

Ministry for Primary Industries  
Manatū Ahu Matua



# 2015/16 Annual Report

INCORPORATING THE MINISTER'S  
REPORTS ON NON-DEPARTMENTAL  
APPROPRIATIONS

PRESENTED TO THE HOUSE OF REPRESENTATIVES  
PURSUANT TO SECTION 39 OF THE  
PUBLIC FINANCE ACT 1989



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## Foreword from the Director-General

I am pleased to present the 2015/16 Annual Report for the Ministry for Primary Industries (MPI).

Over the past three years, MPI has been focused on strengthening the core of its regulatory and operational functions to provide a robust foundation for primary sector growth, and to ensure the essential protections are in place for New Zealand's primary producers and their customers.

The past year saw further progress in building this foundation. Construction began on a new state of the art biocontainment laboratory for the biosecurity system, as well as the development of a long-term direction statement for the system, called Biosecurity 2025. Work is now underway on a Trusted Trader–Trusted Traveller programme to help manage rising demand at New Zealand's borders, and the strengthening of the food and animal welfare systems continued, with the progressive implementation of new, more effective domestic regulatory regimes. The biosecurity and food safety systems were put to the test with the successful conclusion of the 1080 poisoning threat and the final confirmation of the eradication of the Queensland fruit fly in Auckland.

At an organisational level, the development of an MPI Science Strategy was a major achievement, providing a focal point for the scientific work that supports almost all aspects of MPI's activities. At a primary sector level, MPI continued its strong progress in building a robust platform for market access, a new delivery model for regional economic development, and a pipeline for the skilled workforce the sector needs into the future.

However, 2015/16 was important for another reason. During the year, MPI underwent its second Performance Improvement Framework (PIF) review. The review rated MPI's performance highly in many areas, and validated the work undertaken to strengthen core functions, and it also challenged MPI to now shift its emphasis towards the next wave of thinking to accelerate primary sector growth, within environmental constraints.

MPI is now consciously making that shift whilst completing the remaining strengthening work still to be undertaken. We will be expanding efforts to share information and insight with other agencies and industries to help lift leadership across government, and the primary sector, and increasing our focus on customers, particularly exporters.

MPI still has much to do and we are making good progress in achieving our purpose of Growing and Protecting New Zealand, and our goal of supporting the primary sector to double the value of its exports by 2025. None of this would be possible, however, without the dedication of MPI's staff, and I would like to acknowledge the hard-working people who serve offshore and onshore, at New Zealand's border, on our coastline, in laboratories and national and regional offices. Their role is fundamental to MPI's continued success.



A stylized, handwritten signature in black ink, which appears to read 'M. Dunne'.

Martyn Dunne CNZM  
Director-General

## Biosecurity



**10,806**

phone calls to the exotic pest and disease hotline



**2,128** phone calls referred for further risk assessment



**854**

investigations

**11** responses initiated

**1**

Brown Marmorated Stink Bug exercise

**5**

new Government-Industry Agreement deeds signed



**24**

new dog teams



**53,809**

consignments inspected

Development of the Trusted Trader – Trusted Traveller initiative



**26,310**

laboratory diagnostic tests performed

**204** groups now part of the National Biosecurity Capability Network

## Food safety



**6,500**

phone calls to the food safety phone line



Food Safety and Science Research Centre launched



**1**

new red meat code of practice



Successful implementation of the Food Act 2014

## Trade



**1**

new free trade agreement Trans-Pacific Partnership

**10**

overseas verification service audits

**99.94%**

of export certificates met requirements



New import protocols with Thailand



Joint Agricultural Growth Partnership with China

## Primary production

**19**

Primary Growth Partnership programmes in progress

**25**

projects approved for Sustainable Farming Fund for 2016/17



**135**

fish stocks within acceptable limits

**12**

MAPIP\* programmes approved for development

**3,167**

educational contacts with fishers

**29,529**

recreational fishing inspections delivered



**76,279**

visits to fish size limits and guidelines on MPI's webpages

**17.3%**

increase in aquaculture fresh on-board tonnage



**941**

Animal welfare inspections



New young calf regulations developed

# About MPI

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## Who we are and what we do

The Ministry for Primary Industries (MPI) employs over 2,400 people and conducts operational, readiness and response, policy, regulatory, diplomatic and industry development activities to support New Zealand's primary sector.

MPI provides a gateway to New Zealand's government for both the primary industries and overseas regulators of primary products. It operates the major regulatory systems that underpin the things that matter to consumers and markets when buying primary products.

Its scope allows for a broad view of issues and opportunities across the full value chain of primary production. This ranges from the paddock, orchard, forest or ocean through to the processing and transportation system, all the way to the market and, ultimately, the consumer.

MPI's size also enables staff to be deployed across regulatory systems, such as fisheries, animal welfare and food safety, meaning responses and regulation breaches can be acted on quickly. In addition to operational work, MPI provides independent policy advice on all these matters.

## MPI's role – nature and scope of operations

MPI's core business is directed through four major operating systems: Primary Production, Trade, Biosecurity and Food Safety.

### Primary Production

MPI plays a key role in New Zealand's primary production systems. It directly regulates sustainable fisheries, forestry and animal welfare, and has an influential role in setting the national frameworks for sustainable agriculture, in partnership with the Ministry for the Environment and local government. MPI also works to lift sector productivity and regional economic development.

### Trade

MPI negotiates access to overseas markets for New Zealand's primary products. Gaining unimpeded access to international markets is an important part of supporting growth within the primary industries. MPI also contributes to the development and implementation of bilateral free trade agreements (FTAs). Many businesses depend on MPI's facilitation, certification and verification activities to get their goods into new and current international markets.

### Biosecurity

Leadership of the biosecurity system is focused on preventing harmful pests and diseases from entering New Zealand. This includes delivery and monitoring of surveillance and readiness programmes as well as managing and monitoring of already established pests.

### Food Safety

MPI's role in the food safety system includes setting the regulatory requirements for New Zealand's domestic food safety system and food exports. MPI audits and monitors the system, administers and provides verification to support assurances to export markets, enforces food safety requirements where necessary, and ensures imported food is safe for consumers.

### Crown Forestry

MPI manages the Crown's forestry assets, most of which are on Māori-owned land. These are run as a commercial operation through the Crown Forestry business unit. As well as managing the assets on a commercial basis, Crown Forestry also works to remove the Crown from the forestry business, through lease surrender to lessors and sales of forests where this can be negotiated.

Where appropriate, Crown Forestry negotiates directly with landowners about Crown forests on Māori land. It also works closely with the Office of Treaty Settlements in the Ministry of Justice to prepare Crown forestry assets as part of any Treaty of Waitangi settlement process with iwi.

## Crown entities

MPI has oversight of one Crown entity – the New Zealand Walking Access Commission.

The Commission is responsible for leading and supporting the negotiation, establishment, maintenance and improvement of walking access over public and private land. It was created by the Walking Access Act 2008 and MPI monitors the performance of the Commission under the Crown Entities Act 2004.

## Growing and Protecting New Zealand – *Our Strategy 2030*

MPI works to double the value of primary sector exports by enabling the primary industries to grow, manage risk and strengthen their environmental performance. To achieve this, *Our Strategy 2030* has four outcome areas: maximise export opportunities, increase sustainable resource use, improve sector productivity and protect from biological risk.

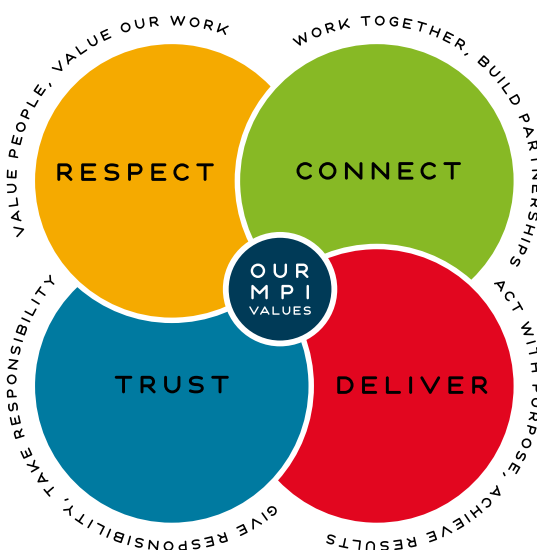
MPI has identified seven priorities to drive and direct changes across its four systems in pursuit of its outcomes. These are:

- smart regulation;
- operational excellence;
- international access;
- provenance and traceability;
- precision production and investment;
- enduring relationships; and
- integrated information, insight and knowledge.

## Our values

MPI's culture is underpinned by four values. They guide how staff work together, organisational decision-making and staff behaviour.

The values are the organisation's touchstones, because they shape both organisational and individual decisions and behaviour.



# Our Strategy 2030 – Growing and Protecting New Zealand

MPI is focused on the success of the primary industries for the benefit of all New Zealanders.

We are striving to help the primary sector double the value of its exports by enabling industries to grow, and to strengthen their environmental performance.

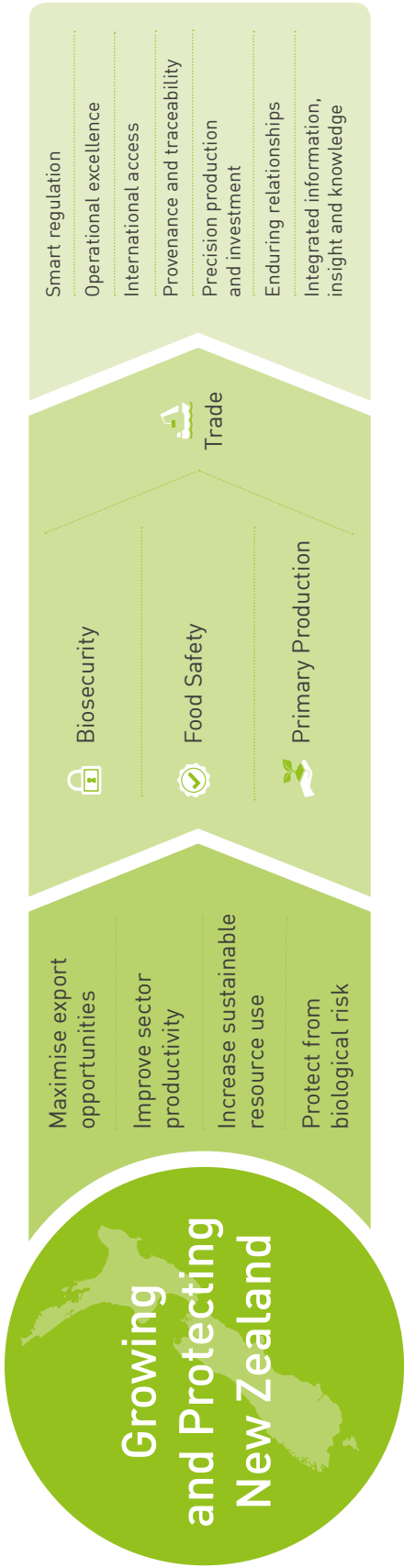
To achieve this, we must play a pivotal role in New Zealand's system of trade, as part of our work on biosecurity, food safety and primary production.

## OUR PURPOSE <-----> OUR OUTCOMES -----> OUR SYSTEMS -----> OUR PRIORITIES

To achieve our purpose we must:

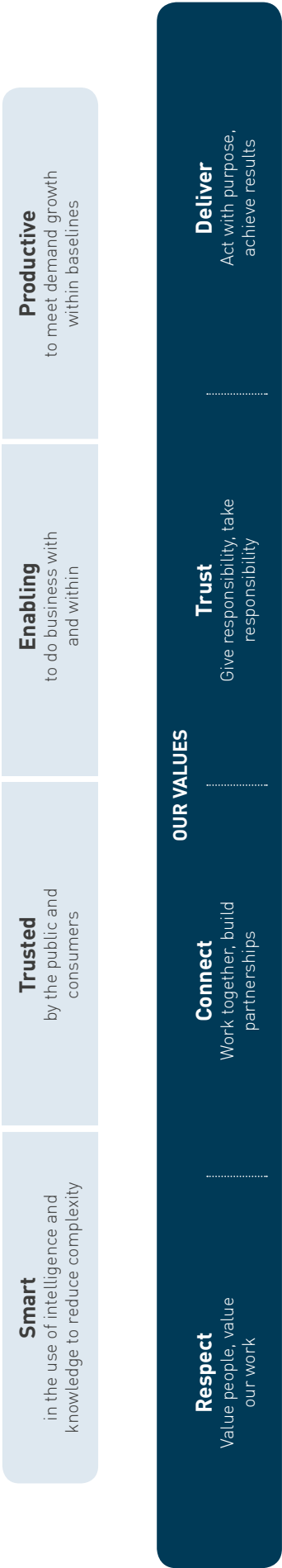
MPI delivers across four major systems that are central to the success of the primary industries:

We are driving change across our systems through seven priorities:



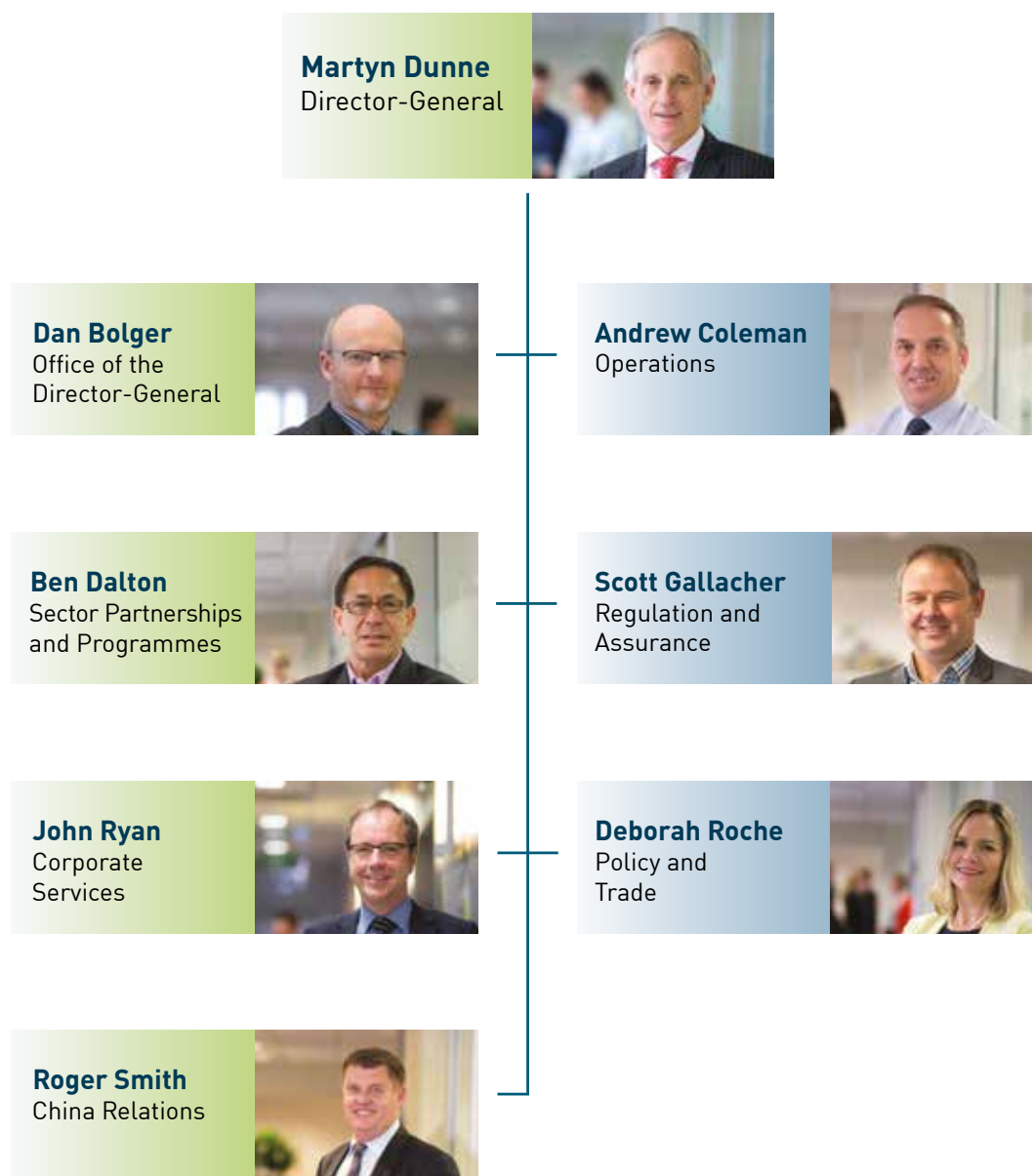
### OUR MPI

In delivering on our priorities we will ensure MPI is:



# MPI's Leadership Team

As at 30 June 2016



# Delivering our Core Business

## Growing and protecting New Zealand

As part of MPI's contribution to the Government's Business Growth Agenda (BGA), work has been under way since 2012 to help the primary sector increase its export of products in real terms from \$32 billion in 2012 to more than \$64 billion by 2025.

By 30 June 2016, the primary sector achieved over \$36.7 billion in exports in a difficult global market for dairy – New Zealand's biggest primary industry. The outlook over the next two years is positive – with strong growth forecast across most industries and dairy prices expected to gradually recover.

Long-term monitoring of progress against the 2025 goal is tracked through MPI's *Situation and Outlook for Primary Industries* reports.

In thinking about how to support the primary sector to double value of its exports, MPI has focused on strengthening the core regulatory and operational functions underpinning the primary sector. Significant improvement work has been undertaken over several years on New Zealand's biosecurity, food safety, sustainable production and trade systems, with more planned.

Alongside this work, strong investment partnerships with sector have been developed, a pipeline for the skilled workforce the sector needs for future growth has been laid down, a robust platform for market access was developed, and a new delivery model for regional economic development implemented.

MPI's achievements this year illustrates this focus.

## Achievements during the year

Our achievements in 2015/16 include the following:

- **Biosecurity:**
  - development of Biosecurity 2025 proposals;
  - follow-up audit by Office of the Auditor-General on MPI's capability to respond to biosecurity incursions;
  - new Government–Industry Agreement (GIA) signatories;
  - introduction of the National Bovine Tuberculosis Pest Management Plan from 1 July 2016;

- continued construction of the new National Biocontainment Laboratory;
- development of the Trusted Trader–Trusted Traveller initiative.

- **Food safety:**

- conclusion of the 1080 poisoning threat;
- implementation of the Food Act 2014;
- establishment of Food Safety Forum;
- health star rating campaign launched;
- new red meat code of practice released.

- **Primary production:**

- launch of MPI's Science Strategy: Rautaki Pūtaiao;
- launch of the Growing Our Future – Primary Industry Champions initiative;
- establishing an on-the-ground workforce to drive regional economic development;
- funding feasibility studies for irrigation schemes;
- new investment in the Overseer® tool to monitor water and soil nutrient levels and the establishment of Overseer® as a company;
- development of the National Environmental Standard for Plantation Forestry.

- **Trade:**

- establishment of the public–private Agricultural Growth Partnership with China;
- ratification of the New Zealand–Korea FTA;
- concluding negotiations for the Trans-Pacific Partnership;
- strategic engagement with China;
- agreement of new import protocols with Thailand.

MPI's capabilities were recognised when it won the Public Sector Engagement Category at the Institute of Public Administration of New Zealand Public Sector Excellence Awards. The award acknowledged MPI's communication efforts around the Auckland Queensland fruit fly 2015 response. While the award was for the public information management component of the response, it also recognised the overall success of the response and the many people in MPI who worked on it.

MPI was also a finalist in the Improving Performance through Leadership Excellence Category of the same awards, for its leadership and capability programme.

The programme includes MPI's ongoing focus on developing leaders, creating career pathways and actively managing career development. It has had clear and effective results, as shown by the percentage of engaged staff more than doubling since 2012, and a significant reduction in turnover.

Another area of success was Crown Forestry's performance, with 834,000 cubic metres of logs sold – with a sales value of \$93 million to 49 customers. This resulted in a trading profit of \$30.3 million for the year. Concurrently, as part of meeting the Crown's objective of exiting from the business of being a forest owner, the Crown's forest estate holding fell by 3,600 hectares.

## Performance Improvement Framework review

From late 2015, through to the release of the final report in March 2016, MPI worked with the State Services Commission to complete its second Performance Improvement Framework (PIF) review. The review examined progress since the first PIF report was completed in 2012, shortly after MPI's official launch.

The 2016 PIF acknowledged the significant progress

MPI has made over the past three years. As stated in the report: "Regulatory systems have been strengthened, new governance structures have been established, a distinctive culture and common purpose have been laid down, and policies and practices to develop an ambitious and capable workforce have been introduced."

However, the review challenged MPI to now shift its emphasis towards the next wave of thinking and initiatives that will lift primary sector performance and export growth further, within environmental limits.

In response, MPI is preparing for a further change of pace, which capitalises on the strong platform established over the past three years, and the gains from growth programmes already underway.



# Improving Organisational Capability

MPI requires a range of capabilities to ensure it continues to deliver the services required to grow and protect New Zealand.

These capabilities fall into the following general areas:

- **People and suppliers** – MPI has the right capability in its people and suppliers to do what is expected, when expected.
- **Systems and processes** – MPI's systems and processes support those inside the business, and those who rely on MPI to carry out their business, to work efficiently and effectively.
- **Facilities and tools** – MPI has the right facilities and tools to do its job well.
- **All-of-government (AOG) contribution** – MPI has the capability to support AOG initiatives to deliver better public services.

During the year, MPI has enhanced its capabilities in all of these areas. Significant changes are outlined below.

## People and suppliers

### Health and safety

As part of an ongoing programme to enhance health and safety, MPI has implemented new governance processes and reporting regimes. The broader health and safety footprint has been reviewed, including where suppliers deliver services and where staff work on third-party premises.

A programme has also been developed to enhance site security arrangements, along with practices to ensure systems are fit for purpose under the Health and Safety at Work Act 2015.

### Enhancing career development

MPI has established career pathways for all staff and continued to develop these pathways during the year. There are five major career paths: Technical/Specialist; Professional Specialist; Leadership; Adviser/Analyst; and Operations.

Each pathway identifies how staff can progress their careers within MPI. Training and development opportunities are in place to support the pathways,

and the entire system is overseen by career development boards.

The implementation of MPI's Learning Management System, Tiritiri, was completed, enabling the recording and reporting of all MPI's training and development. Tiritiri helps staff to access training and development information and online learning opportunities. It also enables staff to record and track their completed training and identified competencies against their career pathway.

MPI has also redeveloped its recruiting, on-boarding and induction services and brought these in-house. This enables MPI to provide all job candidates with a common experience and provides a seamless service for managers – ensuring all staff are work-ready and fully inducted when they start their new roles.

### Leadership development

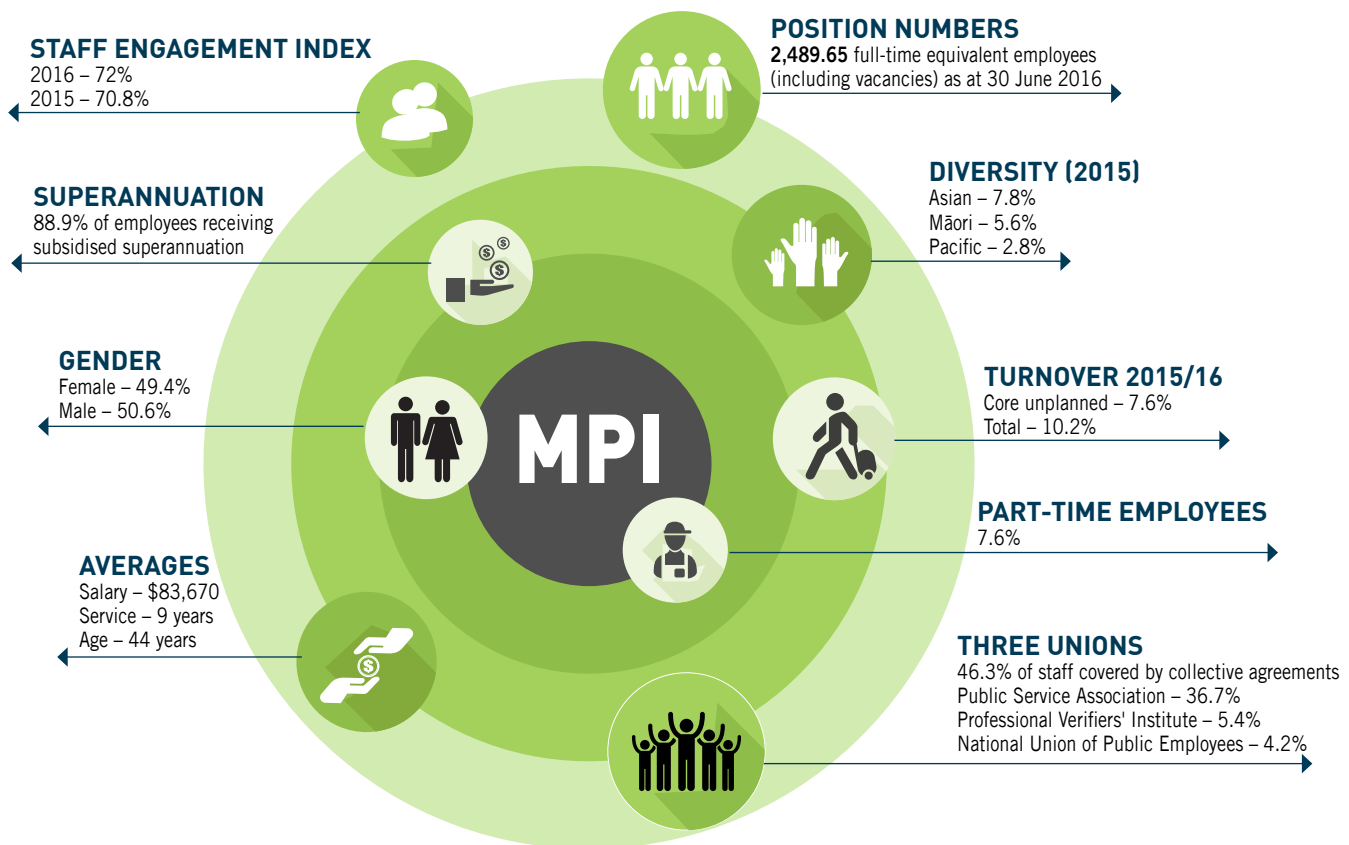
Leadership development opportunities have also been implemented, that address management development from team leader through to tier two positions. These include an assessment programme and eight different leadership programmes across MPI. MPI was recognised as an Institute of Public Administration New Zealand (IPANZ) 2016 finalist for its Building Leadership Capability programme and the results it has achieved.

### Diversity and equality

MPI continues to monitor its diversity and equality metrics. Policies and procedures are in place to ensure maintenance of good practice in these areas. A variety of work-life initiatives are also in place to support staff to maintain an appropriate balance in their lives.

MPI also increased staff engagement, with the 2016 Engagement Survey achieving an Engagement Index of 72 (up from 66 in 2013), and now above the state sector average.

To continue these improvements the People Capability Strategy has also been refreshed. The strategy maps out the next three-year journey for people capability development.



## Supplier relationships

MPI is an active contributor to AOG procurement initiatives – both in their development and in adopting these agreements within MPI. Procurement practices within MPI are well regarded across government, with work now focused on developing more sophisticated category management approaches to strategic procurement activities.

## Systems and processes

### New collaboration tools

An important initiative for MPI is to make it easier for staff to work together and to work better with customers. A series of activities was delivered this year to help with more effective collaboration.

During the year, Skype for Business was implemented, enabling telephone calls, content sharing and video conferencing capability through staff desktops. This enables more seamless work within and between locations, using a variety of media.

New organisational functionality was also delivered to staff through a new electronic content

management system called Piritahi. Piritahi allows content to be consolidated into a single, MPI-wide, flexible and managed repository. It replaces the previous system and allows staff to access their work wherever they are located.

