURRENCY TRANSACTIONS

Foreign exchange contracts are entered into for the primary purpose of reducing material exposure to fluctuations in foreign currency exchange rates. The rates specified in foreign exchange contracts are used to convert the transaction into New Zealand currency at the date of settlement. No exchange gains or losses resulting from the difference between the foreign exchange contract rate and the spot exchange rate on dates of settlement are recognised. Unhedged transactions in foreign currencies are converted into New Zealand currency using the exchange rate on the date of the transaction.

Monetary assets denominated in a foreign currency are translated to New Zealand dollars at the closing mid-point exchange rate.

Unrealised foreign exchange gains and losses on overseas cash balances are recognised at balance date in the Statement of Financial Performance.

CHANGES IN ACCOUNTING POLICIES

There is no change in accounting policy for the 2005/06 financial year. The accounting policies have been applied on a basis consistent with the previous year.

Forecast Financial Performance

Statement of Forecast Financial Performance for the year ending 30 June 2006

	2005/06 Forecast (Main Estimates) \$000	2004/05 Budget (Supplementary Estimates) \$000	2004/05 Estimated Actual \$000
Revenue			
Crown	75,336	77,861	77,292
Departments	9,292	9,332	9,332
Other	64,369	72,265	72,263
Total Revenue	148,997	159,458	158,887
Expenses			
Output Expenses			
Personnel	69,317	84,640	84,261
Operating	76,686	72,103	71,610
Depreciation	7,504	5,333	5,333
Capital charge	2,404	2,283	2,283
Total Output Expenses	155,911	164,359	163,487
Net Surplus/(Deficit)	(6,914)	(4,901)	(4,600)

Forecast Financial Position

Statement of Forecast Financial Position as at 30 June 2006



	2005/06 Forecast (Main Estimates) \$000	2004/05 Budget (Supplementary Estimates) \$000	2004/05 Estimated Actual \$000
Assets			
Current Assets			
Cash and bank balances	9,287	14,220	14,521
Prepayments	6	67	67
Inventory	648	611	611
Receivables and advances	1,056	1,222	1,222
Total Current Assets	10,997	16,120	16,421
Non-current Assets			
Leased Assets	41	243	243
Property, Plant and Equipment	44,749	33,980	33,980
Total Non-current Assets	44,790	34,223	34,223
Total Assets	55,787	50,343	50,644
Liabilities			
Current Liabilities			
Accounts payable	3,907	2,723	2,723
Provisions	1,906	1,704	1,704
Provision for payment of surplus	0	0	0
Accrued expenses	9,492	10,174	10,174
Finance Leases	41	202	202
Revenue received in advance	8,485	8,485	8,485
Total Current Liabilities	23,831	23,288	23,288
Term Liabilities			
Finance Leases		41	41
Employee Entitlements	781	782	782
Total Term Liabilities	781	823	823
Total Liabilities	24,612	24,111	24,111
Taxpayers' Funds			
General funds	30,407	25,464	25,765
Revaluation reserve	768	768	768
Total Taxpayers' Funds	31,175	26,232	26,533
Total Liabilities and Taxpayers' Funds	55,787	50,343	50,644

Forecast Cash Flows

Statement of Forecast Cash Flows for the year ending 30 June 2006

	2005/06 Forecast (Main Estimates) \$000	2004/05 Budget (Supplementary Estimates) \$000	2004/05 Estimated Actual \$000
Cash Flows from Operating Activities			
<i>Cash provided from:</i>			
Supply of outputs to:			
Crown	75,335	77,861	77,292
Departments	9,292	9,332	9,332
Other	64,535	72,969	72,967
<i>Cash disbursed to:</i>			
Cost of producing outputs:			
Output expenses	(145,478)	(156,252)	(155,380)
Capital charge	(2,404)	(2,283)	(2,283)
Net Cash Flows from Operating Activities	1,280	1,627	1,928
Cash Flows from Investing Activities			
<i>Cash provided from:</i>			
Sale of property, plant and equipment	1,052	346	346
<i>Cash disbursed to:</i>			
Purchase of property, plant and equipment	(19,122)	(14,947)	(14,947)
Net Cash Flows from Investing Activities	(18,070)	(14,601)	(14,601)
Cash Flows from Financing Activities			
<i>Cash provided from:</i>			
Capital contribution from the Crown	11,556	2,591	2,591
<i>Cash disbursed to:</i>			
Payment of surplus to the Crown	0	(730)	(730)
Net Cash Flows from Financing Activities	11,556	1,861	1,861
Net Increase/(Decrease) in cash held	(5,234)	(11,113)	(10,812)
Total cash balances at 1 July	14,521	25,333	25,333
Closing Total Cash Balances at 30 June Projected	9,287	14,220	14,521