This functionality was supported by the roll-out of improved WiFi coverage for all MPI offices.

### Continuous improvements

MPI has also worked to drive continuous improvement in core services. This includes a scan of important systems to identify opportunities to improve their effectiveness and efficiency.

The speed at which technology changes means a joined-up, structured approach to technology innovation is required to support future operating models and customer demands. To address this issue, a research, technology and innovation practice was established at the end of 2015.

The practice is looking to bring technological innovations into the way MPI does business, and to its approach to problem solving. This will help drive a culture change to embed both the concept of technology innovation and the development of

customer-centred design practices. The long-term benefits of this work will see shifts in how MPI designs its operating models, supported by a lift in staff capability and understanding.

It is closely associated with the work being undertaken with other border sector agencies on progressing capability to speed the passage of goods and people across New Zealand's borders.

A new time recording system was also implemented – allowing detailed information for business and workforce planning, cost recovery and performance reporting. The system has streamlined and simplified business processes for recording work activities and enables workflow integration with MPI's core finance and human resource systems.

### Privacy and security

Privacy and security systems continued to be improved during the year.

A multi-year programme to implement a common physical access control system and associated security equipment is under way. This project will ensure consistency of security practices across MPI-managed locations. Each site had an initial risk assessment undertaken, and new security systems were installed at several sites over the year.

As part of MPI's security and privacy roadmap, critical information assets were identified. These information assets allow priority areas to be identified to enable development of suitable emergency response and crisis management procedures as well as business continuity plans. Progress on developing these plans has been good, with operational aspects being tested through simulations.

### Risk and intelligence

Improvements to MPI's foot and mouth disease (FMD) preparedness have been made through a programme that brings together communications, identification and management of adverse events through the Single Scalable Response Model. Collaboration with industry partners has been important to the work to date, and this continues to play a huge part in the success of the readiness work being undertaken.

An advanced data analytics practice has been established during the year in close collaboration with the New Zealand Customs Service (Customs). This practice is designed to help with intelligence planning and coordination and to improve situational

awareness. This includes the development of tactical and operational intelligence products and adds value to information to provide insight into our operational activities.

### Facilities and tools

For staff to do their job well, MPI needs to ensure the premises operated from, and the tools and equipment used, are fit for purpose.

### Consolidating property

This year, MPI has continued to bring staff together where there are multiple offices in the same location. Property consolidation has occurred in Dunedin and Mount Maunganui, and progress over the next 12 months is expected on the new MPI centre at The Landing Business Park, at Auckland airport. This will consolidate several existing MPI locations in Auckland. Consolidation and redevelopment plans are also in progress for the Christchurch offices and Wellington's Pastoral House site.

### Improving MPI's response capability

Development of the National Biocontainment Laboratory is continuing. The new laboratory replaces the current physical containment level-three laboratory at MPI's Wallaceville site. The new facility will provide improved capability to manage a major disease outbreak (such as FMD) and is essential infrastructure for diagnostics used to support exotic disease investigations, responses, surveillance and export health certification testing.

Co-ordination of a national exercise programme during May 2016 tested MPI's internal activation and support arrangements for a national FMD response and identified opportunities for further refinement of plans. This is one of many events MPI is leading under the broader readiness set of activities.

### Vehicle and hardware upgrades

The motor vehicle fleet was reviewed and upgraded as part of the annual refreshment cycle. Changes include broader installation of GPS monitoring.

MPI continues to strengthen its information technology infrastructure and reduce costs. The programme includes upgrading and refreshing servers, operating systems, applications, workstations and data centre technology.

## Supporting all-of-government and Better Public Services

MPI continues to play an active role in supporting the Government's strategic priority to deliver better public services for New Zealand within tight financial constraints. The overall outcome of these initiatives is to enable more efficient government while delivering improved services to MPI's customers.

### Result 9 – Better for Business

As part of the wider Better Public Services programme, Result 9 aims to create a more innovative, responsive and efficient public sector in the way that it works with business.

Significant pieces of work this year have included business-facing innovations, such as the "Where Do I Fit" tool implemented as part of the Food Act 2014 implementation; rationalisation of websites and telephone numbers and work on speeding the pathway through the border.

The NZBN aims to transform the way business provides information to government. Progress on implementing the New Zealand Business Numbers (NZBNs) initiative within MPI has continued over the past 12 months with a dedicated project being developed.



# DELIVERING PERFORMANCE: OUR OUTCOMES



## Our Outcomes Framework

### PURPOSE

Growing and Protecting New Zealand

### LONG-TERM OUTCOMES

Maximise export opportunities

Improve sector productivity

Increase sustainable resource use

Protect from biological risk

### INTERMEDIATE OUTCOMES

Export success is enhanced by the integrity of primary sector products and increasing awareness of New Zealand's unique culture and brand

Exporters have improved access to fast-growing and high-value markets, and benefit from new export opportunities

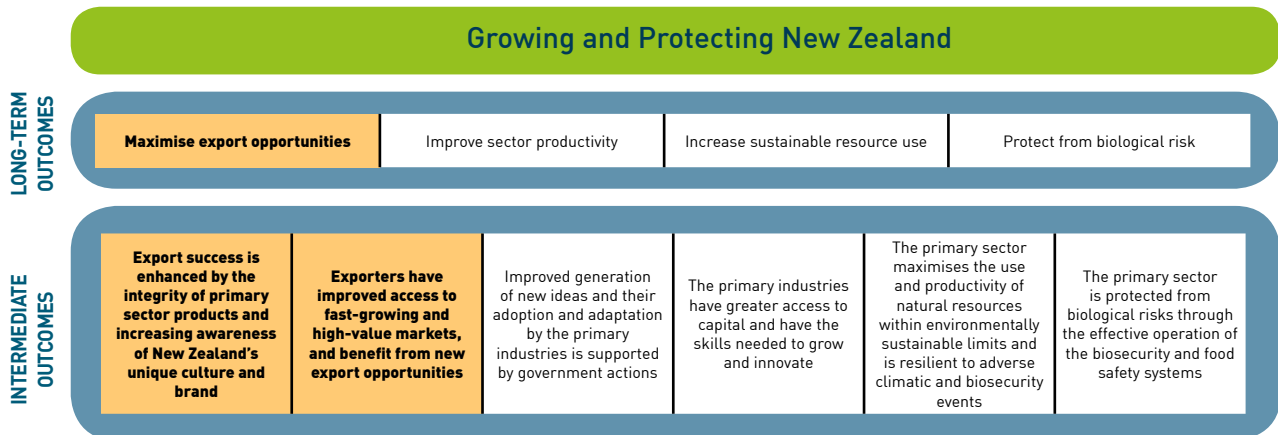
Improved generation of new ideas and their adoption and adaptation by the primary industries is supported by government actions

The primary industries have greater access to capital and have the skills needed to grow and innovate

The primary sector maximises the use and productivity of natural resources within environmentally sustainable limits and is resilient to adverse climatic and biosecurity events

The primary sector is protected from biological risks through the effective operation of the biosecurity and food safety systems

# Long-Term Outcome: Maximise Export Opportunities



## Enabling growth for New Zealand's primary sector exports

MPI has significant influence over the export opportunities available to New Zealand's primary sectors, and their ability to maximise those opportunities. MPI negotiates technical market access for all primary products. It also manages the regulatory systems that give overseas markets the confidence their market access requirements are being met, by certifying primary products, and plays a key role in negotiating international trade agreements.

To achieve this long-term outcome, MPI has an international network of staff and dedicated market access and international policy functions, which have been a focus of significant investment in recent years.

MPI's progress against this outcome is delivered via two intermediate outcomes:

1. export success is enhanced by the integrity of primary sector products and increasing awareness of New Zealand's unique culture and brand; and
2. exporters have improved access to fast-growing and high-value markets, and benefit from new export opportunities.

## Intermediate outcome 1: Export success is enhanced by the integrity of primary sector products and increasing awareness of New Zealand's unique culture and brand

New Zealand's primary sector derives significant benefits (including lower market access costs) and competitive advantage from New Zealand's reputation for safe and suitable food, favourable animal and plant health status and market assurances. This reputation informs New Zealand's brand internationally.

MPI works to achieve this intermediate outcome by:

- enhancing the reputation of New Zealand products and systems;
- increasing exporters' access to knowledge and systems;
- helping exporters to use the New Zealand Story to realise benefits.

## Progress indicators

### MPI's export assurances are trusted by markets

In 2015/16, 99.94 percent of all export certificates met requirements (267,026 out of 267,181). This is consistent with performance in previous years.

Percentages of export certificates issued that met importing country technical requirements:

- live animals: 99.73 percent (4,717 out of 4,730);
- plant products: 99.91 percent (61,397 out of 61,453);
- wine: 99.49 percent (16,741 out of 16,827);
- animal products: 100 percent (all of 184,171).

### Adoption and retention of new assurances by markets

During 2015/16, the new assurances framework was updated and is now referred to as "customer assurances". Work to increase awareness of the programme among external stakeholders is under way, with information being provided on how customer assurances can support businesses in seeking to maintain or improve market success.

### Primary sector businesses use attributes of the New Zealand Story to enhance their own stories

MPI continues to share the New Zealand Story with individual primary sector forums and businesses to inform them of the Story's attributes and the opportunities to enhance their own company or brand stories.

Since the launch of the New Zealand Story, 636 food and beverage companies have registered to use it – an increase of 38 percent since last year.

There are also now 394 agri-business companies registered for the New Zealand Story, with the majority of companies using the resources for outward-facing promotion material including events, marketing collateral and presentations to clients.

## Other actions in 2015/16

### ENGAGING WITH SMARTER REGULATION

With increasing demands from trading partners, industry and customers, MPI is targeting the provision of smarter and more flexible regulatory systems to improve compliance.

An area MPI has focused on during the past year has been the reform of the animal welfare system. Work has progressed on consulting on proposed welfare regulations for live animal exports, care of and conduct towards animals, and surgical and painful procedures. The regulations introduce a new suite of tools to enable MPI and the SPCA to better deal with low- and medium-level offending. They also bring the requirements for live animal exports for slaughter under Animal Welfare Act 1999. These regulations are due to come into effect later in 2016, while the remaining 77 proposals for care and conduct and surgical and painful procedures are expected to be implemented in 2017. Overall, 1,500 submissions were received during consultation on the reforms, and MPI fast tracked several proposals relating to the welfare of bobby calves. These were implemented on 1 August 2016.

### IMPROVING ACCESS TO KNOWLEDGE AND SYSTEMS

MPI has continued its focus on improving knowledge and awareness of the regulatory systems. By lifting the understanding of the ways exporters engage with MPI's systems, and the support they need to comply – communications and services can be tailored accordingly.

Over the past year, activities included:

- developing a trial regulatory advice service for launch in 2016/17, making it easier for export businesses to understand how to meet both domestic and overseas market requirements;
- creating a tailored information programme to support implementation of the Food Act 2014, making it easier to understand and more accessible – for example, developing an online tool called "Where Do I Fit?" to help businesses work out how their food activity or business fits within the new Food Act rules;
- developing a project with one of MPI's largest red meat processors, by looking at matching resources to meet customer processing demands. Lessons from this trial will feed into broader systems, processes, training and development programmes.

MPI has also continued to improve its communication channels by:

- reducing the complexity of MPI's 0800 numbers and working to ensure better first point of resolution – enabling customers to get correct answers faster; and
- streamlining MPI's website content to improve navigation, integration and availability of information.

### Intermediate outcome 2: Exporters have improved access to fast-growing and high-value markets, and benefit from new export opportunities

Growth of the New Zealand economy is reliant on products being able to access international markets. By maintaining access to current markets and collaborating across government to open up new

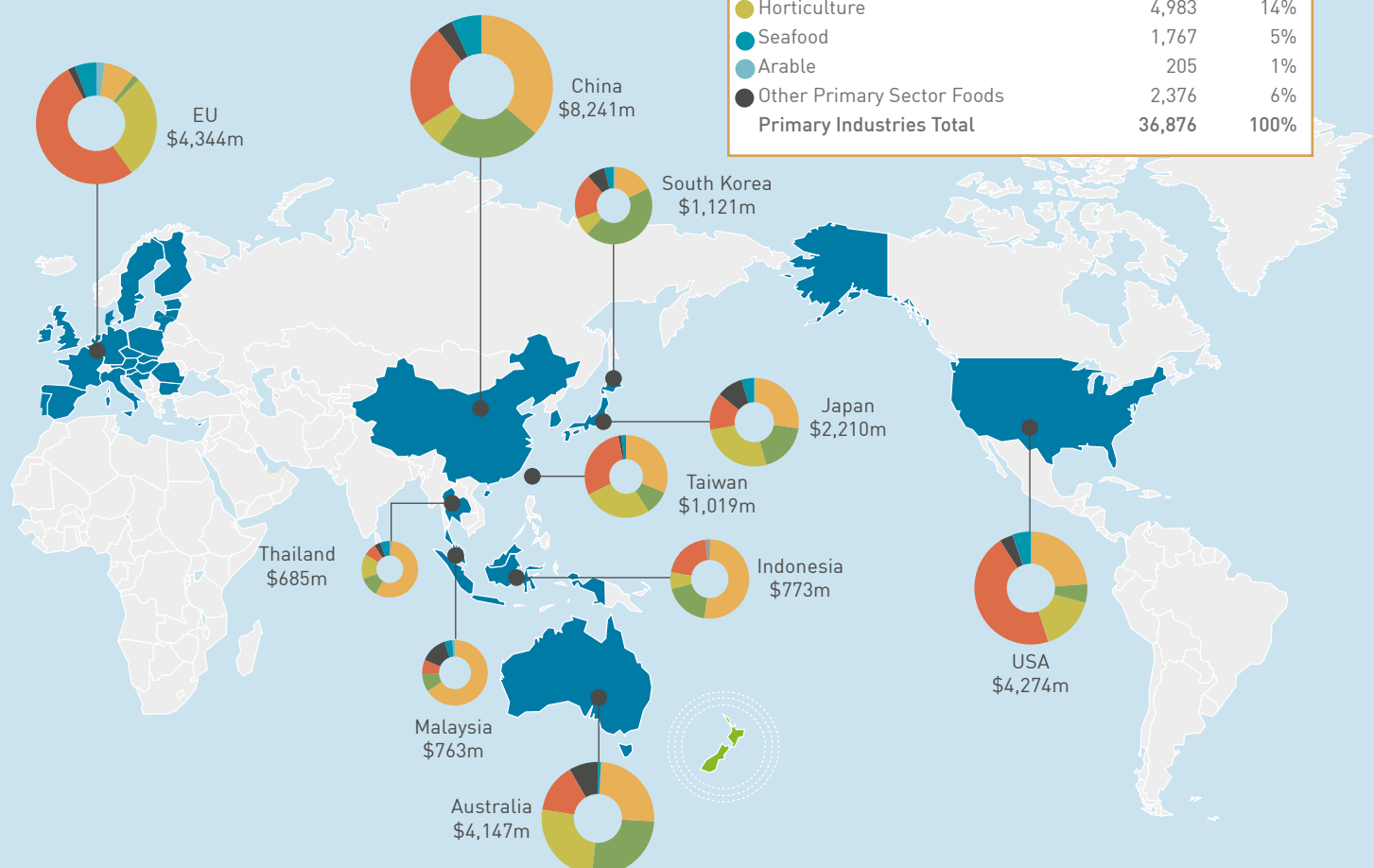
markets, MPI works to ensure New Zealand producers are able to connect with international consumers. This is achieved through negotiating FTAs and other bilateral arrangements that reduce barriers to accessing markets.

MPI works to expand opportunities for growth by:

- improving market access;
- supporting bilateral and multilateral frameworks and standards to ensure more markets are available and costs are reduced; and
- improving the environment for trans-Tasman trade for food products.

By working closely with exporters and the markets they wish to access, MPI is also able to improve New Zealand's ability to respond to trade issues as they arise.

## All New Zealand exports June 2016



## Supporting animal welfare

New Zealand's reputation in animal welfare has implications both locally and internationally. People care strongly about how well animals are treated – whether it is the family cat or dog, the pet sheep, the house cow or the many other animals that form the backbone of the country's primary production. This concern for animal welfare was demonstrated clearly in November 2015, when an animal welfare activist group, Farmwatch, released a video about the treatment of bobby calves from a selected number of farms.

The video was publicly aired on TVNZ on 29 November 2015. At the time of the footage's broadcast, the incidents noted in the video were under active investigation by MPI's animal welfare officers. The need to build a robust case against the alleged offenders, before taking enforcement action, is important because any missteps on MPI's part could jeopardise the outcome of any court action.

As a result of careful investigation, MPI laid charges under the Animal Welfare Act 1999 against individuals and businesses identified as part of the video footage. These covered recklessly and wilfully ill-treating calves causing unreasonable and unnecessary pain or distress and serious injury, amongst others. Legal proceedings are continuing. One case has concluded with the individual sentenced in July 2016.

The investigations in this case added to work that MPI was engaged in with the dairy and transport sectors to improve bobby calf welfare. In addition to investigating the actions depicted in the video, MPI also convened the Bobby Calf Action Group, which was formed at the end of 2015. Members of the group are: DairyNZ, Dairy Companies Association of New Zealand, Meat Industry Association of New Zealand, Federated Farmers of New Zealand, New Zealand Petfood Manufacturers Association, Road Transport Forum NZ, New Zealand Veterinary Association and MPI. The group (and the individual organisations) are in the process of developing and delivering various initiatives

to ensure best practice handling and management of bobby calves. MPI is specifically working on the following initiatives:

- implementing new regulations for the care and handling of young calves, in place from 1 August 2016;
- investing in a comprehensive assessment of bobby calf welfare over two seasons, including 2016, to help provide evidence-based decisions about bobby calf management;
- increased visits to farms as part of the On-Farm Verification Programme to familiarise farmers with their legal responsibilities; and
- supporting sector education and training.

MPI also initiated an animal welfare awareness campaign that encourages everyone who sees mistreatment of stock to report it to the 0800 00 83 33 hotline. The latest campaign is specific to bobby calves and has been run in major rural publications, as well as online, on radio and selected urban newspapers during June, July and August. Social media is also being used – with information being shared via Twitter and Facebook.



### Other actions in 2015/16

#### IMPROVING MARKET ACCESS

Extending MPI's off-shore market access presence continued this year with expansion aimed at broadening and deepening the relationships with identified fast-growing and emerging markets. Work continues on increasing understanding of policy and regulatory developments in these markets, alongside activities to maintain and enhance market access for New Zealand primary products and food.

Building a presence in Asia continues to be a focus, with new positions advertised for Tokyo and New Delhi. Staff were deployed to Tokyo in January 2016 and are expected to be in New Delhi in 2017. In addition to Asia,

MPI has established positions in Mexico, with staff expected to be in place by January 2017.

### Strategic engagement with Asia

#### CHINA

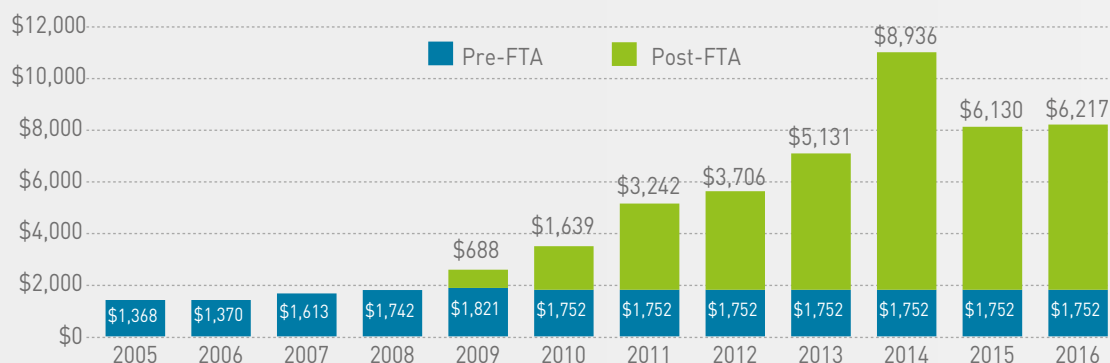
During the past 12 months, MPI has consolidated its position in the Chinese market and has taken action to ensure its focus is on the most relevant issues as part of its core business. Work has been done to identify MPI's future direction with China including issues, challenges, past lessons learned, opportunities and future focus areas. Information gathered from these meetings has been used to advise the wider NZ Inc. China Strategy refresh.

## Progress indicators

### Increased primary industries export activity with each country that New Zealand has a free trade agreement with

In the past eight years, New Zealand has entered into FTAs with China, Malaysia, Hong Kong, Korea and Association of Southeast Asian Nations (ASEAN) countries.

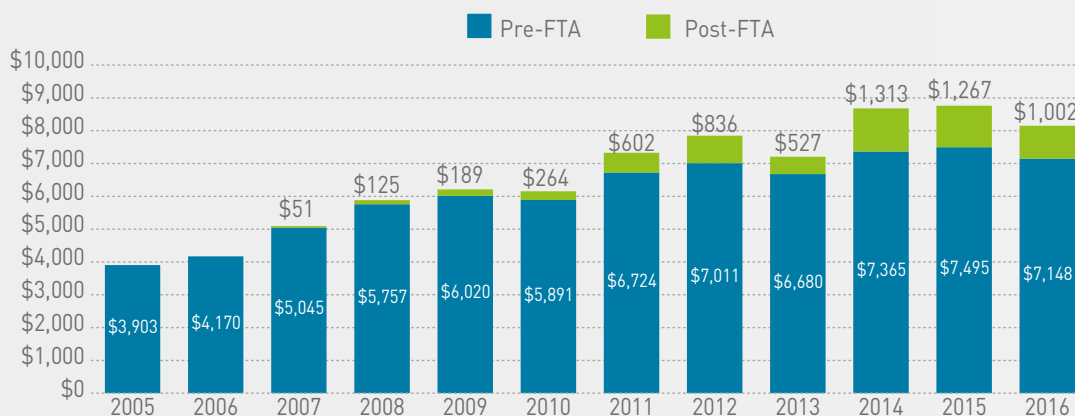
#### Primary industry free trade agreements exports to China (\$ millions)



Source: Statistics New Zealand to June 2016

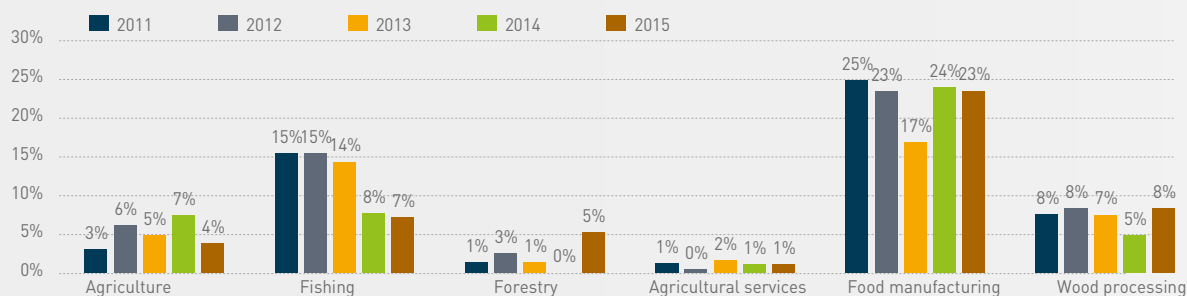
Primary sector exports to China increased slightly in the year ended March 2016. Whole milk powder volumes exported to China dropped by 41 percent from 2014 to 2015 and have not yet recovered.

#### Primary industry export activity with each country New Zealand has signed a free trade agreement with, excluding China (\$ million)



Source: Statistics New Zealand to June 2016

#### Proportion of agriculture, forestry, fishing and associated businesses entering new export markets



Source: Statistics New Zealand to June 2016

Businesses in the primary industries are continuing to report entry to new export markets, although fewer have done so in 2015 in agriculture, fishing, and food manufacturing. This follows strong increases in some industries the prior year.

## Progress indicator

### Value of trade retained through resolution of market access threats

No actual market closures occurred in the year to 30 June 2016.

In the past year, there were no major incidents leading to markets closing. Work continued with overseas counterparts to ensure their trust in New Zealand systems was maintained. An expanded presence of MPI staff in key markets is one part of the strategy to reinforce that level of confidence.

In April 2016, an arrangement on developing an Agricultural Growth Partnership was signed between New Zealand and China. The Agricultural Growth Partnership, a public-private partnership, aims to develop and deliver agricultural co-operation programmes focused on education, training and research in the primary sector.

The China-New Zealand arrangement is designed to more effectively deliver New Zealand's agriculture co-operation activities with China. Several initiatives are already under way, including, the exchange of agricultural policy initiatives, livestock technologies, animal health and disease control, the training of dairy farmers and professional development programmes for equine and dairy veterinarians.

### KOREA

The New Zealand-Korea FTA was signed in March 2015 and ratified in December 2015. The FTA includes a chapter that focuses on the development and implementation of agricultural, forestry and fisheries co-operation. The intention is to enhance the bilateral relationship between the two countries. For MPI, this involves co-ordinating the delivery of two training programmes in animal risk analysis and fisheries for Korean officials each year for three years. Additionally, joint workshops will be held each year for four years between Korean and New Zealand officials in animal health and veterinary epidemiology (hosted by each country in alternate years).

A New Zealand delegation (including representatives from MPI) visited Korea in April this year, taking part in the first of four workshops on animal health and veterinary epidemiology. New Zealand is perceived to be a world leader in veterinary epidemiology, animal health and biosecurity, and Korea is keen to increase its own capability and expertise through these mutually beneficial workshops. The workshop provided the first step towards strengthened individual professional relationships, greater confidence in New Zealand's regulatory systems and

a more comprehensive understanding of New Zealand's biosecurity systems. Furthermore, Korea has extensive experience with both FMD and highly pathogenic avian influenza, and New Zealand can learn from Korea's experiences.

### SUPPORTING STANDARDS AND OTHER INTERNATIONAL PROTOCOLS

Compliance with international standards are important to New Zealand's relationships with international partners. MPI represents New Zealand's interests on international sanitary and phyto-sanitary (SPS) standards-setting bodies to meet the needs of health protection and trade. The international standards-setting bodies are essential components in the implementation of the World Trade Organization SPS agreements and the promotion of international harmonisation.

The Trans-Tasman Mutual Recognition Arrangement with Australia extends to MPI working with agencies such as Food Standards Australia New Zealand. As part of the trans-Tasman arrangements relating to food, MPI holds the responsibility for monitoring New Zealand's compliance with the joint Australia New Zealand Food Standards Code. This work is important because the new revised Food Standards Code came into effect on 1 March 2016, after eight years of proposals, consultation and legislative variations.

Other areas where MPI made progress this year include the new import protocols agreed with Thailand, which came into effect in November 2015. The new protocols help access for nine commodities, which include avocados, strawberries and tomatoes. The protocols help in improving the consistency and certainty of these exports to Thailand and will enable further growth in the market for other New Zealand produce.

**IMPROVING THE ENVIRONMENT FOR THE TRANS-TASMAN FOOD TRADE**

To enhance the trade in food between New Zealand and Australia, the Food Treaty was implemented in 1996, with this year being the 20th anniversary of the treaty signing. The treaty simplified two-way trade, with exporters now viewing each other's markets as extensions of their domestic markets. In 2015, two-way trade of food and beverage between the two countries totalled NZ\$4.27 billion.

The maintenance of consistent trans-Tasman standards assists the trade of food between New Zealand and Australia, and ensures appropriate implementation by businesses. A new addition for the revised Australia New Zealand Food Standards Code included a new Health Claims Standard (Standard 1.2.7). Health claims are voluntary statements on food labels and advertising that links food to a health outcome. The new standard will reduce misleading health claims on food, increase consumer confidence

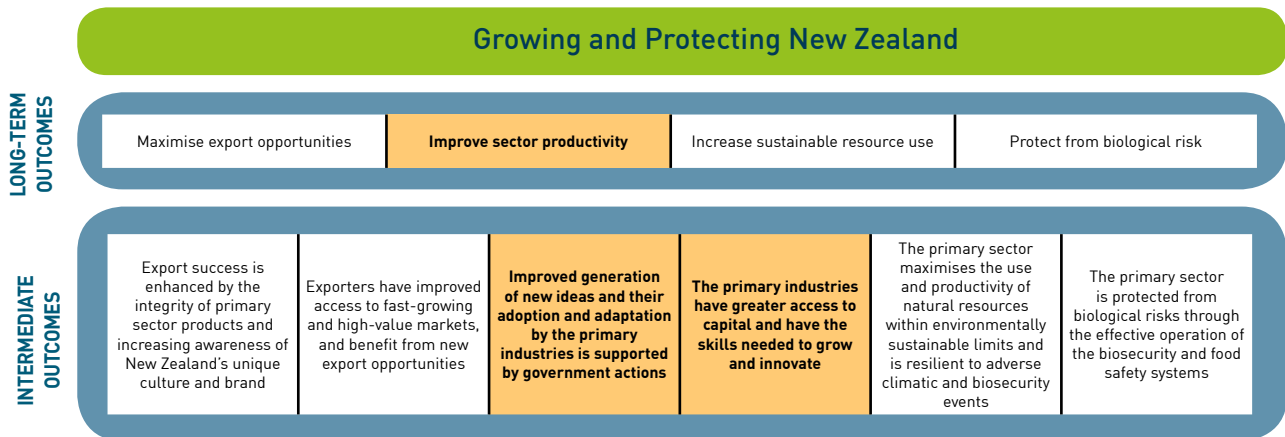
in health claims and provide clarity to agencies enforcing the standard. It also has clear guidelines on the provision of accurate information for consumers, as well as creating opportunities for industry innovation and enforcement by regulatory authorities.





## Long-Term Outcome:

# Improve Sector Productivity



### Supporting research to build investment and encourage innovation

Science, innovation and research are essential to a well performing primary sector. Together they provide the building blocks for new technologies and production techniques and new consumer products.

The mortar holding these building blocks together is the availability of investment capital – whether it is through government funds or privately sourced – and the skilled workforce necessary to support innovation. MPI works to bring these elements together, to improve sector productivity.

Much of MPI's work in this area is in the regions, combining primary sector development with Māori agribusiness and community development. A particular focus over the past year has been in Northland.

MPI's success against this outcome is delivered via two intermediate outcomes:

1. improved generation of new ideas and their adoption and adaptation by the primary industries is supported by government actions;
2. the primary industries have greater access to capital and have the skills needed to grow and innovate.

### Intermediate outcome 1: Improved generation of new ideas and their adoption and adaptation by the primary industries is supported by government actions

The new ideas that create market advantages for New Zealand are often the result of years of work in research and development.

MPI focuses on the following impacts as part of its role to improve the generation of new ideas:

- increasing investment in innovation and uptake of new practices and technologies by the primary industries;
- providing a regulatory environment that supports primary industries to be more competitive and innovative.

Work in this space is a long-term endeavour as research concepts and supporting evidence require time for development and implementation.

## Other actions in 2015/16

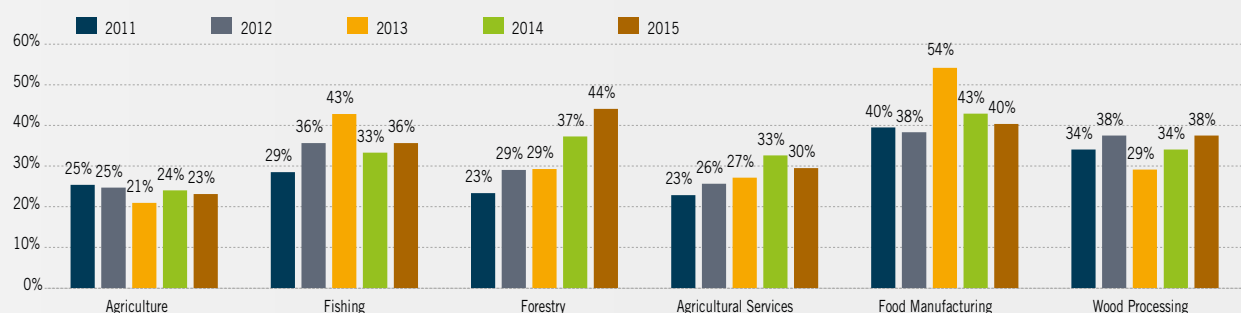
### IMPROVING MPI'S ABILITY TO INVEST IN THE PRIMARY SECTOR

MPI is the steward of public funds with a value of more than \$130 million, across 17 external grants and research funds. Over the past two years, MPI has brought these funds together in to a single portfolio, with improved alignment between investment and strategic goals, and improved fund management practices.

An investment platform has also been established to optimise the impact of MPI's funds alongside other sources of funding from the public and private sectors. Once fully implemented, the investment platform will provide MPI with greater flexibility to meet evolving priorities, as well as increasing investment capacity to achieve primary sector objectives.

## Progress indicators

### An increase in primary industries developing or introducing new or improved goods and services



Source: Statistics New Zealand to June 2016

The proportion of businesses developing new products and processes has increased in the fishing, forestry, and wood processing industries, and has decreased slightly in agriculture and food manufacturing.

### MPI-supported programmes realise productivity benefit improvements

Programmes funded under the Primary Growth Partnership (PGP) are focused on the full value chain. Typically, this is through the development of new technology innovation that is expected to improve either direct or associated productivity and/or the development of new higher value products.

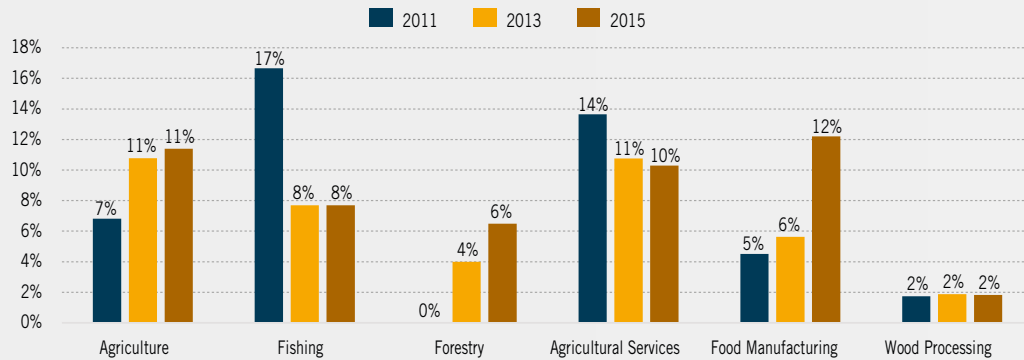
The summary below is from a selection of PGP programmes as at 30 June 2016:

- The Transforming the Dairy Value Chain Programme's work on advisers providing more and better advice to dairy farmers has resulted in 2,942 plans (under various farm management areas) for farmers that take into account the "whole farm" system. By supporting improved farm effluent management, 22 companies have Farm Dairy Effluent System Design accreditation. Nationwide coverage has also been achieved for nutrient management advice, with over 100 Certified Nutrient Management Advisers helping farmers to put in place nutrient management plans.
- The Steepland Harvesting Programme has delivered commercialised products to market:
  - › 10 ClimbMAX harvesters have been sold – three in New Zealand, six in Canada, one in the United States of America;
  - › 31 downloads of the HarvestNav on-board navigation software application have been registered and 18 units have been implemented into machines;
  - › 13 Alpine Grapple carriages have been sold to harvesting companies in New Zealand, including one arriving in May 2016 and one unit on order;
  - › two CutoverCam hauler vision systems have been sold to forestry companies.

Sector-wide benefits arising from the programme and related outputs to date total \$93.6 million from operational cost savings and machinery and equipment sales (\$48.6 million per annum in 2015/16). The business plan envisaged cumulative direct economic benefits to date of \$168 million (\$66 million per annum in 2015/16), as well as enhanced worker safety.

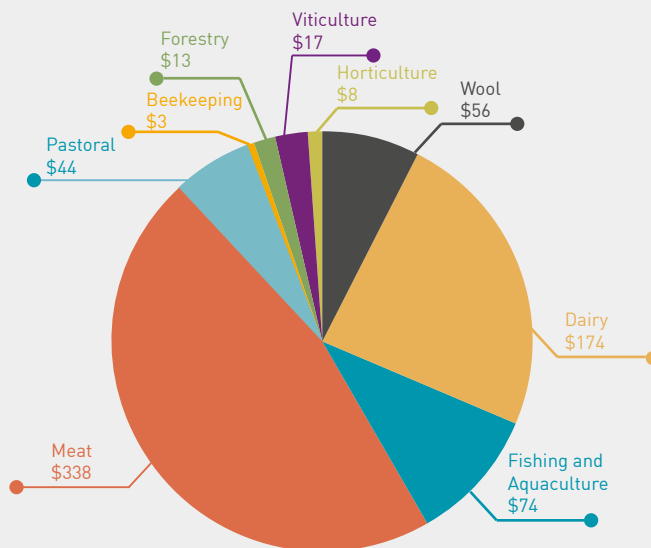
### Percentage of businesses in primary industries developing new products and processes reporting that government regulations hampered them to a large degree

While some agriculture, forestry, and food manufacturing businesses reported an increase in innovation being hampered to a high degree in 2015, this was also accompanied by an increase in companies reporting that government regulation did not hamper innovation. This indicates that there is a higher level of polarisation in these industries, where fewer businesses feel hampered to a medium degree or to a low degree. Increases in forestry and food manufacturing, specifically, may be related to regulatory changes relating to health and safety improvements in the forestry sector and the introduction of the new Food Safety Act 2014.



Source: Statistics New Zealand to June 2016

### Primary Growth Partnership committed investment by sector (\$ millions) at 30 June 2016



Source: Ministry for Primary Industries

At the 2015 annual meeting for the PGP, it was announced the Crown's investment share in new PGP programmes would be moving from 50 percent to 40 percent. This applied to funding approved for new programmes from 1 December 2015 and did not affect current PGP programmes or programmes approved by MPI for investment prior to this date. MPI continued to provide guidance to applicants seeking new PGP investment, and it is making administrative changes to make the PGP more accessible to industry following implementation of the new Crown investment share. These changes are:

- introducing simpler reporting requirements;
- providing help to applicants for business case development; and
- exploring opportunities to help smaller sub-sectors access the PGP.

### IMPROVING THE REGULATORY ENVIRONMENT THROUGH SCIENCE

In November 2015, MPI launched its Science Strategy: Rautaki Pūtaiao. Science is crucial for MPI's regulatory functions and the development of sound policy in relation to resource management, sector productivity and sustainable primary production. Science also provides the evidence for robust risk assessments that form a cornerstone of New Zealand's favourable trading arrangements, enhanced market access and biosecurity readiness.

As MPI is moving into an era of constant and rapid change – both in science and technology – it is important a framework is in place that can deliver expert evidence while simultaneously meeting the growing expectations of the public, government, other stakeholders and New Zealand's trading partners. The strategy has been designed to be a guide on how MPI accesses, commissions, uses, interprets and disseminates science across its various activities.

## PGP success – introducing Tiaki

The Precision Seafood Harvesting (PSH) Primary Growth Partnership programme was established in April 2012 as a six-year investment initiative. The programme's purpose is to develop new harvesting technology that will result in more precise catches, allowing fish to be landed fresher, in better condition and of higher value.

The programme's co-investors are MPI and fishing companies Aotearoa Fisheries, Sanford and the Sealord Group. Working as a joint government–industry partnership, the programme has built on an earlier 10-year work programme by scientists at Plant and Food Research to develop a prototype harvesting system to target specific species and fish size, while enabling fish to be landed in better condition than using traditional methods.

Early testing of the concept prototypes showed positive results, with commercial testing of the new modular harvest systems beginning in 2013. The promise of the early programme developments was realised in 2014 when PSH was announced as New Zealand's most innovative organisation that year at the New Zealand Innovators Awards. This followed the programme's success at the KiwiNet Research Commercialisation Awards where it won two major categories, along with being named runner up for the Supreme Award.

Since this success, progress on the PSH Primary Growth Partnership programme has continued with an official

commercial launch of the new technology taking place in February 2016. The launch introduced New Zealand and the world to a new category of seafood – Tiaki – which uses PSH technology to harvest fish and bring them on board in much better condition, resulting in a premium seafood product of increased quality and value.

This helped the programme to win the inaugural Māori Innovation Award at the May 2016 Hi-Tech Awards. The awards celebrate the successes of New Zealand high-tech companies.

Fishing the Tiaki way will see traditional trawl nets being replaced with the PSH technology and an improvement in overall sustainability, because the system allows undersized or unintended fish to either escape through "portals" in the PSH nets or, if landed, to be returned to the sea, improving survivability rates. The triumphant launch of Tiaki and its underpinning technology is proof of how scientific research, government investment and industry know-how can be combined to create a true New Zealand success story.



## Intermediate outcome 2: The primary industries have greater access to capital and have the skills needed to grow and innovate

MPI contributes to the BGA by looking at new ways to support capital investment in the primary industries. Future developments, and the ability to innovate, can be constrained without sufficient financial support being available. This in turn can affect how farming systems operate, and the recruitment of labour to support those systems.

To improve the outcomes around this work, MPI aims to achieve the following impacts:

- improved access to the right people with appropriate skills in the primary industry labour market;
- effective deployment of capital leading to an increase in innovative primary industry activities;
- improved awareness of capability development opportunities that are tailored to Māori agribusiness needs; and
- improved regional economic development.

## Other actions in 2015/16

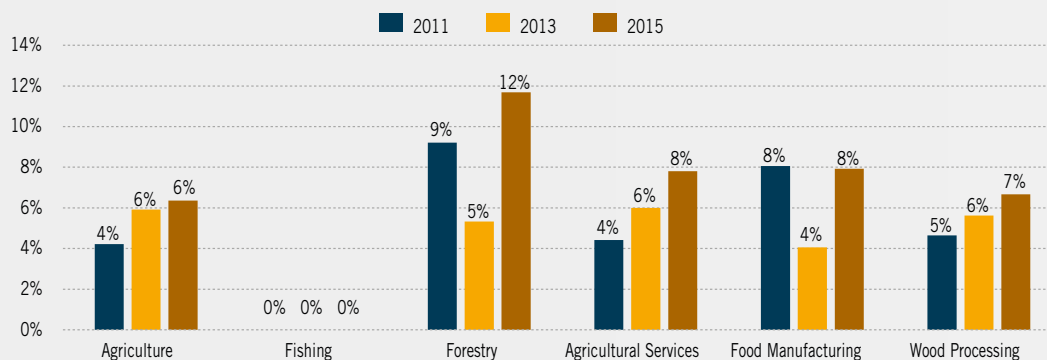
### ACCESSING PEOPLE WITH THE RIGHT SKILLS

People are the most important resource for the primary industries, with the primary sector currently accounting for one-in-six jobs nationwide. As the primary industries continue to grow there is a need for more people overall and in particular those with specialist skills for new roles that are likely to be created through adoption of new technology and farming systems.

During 2015/16, MPI continued to work with the Primary Industry Capability Alliance (PICA) to develop skills programmes that focus on the future needs of the primary industries. This included presenting at career expos and teacher conferences to actively raise awareness, with students and teachers, of the careers in the primary industries. MPI is also working with Callaghan Innovation and the Institution of Professional Engineers New Zealand to help industry build links with schools to promote careers and address skills shortages in New Zealand's technology, engineering and science-based industries.

## Progress indicators

**Percentage of businesses in the primary industries reporting lack of appropriate personnel as hampering innovation to a high degree**

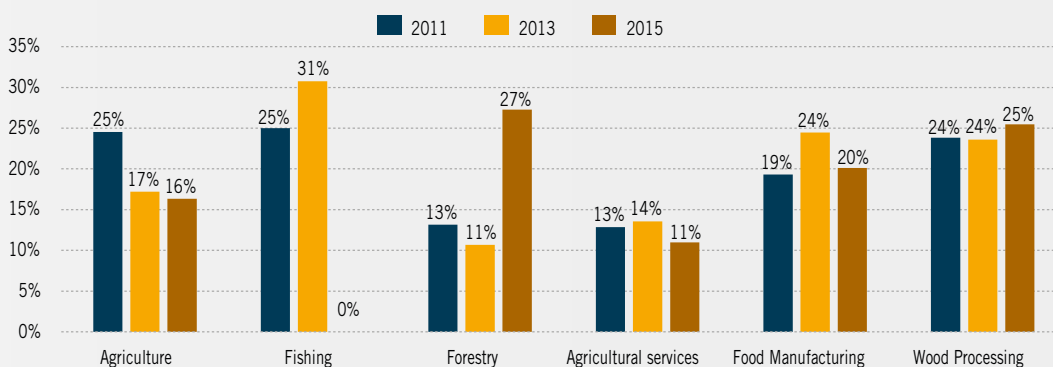


Source: Statistics New Zealand to June 2016

The percentage of businesses reporting the development of new products or processes was hampered by a lack of appropriate personnel, increased in most primary industry sectors from 2013 to 2015. This perception was felt most strongly in the forestry sector in 2015, although this is increasing in all sectors except fishing.

## Progress indicators

Primary industry businesses do not consider costs to be a barrier to developing or introducing new goods and services



Source: Statistics New Zealand to June 2016

### MPI has an increase in Māori agribusiness partners

In the area of governance and decision making, MPI has provided partnership advice from primary industry experts on best land use, feasibility studies, strategic planning, business planning, business case preparation and identification of future markets and partners.

Nine projects have lifted productivity in the area of operational systems. This has increased awareness and capability for infrastructure and resource planning, on-farm applications and farm management.

MPI's partners are more aware of their capability and development opportunities through increased investment into the dairy, beef and sheep, forestry, horticulture, arable and crops, apiary sectors.

The skills required for these roles include:

- production skills (whole farm systems, resource management, staff management);
- science skills to develop new products and processes;
- marketing skills;
- engineering skills to develop new processes; and
- technical and management support.

To meet these demands requires encouraging a wide range of people to consider working in the primary industries. MPI has developed a programme of work focused on the future needs of the primary industries, including the launching of the Growing Our Future – Primary Industry Champions videos at the National Fieldays in June 2016.

### BUILDING INVESTMENT IN THE PRIMARY INDUSTRIES

MPI has defined its involvement with the Government's BGA Capital Markets programme, through the new Farming Systems Change programme. This programme is designed to transform New Zealand's farms into a more

sustainable operating platform through productivity and process changes. A major focus of the programme is to boost the performance of farms by learning from those farms that are performing strongly.

The programme currently has two work streams – one focused on dairy and the other on sheep and beef. Both are still in the early stages of development with a focus on the collection of information to map farming systems so main processes and data can be identified for use by all farmers associated with the programme.

It is intended that, once the programme is more advanced, information will be drawn together and used to improve communication, increase knowledge and skills and speed up progress across the sector.

### GROWING MĀORI AGRIBUSINESS

MPI's support for Māori agribusiness is delivered through several channels, with the most prominent being its Māori Agribusiness: Pathway to Increased Productivity (MAPIP) Programme.

MAPIP recognises that growing the Māori economy also boosts New Zealand's economy. To achieve this growth, MAPIP provides a partnership framework between MPI and Māori land owners and trustees to lift the productivity of their primary sector assets. MPI also partners strategically with other government agencies and industry to ensure a combined approach, where appropriate. More detail on MAPIP is on page 33.

### SUPPORTING GROWTH IN THE REGIONS

To help improve its investment capability in regional economic development, MPI positioned eight new people in the regions to better target economic development opportunities. MPI has continued to partner with MBIE and other stakeholders (businesses, iwi, Māori and councils) to support the Government's Regional Growth Programme (RGP). Because New Zealand's economic landscape comprises diverse regions, each with their own differing activities, natural resources and populations, specific rather than generic development opportunities need to be developed to attract new investment, raise incomes and increase employment opportunities.

With this in mind, the RGP has been developed to help leverage opportunities in selected regions. The regions currently involved are:

- Tai Tokerau/Northland;
- Bay of Plenty;
- East Coast (Gisborne and Hawkes Bay);
- Manawatū–Whanganui; and
- West Coast.

The approach to the RGP is staged, with the first part being the development of independent regional growth studies. All of the regions listed have completed their growth studies except the West Coast, for which work started in March 2016 and is expected to be completed by the end of the calendar year.

Once the growth studies are completed, progress to stage two entails the development and implementation of action plans, which are intended to leverage identified opportunities in each region. The action plans are designed to bring together all parties (government agencies, industry, iwi, councils and other stakeholders) to achieve the mutually agreed outcomes. This is a bespoke approach with regions progressing with their own objectives and at their own pace.

Over the past year, MPI was involved with the development and launch of the Tai Tokerau Northland Action Plan, which was released in February 2016. MPI also commissioned the *Mid-North (Northland) Multiple Māori Land Blocks* report. The report was released in May 2016 and looked at Māori freehold land within a 50 kilometre radius of Kaikohe. The report is intended as a conversation starter on how to drive action from the fields to the boardroom, with the aim of building regional growth through sustainable transformation of Kaikohe's people and natural resources.

### IRRIGATION DEVELOPMENT CHANGES

A reliable supply of water is extremely important to the primary sector and the wider economy. With this in mind, over the past 12 months, work was completed to transfer the responsibilities for funding for feasibility work on regional scale irrigation schemes from MPI to Crown Irrigation Investments Limited (CIIL). This change in duties took effect on 1 July 2016 and is expected to help streamline and speed up water storage projects.

It is expected that having CIIL involved at an earlier stage of the development process will help schemes get to an investment-ready stage faster.

MPI will continue to support the development of smaller community irrigation schemes and strategic water management studies, and it remains the first point of contact for all new irrigation schemes. Further information on the changes is available on the Irrigation Acceleration Fund website.

## Long-Term Outcome:

# Increase Sustainable Resource Use

### Growing and Protecting New Zealand

LONG-TERM OUTCOMES

Maximise export opportunities

Improve sector productivity

**Increase sustainable resource use**

Protect from biological risk

INTERMEDIATE OUTCOMES

Export success is enhanced by the integrity of primary sector products and increasing awareness of New Zealand's unique culture and brand

Exporters have improved access to fast-growing and high-value markets, and benefit from new export opportunities

Improved generation of new ideas and their adoption and adaptation by the primary industries is supported by government actions

The primary industries have greater access to capital and have the skills needed to grow and innovate

**The primary sector maximises the use and productivity of natural resources within environmentally sustainable limits and is resilient to adverse climatic and biosecurity events**

The primary sector is protected from biological risks through the effective operation of the biosecurity and food safety systems

## Using New Zealand's natural resources and environment sustainably

Long term growth and social development in New Zealand can't occur without the sustainable use of natural resources.

MPI plays a major role in sustainable use as the primary regulator of fisheries and forestry in New Zealand. MPI also has joint responsibility, with the Ministry for the Environment (MfE), for the management of fresh water. MPI collaborates with the Environmental Protection Authority on implementation of the Emissions Trading Scheme and works with Aquaculture New Zealand, the Department of Conservation and MfE on new space requirements for aquaculture activities.

MPI's success against this outcome is delivered via a single intermediate outcome:

1. the primary sector maximises the use and productivity of natural resources within environmentally sustainable limits and is resilient to adverse climatic and biosecurity events.

## Intermediate outcome: The primary sector maximises the use and productivity of natural resources within environmentally sustainable limits and is resilient to adverse climatic and biosecurity events

MPI's work in this area seeks to have the following impacts:

- fresh water available to the primary sector is used efficiently and effectively;
- discharges from the primary sector that affect water quality and soils are either stable or decreasing;
- all fish stocks are managed to provide for use, while safeguarding sustainability;
- investment certainty is achieved for plantation forestry from Resource Management Act 1991 (RMA) settings;
- the performance of Māori agribusiness and land resources improves;
- primary industry businesses and communities recover more quickly from the next adverse event, with less impact on production; and
- fewer greenhouse gas emissions are produced per unit of production.

## Progress indicators

### Maintaining and improving water quality

Work is progressing on reforms to improve the way freshwater resources are managed.

Available data on water quality identified that between 1989 and 2013, water clarity improved overall. Total nitrogen worsened overall. A trend could not be determined for total phosphorus level over the 25-year period, although levels improved from 2004 to 2013.

MPI continues to support Overseer® as a key tool for nutrient management. It is being increasingly used as a regulatory tool by regional councils that are implementing the National Policy on Freshwater Management.

### Increased number of farm nutrient management plans

During the 2015/16 season, 8,598 nutrient budgets were processed and nitrogen information was provided back to farmers. This represents 75 percent of the industry and is a significant gain from the 56 percent achieved for year one of the Sustainable Dairying: Water Accord reporting. Work continues to focus on delivery of nutrient budgets to meet compliance requirements of regional councils, as well as benchmarking nitrogen loss and nitrogen conversion effectiveness.

### Increased number of hectares under irrigation

Irrigation scheme projects in the construction stages during 2015/16 will provide for 38,500 hectares of new irrigation – an increase of 5.3 percent above the 2012 Agricultural Production Census baseline. This increased area will be realised once the projects are commissioned and on-farm developments are completed.

This is derived from the following schemes:

- Waihao Downs – 3,500 hectares;
- Central Plains Stage 1 – 5,000 hectares;
- North Otago – 13,000 hectares;
- Barhill Chesney – 11,000 hectares;
- Ashburton–Lyndhurst – 4,000 hectares; and
- Haka Valley – 2,000 hectares.

### Increased number of fish stocks managed within acceptable limits

During 2015/16, continuous improvement occurred in the number of fish stocks known to be managed within acceptable limits.

Acceptable limits are defined as soft or hard limits. The soft limit is a biomass level below which stock is deemed to be overfished or depleted and needs to be actively rebuilt. The hard limit is a biomass below which a stock is deemed to be collapsed and where fishery closures should be considered to rebuild a stock at the fastest possible rate.

The number of stocks within acceptable limits (that is, above the soft limit) increased from 130 in 2015 to 135 in 2016. However, the number of stocks below the hard limit remained at 11.

### Recreational fishing compliance is improving

During 2015/16, there were:

- 29,529 recreational inspections delivered;
- 3,167 educational contacts with recreation fishers;
- 239 amateur charter vessel inspections;
- 76,279 visits to fish size limits and fishing methods on MPI's webpages;
- approximately 19,000 downloads of the fishing app.

These activities are all designed to help fishers voluntarily comply with fisheries laws. The compliance rate for 2015/16 remained at 94 percent (2014/15: 94 percent).

### Increased number of hectares in aquaculture production

For 2015/16, 11 new aquaculture farms (78 hectares) were consented. Two areas were identified to help increase new space for aquaculture:

- development of a national direction under the RMA for aquaculture, to improve investor confidence; and
- specific regional actions to support the collaborative Hauraki Marine Spatial Plan, the business case development for the Ōpōtiki Harbour project and collaborative work in Southland and Marlborough to enable finfish growth and ensure sustainable production from existing farms.

### Increased value of fresh on-board tonnage of aquaculture produce exported relative to the aquaculture hectares in production

Export values for fresh on-board tonnage of aquaculture produce exported relative to hectares in production went from \$322 million in 2014/15 to \$378 million in 2015/16, a 17.3 percent increase over the previous year and an overall increase of 36.4 percent since 2013/14.

### Increased productivity from Māori agribusiness

Through MAPIP, MPI partners with Māori owners to identify aspects of their projects as opportunities for improved performance. These include opportunities for potential investment, marketing and branding, value chain, value add and land optimisation. A result in improved performance also helps to lift the productivity of Māori primary sector assets. In 2015/16:

- seven projects increased potential in investment opportunities for their primary sector assets;
- three projects increased their marketing and branding opportunities;
- eight projects increased potential in their value chain;
- four projects increased the value add through synchronising farming operations, getting to know the industry better and exploring land diversification;
- four projects increased potential to optimise and bring new land into productivity.