Reconciliation of Forecast Net Cash Flows

Reconciliation of Forecast Net Cash Flows from operating activities to net surplus in the Statement of Forecast Financial Performance for the year ending 30 June 2006

	2005/06 Forecast (Main Estimates) \$000	2004/05 Budget (Supplementary Estimates) \$000	2004/05 Estimated Actual \$000
Surplus/(Deficit) from Statement of Financial Performance	(6,914)	(4,901)	(4,600)
<i>Add non-cash items</i>			
Depreciation	7,504	5,333	5,333
<i>Movements in working capital items</i>			
(Increase)/Decrease in Receivables and Advances	97	814	814
Increase/(Decrease) in Accounts payable and Provisions	1,184	(3,290)	(3,290)
(Increase)/Decrease in Inventories	(37)	920	920
Increase/(Decrease) in Accrued Expenses	(554)	2,750	2,750
<i>Items classified as investing activities</i>			
Net (gain)/loss on sale of assets	0	1	1
Net Cash Flows from Operating Activities	1,280	1,627	1,928



Forecast Movement in Taxpayers' Funds

Statement of Forecast Movement in Taxpayers' Funds (Equity) for the year ending 30 June 2006.

	2005/06 Forecast (Main Estimates) \$000	2004/05 Budget (Supplementary Estimates) \$000	2004/05 Estimated Actual \$000
Net Surplus/(Deficit) for the year	(6,914)	(4,901)	(4,600)
Total Recognised Revenue and Expenses	(6,914)	(4,901)	(4,600)
Capital Contribution	11,556	2,591	2,591
Movement in Taxpayers' Funds for the year	4,642	(2,310)	(2,009)
Taxpayers' Funds as at 1 July	26,533	28,542	28,542
Taxpayers' Funds as at 30 June	31,175	26,232	26,533

Forecast Property, Plant and Equipment

Statement of Forecast Property, Plant and Equipment by category for the year ending 30 June 2006

	Forecast 30 June 2006			Estimated Actual 30 June 2005		
	Cost or	Accumulated	Carrying	Cost or	Accumulated	Carrying
	Valuation	Depreciation	Amount	Valuation	Depreciation	Amount
	\$000	\$000	\$000	\$000	\$000	\$000
Land	3,930	0	3,930	3,930	0	3,930
Buildings	2,514	189	2,325	2,514	113	2,401
Building alterations	5,313	2,204	3,109	4,299	1,234	3,065
Antiquities & works of art	368	0	368	368	0	368
Furniture & fittings	608	424	184	598	392	206
Office equipment	743	540	203	713	463	250
Motor vehicles	4,042	1,364	2,678	4,020	1,589	2,431
Plant & equipment	1,391	816	575	1,312	742	570
IT equipment	52,957	21,580	31,377	36,861	16,102	20,759
Leased equipment	453	412	41	565	322	243
Total Property, Plant and Equipment	72,319	27,529	44,790	55,180	20,957	34,223



Capital Expenditure

Capital Expenditure Summary

	2005/06 Forecast (Main Estimates) \$000	2004/05 Estimated Actual \$000	2003/04 Actal \$000	2002/03 Actual \$000	2001/02 Actual \$000	2000/01 Actual \$000
Leased Building Alterations	564	1,881	1,217	1,707	142	227
Electronic Information Systems	15,941	9,589	5,706	2,599	4,857	2,765
Electronic Systems Hardware	605	2,375	108	20	99	89
Vehicles	1,893	830	1,677	875	1,144	1,307
Sundry Plant & Equipment	119	272	254	37	209	47
Total Capital Expenditure	19,122	14,947	8,962	5,238	6,451	4,435