The improved performance also contributed to a lift in productivity across Northland, Bay of Plenty, Manawatū–Whanganui and Hawkes Bay.

### MPI's obligations to Māori are delivered

MPI works to meet its obligations to Māori across many areas including resource management, Māori customary fishing regulations and regional economic development. One of the major areas of progress during the year was the embedding of the MAPIP programme, which supports the delivery of MPI's obligations to Māori through six main stages of development, including:

- establishing a project group;
- developing a strategic plan;
- feasibility study;
- getting the owners on board;
- setting up a governance structure; and
- operational set-up.

The establishment of a project group is the first step and includes discussions with land owners on the opportunities to achieve their aspirations. This ensures they are aware of the project's potential at the earliest possible stage and have the opportunity to contribute.

The development of strategic plans reflects the goals required to meet aspirations. This is where the value of the mutual partnership helps to develop a sustainable pathway to consider options. Once a strategic plan is in place, a feasibility study of the primary sector assets helps to determine the best options for use. MPI adds value through its network of primary industry experts.

Discussion with the wider group of land owners ensures they are fully informed of the options and have the opportunity to be involved with the project. The final stages involve setting up a governance structure with the right people in place to ensure the operational arrangements meet their needs.

MPI partnered with 11 groups to maximise the use and productivity of their primary sector assets. Each partnership included dedicated support from MPI staff to help the groups achieve their aspirations, on their terms. The value of MAPIP will continue to grow as more partnerships and projects become involved.

### Reduced greenhouse gas emissions per unit of production

Between 1990 and 2014, New Zealand's total agricultural greenhouse gas emissions increased by 15 percent, due to agricultural production growing substantially in response to international demand. Emissions peaked in 2005 and have decreased slightly since then, but returned to near 2005 levels in 2014.

There have been significant improvements in efficiencies in farming systems. Without these improvements, emissions would have increased by more than 40 percent to produce the same amount of food. Farmers have improved productivity through feed and nutrition, animal genetics, pasture management, and animal health. As a result, New Zealand's agricultural products have lower emissions intensities than those from many other countries.

The emissions intensity of the economy has decreased 36 percent since 1990. Between 1990 and 2014, the emissions intensity of milk solids decreased by 21 percent (emissions per kilogram of milk solids). The emissions intensity of beef meat decreased by 31 percent (emissions per kilogram of meat).

## Other actions in 2015/16

### FRESH WATER – GETTING THE BALANCE RIGHT

In March 2016, MPI and MfE jointly released a consultation document describing the next steps for freshwater reform, including proposals for maintaining or improving water quality within a region. The proposals aim to improve the management and use of fresh water, apply efficiency standards to water use, and exclude stock from water ways.

The proposals originated partly from the Land and Water Forum's second report and the Parliamentary Commissioner for the Environment's 2015 report on managing water quality, and form part of Objective A2 of the National Policy Statement for Freshwater Management.

The proposals will affect regional councils, which must set limits on water quality and quantity, and will in turn affect farming practices. MPI is supporting councils and primary industries to implement the National Policy Statement through multiple programmes including the Primary Growth Partnership and Sustainable Farming Fund. MPI also boosted funding for Overseer®, the nutrient management software.

### MONITORING NUTRIENT DISCHARGES

Nutrient levels and their effects on water and soil quality continue to attract attention from both the primary sector and the public. MPI monitors several different work areas, including engaging with industry on farm nutrient plans and supporting technology to develop modelling scenarios for regulatory purposes.

### RECOVERY FROM ADVERSE EVENTS

The impact of climatic events over the past 12 months has seen MPI extend regional support to help those farmers struggling with drought and flooding in their regions. In conjunction with the Ministry of Social Development and the Ministry of Health, several initiatives were launched to support farmers and their communities to cope at high-stress times. This includes funding to support infrastructure repair, Enhanced Taskforce Green funding for clean-up assistance, additional funding for Rural Support Trusts and extensions to Rural Assistance Payments.

Raising awareness about the issue of rural depression is important, and MPI's Transforming the Dairy Value Chain PGP programme has a dedicated work stream with a focus on developing support networks to reduce fatigue and stress on dairy farms.

This has resulted in over 400 rural professionals being trained in stress and mental health awareness and response, and over 100 physical and mental health assessments delivered throughout New Zealand.

### WORKING WITH MĀORI TO IMPROVE PRODUCTIVITY OF ASSETS

To achieve its goal of doubling New Zealand's export value, MPI recognises that improving the productivity of Māori land is a significant deliverable. This year, work focused on embedding the MAPIP programme that was established at the end of 2013/14.

MAPIP's focus is supporting the development of tangible, Māori-led projects that typically struggle to attract support and are faced with complex issues, such as multiple ownership land tenure, multi-governance frameworks and limited access to physical and financial capital. At the end of June 2015, 20 potential projects were considered for further progression, with 12 finally being approved for development in 2015/16. Of these, one has successfully concluded and progressed to the next stage of development (Te Tai Tokerau Māori Forestry Collective). The remaining projects are on track, with most expected to be ready for further work in 2017. Learnings from the current projects will be applied to future work programmes with a continued focus on increasing productivity.

### PLANNING FOR PLANTATION FORESTRY

The development of the National Environmental Standard for Plantation Forestry (NES-PF) has been a collaborative process between MPI, MfE and a stakeholder working group. The stakeholder group which includes representatives from local government, the forestry industry and environmental non-governmental organisations.

The NES-PF is a proposal for change management of plantation forestry activities under the RMA, with the objective of increasing efficiency and certainty for forestry activities on a national basis, while maintaining environmental outcomes. This will allow nationally consistent rules, which should reduce compliance costs for producers.

The proposal was approved for public consultation in June 2015, with 18,000 submissions received by the closing date in August 2015. Public meetings and hui were also held to provide information and answer questions on the NES-PF. Following the public consultation and initial analysis of submissions, MPI

undertook a stakeholder engagement process from February to May 2016.

Stakeholder feedback provided additional information that was considered alongside the analysis of submissions. This identified themes, that may necessitate changes to the NES-PF proposal. A summary report on these proposed changes is expected to be released publicly later in 2016, once Cabinet has considered all options.

### MANAGING SUSTAINABLE FISHING RESOURCES

New Zealand's fisheries are a highly valued food source for tangata whenua, enable a recreational pastime for anglers, and provide income and jobs to many across the country. They are a natural resource for all New Zealanders.

Maintaining the health of New Zealand's fisheries, and balancing all users' needs and desires, is a major responsibility for MPI.

MPI achieves this through New Zealand's quota management system, which adjusts catch limits to ensure sustainability. Ongoing scientific assessment of fish stocks is important to the system, ensuring fisheries managers can effectively respond to changes in abundance. MPI's current scientific assessment shows that overall, New Zealand's fish stocks are in good shape - 96.4 percent of fish with a known status come from stocks where sustainability is not a concern. For the remaining 3.6 percent, plans are being developed to bring the fisheries back to sustainable levels.

MPI invests more than \$22 million annually in fisheries science research to support these assessments, which involves scientists from within MPI, universities, industry and non-governmental organisations. Information produced from these groups is peer-reviewed and supports current accepted research about the levels of fish stocks in New Zealand waters.

Earlier this year, concerns were raised about the state of New Zealand's fisheries after the release of a catch reconstruction report from the University of Auckland. The report claimed high levels of discarding and non-reporting were occurring across New Zealand's fisheries.

Following the University of Auckland report's release, concerns were also raised about the issue of illegal fish dumping by some commercial vessels in late 2012 and early 2013. The investigation into this

activity was known as Operation Achilles. In May 2016, the Director-General of MPI initiated an independent review into the circumstances surrounding Operation Achilles, as well as two other compliance operations named Hippocamp and Overdue. Included in the scope of the review was the decision not to prosecute individuals associated with potentially illegal discarding. Queen's Counsel, Michael Heron, was appointed to lead the review. Mr Heron's findings were released on 16 September 2016.

In reviewing the decision not to prosecute in the Operation Achilles investigation, Mr Heron found the decision and, in particular, the process leading to it, was flawed. Mr Heron also noted the decision was understandable and available to be made in the circumstances. The matter was complex, approached professionally and in good faith by all involved.

Mr Heron found decisions made in relation to the other two compliance operations, Overdue and Hippocamp, were understandable.

MPI has accepted Mr Heron's findings and a range of actions are underway to address matters arising from the report. These include a review of fisheries compliance functions with the aim of providing clearer national leadership and accountability, as well as reviewing and updating MPI's prosecution policy and guidelines.

Alongside this work, the Future of our Fisheries programme is underway. The programme will modernise and future-proof New Zealand's fisheries system. A key deliverable of the programme is a review of the current fisheries management system, including current regulatory and legislative settings.

Overall, the amount of observer coverage of commercial fishing in all New Zealand's fisheries has more than doubled in the past 10 years. More than three quarters of New Zealand's commercial fishing take by volume is in the deep water, and that's where the majority of MPI's observer effort goes. There are unique challenges to placing observers on inshore vessels - many of them are small and the presence of observers can present practical issues such as health and safety risks.

This is being addressed through the development of an integrated electronic monitoring and reporting system (IEMRS) covering all commercial vessels. IEMRS will significantly improve the quality and quantity of information MPI receives about

commercial fishing. The IEMRS project is planning to install GPS technology and electronic catch reporting on around 1,200 commercial fishing vessels in New Zealand from October 2017, and video cameras are planned to begin to be installed from October 2018. This will provide a genuine step change in relation to fisheries management and compliance, with fisheries managers being better able to respond to changes in abundance, and ensure New Zealand's fisheries remain sustainable. From a compliance perspective it will present a powerful deterrent to illegal activity and support future prosecutions.

In addition to IEMRS, fisheries officers and honorary fisheries officers will continue to work with communities and the public to improve knowledge of, and compliance with, fisheries-related legislation.

### **SUSTAINABLE AQUACULTURE PRODUCTION**

Achievement of well-planned and sustainable aquaculture growth is carried out via the Aquaculture Strategy and Action Plan, with progress support through the Aquaculture Planning Fund. The fund is committed to enabling industry to achieve its goal of \$1 billion in annual sales by 2025. It also assists regional councils with the costs of coastal planning, with work being implemented in line with the provisions of the RMA and New Zealand Coastal Policy Statement 2010.

Because of the nature of the industry, applications to the fund and Action Plan approvals varies, depending on the location and type of aquaculture being

developed. During the year, six coastal permit applications relating to shellfish (covering 57.7 hectares) progressed to the submission stage and are awaiting approval under the Action Plan.

MPI's long-term progress against the Aquaculture Strategy and the Action Plan has been mixed. The original targets, set in 2012, focused on achieving 80 percent of regional coastal plans containing provision for aquaculture by 2016 and 4,000 hectares of new aquaculture space being developed by 2016.

With RMA changes being indicated by the Government, and increased attention to the importance of social licence, MPI reviewed strategies and plans to stabilise and grow the industry. Businesses along with local and central government agencies have had direct input into the review, and recommended actions have been approved by BGA ministers.



## Long-Term Outcome: Protect from Biological Risk

### Growing and Protecting New Zealand

LONG-TERM  
OUTCOMES

Maximise export opportunities

Improve sector productivity

Increase sustainable resource use

Protect from biological risk

INTERMEDIATE  
OUTCOMES

Export success is enhanced by the integrity of primary sector products and increasing awareness of New Zealand's unique culture and brand

Exporters have improved access to fast-growing and high-value markets, and benefit from new export opportunities

Improved generation of new ideas and their adoption and adaptation by the primary industries is supported by government actions

The primary industries have greater access to capital and have the skills needed to grow and innovate

The primary sector maximises the use and productivity of natural resources within environmentally sustainable limits and is resilient to adverse climatic and biosecurity events

**The primary sector is protected from biological risks through the effective operation of the biosecurity and food safety systems**

### Securing New Zealand's borders to enable growth

New Zealand has a lot to protect, and keeping New Zealand's environment, economy and society safe from biological risk is major priority for MPI.

This protection occurs through MPI's leadership of New Zealand's biosecurity system. The system encompasses the monitoring and surveillance of risks offshore, the implementation of standards and inspections to manage those risks in passengers and cargo entering New Zealand the provision of readiness and response programmes for pest incursions when they do occur and supporting the management of established pests.

The protections MPI provides also extends to the food we eat. Through leadership of the food safety system, MPI ensures food produced, imported into or exported from New Zealand is safe, and meets internationally determined food standards. This also covers the trade and audit requirements for the countries New Zealand actively sells to.

Both the biosecurity and food safety systems are aligned to contribute to creating sustainable long-term growth for New Zealand – supported by MPI's compliance, response, verification and quarantine activities.

MPI demonstrates its achievements against this outcome through the following intermediate outcome:

1. the primary sector is protected from biological risks through the effective operation of the biosecurity and food safety systems.

### Intermediate outcome: The primary sector is protected from biological risks through the effective operation of the biosecurity and food safety systems

To manage the effective operation of New Zealand's biosecurity system, MPI works to achieve the following impacts:

- protecting New Zealand's competitive advantage of a pest-free environment;
- better preparing New Zealand to respond to pest and disease incursions;
- increasing voluntary and assisted compliance.

## Progress indicators

### Market access is maintained and opportunities enhanced, with trading partners having confidence in New Zealand's biosecurity system

No major responses occurred during the year affecting access to markets. Work programmes with major trading partners secured their continued understanding, knowledge and acceptance of New Zealand's favourable animal and plant health status and operation of the food safety system.

### Health of the biosecurity system is improving

MPI is continually focused on improving the health of New Zealand's biosecurity system. During 2015/16, MPI worked to increase engagement through the National Biosecurity Capability Network (NBCN) and the GIA Deed. NBCN membership has increased from 193 in 2015 to 204 in June 2016. Nearly 55,000 people are members of the network through their member organisations. Seven GIA partners or potential partners are currently being recruited and, during the year, Kiwifruit Vine Health, Beef and Lamb New Zealand and New Zealand Pork joined the network.

All regional councils are currently undergoing re-signing of their Memorandums of Understanding in accordance with the NBCN, as are veterinary practices. Massey University also joined the network during the year and this has allowed 500 veterinary students to be available for large animal responses in various roles. NBCN members have been involved in three major responses over the past 12 months – the Queensland fruit fly, tau fly and velvetleaf – as well as smaller incursions such as termite and marine responses. Nearly 250 members have been used in these responses during the past 12 months.

MPI has also worked on the adoption of a National Direction for Pest Management which is aimed at improving national and regional alignment of pest management plans through issuing mandatory guidelines and frameworks for their development. This approach clarifies the Biosecurity Act 1993 requirements, and for the first time requires "good neighbour rules" to be set out in the plans.

Updates were also made to the Biosecurity Notifiable Organisms Orders to ensure the most up-to-date list of pest and disease organisms of concern to New Zealand (internationally and domestically) is available. The list supports trading platforms and demonstrates "proof of freedom" from such pests and diseases. It also assists biosecurity responses by requiring suspected pests and diseases to be notified to MPI, with early notification allowing responses to be effectively managed.

### Number of response plans completed or reviewed

In the past year, high priority response plans were developed and initiated for:

- velvetleaf;
- tau fly;
- eucalyptus variegated beetle;
- black grass seeds;
- pea weevils; and
- raspberry ringspot virus.

Implementation of high priority response plans continued for *Bonamia ostreae* (a disease of the flat oyster), a New Zealand *Rickettsia*-like organism (NZRL0) and *Tenacibaculum maritimum* in farmed salmon, *Rhipicephalus sanguineus* (brown dog tick); and *Salvinia molesta* at Te Henga wetland.

A response was also initiated for a termite infestation found on a vessel in Whitianga, and several previous termite responses were closed after successfully meeting their response objectives. Project plans were also developed for marine biosecurity readiness and myrtle rust, as well as bee readiness, including an operational research initiative on bee pathogens.

### Completion of exercises testing readiness for an incursion

MPI staff participated in exercises that ranged from developmental workshops and table-top assessments to large "all of government" activities.

The major biosecurity exercises conducted by MPI in 2015/16 included a functional test of the National Security System in response to a simulated incursion of brown marmorated stink bug. This involved over 30 central and local government agencies and private industry groups.

The findings and outcomes from all exercises are being used to inform ongoing readiness development.

The readiness work programme includes a project on people capability and capacity that will provide a structure to form a baseline for capability and capacity, with links to staff development plans.

#### Adoption of previous recommendations that lead to faster, more effective responses

MPI maintains a data resource that acts as the “single source of the truth” for actions that have been proposed, or were taken, to address recommendations from previous responses. This data resource currently includes 379 lessons of which 59 remain open and are being addressed.

#### Compliance rates with biosecurity requirements are increasing

	2013/14	2014/15	2015/16
Consignments inspected	52,501	53,810	53,809
Non-compliant consignments	11,869	13,149	13,074
Non-compliance (%)	23	24	24

## Other actions in 2015/16

### PROTECTING NEW ZEALAND'S PEST-FREE STATUS

New Zealand's biosecurity system is recognised as being world-class. To maintain this status, MPI has developed the Biosecurity 2025 Direction Statement to inform the future development of the system. Proposals for the direction statement were created in consultation with biosecurity stakeholders, Māori and focus groups, with the draft going out to wider public consultation in August 2016. It aims to provide guidance to all participants in the biosecurity system.

It will include:

- a mission for biosecurity;
- guiding principles for the way we work;
- strategic directions to drive improvement.

The direction statement will replace the 2003 Biosecurity Strategy for New Zealand – *Tiakina Aotearoa Protect New Zealand*.

In addition to supporting aspects of the biosecurity system to make it more responsive to future needs, MPI has been further investing in improving biosecurity measures at the border. As the sheer volume of passengers and goods moving through New Zealand's border continues to grow, the cost of providing biosecurity services also continues to increase. To help meet these costs, a border clearance levy was introduced on 1 January 2016. The levy allows MPI and Customs to manage resourcing of border clearance activities as passenger numbers fluctuate. It ensures the resources are in place to keep New Zealand safe from harmful pests, people and dangerous substances and maintain current levels of service.

### BIOSECURITY READINESS

Ensuring New Zealand is ready to respond to a biosecurity incursion is an important function for MPI. In 2013, the Office of the Auditor-General (OAG) reviewed MPI's ability to prepare and respond to biosecurity incursions and identified several areas where improvement was needed. Following this report, MPI has made significant changes, including developing a response model to deal with all types of response, investing in an emerging risk system to better identify new and emerging biosecurity threats from off-shore, and lifting engagement with response partners.

The OAG released a follow-up report in October 2015 reviewing MPI's progress on the 2013 report. The Auditor-General did not have any follow-up recommendations and was satisfied with the progress made. It also noted that further work was needed to embed these changes, but the groundwork had been laid, with improvements continuing as MPI learns from its responses to incursions.

Improvements progressed during the year include further development of tools and relationships to support the ability to respond to a potential FMD outbreak – including starting the construction of the new National Biocontainment Laboratory at Wallaceville, Upper Hutt, in October 2015. The provision of the new enhanced PC3 laboratory addresses one of the main recommendations of the 2013 OAG report.

Building enduring relationships with response partners is important – whether they are locally based or internationally located. An important investment in this area was the continued work to

## Exploring MPI's new laboratory

MPI has worked with local and international design experts to plan the new National Biocontainment Laboratory, so it meets international best practice for handling organisms that cause disease in animals and humans (pathogens).

MPI is investing \$87 million in this project, covering design, construction, commissioning, and certification.

The new laboratory will have a floor area of more than 3,400 square metres and will meet international best practice for handling pathogens. It will have some of the most sophisticated systems and safety features in the world. It has been designed to be as flexible and adaptable as possible – so spaces can be used for different diagnostic tests. This flexibility will also allow the introduction of new technologies as they become available.

Containment facilities that hold viruses and bacteria are approved according to an international scale called a physical containment, or PC, level. PC1 is the lowest containment level and is used for the safest bacteria and viruses, while PC4 is the highest.

The new laboratory will exceed the requirements for PC3 and so will be the largest, most secure, high level containment laboratory in New Zealand. Now in construction at MPI's Wallaceville site (Upper Hutt), the laboratory will improve New Zealand's ability to respond to emergency animal diseases such as foot and mouth disease.



grow the number of industry bodies joining the GIA biosecurity partnership. This year numbers joining the agreement doubled, with new members coming from the forestry, onion, citrus, kiwiberry and avocado industries. The numbers of GIA members now sit at eight industry organisations representing nine industry sectors with a further four possible new signatories in the near future.

### IMPROVING BIOSECURITY COMPLIANCE

MPI's presence at New Zealand's borders is essential for ensuring passengers are aware of, and goods comply with, New Zealand's biosecurity requirements. Over the past year, activity has increased as the number of people and goods entering New Zealand has continued to grow.

As part of its contribution to the BGA, MPI has been working with Customs on a small-scale, two-year trial to allow accredited, low-risk travellers and traders to move faster through the border. The Trusted Trader – Trusted Traveller initiative is limited to trans-Tasman passengers and goods, and looks to develop a process that allows all border protections to be met while reducing the requirements on a traveller or

trader. Managing risk is paramount to the initiative, and work is underway to ensure the initiative will not make it any easier for pests or diseases to pass through New Zealand's border. Initial trials are expected to begin at the end of 2016.

During the year, marketing activities were run that targeted both Chinese in New Zealand (to help educate friends and family in China) and Chinese in mainland China. A mix of New Zealand-based media, including digital, print and television to reach audiences in New Zealand, were used, along with digital advertising on popular Chinese travel sites and search engine marketing to Chinese visitors pre-departure. Support for this media is provided via a MPI Chinese-translated website. In addition, partnerships were developed with organisations that have important interactions with Chinese travellers, such as Ministry for Business, Innovation and Employment, who distributed biosecurity information when visitor visas are issued, and major Chinese airlines who supply translated information on board the plane explaining the biosecurity section of the arrival card.

## Pawder Patrol – meet Officer Goodboy

In February 2016, MPI launched its new in-flight biosecurity video, featuring the colourful canine “spokespawson”, Officer Goodboy. Officer Goodboy greets passengers just before their arrival into New Zealand. The bespectacled beagle is voiced by comedian and local sustainability hero, Te Radar, and is the friendly face advising visitors to declare or dispose of items that may pose a risk to New Zealand’s biosecurity.

As well as English, Officer Goodboy has been dubbed into Chinese, with translations and subtitles provided in 10 additional languages. The canine quarantine officer appears on screens across 10 major airlines, including Emirates, Malaysian Airlines and Qantas, with plans to expand to an additional six carriers later in the year.

The canine quarantine officer and his biosecurity message are also promoted via social media, and are now appearing on luggage tag giveaways for young travellers. Officer Goodboy provides a light-hearted and engaging reminder of New Zealand’s biosecurity rules, yet still delivers the serious message of what passengers need to do when arriving in New Zealand and how to avoid having a “ruff” time over an infringement.



### FOOD SAFETY SYSTEM

Working to protect both consumers and New Zealand’s international reputation as a supplier of safe and suitable food is an essential part of MPI’s role as guardian of New Zealand’s food safety system. This role can be summed up under the umbrella term of food protection.

The concept of food protection recognises that a broad range of activities is needed to protect the food system. The complexity of the modern food system has increased the attention paid to food defence and food fraud, rather than just food safety and food quality. Key trading partners, such as Australia, China, the United Kingdom, and the United States, are developing broader food protection systems in response to criminal threats.

Food protection refers to all activities undertaken to ensure the strength of the food system. It is concerned with reducing the impact of both

intentional and unintentional harms through the prevention, management, and mitigation of incidents within four intersecting areas of:

- food defence – protecting against harm to public health caused by intentional action motivated by ideology – for example, deliberate threats to contaminate food products;
- food fraud – protecting against economic loss caused by intentional action motivated by economic gain; fraudulent activities include counterfeiting, dilution or substitution, mislabelling, or unapproved enhancements;
- food safety – protecting against harm to public health caused by unintentional action and is achieved by managing and mitigating risks and hazards in the food system; and
- food quality – protecting against economic loss caused by unintentional action, such as through spoilage or deterioration.

Over the past year, MPI has developed its work under the food protection concept, with changes to regulation and assurance procedures being actioned and maintaining the policy and legislative frameworks for ensuring food safety for the public.

For the food safety system overall, MPI seeks to have the following impact:

- improved safety and suitability of food, including imported food.

## Other actions in 2015/16

### FOOD ACT 2014 IMPLEMENTATION

After being passed two years ago, the Food Act 2014 came into force on 1 March 2016. This new legislation will help New Zealand food producers and retailers to keep pace with changes in science and technology, and will provide efficiencies for businesses by moving away from a one-size-fits-all approach to regulating businesses according to risk. This allows more flexibility to manage food safety in a way that is appropriate to a business and will help reduce costs and regulation for many, especially those providing lower risk foods. The new Act also introduces measures to help businesses minimise time and costs associated with food safety requirements.

New food businesses that are trading for the first time are required to operate under the Act immediately. Food businesses trading before 1 March 2016 are able to transition to the new requirements over a three-year period ending on 28 February 2019.

MPI has supported implementation of the Food Act 2014 with a comprehensive communications programme aimed at ensuring that everyone in the food sector is able to understand and meet the new requirements. An important part of this communications programme is a web-based “Where Do I Fit?” tool. This tool is available to all food businesses to help them determine, for their specific circumstances, where they fit in the risk management framework. The “Where Do I Fit?” tool provides a step-by-step process for businesses to follow to meet the requirements of the Act.

As well as working with businesses, MPI has worked closely with local councils and other government agencies to provide additional support to work with the new legislation.

### INTRODUCTION OF FOOD SAFETY LAW REFORM BILL

The Food Safety Law Reform Bill was introduced into

Parliament in June 2016 and is part of an omnibus bill to make improvements to the three Acts governing the food safety system. The aim is to improve the alignment, operation and design of the Acts so as to better protect human health, and maintain and strengthen New Zealand’s reputation as a supplier of safe and suitable food both domestically and internationally.

The Bill proposes changes to the three main Acts governing New Zealand’s food safety system: the Food Act 2014, Animal Products Act 1999 and Wine Act 2003. These changes include amendments to strengthen MPI’s responses to food safety incidents, creation of a more consistent and fair approach to enforcement for non-compliance, and improvements to the Government’s access to information from third-party verifying agencies.

### FOOD SAFETY SCIENCE AND RESEARCH CENTRE LAUNCHED

The Food Safety Science and Research Centre was launched in May 2016 at Massey University in Palmerston North, and is an example of the concept of food quality in action. The centre is a partnership between government, industry organisations and research institutions and had its beginnings as part of a recommendation from the Government Inquiry into the Whey Protein Concentrate Contamination Incident. This is a virtual centre that aims to ensure New Zealand’s food safety system remains among the best in the world.

An important function will be to combine existing food safety science and research to make the best use of New Zealand and international resources. The centre will also link to and collaborate with the international science community and related international research platforms. The research to be conducted aims to protect New Zealanders from food safety-related health threats, such as salmonella, campylobacter and other foodborne diseases.

### HEALTH STAR RATING AWARENESS CAMPAIGN

The correct labelling of food is important to consumers, particularly in today’s environment where healthy food consumption can be influenced by how it is packaged. Misrepresentation of the healthy benefits of foods can be interpreted as a type of food fraud.

In June 2014, it was announced that New Zealand would join with Australia’s Front-of-Pack Nutrition Labelling system. This voluntary rating system for packaged food products is intended to help people

make better food choices. An example of a front-of-pack star rating system is shown here.



The concept uses a star rating scale of half a star to 5 stars. Foods with more stars have better nutritional value. MPI worked with food safety and public health officials and experts, consumer groups and the food industry in New Zealand and Australia to develop this system.

Uptake of the system by producers has been successful, with several major brands reformulating their mainstream products to achieve higher star ratings. The Health Star Rating is now on more than 1,200 products on the supermarket shelf and is expected to significantly increase. The consumer marketing and education campaign to support the Health Star Rating system began in March 2016 and is progressing well with in-store promotions and online and Adshel advertising.

A review of the Health Star Rating system is planned for later in 2016, with MPI leading the monitoring and evaluation component of the review. The Health Promotion Agency will continue to lead the consumer marketing and education campaign.

### 1080 POISONING THREAT CONVICTION

MPI's work as part of the 1080 poisoning threat case is an ideal example of the concept of food defence. The investigation into the 1080 poisoning threat was launched at the end of November 2014, after a threat was made to contaminate infant and other formula with the pesticide 1080, unless the Government stopped using it. MPI, as part of a cross-agency-industry response team, worked behind the scenes for more than three months to ensure consumers

were protected and infant formula supplies were safe, before going public in March 2015 about the threat and measures taken to protect consumers and international markets.

The investigation was complex, but the combined response was successful when a 60-year-old Auckland businessman was arrested and charged with several offences in October 2015. The businessman was convicted in relation to those charges in February 2016 with sentencing following in March 2016.

As part of the sentencing proceedings, MPI delivered its Victim Impact Statement to the Auckland High Court. The statement outlined how the scale and duration of the operation resulted in direct costs to MPI of several million dollars, as well as considerable pressure on the many people involved. The offender was sentenced to eight-and-a-half years in jail for two charges of attempted blackmail.

### HEPATITIS A BERRY CASE

Food safety in action was demonstrated in December 2015, when MPI directed the supplier of packaged imported frozen berries to recall its products, after four people who had consumed the same brand of frozen berries reported getting sick with Hepatitis A. As a result of the recall, MPI instituted testing of imported frozen berries at the border as part of a wider surveillance programme. In all, five cases were diagnosed with the disease. The supplier also voluntarily recalled its other products to provide extra assurance to its customers because the products were from the same source.

As part of the response, MPI issued an Emergency Food Standard (EFS) for imported frozen berry fruits in December 2015. The EFS was a temporary measure that required berries to be tested on arrival in New Zealand. The EFS expired at the end of February 2016.

## Progress indicators

### Rates of foodborne disease are managed within agreed levels, through effective risk management of priority pathogens

MPI has a five-year performance target for foodborne campylobacteriosis. This is one of the most commonly notified potentially foodborne diseases in New Zealand.

The five-year performance target is: the number of human cases of foodborne campylobacteriosis is reduced by 10 percent from 88.4 cases to 79.6 cases per 100,000 by the end of 2020.

During 2015, rates of foodborne campylobacteriosis were managed with this five-year target in mind. The rate of foodborne campylobacteriosis in 2015 decreased from 2014, with 79.2 (3,638) cases per 100,000 reported, a decline from 89.0 (4,013) cases per 100,000 in 2014.

# MEASURING OUR PERFORMANCE



## Vote

# Primary Industries and Food Safety

## Multi-Class Appropriation – Administration and Management of Crown Forestry Assets and Operations

The overarching purpose for this appropriation is to achieve the outcome of obtaining the best return on the Crown's interest in forestry assets while seeking opportunities for the Crown to divest its interest in those assets.

### What MPI wants to achieve

This appropriation is intended to achieve the effective management of the forestry assets and estate by Crown Forestry, with the view to divesting the Crown of those assets over time.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: ADMINISTRATION AND MANAGEMENT OF CROWN FORESTRY ASSETS

This category is intended to achieve the effective administration and management of Crown Forestry assets to achieve its objective of leveraging the best return for the Government's portfolio of forestry assets.

#### NON-DEPARTMENTAL OUTPUT EXPENSE: OPERATIONAL MANAGEMENT OF THE CROWN FOREST ESTATE

This category is intended to achieve the effective administration of the Crown's forestry operations.

### How MPI performed

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the tables below.

### Performance information

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE*
Percentage of costs and revenues are consistent with industry norms as assessed by annual independent review of a sample of forests	100%	100%	0%
Number of hectares and percentage of the Crown Forestry managed estate surrendered or sold (hectare)	3,633 (19%)	2,500 (13%)	45%
Percentage of forest management activities that comply with all statutory requirements, lease agreements and other contractual arrangements as assessed by annual independent review of a sample of forests	100%	100%	0%

### Operational management of the Crown forest estate

Performance information for this appropriation is provided as part of the Minister's reports on non-departmental appropriations, which are appended to this document.

\*Variance in this section was calculated using the following formula:  $(f-a)/f$  whereby  $f$  = standard and  $a$  = actual.

The calculated result has been rounded to the nearest whole number. Positive variances reflect favourable results compared to the standard, while negative variances represent unfavourable results.

## How much did it cost?

### Revenue and output expenses

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
1,185	Revenue Crown	1,266	1,296	1,266
99	Revenue other	129	94	116
1,284	Total revenue	1,395	1,390	1,382
1,235	Total expenses	1,277	1,390	1,382
49	Total surplus/(deficit)	118	–	–

### Financial comment

There are no significant movements to the Main Estimates.

## Multi-Class Appropriation – Border and Domestic Biosecurity Risk Management

The overarching purpose of this appropriation is to improve biosecurity risk management by providing operational support to prevent harmful organisms from crossing New Zealand's borders. It also includes working to reduce the unwanted harm caused by organisms already established in New Zealand.

### What MPI wants to achieve

This appropriation is intended to achieve effective management of biosecurity monitoring and clearance programmes, the development and maintenance of biosecurity risk processes associated with imports and exports and the assessment, containment and possible eradication of suspected risk organisms. This includes the management of domestic biosecurity surveillance activities.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: BIOSECURITY INCURSION RESPONSE AND LONG-TERM PEST MANAGEMENT

This category is intended to achieve effective management of the leadership and co-ordination of activities relating to all biosecurity and food responses, to mitigate the adverse impacts of risk organisms.

#### DEPARTMENTAL OUTPUT EXPENSE: BORDER BIOSECURITY MONITORING AND CLEARANCE

This category is intended to achieve the effective monitoring and clearance of passengers, vessels, mail and goods arriving in New Zealand to prevent exposure of our communities and the environment to a range of biosecurity risks.

#### DEPARTMENTAL OUTPUT EXPENSE: BORDER BIOSECURITY SYSTEMS DEVELOPMENT AND MAINTENANCE

This category is intended to achieve the effective maintenance of New Zealand's biosecurity system that prevents the introduction and establishment of serious notifiable organisms through manageable pathways.

#### DEPARTMENTAL OUTPUT EXPENSE: DOMESTIC BIOSECURITY SURVEILLANCE

This category is intended to achieve effective management of the information received from the public, industry and the scientific community about suspected exotic pests or diseases. It also includes the collection, sampling and testing of organisms suspected of carrying or being infected with a potential biosecurity risk.

### How MPI performed

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the following tables.

### Biosecurity incursion response and long-term pest management

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Number of Industry sign-up for Government–Industry Agreement deeds	5	5	0%
Percentage of key stakeholders are satisfied with major biosecurity responses	85%	80%	6%

### Border biosecurity monitoring and clearance

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of international air passengers that comply with biosecurity requirements by the time they leave the airport	98.7%	98.5%	0%
Percentage of international mail that complies with biosecurity requirements by the time it leaves the International Mail Centre	99%	99%	0%
Percentage of import clearance processes completed within agreed timeframes	51%	80%	–37%
Number of identified and mitigated biosecurity risks resulting from targeted evaluations of imported goods	13,074	10,000–12,000	19%
Percentage of costs-recovered external stakeholders rate overall service as 4 out of 5 or higher	82%	80%	2%

### Comment

MPI continues to improve its performance against the standards in the border and domestic biosecurity risk management area.

MPI met the standard for international mail clearance, and it has improved its performance for cargo import clearance processes within agreed timeframes. Although the latter standard was not met this year, initiatives implemented during the year has seen an improvement of 11 percent since the start of 2015/16, lifting the annual performance level to 51 percent achievement against the standard. This occurred at a time when there was also a 7 percent increase in the volume of import clearance applications.

MPI has canvassed industry to see if the current service level agreement is appropriate and early indications are that it could be adjusted to better meet the requirements of both MPI and industry. MPI is working to address this, with any changes to the service level agreement being underpinned by the promise that there will be no negative impacts on the supply chain.

### Border biosecurity systems development and maintenance

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of OIE <sup>1</sup> and IPPC <sup>2</sup> standards that are accepted by New Zealand	100%	90%	11%
Percentage of certificates issued that meet biosecurity technical requirements of importing countries are specified by overseas competent authorities	99.7%	99%	1%
Percentage of milestones met for the Sanitary and Phytosanitary Standards Market Access Programme, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	91%	75%	21%

<sup>1</sup> OIE – World Organisation for Animal Health.

<sup>2</sup> International Plant Protection Convention.

## Domestic biosecurity surveillance

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
ISO 17025 accreditation maintained for all laboratory processing, testing and reporting	100%	100%	0%
Percentage of incursion investigations reach an outcome decision within specified timeframes	73%	80%	-9%
With any suspected high risk or serious pest or disease notification, the investigation commences within 24 hours of notification	100%	100%	0%
No export markets are closed due to the standard of MPI's active surveillance programmes	100%	100%	0%
Specifically targeted pests or diseases are detected early enough to enable effective risk management interventions	100%	100%	0%

## Comment

The number of incursion investigations undertaken during the year was 828, with 20 being high-risk notifications. The volume of surveillance notifications has increased by 76 percent since 2012, with subsequent investigations increasing by 42 percent in the same period. This trend of increasing work volumes is likely to continue with the greater strategic emphasis on lifting public participation and awareness in biosecurity matters.

There are several surveillance programmes focusing on targeted species underway, including Asian gypsy moth, fruit fly and salt marsh mosquito. More information about targeted surveillance programmes for pests and diseases can be found at: <http://www.mpi.govt.nz/protection-and-response/finding-and-reporting-pests-and-diseases/surveillance-programmes/>.

## How much did it cost?

### Revenue and output expenses

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
	<b>Revenue Crown</b>			
38,320	Biosecurity incursion response and long-term pest management	33,189	31,624	33,189
45,822	Border biosecurity monitoring and clearance	37,246	38,806	37,246
10,385	Border biosecurity systems development and maintenance	13,390	10,201	13,390
34,959	Domestic biosecurity surveillance	36,856	38,508	36,856
129,486	Total revenue Crown	120,680	119,139	120,681
	<b>Revenue other</b>			
616	Biosecurity incursion response and long-term pest management	808	68	775
33,975	Border biosecurity monitoring and clearance	55,135	52,494	52,673
4,766	Border biosecurity systems development and maintenance	6,564	5,695	5,899
1,656	Domestic biosecurity surveillance	1,516	1,565	1,360
41,013	Total revenue other	64,021	59,822	60,707

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
170,499	Total revenue	184,701	178,961	181,388
	<b>Expenses</b>			
36,120	Biosecurity incursion response and long-term pest management	34,980	31,692	33,964
80,205	Border biosecurity monitoring and clearance	87,370	91,300	89,919
16,060	Border biosecurity systems development and maintenance	18,685	15,896	19,289
36,294	Domestic biosecurity surveillance	38,953	40,073	38,216
168,679	Total expenses	179,988	178,961	181,388
	<b>Surplus/(Deficit)</b>			
2,816	Biosecurity incursion response and long-term pest management	(983)	–	–
(408)	Border biosecurity monitoring and clearance	5,011	–	–
(909)	Border biosecurity systems development and maintenance	1,269	–	–
321	Domestic biosecurity surveillance	(581)	–	–
1,820	Total surplus/(deficit)	4,716	–	–

## Financial comment

The increase of \$2.427 million between the Main Estimates and the Supplementary Estimates was mainly due to a response to a velvetleaf incursion; and an increase in demand in funding for services to other public sector agencies and third parties. This was offset by the carry forward of efficiency savings of \$2.359 million to 2016/17.

Additionally, there were expense transfers of \$2.609 million from 2014/15 to 2015/16 for:

- the response relating to the Queensland fruit fly surveillance and eradication programme;
- training in management and containment of FMD, which was delayed as a result of the Nepal earthquake;
- the change in timing of the Joint Border Management Systems (JBMS) and National Biocontainment Laboratory project.

## Memorandum accounts

Three memorandum accounts are used to keep track of the accumulated surpluses and deficits to enable MPI to take a long-run perspective to fee setting and cost recovery.

The Border Biosecurity Clearance Fees memorandum account covers: levies imposed on all importations of goods for which a document is lodged with the New Zealand Customs Service under regulations 26(2) of the Customs and Excise Regulations 1996; all other fees collected under the Biosecurity Costs Regulations 2010 including inspection of risk goods, offshore inspection of ships, and approval and audit of transitional containment facilities and facility operators. An operating deficit of (\$641,000) was made under this memorandum account for the year ended 30 June 2016 (2015: \$4.166 million).

The Phytosanitary Exports memorandum account covers fees for certification of plant and forestry exports. An operating surplus of \$952,000 was made under this memorandum account for the year ended 30 June 2016 (2015: \$1.173 million).

The Border Biosecurity Traveller Clearance memorandum account covers fees and costs associated with the biosecurity clearance costs of travellers coming into New Zealand. An operating surplus of \$1.123 million was made under this memorandum account for the year ended 30 June 2016 (2015: nil).

## Multi-Class Appropriation – Development and Implementation of Food Safety Policy Advice

The overarching purpose of this appropriation is to provide both policy and operational advice and support to Ministers in discharging their policy and operational decision-making responsibilities with regard to food safety.

### What MPI wants to achieve

This appropriation is intended to achieve the development, provision and implementation of policy advice relating to food safety matters.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: DEVELOPMENT OF FOOD SAFETY POLICY ADVICE

This category is intended to achieve the provision of policy advice to ensure that food safety systems are managed to enable an increase in real export earnings from the primary sector in a sustainable way.

#### DEPARTMENTAL OUTPUT EXPENSE: IMPLEMENTATION OF FOOD SAFETY POLICY ADVICE

This category is intended to achieve the implementation of policy advice relating to food safety matters and ministerial servicing.

### How MPI performed

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the tables below.

#### Development of food safety policy advice

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7	7	0%
Total cost per output hour	\$147	\$158	-7%
The Minister for Food Safety rates the quality of policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%

#### Implementation of food safety policy advice

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of ministerial requests from the Minister for Food Safety completed to agreed standards	100%	95%	5%
Percentage of Official Information Act, Privacy Act and Ombudsmen requests delivered within statutory timeframes	100%	95%	5%

### Comment

The cost of policy advice was determined in accordance with Treasury guidelines.

MPI anticipated an increase in non-policy activities due to changes in programme workload, resourcing changes and an increase in servicing responses to events. This trend was the basis for changing the performance standard to \$158, commensurate with the average cost per output hour across agencies. For 2015/16, the cost of policy advice was a positive result as it was lower than the forecast standard.

## Revenue and output expenses

	ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
<b>Revenue Crown</b>					
3,116		Development of policy advice	4,371	4,109	4,371
2,627		Implementation of policy advice	4,042	2,365	4,042
5,743		Total revenue Crown	8,413	6,474	8,413
<b>Revenue other</b>					
7		Development of policy advice	19	6	10
5		Implementation of policy advice	9	4	4
12		Total revenue other	28	10	14
5,755		Total revenue	8,441	6,484	8,427
<b>Expenses</b>					
3,272		Development of policy advice	4,062	4,115	4,381
2,407		Implementation of policy advice	4,156	2,369	4,046
5,679		Total expenses	8,218	6,484	8,427
<b>Surplus/(Deficit)</b>					
(149)		Development of policy advice	328	–	–
225		Implementation of policy advice	(105)	–	–
76		Total surplus/(deficit)	223	–	–

## Financial comment

The increase of \$1.943 million between the Main Estimates and the Supplementary Estimates was mainly due to revised overhead allocations between departmental output expenses and revenue Crown. This was offset by the carrying forward of efficiency savings of \$165,000 to 2016/17.

The \$209,000 underspend against Supplementary Estimates represents cost savings. These cost savings, along with \$14,000 higher than expected third-party revenue, resulted in a \$223,000 operating surplus for this output class.

## Multi-Class Appropriation – Development and Implementation of Primary Industries Policy Advice

The overarching purpose of this appropriation is to provide both policy and operational advice and support to Ministers in discharging their policy and operational decision-making responsibilities with regards to primary industries.

### What MPI wants to achieve

This appropriation is intended to achieve the development, provision and implementation of policy advice relating to agriculture, forestry (both indigenous and exotic), biosecurity, the Emissions Trading Scheme (ETS) and fisheries management.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: AGRICULTURE AND FORESTRY POLICY ADVICE

This category is intended to achieve the development and provision of policy advice relating to agriculture and forestry matters, including animal welfare and climate change.

**DEPARTMENTAL OUTPUT EXPENSE: BIOSECURITY POLICY ADVICE**

This category is intended to achieve the development and provision of policy advice relating to biosecurity matters, including contribution to policy advice led by other agencies.

**DEPARTMENTAL OUTPUT EXPENSE: FISHERIES POLICY ADVICE**

This category is intended to achieve the development and provision of policy advice relating to fisheries matters, including the development of standards and guidelines for the sustainable management of New Zealand's fisheries, both domestically and internationally.

**DEPARTMENTAL OUTPUT EXPENSE: IMPLEMENTATION OF AGRICULTURE AND FORESTRY AND POLICY ADVICE**

This category is limited to implementing policy decisions and operational policy, administering legislation relating to agriculture and forestry, animal welfare and climate change matters, and ministerial servicing.

**DEPARTMENTAL OUTPUT EXPENSE: IMPLEMENTATION OF BIOSECURITY POLICY ADVICE**

This category is limited to implementing policy decisions and operational policy, administering legislation relating to biosecurity matters, and ministerial servicing.

**DEPARTMENTAL OUTPUT EXPENSE: IMPLEMENTATION OF THE EMISSIONS TRADING SCHEME AND INDIGENOUS FORESTRY**

This category is intended to achieve the implementation of regulatory policies that incentivise land-based sustainable economic and environmental outcomes, especially afforestation.

**DEPARTMENTAL OUTPUT EXPENSE: OPERATIONAL ADVICE ON SUSTAINABILITY AND MANAGEMENT CONTROLS IN FISHERIES**

This category is intended to achieve the development provision of operational advice for the sustainable management of New Zealand's fisheries.

**How MPI performed**

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the tables below.

**Agriculture and forestry policy advice**

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7	7	0%
Total cost per output hour	\$147	\$158	-7%
The Minister for Primary Industries rates the quality of agriculture and forestry policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%

**Biosecurity policy advice**

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7	7	0%
Total cost per output hour	\$147	\$158	-7%
The Minister for Primary Industries rates the quality of biosecurity policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%

### Fisheries policy advice

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7	7	0%
Total cost per output hour	\$147	\$158	-7%
The Minister for Primary Industries rates the quality of fisheries policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%

### Implementation of agriculture and forestry policy advice

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	99%	95%	4%
Percentage of Official Information Act, Privacy Act and Ombudsmen requests delivered within statutory timeframes	99%	95%	4%

### Implementation of biosecurity policy advice

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	100%	95%	5%
Percentage of Official Information Act, Privacy Act and Ombudsmen requests delivered within statutory timeframes	100%	95%	5%

### Implementation of the Emissions Trading Scheme and indigenous forestry

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of applicants who participate in the customer satisfaction survey give the quality of MPI's Emissions Trading Scheme service delivery a rating of at least 4 out of 5 (where 1 represents poor performance and 5 represents excellent performance)	54%	75%	-28%
Percentage of draft sustainable forest management plans and sustainable forest management permit applications processed within 60 calendar days	83%	100%	-17%
Percentage of post-harvest inspections that comply with harvest limits and management prescriptions under approved annual logging plans	88%	80%	10%
Percentage of registered sawmills inspected that comply with Part 3A of the Forests Act 1949 and the Forestry (Indigenous Timber Milling) Regulations 1993	90%	90%	0%

### Comment

The ETS survey targeted 36 primary producers, including a mixture of forestry and non-forestry sector people, with the non-forestry sector being less satisfied. Past experience has shown confusion among stakeholders as to which agency they were dealing with (either MPI or the Environmental Protection Authority), and the survey results may reflect this. MPI is working to improve stakeholder engagement in the ETS area.

Of the plans and permits processed this year, one plan and four permits were processed within the timeframe. One plan exceeded the timeframe, and steps have been taken to monitor processing to ensure timeframes are met.

The cost of policy advice was determined in accordance with Treasury guidelines.

MPI anticipated an increase in non-policy activities due to changes in programme workload, resourcing changes and an increase in servicing responses to events. This trend was the basis for changing the performance standard to \$158, commensurate with the average cost per output hour across agencies. For 2015/16, the cost of policy advice was a positive result as it was lower than the forecast standard.

## Operational advice on sustainability and management controls in fisheries

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of fisheries research projects that meet the Research and Science Information Standard for New Zealand Fisheries	100%	95%	5%
Percentage of fisheries research projects completed for which objectives are fully achieved	100%	95%	5%

## How much did it cost?

### Revenue and output expenses

	ACTUAL JUNE 2015 \$000	ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
<b>Revenue Crown</b>				
26,141 Agriculture and forestry policy advice		25,818	29,344	25,818
2,450 Biosecurity policy advice		3,005	2,506	3,005
4,792 Fisheries policy advice		3,586	4,592	3,586
25,050 Operational advice on sustainability and management		28,533	28,339	28,533
21,779 Implementation of agriculture and forestry policy advice		26,596	23,468	26,596
2,888 Implementation of biosecurity policy advice		3,138	2,558	3,138
10,221 Implementation of the emissions trading scheme and indigenous forestry		10,006	8,787	10,006
93,321 Total revenue Crown		100,682	99,594	100,682
<b>Revenue other</b>				
Revenue other				
909 Agriculture and forestry policy advice		747	594	620
5 Biosecurity policy advice		19	4	10
70 Fisheries policy advice		119	7	124
239 Operational advice on sustainability and management		197	195	200
81 Implementation of agriculture and forestry policy advice		154	56	63
7 Implementation of biosecurity policy advice		16	6	8
34 Implementation of the emissions trading scheme and indigenous forestry		61	35	43
1,345 Total revenue other		1,313	897	1,068
94,666 Total revenue		101,995	100,491	101,750
<b>Expenses</b>				
2,547 Agriculture and forestry policy advice		26,790	29,938	26,438
2,335 Biosecurity policy advice		2,866	2,510	3,015
4,662 Fisheries policy advice		4,051	4,599	3,710
23,842 Operational advice on sustainability and management		28,868	28,534	28,733
20,781 Implementation of agriculture and forestry policy advice		25,757	23,524	26,659
3,001 Implementation of biosecurity policy advice		3,175	2,564	3,146
9,275 Implementation of the emissions trading scheme and indigenous forestry		9,727	8,822	10,049
66,443 Total expenses		101,234	100,491	101,750

	ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
		Surplus/[Deficit]			
24,503	Agriculture and forestry policy advice	(225)	–	–	
120	Biosecurity policy advice	158	–	–	
200	Fisheries policy advice	(346)	–	–	
1,447	Operational advice on sustainability and management	(138)	–	–	
1,079	Implementation of agriculture and forestry policy advice	993	–	–	
(106)	Implementation of biosecurity policy advice	(21)	–	–	
980	Implementation of the emissions trading scheme and indigenous forestry	340	–	–	
28,223	Total surplus/[deficit]	761	–	–	

### Financial comment

The increase of \$1.259 million between the Main Estimates and the Supplementary Estimates was mainly due to revised overhead allocations between departmental output expenses and revenue Crown.

Additionally, expense transfers of \$1.552 million were made from 2014/15 to 2015/2016 for:

- fisheries research programmes and fisheries policy advice;
- supporting and administering the implementation of the Food Act 2014;
- diverting of resources to the Operation Concord food protection response;
- addressing the Whey Protein Concentrate inquiry recommendations; and
- covering international relations cost activities.

This increase was mainly offset by the carrying forward of efficiency savings of \$1.977 million to 2016/17.

The \$245,000 higher than expected third-party revenue and lower expenditure of \$516,000 against the Supplementary Estimates resulted in a \$761,000 operating surplus for this output multi-class appropriation.

## Multi-Class Appropriation – Food Safety

The overarching purpose of this appropriation is to protect consumers from foodborne disease and maintain and enhance New Zealand's reputation as a trusted supplier of safe and suitable food.

### What MPI wants to achieve

This appropriation is intended to achieve the protection of consumers from foodborne disease while working to maintain and enhance New Zealand's food safety systems, to demonstrate the country's reputation as a supplier of safe food.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: ASSURANCE

This category is intended to achieve effective administration and management of New Zealand's food assurance systems.

#### DEPARTMENTAL OUTPUT EXPENSE: INFORMATION

This category is intended to achieve the effective provision of information programmes related to general food safety and the food regulations.

#### DEPARTMENTAL OUTPUT EXPENSE: RESPONSE

This category is intended to achieve the effective administration and management of responses linked to food-related incidents, emergencies, complaints and suspected breaches of the food legislation.

**DEPARTMENTAL OUTPUT EXPENSE: STANDARDS**

This category is intended to achieve the effective administration of food standards, including those related to food production – ensuring standards are in place to manage industry compliance.

**NON-DEPARTMENTAL OTHER EXPENSE: JOINT FOOD STANDARDS SETTING TREATY**

This category is intended to achieve the development of joint food standards between New Zealand and Australia.

**How MPI performed**

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the tables below.

**Assurance**

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of access to overseas markets maintained after overseas audits	100%	100%	0%
Five or fewer export certificates per financial year are rejected due to a verification error	0	5 or fewer	0%
Stakeholder satisfaction with MPI's verification services is increasing	68%	80%	-15%

**Comment**

Cost-recovered fees for verification services increased significantly in 2015, which affected the stakeholder satisfaction results.

MPI recognises ongoing issues exist around helping businesses and the public to understand the complexity of information required to meet market access and food safety standards. It is also recognised there is a continued need to help customers to understand fees and charges, and to recognise the value provided by MPI's verification services. Work is under way to improve focus on customer centricity through verification services.

**Information**

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Food safety information is provided in line with programmes	Achieved	Achieved	N/A

**Comment**

More than 75,000 food safety information items were dispatched during 2015/16 (2014/15: 57,356). This includes materials such as brochures and targeted website advertisements.

**Response**

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of complex investigations completed within legislative requirements	100%	100%	0%
Percentage of non-complex investigations completed within six months	81%	100%	-19%
Percentage of food recalls completed and closed within 60 days	73%	100%	-27%
Percentage of Priority 1 complaints recorded and responded to within 24 hours of notification to MPI	82%	100%	-18%

**Comment**

Due to the complex nature of processing recalls with all necessary due diligence, not all cases were closed within the target period of 60 days, and some cases remained open pending further investigations. This year

saw a marked increase in both the number of food recalls completed (around 90 in 2015/16 compared with 60 in 2014/15) and the percentage of recalls closed within 60 days – 72 percent, up from 65 percent in the previous year. Because this was only the second year for this target measure, it offered the opportunity for ongoing staff training and development.

The "Priority 1 complaints" was a new measure this year and the lower levels of performance in the first-half of the year led to an overall shortfall, with an annual result of 82 percent. Following staff training and process improvements, the performance over the second half of the year met the standard.

## Standards

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of milestones met for the Sanitary and Phytosanitary Standards Market Access Programme, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	91%	75%	21%
Percentage of certificates issued that meet food safety technical requirements of importing countries as specified by overseas competent authorities	100%	99%	1%
Percentage of Codex standards that are acceptable to New Zealand	100%	90%	11%

## Joint Food Standards Setting Treaty

This appropriation is exempt from end-of-year performance reporting under section 15D(2)(b)(iii) of the Public Finance Act 1989 because the amount of this annual appropriation is less than \$5 million.