The forecast capital expenditure for 2005/06 financial year is for the upgrade and development of Information Systems, Databases and infrastructural Information and Technology systems to enable the Department to provide quality information in an efficient manner and therefore aid in the production of efficient and effective services and quality policy advice. Other capital expenditure is for the ongoing replacement of self-drive and chauffeur driven vehicles which form the VIP fleet – \$1.893 million, replacement of servers and laptops – \$0.600 million, fitout to accommodate increase in staff numbers – \$0.564 million and minor office equipment – \$0.119 million.

Statement of Objectives

Specifying the Forecast Financial Performance for the Department for the year ending 30 June 2006



	Unit	2005/06 Forecast (Main Estimates) \$'000	2004/05 Budget (Supplementary Estimates) \$'000	2004/05 Estimated Actual \$'000
Operating results				
Revenue: other	\$'000	64,369	72,265	72,263
Revenue: Department	\$'000	9,292	9,332	9,332
Total expenses	\$'000	155,911	164,359	163,487
Operating surplus before capital charge	\$'000	(4,510)	(2,618)	(2,317)
Net Surplus/(Deficit)	\$'000	(6,914)	(4,901)	(4,600)
Working capital				
Liquid ratio		0.47:1	0.74:1	0.76:1
Current ratio		0.46:1	0.69:1	0.71:1
Average debtors outstanding	Days	6	9	6
Average creditors outstanding	Days	24	22	22
Resource utilisation				
Property, Plant and Equipment:				
Property, Plant and Equipment as % of total assets	%	80	67	67
Additions as % of property, plant and equipment	%	43	44	44
Taxpayers' funds:				
Level at year-end	\$'000	31,175	26,232	26,533
Forecast net cash flows				
Surplus/ (Deficit) from operating activities	\$'000	1,280	1,627	1,928
Deficit from investing activities	\$'000	(18,070)	(14,601)	(14,601)
Surplus/ (Deficit) from financing activities	\$'000	11,556	1,861	1,861
Net decrease in cash held	\$'000	(5,234)	(11,113)	(10,812)

Statement of Commitments

Forecast Statement of Commitments as at 30 June 2006

	2005/06 Forecast (Main Estimates) \$000	2004/05 Estimated Actual \$000
OPERATING COMMITMENTS		
Non-Cancellable Accommodation Leases		
Less than one year	5,851	6,384
One to two years	4,886	5,706
Two to five years	2,844	9,025
Over five years	654	1,545
Total Accommodation Commitments	14,235	22,660
Other Non-Cancellable Leases		
Less than one year	20	175
One to two years	0	48
Two to five years	0	0
Total Other Lease Commitments	20	223
Non-Cancellable Contracts for the Supply of Goods and Services		
Less than one year	2,645	3,761
One to two years	2,135	2,538
Two to five years	0	0
Total Supply Commitments	4,780	6,299
Total Commitments	19,035	29,182

Memorandum Accounts

Forecast for the year ending 30 June 2006

Memorandum accounts are notional accounts to record the accumulated balance of surpluses and deficits for outputs funded by fees charged to third parties. They are intended to provide a long-run perspective to the pricing of outputs.

	Forecast Closing Balance 30/06/2005 \$000	Forecast Movement During 2005/06 \$000	Forecast Closing Balance 30/06/2006 \$000
New Zealand Gazette	103	(12)	91
Use of facilities and access to Lake Taupo by boat users	23	(20)	3
Passport products	3,373	(4,444)	(1,071)
Citizenship products	(4,419)	(186)	(4,605)
Marriage products	252	22	274
Issue of Birth, Death and Marriage certifications and other products	(264)	(43)	(307)
Administration of non-casino gaming	(2,835)	(2,401)	(5,236)

This statement is to be read in conjunction with the Statement of Accounting Policies. The memorandum accounts were established on 30 June 2002.