## How much did it cost?

### Revenue and output expenses

	ACTUAL JUNE 2015 \$000	ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
<b>Revenue Crown</b>				
10,463 Assurance		11,692	10,273	11,692
1,932 Information		1,055	1,934	1,055
4,523 Response		4,957	5,060	4,957
8,138 Standards		6,668	7,201	6,668
25,056 Total revenue Crown		24,372	24,468	24,372
<b>Revenue other</b>				
51,767 Assurance		59,579	57,166	59,187
3 Information		3	2	2
8 Response		25	4	12
6,876 Standards		10,012	12,933	11,766
58,654 Total revenue other		69,620	70,105	70,967
83,710 Total revenue		93,992	94,573	95,339
<b>Expenses</b>				
60,579 Assurance		68,151	67,439	70,879
1,775 Information		1,101	1,936	1,057
4,539 Response		5,008	5,064	4,969
16,338 Standards		17,381	20,134	18,434
83,231 Total expenses		91,641	94,573	95,339
1,651 Assurance		3,120	–	–
160 Information		(43)	–	–
(8) Response		(26)	–	–
(1,324) Standards		(701)	–	–
479 Total surplus/(deficit)		2,350	–	–

## Financial comment

The increase of \$766,000 between the Main Estimates and the Supplementary Estimates was mainly due to a revised overhead allocations between departmental output expenses and revenue Crown; and from an increase in demand and funding for services to other public sector agencies and third parties. This was offset by the carry forward of efficiency savings of \$480,000 to 2016/17.

Additionally, there were expense transfers of \$967,000 from 2014/15 to 2015/16 for:

- the diverting of resources to Queensland fruit fly incursion response and Operation Concord food protection response;
- addressing Whey Protein Concentrate inquiry recommendations and to cover international relations cost activities;
- covering the delay in the procurement process for all-of-government ICT initiatives for an electronic content management system;
- covering the delay in commencing the FTA implementation and co-operation programme due to trading partners' availability.

The \$1.347 million lower than expected third-party revenue and lower expenditure of \$3.697 million against Supplementary Estimates resulted in a \$2.350 million operating surplus for this multi-class appropriation.

## Memorandum accounts

There are activities under this output class that are operated on a full cost-recovery basis from third parties. A memorandum account is used to track the accumulated surpluses and deficits to enable MPI to take a long-run perspective to fee setting and cost recovery.

The Approvals, Accreditations and Registrations memorandum account covers the provision of approval and registration services to regulated parties under the Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999. An operating surplus of \$869,000 was made under this memorandum account for year ended 30 June 2016 (2015: \$601,000).

The Food Standards and Assurance – Food Act 2014 memorandum account covers services provided by MPI under the Food Act 2014. An operating deficit of (\$156,000) was made under this memorandum account for the year ended 30 June 2016 (2015: nil).

The Standards Setting for the Food Industry account covers MPI's standards-setting activities and fees for certification and reconciliation services under the Animal Products (Dairy Industry Fees and Charges) Regulations 2007. An operating surplus of \$800,000 was made under this memorandum account for the year ended 30 June 2016 (2015: \$2.203 million).

The Verification of the Food Regulatory Programme memorandum account covers verification and certification activities undertaken by MPI in accordance with section 7 of the Animal Products (Fees, Charges and Levies) Regulations 2007. An operating surplus of \$2.142 million was made under this memorandum account for the year ended 30 June 2016 (2015: \$1.556 million deficit).

The Wine Standards Management – Wine Act 2003 memorandum account covers certification, assurance, standard setting, market access, systems implementation and monitoring services provided under the Wine Act 2003. An operating surplus of \$530,000 was made under this memorandum account for the year ended 30 June 2016 (2015: nil).

## Multi-Class Appropriation – Grants and Programmes

The overarching purpose of this appropriation is the administration of schemes, grants, programmes and assistance that are designed to achieve the outcome of innovation and sustainable resource management within the primary sector.

### What MPI wants to achieve

This appropriation is intended to achieve the effective administration of the grants, programmes and funds overseen by MPI.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: ADMINISTRATION OF GRANTS AND PROGRAMMES

This category is intended to achieve the effective administration of the MPI's grants and programmes activities.

#### NON-DEPARTMENTAL OTHER EXPENSE: ADVERSE CLIMATIC EVENTS

This category is intended to achieve the effective management and administration of recovery assistance funds in the aftermath of climatic events.

#### NON-DEPARTMENTAL OTHER EXPENSE: HILL COUNTRY EROSION FUND

This category is intended to achieve the effective management and administration of projects and regional activities developed to protect erosion-prone hill country.

#### NON-DEPARTMENTAL OTHER EXPENSE: SUSTAINABLE FARMING FUND

This category is intended to achieve the effective management of grants to support community programmes aimed at improving economic and environmental benefits to land-based primary industries and the aquaculture sector.

### How MPI performed

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the following table.

#### Administration of grants and programmes

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of processed applications and funded programmes meet approved processing and delivery standards	83%	100%	-17%

### Comment

The performance measure result was due to delays in processing Sustainable Farming Fund (SFF) applications. These were caused by uncertainties over SFF funding levels which, once resolved, allowed the applications to be processed within the normally allocated timeframe.

#### ADVERSE CLIMATIC EVENTS

This appropriation is exempt from end-of-year performance reporting under section 15D(2)(b)(iii) of the Public Finance Act 1989 because the amount of this annual appropriation is less than \$5 million.

#### HILL COUNTRY EROSION FUND

This appropriation is exempt from end-of-year performance reporting under section 15D(2)(b)(iii) of the Public Finance Act 1989 because the amount of this annual appropriation is less than \$5 million.

#### SUSTAINABLE FARMING FUND

Performance information for this appropriation is provided as part of the Minister's reports on non-departmental appropriations, which are appended to this document.

## How much did it cost?

### Revenue and output expenses

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
6,762	Revenue Crown	6,236	7,147	6,236
64	Revenue other	101	17	49
6,826	Total revenue	6,337	7,164	6,285
6,491	Total expenses	6,314	7,164	6,285
335	Total surplus/(deficit)	24	–	–

### Financial comment

The decrease of \$879,000 between the Main Estimates and Supplementary Estimates was mainly due to revised overhead allocations between departmental output expenses and revenue Crown. This was offset by the carrying forward of efficiency savings of \$122,000 to 2016/17.

The \$24,000 operating surplus for this output class is a result of higher than expected third-party revenue of \$53,000 partially offset by a \$29,000 overspend against Supplementary Estimates.

## Multi-Class Appropriation – Sustainable Economic Development and Trade

The overarching purpose of this appropriation is to efficiently manage New Zealand's primary production and natural resources in a sustainable manner.

### What MPI wants to achieve

This appropriation is intended to achieve the effective management of animal welfare, aquaculture and fisheries programmes to support sustainable economic development.

### What MPI does

#### DEPARTMENTAL OUTPUT EXPENSE: ANIMAL WELFARE EDUCATION AND ENFORCEMENT

This category is intended to achieve improvements in the education and enforcement of New Zealand's animal welfare laws and regulations.

#### DEPARTMENTAL OUTPUT EXPENSE: AQUACULTURE

This category is intended to achieve support for the all-of-government pathway to promote growth in the aquaculture sector.

#### DEPARTMENTAL OUTPUT EXPENSE: FISHERIES ENFORCEMENT AND MONITORING

This category is intended to achieve the adherence to New Zealand's fisheries laws.

#### DEPARTMENTAL OUTPUT EXPENSE: FISHERIES MANAGEMENT

This category is intended to achieve sustainability and management controls for New Zealand fisheries.

#### NON-DEPARTMENTAL OTHER EXPENSE: FISHERIES QUOTA SHARES AND ANNUAL CATCH ENTITLEMENT ADMINISTRATION COSTS

This category is intended to achieve the effective administration and management of work relating to the sale of Crown quota shares and Annual Catch Entitlement.

## How MPI performed

Performance was assessed and monitored throughout 2015/16 via quarterly reporting against the multi-class appropriation.

Final year-end performance is recorded in the tables below.

### Animal welfare education and enforcement

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of Priority 1 (Grade 1 – significant/acute) complaints are recorded and responded to within 24 hours	97%	100%	–3%
Percentage of agreed animal welfare education initiatives progressed as per the <i>Safeguarding our Animals, Safeguarding our Reputation</i> programme	100%	100%	0%
Percentage of complex investigations completed within legislative requirements	100%	100%	0%
Percentage of non-complex investigations completed within six months	98%	100%	–2%

#### Comment

Animal welfare inspectors responded to 941 animal welfare complaints; this was a 19 percent increase in numbers from the previous year (791). Performance each quarter improved throughout the year and, at year-end, 98 percent of all non-complex complaints (207) were attended to and resolved within six months. Many of these investigations required multiple visits from animal welfare inspectors to ensure the animal welfare issues had been mitigated.

### Aquaculture

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of project milestones for the annual aquaculture plan met	69%	90%	–23%

#### Comment

Substantive changes and redirection in the aquaculture work programme resulted from agency advice to BGA Ministers. This caused current milestones to not be fully met. A new work programme has been developed for 2016/17 to reflect Ministerial decisions.

### Fisheries enforcement and monitoring

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of commercial operators inspected found to be voluntarily compliant	89%	90%	–1%
Percentage of recreational fishers inspected found to be voluntarily compliant	94%	95%	–1%
Percentage of serious offenders do not reoffend within the next year	96%	95%	1%
Percentage of complex investigations completed within legislative requirements	98%	100%	–2%
Percentage of non-complex investigations completed within six months	92%	100%	–8%
Percentage of the Crown's obligations to Māori is delivered	95%	100%	–5%

#### Comment

A few large operators were involved in complex investigations that have identified a substantial number of non-compliant activities. These investigations are now involved in legal proceedings.

In Kaikōura, a marine restricted area was introduced, with some recreational fisheries activities being subject to minor infringements. This is being addressed with a targeted education programme, supported by media campaigns, to help raise public awareness across the region.

One of the Strategic Outcomes for Māori (SOFM) performance measures was not achieved. This relates to the kaitiaki training evaluations. Work to review SOFM is under way and improvements will be looked at as part of this process.

### Fisheries management

SERVICE PERFORMANCE MEASURE	ACTUAL 2015/16	STANDARD 2015/16	VARIANCE
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	99%	95%	4%
Percentage of Official Information Act, Privacy Act and Ombudsmen requests delivered within statutory timeframes	98%	95%	3%

### Fisheries quota shares and ace administration costs

This appropriation is exempt from end-of-year performance reporting under section 15D(2)(b)(iii) of the Public Finance Act 1989, as the amount of this annual appropriation is less than \$5 million.

### How much did it cost?

#### Revenue and output expenses

	ACTUAL JUNE 2015 \$000	ACTUAL JUNE 2016 \$000	MAIN ESTIMATES JUNE 2016 \$000	SUPP ESTIMATES JUNE 2016 \$000
<b>Revenue Crown</b>				
6,895 Animal welfare education and enforcement		8,431	8,965	8,431
4,271 Aquaculture		4,649	4,944	4,649
36,944 Fisheries enforcement and monitoring		35,946	36,779	35,946
11,659 Fisheries management		9,591	11,746	9,591
59,769 Total revenue Crown		58,617	62,434	58,617
<b>Revenue other</b>				
19 Animal welfare education and enforcement		46	13	19
25 Aquaculture		20	8	16
1,877 Fisheries enforcement and monitoring		1,800	1,472	1,935
642 Fisheries management		662	504	883
2,563 Total revenue other		2,528	1,997	2,853
62,332 Total revenue		61,145	64,431	61,470
<b>Expenses</b>				
6,640 Animal welfare education and enforcement		8,396	8,978	8,450
4,409 Aquaculture		4,150	4,952	4,665
37,442 Fisheries enforcement and monitoring		35,489	38,251	37,881
12,230 Fisheries management		10,894	12,250	10,474
60,721 Total expenses		58,929	64,431	61,470
274 Animal welfare education and enforcement		81	–	–
[113] Aquaculture		519	–	–
1,379 Fisheries enforcement and monitoring		2,257	–	–
71 Fisheries management		[641]	–	–
1,611 Total surplus/(deficit)		2,216	–	–

### Financial comment

The decrease of \$2.961 million between the Main Estimates and Supplementary Estimates was mainly due to revised overhead allocations between departmental output expenses and revenue Crown, and the carrying forward of efficiency savings of \$1.151 million to 2016/17.

This was offset by an increase of \$856,000 in demand and funding for services to other public sector agencies and third party revenue.

Additionally, expense transfers were made of \$997,000 from 2014/2015 to 2015/16 for:

- diverting resources to the Queensland fruit fly incursion response and Operation Concord food protection response;
- addressing the Whey Protein Concentrate inquiry recommendations; and
- covering the delay in the procurement process for all-of-government ICT initiatives for an electronic content management system.

The \$2.541 million underspend against Supplementary Estimates represents cost savings that, when offset by \$325,000 lower than expected third-party revenue, resulted in a \$2.216 million operating surplus for this output class.



# FINANCIAL STATEMENTS



## Statement of Responsibility

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I am responsible, as Director-General of the Ministry for Primary Industries (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; and
- 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 2016 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2016 and its operations for the year ending on that date.



Martyn Dunne CNZM  
Director-General

30 September 2016

# Independent Auditor's Report



## Independent Auditor's Report to the Readers of the Ministry for Primary Industries' Annual Report for the Year Ended 30 June 2016

The Auditor-General is the auditor of the Ministry for Primary Industries (the Ministry). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out the audit on her behalf of:

- the financial statements of the Ministry on pages 68 to 104, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity, statement of cash flows, and statement of trust monies 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 2016 on pages 14 to 62; and
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2016 on pages 76 to 77; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 105 to 127 that comprise:
  - the schedules of: assets; liabilities; contingent liabilities and contingent assets and commitments as at 30 June 2016;
  - the schedules of: revenue; capital receipts; expenses and capital expenditure for the year ended 30 June 2016;
  - the statement of trust monies for the year ended 30 June 2016; and
  - the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Ministry:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year ended on that date;
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Ministry:
  - presents fairly, in all material respects, for the year ended 30 June 2016:
    - 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;
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Ministry on pages 76 to 77 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 105 to 127 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the schedules of: assets; liabilities; contingent liabilities and assets and commitments as at 30 June 2016;
  - the schedules of: revenue; capital receipts; expenses and capital expenditure for the year ended 30 June 2016; and
  - the statement of trust monies for the year ended 30 June 2016.



Our audit was completed on 30 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Director-General and our responsibilities, and we explain our independence.

## Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the information we audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the information we audited. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Ministry's preparation of the information we audited in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Director-General;
- the appropriateness of the reported performance information within the Ministry's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited. Also, we did not evaluate the security and controls over the electronic publication of the information we audited.

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

## Responsibilities of the Director-General

The Director-General is responsible 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 and Public Benefit Entity Reporting Standards.
- 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 Director-General's responsibilities arise from the Public Finance Act 1989.



The Director-General is responsible for such internal control as is determined is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Director-General is also responsible for the publication of the annual report, whether in printed or electronic form.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the information we are required to audit, and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

### **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, members of the Ministry staff attended an executive training programme run by EY in conjunction with the Darden Business School, which is compatible with those independence requirements. Other than the audit and attendance at the executive training programme, we have no relationship with or interests in the Ministry.

#### **Grant Taylor**

Ernst & Young

On behalf of the Auditor-General

Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements, statement of service performance and schedules of non-departmental activities This audit report relates to the financial statements, statement of service performance and schedules of non-departmental activities of the Ministry for the year ended 30 June 2016 included on the Ministry for Primary Industries' website. The Ministry for Primary Industries' Chief Executive is responsible for the maintenance and integrity of the Ministry's website. We have not been engaged to report on the integrity of the Ministry's website.

We accept no responsibility for any changes that may have occurred to the financial statements, statement of service performance and schedules of non-departmental activities since they were initially presented on the website. The audit report refers only to the financial statements, statement of service performance and schedules of non-departmental activities named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, statement of service performance and schedules of non-departmental activities. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, statement of service performance and schedules of non-departmental activities as well as the related audit report dated 30 September 2016 to confirm the information included in the audited financial statements, statement of service performance and schedules of non-departmental activities presented on this website.

# Overview of Departmental Financial Results

For the year ended 30 June 2016

ACTUAL 2015 \$000		ACTUAL 2016 \$000		ESTIMATES OF APPROPRIATIONS 2016 \$000
425,072	Revenue – in total	458,050		463,709
321,322	Revenue Crown	320,267		320,767
103,750	Revenue Other	137,784		142,942
416,217	Expenditure – in total	451,265		457,109
216,476	Personnel costs	234,857		218,030
181,640	Other operating expenses	197,634		220,594
8,855	Operating surplus/(deficit)	6,785		6,600
14,656	Repayment of surplus (current liability)	2,692		6,600
(6,355)	Working capital	17,083		(25,151)
65,737	Non-current assets	74,816		129,076
11,289	Non-current liabilities	11,681		9,300
48,093	Equity	80,218		94,625

## Significant movements between 2014/15 and 2015/16

### Revenue other

The \$34.034 million increase in third-party income is due to:

- the introduction of the border clearance levy of \$15.832 million;
- increase in demand for higher establishments, circuits and regulated export certificates relating to verification services of \$12.689 million;
- new levy rates that came into force for the biosecurity system entry levy of \$3.553 million; and
- costs recovered of \$1.960 million.

### Personnel costs

MPI employs 2,489.65 full-time equivalent staff, mainly in New Zealand but has a small offshore presence as well. The \$18.381 million increase in personnel costs is due to:

- investment in additional frontline staff to boost border biosecurity and intelligence defences at the border;

- additional veterinarians to assist with the on-farm verifications programmes;
- an increase in resources to facilitate the implementation of the Food Act 2014.

### Other operating expenses

The \$15.994 million increase in operating expenses is mainly due to:

- impairment of the FMD vaccine following its expiry after four years;
- new fisheries research contracts for inshore projects and for aquatic environment;
- biosecurity research associated with mānuka honey and laboratory analysis for New Zealand Total Diet Study;
- tau fly and velvetleaf responses and FarmsOnLine activities;
- increased costs at the border relating to in-flight videos, passenger pathways and summer advertising;
- an increase in software development costs.

### Working capital

The \$23.438 million increase in working capital is mainly due to an increase in current assets of \$11.155 million and reduction in net current liabilities of \$12.283 million:

- current assets contains debtors and receivables of \$50.244 million, which is made up of debtor Crown of \$25.000 million and other third-party external debtors of \$25.244 million;
- current liabilities contains creditors and other payables of \$36.763 million.

### Equity

The \$32.125 million increase in equity is due to:

- a capital injection from Crown of \$25.267 million, mainly for the National Biocontainment Laboratory project;
- the repayment of a capital injection to the Crown of \$4.422 million for the Joint Border Management System;
- the current year deficit and the payments due to the Crown.

## Significant variances between 2015/16 actual results and the Estimates of Appropriations

### Personnel costs

Personnel costs were higher than budgeted by \$16.827 million. This was due to additional resources required for border biosecurity and intelligence activities at the border, the on-farm verification programme and the implementation of the Food Act 2014.

### Other operating expenses

Other operating expenses are \$22.960 million lower than budgeted. This was due to changes in timing for projects impacted by external factors, and carry forward of funding (in-principle expense transfers) to 2016/17 which were not included in the Estimates of Appropriation.

### Current assets

Current assets are above budget by \$36.167 million. This is mainly due to debtor Crown and higher debtors and other receivables from third-party revenue and Custom's border clearance levies.

### Non-current assets

Non-current assets are \$54.260 million lower than budgeted. This is primarily due to the change in the expenditure and timing profile of the National Biocontainment Laboratory project.

### Current liabilities

Current liabilities are \$6.067 million lower than budgeted mainly due to a decrease in creditors and other payables activities and lower than expected current employee entitlements.

### Non-current liabilities

Non-current liabilities are \$2.381 million higher than budgeted mainly due to higher than expected non-current employee entitlements.

### Equity

Equity was \$14.407 million lower than budgeted due to the timing of the National Biocontainment Laboratory project and fewer capital withdrawals than forecast.

# Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
<b>Revenue</b>					
321,322	Revenue Crown		320,267	320,767	311,697
103,750	Revenue other	2	137,783	142,942	164,257
425,072	Total revenue		458,050	463,709	475,954
<b>Expenditure</b>					
216,476	Personnel costs	3	234,857	218,030	236,835
13,025	Depreciation and amortisation expense	8,9	14,287	12,350	15,498
4,185	Capital charge	4	4,115	6,135	4,116
891	Restructuring costs	12	373	–	100
181,640	Other operating expenses	5	197,633	220,594	219,405
416,217	Total expenditure		451,265	457,109	475,954
8,855	Net surplus/(deficit)		6,785	6,600	–
<b>Other comprehensive revenue and expense</b>					
8,855	Total comprehensive revenue and expense		6,785	6,600	–

Explanations of significant variances against budget are detailed in note 20.

The accompanying notes form part of these financial statements.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

# Statement of Financial Position

As at 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
<b>Assets</b>					
<b>Current assets</b>					
20,390	Cash and cash equivalents		24,609	21,949	21,275
42,689	Debtors and other receivables	6	50,244	17,500	21,025
3,124	Prepayments		2,579	1,700	2,000
4,558	Inventories	7	4,484	4,600	4,600
70,761	Total current assets		81,916	45,749	48,900
<b>Non-current assets</b>					
35,193	Property, plant and equipment	8	43,262	94,868	101,842
30,544	Intangible assets	9	31,554	34,208	37,185
65,737	Total non-current assets		74,816	129,076	139,027
136,498	Total assets		156,732	174,825	187,927
<b>Liabilities</b>					
<b>Current liabilities</b>					
41,766	Creditors and other payables	10	36,763	39,300	40,950
14,656	Return of operating surplus	11	2,692	6,600	–
1,582	Provisions	12	1,655	1,500	1,500
19,112	Employee entitlements	13	21,537	23,500	24,200
–	Derivative financial instruments	17	2,186	–	–
77,116	Total current liabilities		64,833	70,900	66,650
<b>Non-current liabilities</b>					
920	Provisions	12	725	–	–
10,369	Employee entitlements	13	10,567	9,300	9,675
–	Derivative financial instruments	17	389	–	–
11,289	Total non-current liabilities		11,681	9,300	9,675
88,405	Total liabilities		76,514	80,200	76,325
48,093	Net assets		80,218	94,625	111,602
<b>Equity</b>					
49,145	Crown capital and retained earnings	14	73,906	90,667	110,909
(1,745)	Memorandum accounts (net position)	14	5,619	3,265	–
693	Property revaluation reserves	14	693	693	693
48,093	Total equity		80,218	94,625	111,602

The accompanying notes form part of these financial statements.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

# Statement of Changes in Equity

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
54,539	Balance at 1 July		48,093	50,004	79,532
8,855	Total comprehensive revenue and expense		6,785	6,600	–
	<b>Owner transactions</b>				
–	Capital injections	14	25,267	49,043	32,070
(645)	Capital withdrawals	14	(4,422)	(4,422)	–
–	Retention of surplus	14	7,187	–	–
(14,656)	Return of operating surplus to the Crown	11	(2,692)	(6,600)	–
48,093	Balance at 30 June		80,218	94,625	111,602

The accompanying notes form part of these financial statements.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

# Statement of Cash Flows

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
<b>Cash flows from operating activities</b>					
318,193	Receipts from Crown		324,210	335,767	328,697
102,566	Receipts from revenue other		127,600	132,932	164,182
(221,029)	Payments to employees		(232,606)	(218,030)	(237,485)
(177,676)	Payments to suppliers		(197,334)	(220,584)	(218,450)
(4,185)	Payments for capital charge		(4,115)	(6,135)	(5,366)
1,243	Goods and services tax (net)		(899)	–	–
19,112	Net cash from operating activities	15	16,856	23,950	31,578
<b>Cash flows from investing activities</b>					
325	Receipts from sale of property, plant and equipment		367	600	600
(9,605)	Purchase of property, plant and equipment		(18,710)	(66,336)	(46,128)
(7,125)	Purchase of intangible assets		(7,670)	(8,000)	(11,592)
(16,405)	Net cash from investing activities		(26,013)	(73,736)	(57,120)
<b>Cash flows from financing activities</b>					
–	Capital injections from the Crown		25,267	49,043	32,070
(3,436)	Repayment of surplus to the Crown		(7,469)	(6,200)	(7,000)
(645)	Repayment of capital to the Crown		(4,422)	(4,422)	–
(4,081)	Net cash from financing activities		13,376	38,421	25,070
(1,374)	Net increase (decrease) in cash		4,219	(11,365)	(472)
21,764	Cash at the beginning of the year		20,390	33,314	21,747
20,390	Cash at the end of the year		24,609	21,949	21,275

The accompanying notes form part of these financial statements.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

# Statement of Commitments

As at 30 June 2016

## Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or recognised as a liability at balance date. The most significant commitment is related to the construction of a new National Biocontainment Laboratory at Wallaceville to meet updated biocontainment standards and provide greater functionality and capacity.

## Non-cancellable operating lease commitments

The Ministry leases property, plant equipment in the normal course of its business. The majority of these leases are for premises, which have a non-cancellable leasing period ranging from one to nine years.

The total minimum future sublease payments expected to be received under non-cancellable subleases at the balance date is \$495,000 (2015: \$392,000).

The Ministry's non-cancellable operating leases have varying terms, escalation clauses and renewal rights.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	<b>Capital commitments</b>	
4,967	Buildings	69,250
2,005	Leasehold improvements	–
332	Motor vehicles	–
1,068	Intangible assets – software	–
8,372	Total capital commitments	69,250
	<b>Non-cancellable operating lease commitments</b>	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:	
9,123	Not later than one year	8,085
11,784	Later than one year and not later than five years	13,625
2,528	Later than five years	3,819
23,435	Total non-cancellable operating lease commitments	25,529
31,807	Total commitments	94,779

There are no restrictions placed on the Ministry by any of its leasing arrangements.

# Statement of Contingent Liabilities and Contingent Assets

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As at 30 June 2016

## Unquantifiable contingent liabilities – Legal proceedings and disputes

### Kiwifruit vine disease (Psa-V)

In November 2014, 42 kiwifruit growers and post-harvest owners filed a claim against the Ministry for Primary Industries alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. The plaintiffs have not quantified their losses, but have publicly claimed it is in the vicinity of \$380 million, citing total industry losses of \$885 million. It appears there are now 178 claimants, but that is not certain due to several orchards being subject of claims by more than one entity. The Ministry is defending the claim and currently it remains unquantifiable (2015: nil).

### Holidays Act 2003

The Ministry is aware of a wide-spread issue where some agencies have identified issues with calculating and paying entitlements under the Holidays Act 2003 (the Act). The Ministry is currently reviewing its compliance with payments made under the Act. The review is in its initial phase, and it is not known whether any liability is outstanding at this stage (2015: nil).

## Quantifiable contingent liabilities – Legal proceedings and disputes

### China meat compensation

A meat company and an associate company have made a claim for compensation of \$688,853 plus GST for having its shared premises left off an approved “relationship matrix” list of exporters to China, so losing the ability to export to China for approximately one year, while the Ministry negotiated inclusion of those premises and others (2015: \$688,853).

## Contingent Assets

The Ministry has no contingent assets as at 30 June 2016 (2015: nil).

## Statement of Departmental Unappropriated Expenditure and Capital Expenditure

For the year ended 30 June 2016

An appropriation is a sum of money allocated by Parliament for a particular use. Unappropriated expenditure is an expense or a capital expenditure in excess of, or outside the scope of, existing Ministry appropriations.

There was no unappropriated expenditure for the year to 30 June 2016 (2015: nil).

The accompanying notes form part of these financial statements.

## Statement of Departmental Expenses and Capital Expenditure against Appropriations

For the year ended 30 June 2016

EXPENDITURE AFTER REMEASUREMENTS 2015 \$000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2016 \$000	REMEASUREMENTS 2016 \$000	EXPENDITURE AFTER REMEASUREMENTS 2016 \$000	APPROPRIATION VOTED <sup>1</sup> 2016 \$000	FORECAST <sup>2</sup> 2017 \$000
Vote Primary Industries and Food Safety						
Administration and Management of Crown Forestry Assets and Operations						
MCA						
1,235	Administration and management of Crown forestry assets	1,280	(3)	1,277	1,382	1,404
Border and Domestic Biosecurity Risk Management MCA						
36,120	Biosecurity incursion response and long-term pest management	35,011	(31)	34,980	33,964	35,020
80,205	Border biosecurity monitoring and clearance	87,612	(234)	87,378	89,919	96,497
16,060	Border biosecurity systems development and maintenance	18,729	(44)	18,685	19,289	19,747
36,294	Domestic biosecurity surveillance	39,013	(60)	38,953	38,216	39,497
168,679		180,365	(369)	179,996	181,388	190,761

<sup>1</sup> The 2016 Appropriation Voted figures are those submitted to Treasury for the 2016 Supplementary Estimates.

<sup>2</sup> The statement of accounting policies provides explanations for these figures, which are not subject to audit.

EXPENDITURE AFTER REMEASUREMENTS 2015 \$000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2016 \$000	REMEASUREMENTS 2016 \$000	EXPENDITURE AFTER REMEASUREMENTS 2016 \$000	APPROPRIATION VOTED <sup>1</sup> 2016 \$000	FORECAST <sup>2</sup> 2017 \$000
<b>Development and Implementation of Food Safety Policy Advice MCA</b>						
3,272	Development of policy advice	4,071	(9)	4,062	4,381	4,189
2,407	Implementation of policy advice	4,157	(1)	4,156	4,046	6,898
5,679		8,228	(10)	8,218	8,427	11,087
<b>Development and Implementation of Primary Industries Policy Advice MCA</b>						
25,447	Agriculture and forestry policy advice	26,845	(55)	26,790	26,438	27,316
2,335	Biosecurity policy advice	2,870	(4)	2,866	3,015	2,951
4,662	Fisheries policy advice	4,054	(3)	4,051	3,710	3,629
20,781	Implementation of agriculture and forestry policy advice	25,772	(15)	25,757	26,659	27,355
3,001	Implementation of biosecurity policy advice	3,185	(10)	3,175	3,146	3,150
9,275	Implementation of the Emissions Trading Scheme and indigenous forestry	9,729	(2)	9,727	10,049	9,406
23,842	Operational advice on sustainability and management controls in fisheries	28,875	(7)	28,868	28,733	31,264
89,343		101,330	(96)	101,234	101,750	105,071
<b>Food Safety MCA</b>						
60,579	Assurance	68,343	(192)	68,151	70,879	73,593
1,775	Information	1,103	(2)	1,101	1,057	1,055
4,359	Response	5,017	(9)	5,008	4,969	5,990
16,338	Standards	17,406	(25)	17,381	18,434	18,566
83,051		91,869	(228)	91,641	95,339	99,204
<b>Grants and Programmes MCA</b>						
6,491	Administration of grants and programmes	6,316	(2)	6,314	6,285	7,719
<b>Sustainable Economic Development and Trade MCA</b>						
6,640	Animal welfare education and enforcement	8,413	(17)	8,396	8,450	8,558
4,409	Aquaculture	4,153	(3)	4,150	4,665	4,142
37,442	Fisheries enforcement and monitoring	35,581	(92)	35,489	37,881	37,690
12,230	Fisheries management	10,902	(8)	10,894	10,474	10,318
60,721		59,049	(120)	58,929	61,470	60,708
415,199	Total Multi-Category Expenses	448,437	(828)	447,609	456,041	475,954
16,484	Capital expenditure Permanent Legislative Authority	24,055	0	24,055	46,702	57,720
431,683	Total Multi-Category Expenses and Capital Expenditure	472,492	(828)	471,664	502,743	533,674

<sup>1</sup> The 2016 Appropriation Voted figures are those submitted to Treasury for the 2016 Supplementary Estimates.<sup>2</sup> The statement of accounting policies provides explanations for these figures, which are not subject to audit.

# Statement of Trust Monies

For the year ended 30 June 2016

## Meat Levies Trust Account

The Meat Levies Trust Account holds levies from meat works payable to the Animal Health Board, Meat and Wool New Zealand Ltd and the Pork Industry Board.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
–	Balance at 1 July	–
68,664	Contributions	68,615
(68,669)	Distributions	(68,620)
5	Revenue	9
–	Balance at 30 June	4

## National Animal Identification Tracing Trust Account

The National Animal Identification Tracing Trust Account holds levies received under the National Animal Identification and Tracing Act 2012 and related regulations, to distribute to National Animal Identification Tracing organisations.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
284	Balance at 1 July	1
3,069	Contributions	2,624
(3,352)	Distributions	(2,621)
1	Balance at 30 June	4

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

## Note 1: Statement of accounting policies for the year ended 30 June 2016

### Reporting entity

The Ministry for Primary Industries (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989, and is domiciled in New Zealand.

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

The primary objective of the Ministry is to provide services to the public rather than making a financial return and is a public benefit entity (PBE) for financial reporting purposes.

The Ministry works to grow and protect New Zealand across the primary sector from producers to retailers and consumers. Its operations and principal activities include:

- providing policy advice and programmes that support the sustainable development of New Zealand's primary industries;
- advising on fisheries and aquaculture management;
- providing "whole-of-system" leadership of New Zealand's biosecurity system;
- managing forestry assets for the Crown;
- providing services to maintain the effective management of New Zealand's fisheries;
- protecting consumers of New Zealand food, whether here or overseas; and
- providing effective food regulation, including imported and exported products.

The financial statements of the Ministry are for the year ended 30 June 2016. They were authorised for issue by the Director-General of the Ministry on 30 September 2016.

### 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

The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP), and Treasury instructions.

The financial statements have been prepared in compliance with Tier 1 PBE accounting standards.

These financial statements comply with PBE accounting standards.

### PRESENTATION CURRENCY AND ROUNDING

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

### STANDARDS ISSUED AND NOT YET EFFECTIVE AND NOT EARLY ADOPTED

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a consequence of XRB A1 and Other Amendments. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Ministry will apply these amendments in preparing its 30 June 2017 financial statements. The Ministry expects there will be no significant changes in applying these amendments.

## Revenue

Revenue is measured at the fair value of consideration received or receivable.

### 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 – DEPARTMENT

The Ministry derives revenue through the provision of goods and services to other Departments or Ministries.

This revenue is recognised at the fair value of the consideration received or receivable when earned.

### REVENUE – OTHER

#### Third-party funded services

Fees for the supply of services to third parties on a cost recovery basis are recognised as revenue upon the provision of the services. Revenue received in advance of the provision of services is recognised as unearned revenue to the extent that it relates to future accounting periods.

#### Statutory levies

Levies collected by the Ministry are regarded as non-exchange transactions, as payment of the levy does not directly entitle the levy payer to an equivalent value of services or benefits and there is no direct relationship between paying the levy and receiving a service from the Ministry. Revenue from levies is recognised on receipt or the issue of a levy invoice, whichever is earlier.

#### Application fees

Revenue from application fees is recognised to the extent that the application has been processed by the Ministry.

## Rental income

Rental income under an operating sub-lease is recognised as income on a straight-line basis over the lease term.

### CAPITAL CHARGE

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

## Leases

### OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Operating lease payments are recognised as expenses on a straight-line basis over the lease term.

## Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ\$ (the functional currency) using the spot exchange rates 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 monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

## Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

## Debtors and other receivables

Debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment is established when:

- for individual debtors outstanding up to 365 days and in excess of \$20,000 – there is objective evidence that the Ministry will not be able to collect all or part of the amount due;
- for all other debtors, including amounts in excess of \$20,000 not included above, 100 percent of debts are outstanding over 365 days.

## Inventories

Inventories held for distribution or consumed in the provision of services that are not supplied on a commercial basis, are measured at cost, adjusted for any loss of service potential. The loss of service potential of inventories held for distribution is determined on the basis of obsolescence. The amount of any write-down for the loss of service potential is recognised in the surplus or deficit in the period of the write-down.

## Derivative financial instruments

The Ministry uses forward foreign exchange contracts to manage exposure to foreign exchange movements. The Ministry does not hold these contracts for trading purposes. The Ministry has not adopted hedge accounting. Forward foreign exchange contracts are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value at each balance date. Movements in the fair value are recognised in the surplus or deficit. Foreign exchange contracts are classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of foreign exchange contracts are classified as non-current.

## Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment losses for write-downs of non-current assets held for sale are recognised in surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets held for sale, including those that are part of a disposal group, are not depreciated or amortised while they are classified as held for sale.

## Property, plant and equipment

Property, plant and equipment consists of the following asset classes:

- land;
- non-residential buildings;
- residential buildings;
- leasehold improvements;
- office furniture and equipment;
- artwork;
- motor vehicles;
- vessels.

Land and artwork are measured at fair value and buildings are measured at fair value less accumulated depreciation and impairment losses.

All other asset classes are measured at cost, less accumulated depreciation and impairment losses.

All computers are capitalised and all other assets costing more than \$5,000 are capitalised.

## ADDITIONS

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

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 on disposals are reported in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to retained earnings.

## SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

## DEPRECIATION

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land and artwork, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings (including components)	8 to 40 years (2.5–12.5%)
Office furniture and equipment	3 to 12 years (8–33%)
Motor vehicles	5 years (20%)
Vessels	4 to 25 years (4–25%)

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

## REVALUATION

Land, buildings and artwork are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from their fair value and at least every five years. Fair value is determined from market-based evidence by an independent valuer. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost.

## ACCOUNTING FOR REVALUATIONS

The Ministry accounts for revaluations of property, plant and equipment on a class of asset basis. The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit, will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

## Intangible assets

### CAPITALISATION THRESHOLD

Individual assets, or group of assets, are capitalised if their cost is greater than \$50,000. The value of an individual asset that is less than \$50,000 and is part of a group of similar assets is capitalised.

### 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. Direct costs include the costs of materials and services, employee costs and any directly attributable overheads. Expenditure incurred on research of internally generated software is expensed when it is incurred.

Costs of software updates or upgrades are only capitalised when they increase the usefulness or value of the software. Costs associated with maintaining computer software are recognised as an expense when incurred.

Website development costs are only recognised as an intangible asset if they will provide future service potential.

### 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 that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3 to 7 years (14–33%)
Developed computer software	5 to 10 years (10–20%)

## Impairment of property, plant and equipment and intangible assets

The Ministry does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant and equipment and intangible assets are reviewed for indicators of impairment at each balance date or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service 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 service potential of the asset is 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 service potential.

For revalued assets, the impairment loss is recognised in other comprehensive revenue and expense to the extent the impairment loss does not exceed the amount in the revaluation reserve in equity for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit. For assets not carried at a revalued amount, the impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to other comprehensive revenue and expense and increases the revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit. For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

## Creditors and other payables

Creditors and other payables are generally settled within 30 days so are recorded at their face value or amortised cost.

## Employee entitlements

### SHORT-TERM EMPLOYEE ENTITLEMENTS

Employee entitlements expected to be settled within 12 months of balance date are measured at nominal values 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, retiring and long-service leave entitlements expected to be settled within 12 months, and sick leave.

Liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

### LONG-TERM EMPLOYEE ENTITLEMENTS

Employee entitlements that are due to be settled beyond 12 months of balance date in which the employee renders the related service, such as long-service leave and retiring leave, 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, sick leave, annual leave, vested long-service leave, and non-vested long-service leave and retiring leave expected to be settled within 12 months of the balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

## Superannuation schemes

### DEFINED CONTRIBUTION SCHEMES

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit as incurred.

## Provisions

The Ministry recognises a provision for future expenditure of uncertain timing or amount. There must be a present obligation, either legal or constructive, as a result of a past event and a probable outflow of future economic benefits. A reliable estimate must also be possible. Provisions are not recognised for net deficits from future operating activities.

## RESTRUCTURING

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

## ACCIDENT COMPENSATION CORPORATION (ACC) PARTNERSHIP PROGRAMME

The Ministry belongs to the ACC Partnership Programme whereby the Ministry accepts the management and financial responsibility of work related illnesses and injuries of employees. Under the programme, the Ministry is liable for all its claims costs for a period of four years up to a specified maximum amount. At the end of the four-year period, the Ministry pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes to ACC.

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to balance date.

## MAKE-GOOD PROVISION

The Ministry is required at the expiry of some of its leases to make-good any damage caused and remove any fixture or fittings installed by it. In many cases the Ministry has the options to renew these leases, which may change the timing of the expected cash outflows to make-good the premises.

## Equity

Equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as Crown capital and retained earnings, memorandum accounts (net position) and property revaluation reserves.

## MEMORANDUM ACCOUNTS

Memorandum accounts reflect the cumulative surplus/(deficit) on those departmental services

provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. The balance of each memorandum account is expected to trend toward zero over time.

## PROPERTY REVALUATION RESERVES

These reserves relate to the revaluation of land, buildings and artworks to fair value.

## Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into, on or before balance date. Information on non-cancellable operating lease commitments and non-cancellable capital commitments are disclosed in the statement of commitments.

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising the option to cancel are reported in the statement of commitments at the lower of the remaining contractual commitment, and the value of those penalty or exit costs (i.e. the minimum future payments).

## Contingent liabilities and assets

Contingent liabilities and assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent 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.

## Goods and services tax

All items in the financial statements, including appropriation statements, are stated exclusive of goods and services tax (GST), except for trade debtors and creditors, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## Income tax

Government departments are exempt from income tax as public authorities. Accordingly, no provision has been made for income tax.

## Budget figures

### BASIS OF THE BUDGET AND FORECAST FIGURES

The 2016 Estimates of Appropriations figures are for the year ended 30 June 2016 and were published in the 2014/15 annual report. They are consistent with the Ministry's best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 30 June 2016.

The 2017 forecast figures are for the year ending 30 June 2017, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 30 June 2017.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 30 June 2017 forecast figures were prepared in accordance with PBE FRS 42 Prospective Financial Statements and comply with PBE FRS 42.

The forecast financial statements were authorised for issue by the Director-General of the Ministry for Primary Industries on 12 April 2016. The Director-General is responsible for them, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2017 will not be published.

### SIGNIFICANT ASSUMPTIONS USED IN PREPARING THE FORECAST FINANCIALS

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 2016/17 financial year. They were compiled on the basis of existing government policies and Ministerial expectations at the time the main estimates were finalised.

The main assumptions, which were adopted as at 12 April 2016, are as follows:

- the Ministry's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities;
- personnel costs were based on 2,489.65 full-time equivalent staff, which takes into account staff turnover;
- operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Ministry's best estimate of future costs that will be incurred;
- remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes;
- land, buildings and artwork are not revalued;
- estimated year-end information for 2015/16 was used as the opening position for the 2016/17 forecasts.

Factors that could lead to material differences between the forecast financial statements and the 2016/17 actual financial statements include changes in activities required by the Government, demand for third-party funded activities, year-end revaluations, and technical adjustments.

There are no significant accounting adjustments to actual balances as at 30 June 2016 that would have a material impact on the forecast financial statements.

## Statement of cost accounting policies

The Ministry has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Other indirect costs are assigned to outputs based on assessed usage, staff numbers, direct expenditure and estimated allocation of time.

There have been no changes in cost accounting policies since the date of the last audited financial statements.

**CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In preparing these financial statements the Ministry has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below.

**FAIR VALUE OF LAND AND BUILDINGS**

The significant assumptions applied in determining the fair value of land and buildings are disclosed in note 8.

**USEFUL LIVES OF MAJOR CLASSES OF ASSETS**

The useful lives of major classes of assets have been estimated as follows:

- buildings (including components) 8 to 40 years
- office furniture and equipment 3 to 12 years
- motor vehicles 5 years
- vessels 4 to 25 years

**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 license term. For internally generated software developed by the Ministry, the life is based on historical experience with similar systems as well as anticipation of future events, which may impact their useful life, such as changes in technology.

**RETIREMENT AND LONG-SERVICE LEAVE**

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long-service leave liabilities is disclosed in note 13.



## Note 2: Revenue other

ACTUAL 2015 \$000		ACTUAL 2016 \$000
38,615	Verification services (food safety)	43,684
23,229	Biosecurity systems entry levy	26,782
34,224	Miscellaneous statutory fees and charges	41,844
–	Border clearance levy	15,832
514	Rental income from sub-leased accommodation	359
–	Net gain on sale of property, plant and equipment	43
7,168	Other goods and services	9,239
103,750	Total revenue other	137,783

## Note 3: Personnel costs

ACTUAL 2015 \$000		ACTUAL 2016 \$000
203,280	Salaries and wages	219,858
6,327	Employer superannuation contributions to defined contribution plans	6,824
(3,792)	Increase/(decrease) in employee entitlements	(2,623)
10,661	Other personnel costs	10,798
216,476	Total personnel costs	234,857

## Note 4: Capital charge

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 2016 was 8% [2015: 8%].

## Note 5: Other operating expenses

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	Fees paid to auditor Ernst & Young	
378	– audit of financial statements	389
4	– other services	61
9,319	Operating lease payments	9,559
1,443	Advertising and publicity	1,064
16,696	Fisheries and marine-related research contracts	20,540
6,555	Other research contracts	8,243
67,970	Other contracts for services	75,417
12,368	Travel	13,368
7,879	Property costs	4,957
9,093	Information technology	10,217
–	Net foreign exchange losses	69
–	Net loss on foreign exchange derivatives	2,772
131	Inventory consumed (note 7)	74
–	Inventory impaired (note 7)	2,691
98	Debt impairment (note 6)	112
2,277	Property, plant and equipment impairment and written-off	388
81	Net loss on disposal of property, plant and equipment	–
1,594	Intangible assets impairment and write-off	–
30,010	Professional services	28,132
15,744	Other operating expenses	19,580
181,640	Total other operating expenses	197,633

The fees to auditor for other services were mainly for the Ernst & Young Executive Programme run in conjunction with the Darden Business School, of which three staff from the Ministry attended.

## Note 6: Debtors and other receivables

ACTUAL 2015 \$000		ACTUAL 2016 \$000
7,099	Debtors	10,803
(312)	Less provision for impairment	(240)
6,787	Net debtors	10,563
28,943	Debtor Crown	25,000
4,111	Biosecurity systems entry levy receivable	10,840
2,848	Accrued revenue	3,841
42,689	Total debtors and other receivables	50,244

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

The aging profile of debtors at year end is detailed below:

	2015			2016		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	3,988	–	3,988	7,274	–	7,274
Greater than 30 days	2,070	–	2,070	2,244	–	2,244
Greater than 60 days	444	–	444	526	–	526
Greater than 90 days	597	(312)	285	759	(240)	519
Total	7,099	(312)	6,787	10,803	(240)	10,563

The provision for impairment has been calculated based on a review of specific overdue debtors and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs. The provision for impairment is:

ACTUAL 2015 \$000		ACTUAL 2016 \$000
155	Individual impairment	136
157	Collective impairment	104
312	Total provision for impairment	240

Movements in the provision for impairment of debts are:

ACTUAL 2015 \$000		ACTUAL 2016 \$000
262	Balance at 1 July	312
98	Additional provisions made (note 5)	70
–	Unused amounts reversed during the year	–
(48)	Receivables written-off during the year	(142)
312	Balance at 30 June	240

## Note 7: Inventories

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	Held for distribution inventories	
4,394	Foot and mouth vaccine	4,426
164	Other	58
4,558	Total inventories	4,484

The loss in service potential of inventories held for distribution is determined on the basis of obsolescence.

No inventories are pledged as security for liabilities (2015: nil).

During 2015/16 the Ministry purchased new foot and mouth vaccine as part of the scheduled four year renewal programme. The previous vaccinations were partially bought back and the remainder impaired (see note 5).

## Note 8: Property, plant and equipment

	LAND \$000	BUILDINGS \$000	LEASEHOLD IMPROVEMENTS \$000	FURNITURE OFFICE EQUIPMENT AND ARTWORKS \$000	MOTOR VEHICLES AND VESSELS \$000	TOTAL \$000
<b>Cost or valuation</b>						
Balance at 1 July 2014	1,944	12,649	15,621	20,716	13,077	64,007
Additions through purchase	–	3,028	2,075	3,526	1,555	10,184
Write-offs and disposals	–	(259)	(285)	(318)	(866)	(1,728)
Reclassification	–	–	–	(186)	–	(186)
Balance at 30 June 2015	1,944	15,418	17,411	23,738	13,766	72,277
Balance at 1 July 2015	1,944	15,418	17,411	23,738	13,766	72,277
Additions through purchase	–	6,984	3,928	3,432	2,064	16,408
Write-offs and disposals	–	–	–	(1,495)	(881)	(2,376)
Reclassification	–	–	–	–	–	–
Balance at 30 June 2016	1,944	22,402	21,339	25,675	14,949	86,309
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2014	–	1,569	9,184	14,024	4,493	29,270
Depreciation expense	–	1,245	2,119	2,694	911	6,969
Write-offs and disposals	–	–	(285)	(318)	(570)	(1,173)
Impairment losses	–	1,998	20	–	–	2,018
Reclassification	–	–	–	–	–	–
Balance 30 June 2015	–	4,812	11,038	16,400	4,834	37,084
Balance at 1 July 2015	–	4,812	11,038	16,400	4,834	37,084
Depreciation expense	–	1,289	2,222	3,111	1,005	7,627
Write-offs and disposals	–	–	–	(1,494)	(558)	(2,052)
Impairment losses	–	–	388	–	–	388
Reclassification	–	–	–	–	–	–
Balance 30 June 2016	–	6,101	13,648	18,017	5,281	43,047
<b>Carrying amounts</b>						
At 1 July 2014	1,944	11,080	6,437	6,692	8,584	34,737
At 30 June and 1 July 2015	1,944	10,606	6,373	7,338	8,932	35,193
At 30 June 2016	1,944	16,301	7,691	7,658	9,668	43,262

The most recent valuation of land and buildings was performed by independently registered valuers CW Nyberg of Darroch Limited; P Schellekens of CBRE Limited; PA Albrecht of Darroch Limited; and MW Lauchlan of Duke & Cooke Limited. The effective date for the valuations is 30 June 2012.

The most recent valuation of Artwork was performed by Dunbar Sloane Limited for 30 June 2013.

## LAND

Land is valued at fair value using market-based evidence, on its highest and best use with reference to comparable land values. Adjustments have been made to the “unencumbered” land value for land where there is a designation against the land or the use of the land is restricted. Restrictions on the Ministry’s ability to sell land would normally not impair the value of the land because the Ministry has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

## BUILDINGS

Specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings. Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- the replacement asset is based on the replacement with modern equivalent assets with adjustments where appropriate for optimisation due to over-design or surplus capacity;
- the replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information;

- for earthquake-prone buildings that are expected to be strengthened, the estimated earthquake-strengthening costs have been deducted off the depreciated replacement cost in estimating fair value;
- the remaining useful life of the asset;
- straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued at fair value using market-based evidence. Market rents and capitalisation rates were applied to reflect market value.

## Work in progress

Work in progress is included in the above figures at cost, less impairment, and is not depreciated.

Buildings in the course of construction for 2016 total \$6.694 million (2015: \$2.784 million). No other asset classes have assets in the course of construction.



## Note 9: Intangible assets

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	TOTAL \$000
<b>Cost</b>			
Balance at 1 July 2014	12,753	54,294	67,047
Additions through purchase	423	5,877	6,300
Write-offs and disposals	–	(1,264)	(1,264)
Reclassification	186	–	186
Balance at 30 June 2015	13,362	58,907	72,269
Balance at 1 July 2015	13,362	58,907	72,269
Additions through purchase	3,875	3,795	7,670
Write-offs and disposals	–	–	–
Reclassification	–	–	–
Balance at 30 June 2016	17,237	62,702	79,939
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2014	9,451	25,888	35,339
Amortisation expense	838	5,218	6,056
Write-offs and disposals	–	–	–
Impairment losses	330	–	330
Reclassification	–	–	–
Balance at 30 June 2015	10,619	31,106	41,725
Balance at 1 July 2015	10,619	31,106	41,725
Amortisation expense	1,082	5,578	6,660
Write-offs and disposals	–	–	–
Impairment losses	–	–	–
Reclassification	–	–	–
Balance at 30 June 2016	11,701	36,684	48,385
<b>Carrying amounts</b>			
At 1 July 2014	3,302	28,406	31,708
At 30 June and 1 July 2015	2,743	27,801	30,544
At 30 June 2016	5,536	26,018	31,554

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

### Work in progress

Work in progress for the year ended 30 June 2016 has been tested for material impairment and is included in the above figures at cost, less impairment, and is not amortised.

The total amount of intangible assets in the course of construction is \$3.952 million (2015: \$2.665 million).

## Note 10: Creditors and other payables

ACTUAL 2015 \$000		ACTUAL 2016 \$000
7,493	Creditors	3,705
4,163	Unearned revenue	5,521
26,162	Accrued expenses	24,488
3,948	GST payable to IRD	3,049
41,766	Total creditors and other payables	36,763

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximate their fair value.

## Note 11: Return of operating surplus

ACTUAL 2015 \$000		ACTUAL 2016 \$000
8,855	Net surplus/(deficit)	6,785
–	Adjust for unrealised losses/(gains) on forward foreign exchange contracts recognised in the surplus/(deficit)	2,772
5,801	Adjust for (surpluses)/deficits for services subject to memorandum accounts	(6,865)
14,656	Total return of operating surplus	2,692

The repayment of surplus is required by 31 October of each year.

## Note 12: Provisions

ACTUAL 2015 \$000		ACTUAL 2016 \$000
293	Restructuring	60
807	Compensation under the Biosecurity Act 1993	1,425
267	ACC Partnership Programme	67
920	Lease make-good	725
207	Pet cat and dog import overcharging	100
8	Other provisions	3
2,502	Total provisions	2,380

### Note 12a: Provision for restructuring

ACTUAL 2015 \$000		ACTUAL 2016 \$000
267	Opening balance 1 July	293
891	Additional provisions made	497
(865)	Amounts used	(606)
–	Unused amounts reversed	(124)
293	Closing balance	60

The Ministry's estimate for the provision of severance for one employee (2015:6).

During the financial year severance was paid to eight employees (2015:16).

## Note 12b: Provision for compensation under the Biosecurity Act 1993

ACTUAL 2015 \$000		ACTUAL 2016 \$000
815	Opening balance 1 July	807
407	Additional provisions made during the year	700
(8)	Charged against the provision during the year	(82)
(407)	Unused amounts reversed	–
807	Closing balance	1,425

This provision provides for compensation payable under section 162A of the Biosecurity Act 1993, as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The provision represents the Ministry's best estimate of the cost of settling current compensation claims. The compensation payments are expected to be settled by 30 June 2017.

## Note 12c: Provision for ACC Partnership Programme

ACTUAL 2015 \$000		ACTUAL 2016 \$000
232	Opening balance 1 July	267
50	Additional provisions made during the year	–
(15)	Charged against the provision during the year	(88)
–	Unused amounts reversed during year	(112)
267	Closing balance	67

The liability for the ACC Partnership Programme is measured at the present value of expected future payments for work-related illnesses and injuries of employees up to the reporting date. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries.

The Ministry manages its exposure arising from the programme by promoting a safe and healthy working environment by:

- implementing and monitoring health and safety policies;
- induction training on health and safety;
- actively managing workplace injuries to ensure employees return to work as soon as practical;
- recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions;
- identifying workplace hazards and implementation of appropriate safety procedures.

To manage the extent of the ongoing financial liability for employees' claims under the Full Self Cover Plan, the Ministry has chosen a Stop Loss Limit of 160 percent of the risk and High Cost Claims Cover excess of \$250,000. The Ministry is not exposed to any significant concentrations of insurance risk as work-related injuries are generally the result of an isolated event to an individual employee.