Action Taken to Address Surpluses and Deficits

NEW ZEALAND GAZETTE

The cost of publishing and distributing the NZ Gazette is recovered through third party fees. The surplus generated in any year is to be offset against costs in future years. Fees will be reviewed regularly to reduce the accumulated surplus.

USE OF FACILITIES AND ACCESS TO LAKE TAUPO BY BOAT USERS

The Department of Internal Affairs manages marina berths, jetties and boat ramps located about Lake Taupo. Fees are charged to third parties who use marina berths and boat ramps. Fee income is applied to recover the maintenance and administration cost of these facilities. Operating surpluses in any year will be applied in the subsequent financial year to offset maintenance that may have been deferred due to unfavourable climatic or lake conditions.

PASSPORT PRODUCTS

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. This strategy supports the introduction of new technologies including the replacement of the ageing passport system within that timeframe. The current fees schedule was introduced on 1 September 2003. The forecast deficit on this account will be examined in the next pricing review.



CITIZENSHIP PRODUCTS

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. The accumulated forecast deficit in this account reflects the period of time that citizenship fees were not based on full cost recovery and volumes lower than those used for pricing purposes. The current fees schedule was introduced on 1 September 2003 based on full cost recovery. The forecast deficit in this account will be examined in the next pricing review.

MARRIAGE PRODUCTS

The current fees schedule for Marriage products was introduced on 1 September 2003 based on full cost recovery. The small forecast surplus in this account reflects volume increases over levels assumed for pricing purposes. The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. The forecast surplus in this account will be examined in the next pricing review.

BIRTHS, DEATHS AND MARRIAGES CERTIFICATES, AND OTHER PRODUCTS

The fees schedule for BDM products was introduced on 1 September 2003 based on full cost recovery. The small forecast deficit in this account reflects volume decreases over levels assumed for pricing purposes. The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. The forecast deficit in this account will be examined in the next pricing review.

ADMINISTRATION OF NON-CASINO GAMING

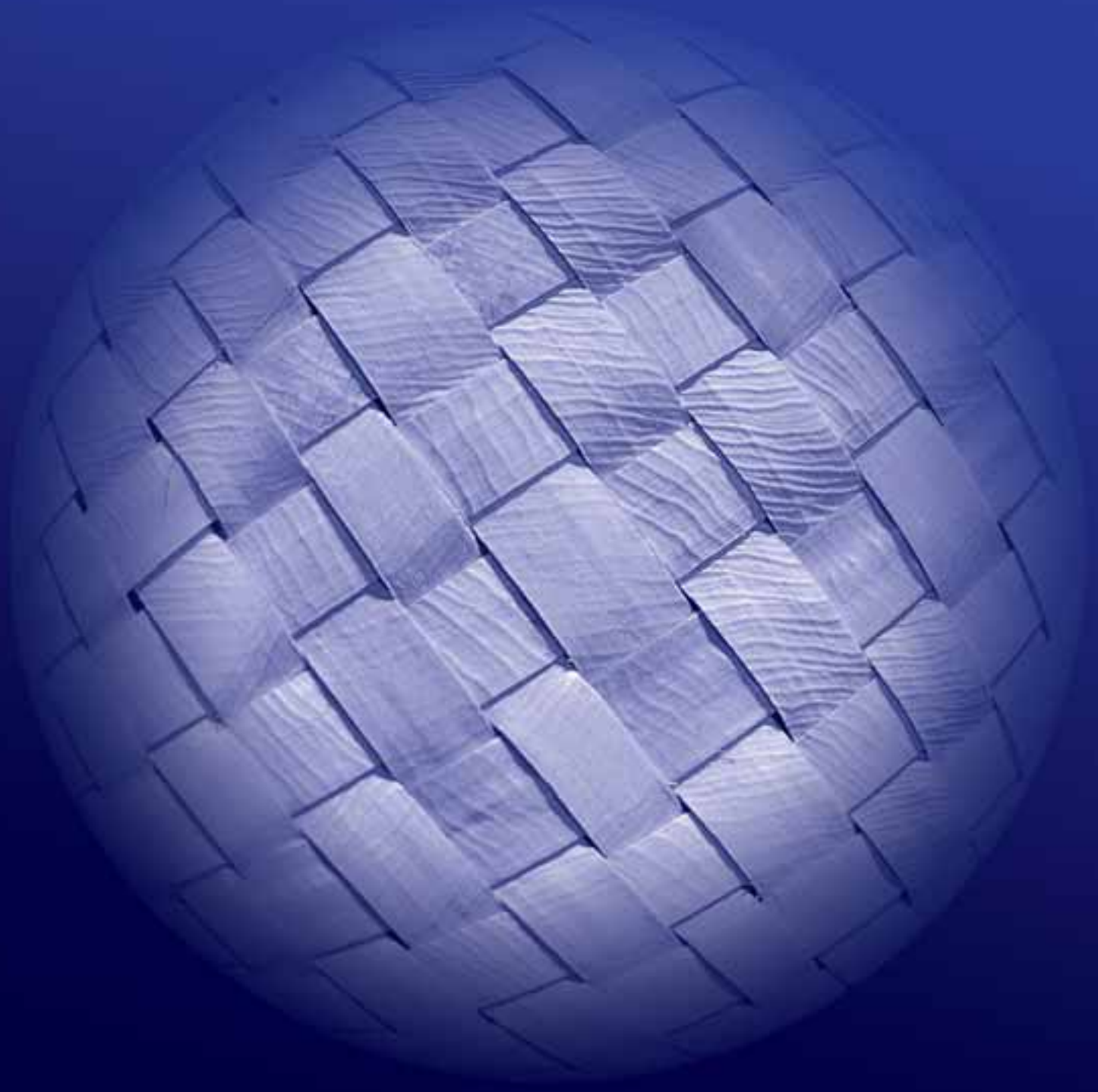
Fees established to recover the cost of administration and regulation of non-casino gaming are reflected in specific licence fees for differing types of gaming activity and the registration of gaming machines. The fees schedule has recently been implemented as part of the implementation of the Gambling Act with effect from 1 July 2004. In setting the fees, costs and revenue were forecast to offset over a six year planning horizon.

Financial Performance for each Class of Outputs

Forecast Financial Performance for each Class of Outputs for the year ending 30 June 2006

Departmental Output Class	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Expenses \$000	Surplus/ (Deficit) \$000	Output Class Descriptions Page Ref
Vote Community and Voluntary Sector						
Policy Advice – Community	1,519	24	0	1,545	(2)	56
Administration of Grants	4,114	168	6,656	10,936	2	58
Community Advisory Services	4,830	93	9	4,932	0	60
Vote Emergency Management						
Policy Advice – Emergency Management	1,571	14	0	1,585	0	61
Support Services, Information and Education	6,237	28	0	6,267	(2)	63
Management of National Emergency Readiness, Response and Recovery	2,948	24	0	2,973	(1)	65
Vote Internal Affairs						
Policy Advice – Internal Affairs	4,848	47	0	4,895	0	67
Information and Advisory Services	27	642	973	1,640	2	69
Gaming and Censorship Regulatory Services	1,934	186	13,907	18,268	(2,241)	70
Identity Services	7,357	1,362	41,463	54,833	(4,651)	73
Services for Ethnic Affairs	2,785	25	0	2,812	(2)	75
Contestable Services	0	625	791	1,415	1	77
Vote Local Government						
Policy Advice – Local Government	7,943	51	0	7,995	(1)	78
Information, Support and Regulatory Services	4,061	91	345	4,517	(20)	80
Vote Ministerial Services						
Support Services to Ministers	23,245	303	35	23,582	1	82
Visits and Official Events Co-ordination	2,513	12	5	2,530	0	83
VIP Transport	0	5,593	185	5,779	(1)	84
Vote Racing						
Policy Advice – Racing	304	4	0	307	1	85
TOTAL DEPARTMENT	75,336	9,292	64,369	155,911	(6,914)	





THE DEPARTMENT OF INTERNAL AFFAIRS



Te Tari Taiwhenua