## Note 12d: Lease make-good provision

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	– Opening balance 1 July	920
920	Additional provisions made during the year	–
	– Charged against the provision during the year	–
	– Unused amounts reversed during year	(195)
920	Closing balance	725

The Ministry has leased premises and a Ministry-owned building on leased land, where it is required to make good the property at the expiry of the lease.

## Note 12e: Provision for pet cat and dog import overcharging

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	– Opening balance 1 July	207
207	Additional provisions made during the year	–
	– Charged against the provision during the year	(83)
	– Unused amounts reversed during year	(24)
207	Closing balance	100

This provision covers reimbursements for veterinary inspections to anyone who had brought a pet dog or cat from Australia to New Zealand, between 1 December 2014 and 30 June 2015 that should have been charged a fixed fee of \$40.88 but was charged an hourly rate of \$102.20 (both figures are GST inclusive).

## Note 13: Employee entitlements

ACTUAL 2015 \$000		ACTUAL 2016 \$000
Current employee entitlements represented by:		
27	Salaries and wages	863
14,365	Annual leave	16,079
723	Sick leave	542
1,566	Long-service leave	1,535
2,431	Retiring leave	2,518
19,112	Total current employee entitlements	21,537
Non-current employee entitlements represented by:		
2,080	Long-service leave	2,165
8,289	Retiring leave	8,402
10,369	Total non-current employee entitlements	10,567
29,481	Total employee entitlements	32,104

The measurement of retirement and long-service leave entitlements is determined on an actuarial basis using a number of factors and assumptions. Two key figures used are the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand government bonds. The discount rates used match, as closely as possible, the estimated future cash outflows.

The discount rates used were: 1 year 2.12%; 2 year 1.95%; and 3 year-plus 3.13% (2015: 2.93%, 2.81%, 4.39%). A salary inflation factor of 3.0 percent has been used and is based on a 2.0 percent medium term inflation assumption. The discount rates and salary inflation factor were provided by Treasury.

If the discount rates were to differ by 1 percent higher from that used, with all other factors held constant, the carrying amount of the liability would be an estimated \$732,000 lower. If the discount rates were to differ by 1 percent lower from that used, with all other factors held constant, the carrying amount of the liability would be an estimated \$825,000 higher.

If the salary inflation factor were to differ by 1 percent higher from that used, with all other factors held constant, the carrying amount of the liability would be an estimated \$879,000 higher. If the salary inflation factor were to differ by 1 percent lower from that used, with all other factors held constant, the carrying amount of the liability would be an estimated \$793,000 lower.

## Note 14: Equity

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	<b>Crown capital and retained earnings</b>	
54,042	Balance at 1 July	49,145
-	Capital injections from the Crown	25,267
	Repayment of capital to the Crown for:	
-	- Part repayment of capital injection in 2015/16 for Joint Border Management Systems	(4,422)
(645)	- Part repayment of capital injection in 2004/05 for head office leasehold improvements	-
54	Transfers from revaluation reserves on disposal of property	-
(4,306)	Write-off irrecoverable memorandum account operating deficits	(499)
8,855	Net surplus/(deficit)	6,785
5,801	Transfer of memorandum accounts net surplus/(deficit)	(6,865)
-	Retention of prior year surplus	7,187
(14,656)	Return of operating surplus to the Crown	(2,692)
49,145	Balance at 30 June	73,906
	<b>Memorandum accounts</b>	
(250)	Balance at 1 July	(1,745)
(5,801)	Net memorandum account surpluses/(deficits)	6,865
4,306	Write-off irrecoverable operating deficits	499
(1,745)	Balance at 30 June	5,619
	<b>Revaluation reserve – land</b>	
559	Balance at 1 July	505
(54)	Transfer to retained earnings on disposal	-
505	Balance at 30 June	505
	<b>Revaluation reserve – residential buildings</b>	
69	Balance at 1 July	69
69	Balance at 30 June	69
	<b>Revaluation reserve – artworks</b>	
119	Balance at 1 July	119
119	Balance at 30 June	119
48,093	Total equity	80,218

## Note 15: Reconciliation of net surplus/(deficit) to net cash flow from operating activities

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000
8,855	Net surplus/(deficit)		6,785
	Add/(less) non-cash items classified as investing or financing activities		
7,650	Amortisation, impairment and write-off on intangible assets		6,660
9,246	Depreciation, impairment and write-off on property, plant and equipment		8,016
16,896	Total non-cash items		14,675
	Add/(less) items classified as investing or financing activities		
81	Net (gain)/loss on sale of property, plant and equipment	2	(43)
-	Adjust for unrealised (gains)/losses on forward foreign exchange contracts recognised in the surplus/(deficit)		2,575
81	Total investing or financing activities		2,532
	Add/(less) movements in working capital items		
89	(Increase)/decrease in inventories		74
(4,077)	(Increase)/decrease in debtors and other receivables		(7,555)
(1,510)	(Increase)/decrease in prepayments		545
1,658	(Increase)/decrease in creditors and other payables		(2,701)
(3,792)	(Increase)/decrease in employee entitlements		2,623
912	(Increase)/decrease in provisions		(122)
(6,720)	Total net movement in working capital items		(7,136)
19,112	Net cash from operating activities		16,856

## Note 16: Related parties

The Ministry is a wholly owned entity of the Crown. The Government significantly influences the roles of the Ministry as well as being a major source of revenue.

Related party transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as 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

ACTUAL 2015 \$000		ACTUAL 2016 \$000
2,414	Leadership team, including the Chief Executive remuneration	2,557
7	Full-time equivalent staff numbers	7

Key management personnel of the Ministry comprises the Minister for Primary Industries, the Minister for Food Safety, the Director General and six Deputy Directors-General. The figures for 2015/16 exclude the Deputy Director-General China Relations who is on secondment to the Ministry of Foreign Affairs and Trade.

The above key management personnel compensation disclosure excludes the Minister for Primary Industries and the Minister for Food Safety. 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 Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the Ministry.

### Related party transactions involving key management personnel (or their close family members)

There are no related party disclosures required under the new PBE standards. All transactions undertaken are conducted on an arm's length basis.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

## Note 17: Financial instrument risks

### Note 17a: Financial instrument categories

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

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	Loans and receivables	
20,390	Cash and cash equivalents	24,609
42,689	Debtors and other receivables (note 6)	50,244
63,079	Total loans and receivables	74,853
	Financial liabilities measured at amortised cost	
37,603	Creditors and other payables (excluding unearned revenue) (note 10)	31,242
	Fair value through surplus and deficit – held for trading	
–	Foreign exchange derivatives	2,575

### Note 17b: Financial instrument risks

The Ministry's activities expose it to a variety of financial instrument risks, including currency risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow for any transactions that are speculative in nature to be entered into. Any financial instruments held are carried at approximate fair value.

#### 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. Currency risk arises from future purchases and recognised liabilities, which are denominated in a foreign currency.

The Ministry purchases goods and services internationally and is exposed to currency risk arising from various exposures, primarily with respect to the euro, British pound, US dollar and Australian dollar. The Ministry's Foreign Exchange Management Policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign spot or exchange forward contracts when the total transaction exposure to an individual currency exceeds NZ\$100,000. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury's Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

#### Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates. The Ministry has no 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 obligation to the Ministry, causing the Ministry to incur a loss. In the normal course of its business, credit risk arises from debtors and deposits with banks.

The Ministry is only permitted to deposit funds with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forwards with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. 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, net debtors (note 6), and derivative financial instrument assets (note 17). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

### Liquidity risk

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

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

### CONTRACTUAL MATURITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

The table below analyses the Ministry's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	LIABILITY CARRYING AMOUNT \$000	ASSET CARRYING AMOUNT \$000	CONTRACTUAL CASHFLOWS \$000	LESS THAN 6 MONTHS \$000	6-12 MONTHS \$000	1-3 YEARS \$000
<b>2016</b>						
Gross settled forward foreign exchange contracts:	2,575	-	-	-	-	-
- outflow	-	-	18,384	4,653	10,779	2,952
- inflow	-	-	13,173	2,714	6,710	3,749
<b>2015</b>						
Gross settled forward foreign exchange contracts:	-	-	-	-	-	-
- outflow	-	-	-	-	-	-
- inflow	-	-	-	-	-	-

### Note 17c: Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	TOTAL \$000	QUOTED MARKET PRICE \$000	OBSERVABLE INPUTS \$000	SIGNIFICANT NON-OBSERVABLE INPUTS \$000
30 June 2016				
Financial liabilities				
Foreign exchange derivatives	2,575	–	2,575	–
30 June 2015				
Financial liabilities				
Foreign exchange derivatives	–	–	–	–

There were no transfers between the different levels of the fair value hierarchy.

## Note 18: Capital management

The Ministry's capital is its equity which comprises Crown capital and retained earnings, memorandum accounts (net position) and property revaluation reserves. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities, and general financial dealings prudently and in a manner that promotes the current and future interests of the New Zealand public. The Ministry's equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the Government budget processes and with Treasury instructions, and the Public Finance Act 1989.

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

## Note 19: Memorandum accounts

These accounts summarise financial information relating to the accumulated surpluses and deficits incurred in the provision of statutory information and performance of accountability reviews by the Ministry to third parties on a full cost recovery basis.

The accounts enable the Ministry to take a long-run perspective to fee setting and cost recovery.

These transactions are included as part of the Ministry's operating income and expenses in the surplus/deficit; however, these transactions are excluded from the calculation of the Ministry's return of operating surplus (refer note 11). The cumulative balance of the surplus/(deficit) of the memorandum accounts is recognised as a component of equity (refer note 14).

The balance of each memorandum account is expected to trend toward zero over a reasonable period of time, with interim deficits being met either from cash from the Ministry's statement of financial position or by seeking approval for a capital injection from the Crown. Capital injections will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
(4,166)	Border biosecurity clearance fees account	(641)
1,173	Phytosanitary exports account	952
(1,556)	Verification of the food regulatory programme account	2,142
601	Approvals, accreditations and registrations	869
2,203	Standards setting for the food industry account	800
-	Wine standards management – Wine Act 2003	530
-	Food standards and assurance – Food Act 2014	(156)
-	Border biosecurity traveller clearance levy	1,123
(1,745)	Total memorandum account balances	5,619

### Note 19a: Border biosecurity clearance fees account

ACTUAL 2015 \$000		ACTUAL 2016 \$000
-	Opening balance 1 July	(4,166)
33,079	Revenue	39,810
(37,245)	Expenses	(36,285)
(4,166)	Closing balance	(641)

This account covers:

- levies imposed on all importations of goods for which a document is lodged with the New Zealand Customs Service under regulation 26(2) of the Customs and Excise Regulations 1996; and
- all other fees collected under the Biosecurity Costs Regulations 2006 including inspection of risk goods, offshore inspection of ships, and approval and audit of transitional containment facilities and facility operators.

### Note 19b: Phytosanitary exports account

ACTUAL 2015 \$000		ACTUAL 2016 \$000
1,257	Opening balance 1 July	1,173
2,260	Revenue	2,277
(2,344)	Expenses	(2,498)
1,173	Closing balance	952

This account covers fees for certification of plant and forestry exports.



## Note 19c: Verification of the Food Regulatory Programme account

ACTUAL 2015 \$000		ACTUAL 2016 \$000
(2,705)	Opening balance 1 July	(1,556)
38,691	Revenue	45,129
(37,834)	Expenses	(41,930)
–	Write-off irrecoverable operating deficits <sup>1</sup>	499
292	Write-off accumulated operating deficits <sup>2</sup>	–
(1,556)	Closing balance	2,142

This account covers verification and certification activities undertaken by the Ministry in accordance with section 7 of the Animal Products (Fees, Charges and Levies) Regulations 2007.

## Note 19d: Approvals, accreditations and registrations

ACTUAL 2015 \$000		ACTUAL 2016 \$000
307	Opening balance 1 July	601
3,731	Revenue	4,366
(3,437)	Expenses	(4,098)
601	Closing balance	869

This account covers the provision of approval and registration services to regulated parties under the Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999.

## Note 19e: Standards setting for the food industry account

ACTUAL 2015 \$000		ACTUAL 2016 \$000
891	Opening balance 1 July	2,203
15,297	Revenue	17,976
(17,999)	Expenses	(19,379)
4,014	Write-off irrecoverable operating deficits <sup>1</sup>	–
2,203	Closing balance	800

This account covers the Ministry's standards setting activities and fees for certification and reconciliation services under the Animal Products (Dairy Industry Fees and Charges) Regulations 2007.

## Note 19f: Wine standards management – Wine Act 2003

ACTUAL 2015 \$000		ACTUAL 2016 \$000
–	Opening balance 1 July	–
–	Revenue	2,188
–	Expenses	(1,658)
–	Closing balance	530

This account covers certification, assurance, standards setting, market access, systems implementation and monitoring services provided under the Wine Act 2003.

<sup>1</sup>Fee adjustments were not made within the time limit stipulated in section 115(4) of the Animal Products Act 1999

<sup>2</sup>Imported domestic foods verification services are not covered by this memorandum account

## Note 19g: Food standards and assurance – Food Act 2014

ACTUAL 2015 \$000	ACTUAL 2016 \$000
– Opening balance 1 July	–
– Revenue	169
– Expenses	(325)
– Closing balance	(156)

This account covers services provided by the Ministry under the Food Act 2014.

## Note 19h: Border Biosecurity Traveller Clearance Levy

ACTUAL 2015 \$000	ACTUAL 2016 \$000
– Opening balance 1 July	–
– Revenue	15,838
– Revenue from the Crown for exempt travellers	10,651
– Expenses	(25,366)
– Closing balance	1,123

This account covers fees and costs associated with the biosecurity clearance costs of travellers coming into New Zealand.

### Action taken to address surpluses and deficits

The new fees regime, announced in February 2015, came into effect on 1 July 2015.

A first principles review of cost recovery is underway. This review will include analysis of the memorandum accounts to ensure they are functioning well and that they support appropriate cost recovery for services delivered going forward.

## Note 20: Explanation of major variances against Budget

### Statement of comprehensive revenue and expense

Decreased revenue other of \$5.158 million and other operating expenses of \$22.960 million were offset by increased personnel costs of \$16.827 million, due to increased frontline staff for the border, verifications and implementing the Food Act 2014.

### Statement of financial position (and cash flows)

Working capital (current assets less current liabilities) is higher than forecast mainly due to:

- the lower than forecast capital expenditure of \$26.381 million reflected in the net cash from investing activities;
- the higher Crown debtor, reflected in the lower receipts from Crown of \$11.557 million.

The lower than forecast capital expenditure is due to changes in the timings of expenditure on projects, notably the National Biocontainment Laboratory at Wallaceville, Upper Hutt.

## Note 21: Events after balance date

### Retention of operating surplus

On 13 September 2016, the Minister of Finance and the Minister for Primary Industries agreed to allow the Ministry to retain part of its operating surplus. The whole operating surplus is typically repaid to Treasury but for the 2015/16 year joint Ministers approved \$2.692 million of the surplus to be retained as the Ministry progresses several large infrastructure projects, including the National Biocontainment Laboratory at Wallaceville and the co-location of its Auckland sites.



# Non-Departmental Statements and Schedules

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## Introduction/Overview

The following non-departmental statements and schedules record the revenue, expenses, capital receipts, assets, liabilities, commitments and trust accounts the Ministry for Primary Industries manages on behalf of the Crown.

The Ministry administered \$258.794 million of expenses, \$2.000 million of capital expenditure, \$151.134 million of income, \$2.168 million of capital receipts, \$265.903 million of assets and \$36.540 million of liabilities on behalf of the Crown for the year ending 30 June 2016. Further details of the Ministry's management of these Crown assets and liabilities are provided in the Output Performance sections of this report.

The financial information reported in these statements and schedules is consolidated into the Crown financial statements, and therefore readers of these statements and schedules should also refer to the Crown financial statements for the year ended 30 June 2016.

# Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations

For the year ended 30 June 2016

ACTUAL 2015 \$000		EXPENDITURE BEFORE REMEASUREMENTS 2016 \$000	REMEASUREMENTS 2016 \$000	EXPENDITURE AFTER REMEASUREMENTS 2016 \$000	APPROPRIATION VOTED <sup>1</sup> 2016 \$000	FORECAST <sup>2</sup> 2017 \$000
Vote Primary Industries and Food Safety						
<b>APPROPRIATIONS FOR OUTPUT EXPENSES</b>						
Administration and Management of Crown Forestry Assets and Operations MCA						
-	Operational Management of the Crown Forest Estate	65,575	-	65,577	69,112	62,787
3,825	Climate Change Research	1,765	-	1,765	2,384	1,720
-	Control of Bovine TB	-	-	-	-	26,000
30,000	Control of TB Vectors	30,000	-	30,000	30,000	-
76,996	Management of Crown Forestry Assets	-	-	-	-	-
1,789	Support for Walking Access	1,789	-	1,789	1,789	1,789
112,610	Total output expenses	99,131	-	99,131	103,285	92,296
<b>APPROPRIATION FOR BENEFITS OR RELATED EXPENSES</b>						
1,304	Rural Veterinarians Bonding Scheme	1,460	-	1,460	1,650	1,650
1,304	Total benefits and related expenses	1,460	-	1,460	1,650	1,650
<b>APPROPRIATIONS FOR OTHER EXPENSES</b>						
493	Adverse Climatic Events	-	-	-	-	-
-	Aquaculture Settlements	51,845	-	51,845	52,348	33,000
-	Food Safety MCA	-	-	-	-	-
-	Joint Food Standards Setting Treaty	2,090	-	2,090	2,100	2,100
<b>Grants and Programmes MCA</b>						
-	Adverse Climatic Events	2,250	-	2,250	2,556	526
-	Hill Country Erosion Fund	2,093	-	2,093	2,200	2,200
-	Sustainable Farming Fund	8,817	-	8,817	9,811	9,000
2,107	Hill Country Erosion Fund	-	-	-	-	-
-	Provision for Fisheries Debt Write Downs	439	-	439	1,000	1,000

<sup>1</sup> The 2016 Appropriation Voted figures are those submitted to Treasury for the 2016 Supplementary Estimates.

<sup>2</sup> The statement of accounting policies provides explanations for these figures, which are not subject to audit.

table continued...

ACTUAL 2015 \$000		EXPENDITURE BEFORE REMEASUREMENTS 2016 \$000	REMEASUREMENTS 2016 \$000	EXPENDITURE AFTER REMEASUREMENTS 2016 \$000	APPROPRIATION VOTED <sup>1</sup> 2016 \$000	FORECAST <sup>2</sup> 2017 \$000
1,199	Response to the Kiwifruit disease <i>Pseudomonas Syringae</i> <i>pv. Actinidiae</i>	1,310	–	1,310	1,310	500
2,861	Subscriptions to International Organisations Sustainable Economic Development and Trade MCA	2,894	–	2,894	3,208	3,208
–	Fisheries quota shares and ACE administration costs	–	–	–	24	24
5,417	Sustainable Farming Fund	–	–	–	–	–
14,173	Total other expenses	71,738	–	71,738	74,557	51,558
<b>APPROPRIATION FOR CAPITAL EXPENDITURE</b>						
387	Crown Forestry assets	–	–	–	–	–
387	Total capital expenses	–	–	–	–	–
128,474	Total annual appropriation expenditure	172,329	–	172,329	179,492	145,504

The accompanying notes form part of these financial statements.

The adjusted appropriation figures are those submitted to Treasury for the 2016 Supplementary Estimates.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

<sup>1</sup> The 2016 Appropriation Voted figures are those submitted to Treasury for the 2016 Supplementary Estimates.

<sup>2</sup> The statement of accounting policies provides explanations for these figures, which are not subject to audit.

ACTUAL 2015 \$000	MULTI-YEAR APPROPRIATIONS	ACTUAL 2016 \$000
	<b>Vote Primary Industries and Food Safety</b>	
	<b>APPROPRIATIONS FOR OTHER EXPENSES</b>	
	<b>AFFORESTATION GRANTS SCHEME</b>	
	Original appropriation – over five years from 1 July 2016 to 30 June 2021	19,500
	Estimated expenses for 2017	3,900
	Appropriation remaining	15,600
	<b>EAST COAST AFFORESTATION GRANTS</b>	
18,460	Original appropriation – over four years from 1 July 2013 to 30 June 2017	18,460
4,495	Cumulative adjustments	4,495
22,955	Adjusted appropriation	22,955
4,621	Actual expenses to 30 June 2015	4,621
	Actual expenses for 2016	1,312
	Estimated expenses for 2017	16,482
18,334	Appropriation remaining	540
	<b>GLOBAL RESEARCH ALLIANCE ON AGRICULTURAL GREENHOUSE GASES</b>	
38,253	Original appropriation – over four years from 1 July 2012 to 30 June 2016	38,253
(8,749)	Cumulative adjustments	(8,749)
29,504	Adjusted appropriation	29,504
14,582	Actual expenses to 30 June 2015	14,582
	Actual expenses for 2016	3,996
14,922	Appropriation remaining	10,926
	<b>GLOBAL RESEARCH ALLIANCE ON AGRICULTURAL GREENHOUSE GASES</b>	
	Original appropriation – over four years from 1 July 2016 to 30 June 2020	26,960
	Estimated expenses for 2017	10,000
	Appropriation remaining	16,960
	<b>PRIMARY GROWTH PARTNERSHIP</b>	
352,380	Original appropriation – over five years from 1 July 2012 to 30 June 2017	352,380
(76,324)	Cumulative adjustments	(91,295)
276,056	Adjusted appropriation	261,085
129,591	Actual expenses to 30 June 2015	129,591
	Actual expenses for 2016	45,697
	Estimated expenses for 2017	76,863
146,465	Appropriation remaining	8,934
	<b>WATER STORAGE AND IRRIGATION INVESTMENT PROPOSALS</b>	
32,500	Original appropriation – over four years from 1 July 2012 to 30 June 2016	32,500
725	Cumulative adjustments	725
33,225	Adjusted appropriation	33,225
18,892	Actual expenses to 30 June 2015	18,892
	Actual expenses for 2016	6,958
14,333	Appropriation remaining	7,375

table continued...

ACTUAL 2015 \$000	MULTI-YEAR APPROPRIATIONS	ACTUAL 2016 \$000
	<b>WATER STORAGE AND IRRIGATION INVESTMENT PROPOSALS</b>	
	Original appropriation – over five years from 1 July 2016 to 30 June 2021	25,000
	Estimated expenses for 2017	5,000
	Appropriation remaining	20,000
	<b>APPROPRIATION FOR CAPITAL EXPENDITURE</b>	
	<b>CROWN IRRIGATION INVESTMENTS LIMITED</b>	
40,000	Original appropriation – over four years from 1 July 2014 to 30 June 2018	40,000
71,850	Cumulative adjustments	71,850
111,850	Adjusted appropriation	111,850
7,250	Actual expenses to 30 June 2015	7,250
	Actual expenses for 2016	2,000
	Estimated expenses for 2017	101,600
104,600	Appropriation remaining	1,000
69,711	Total Vote Primary Industries and Food Safety	59,963
69,711	Total Multi-Year Appropriation expenditure	59,963
190,548	Total expenditure for 2016	230,292
7,637	Total capital expenditure for 2016	2,000

## Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure

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### For the year ended 30 June 2016

An appropriation is a sum of money allocated by Parliament for a particular use. Unappropriated expenditure is an expense or a capital expenditure in excess of, or outside the scope of, existing Ministry appropriations.

There was no unappropriated non-departmental expenditure for the year ended 30 June 2016 (2015: nil).

The accompanying notes form part of these financial statements.



## Schedule of Non-Departmental Revenue

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
102,625	Sale of forest produce		95,583	79,419	80,726
31,448	Fines, penalties and levies	2	31,360	34,650	35,000
368	Sale of Crown quota and Annual Catch Entitlement (ACE)		693	100	100
5,155	Deemed value for over-fishing		3,482	2,500	5,000
510	Forestry encouragement loan interest	3	431	431	346
546	Gain on remeasurement of forestry encouragement loans	3	509	425	425
–	Gain on revaluation of forests measured at fair value	5	18,681	–	–
–	Gain on sale of Crown forestry assets		96	–	–
142	Emissions Trading Scheme fees		59	500	150
446	Forestry land rental		59	300	445
106	Miscellaneous revenue		181	50	50
141,346	Total non-departmental revenue		151,134	118,375	122,242

## Schedule of Non-Departmental Capital Receipts

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
1,686	Forestry encouragement loan repayments	3	1,686	1,686	1,686
10,220	Proceeds from sale of Crown forestry assets		482	–	–
11,906	Total non-departmental capital receipts		2,168	1,686	1,686

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

## Schedule of Non-Departmental Expenses

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
67,923	Grants		70,528	76,309	116,571
109,614	Operating		150,116	104,176	123,100
1,304	Benefits		1,460	1,550	1,650
9,675	Research and development		5,761	17,156	13,509
1,789	New Zealand Walking Access Commission funding	8	1,789	1,789	1,789
243	Depreciation and impairment of property, plant and equipment	7	198	236	269
–	Impairment of receivables		439	1,000	1,000
12,944	Loss on revaluation of forests measured at fair value	5	–	–	–
341	Loss on impairment of forests measured at cost	5	2,435	–	–
27,108	GST input expenses		26,068	26,092	32,834
230,941	Total non-departmental expenses		258,794	228,308	290,722

## Schedule of Non-Departmental Capital Expenditure

For the year ended 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
7,250	Investment in Crown Irrigation Investments Ltd	9	2,000	99,850	101,600
387	Purchase and development of Crown forestry assets	5	–	–	–
7,637	Total non-departmental expenses		2,000	99,850	101,600

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

## Schedule of Non-Departmental Assets

As at 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
19,822	Cash and cash equivalents		22,809	10,000	10,174
23,781	Debtors and other receivables	6	25,364	25,000	23,814
1,184	Prepayments		1,814	1,547	1,631
550	Non-current assets held for sale	4	550	–	–
1,686	Forestry encouragement loans	3	1,686	1,686	1,686
47,023	Total current assets		52,223	38,233	37,305
<b>Non-current assets</b>					
33	Debtors and other receivables	6	22	–	–
4,072	Forestry encouragement loans	3	3,325	3,952	2,327
160,514	Forests	5	176,374	173,799	161,064
15,606	Property, plant and equipment	7	15,408	15,956	15,069
	Crown equity investment in Crown entities				
1,150	– New Zealand Walking Access Commission	8	1,150	1,150	1,150
15,400	– Crown Irrigation Investments Limited	9	17,400	20,150	120,000
196,775	Total non-current assets		213,680	215,007	299,610
243,798	Total non-departmental assets		265,903	253,240	336,915

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

## Schedule of Non-Departmental Liabilities

As at 30 June 2016

ACTUAL 2015 \$000		NOTE	ACTUAL 2016 \$000	ESTIMATES OF APPROPRIATIONS 2016 \$000	FORECAST <sup>1</sup> 2017 \$000
<b>Current liabilities</b>					
21,961	Creditors and other payables	10	18,567	26,600	22,476
9,211	Over- and under-recovered costs from fishing industry	11	12,441	9,000	9,211
5,164	Provisions	12	4,078	1,000	4,023
<b>Non-current liabilities</b>					
1,288	Provisions	12	1,454	1,750	1,288
37,624	Total non-departmental liabilities		36,540	38,350	36,998

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

<sup>1</sup>The statement of accounting policies provides explanations for these figures, which are not subject to audit.

## Schedule of Non-Departmental Contingent Liabilities and Contingent Assets

As at 30 June 2016

### Contingent liabilities

The Ministry, on behalf of the Crown, has two unquantifiable contingent liabilities with respect to Central Otago irrigation schemes and historic scampi quota decisions.

### Contingent assets

The Ministry, on behalf of the Crown, has no contingent assets (2015: nil).

## Schedule of Non-Departmental Commitments

As at 30 June 2016

The Ministry, on behalf of the Crown has entered into non-cancellable land leases for forestry. The lease agreements commit the Crown to expenditure over the remaining term of the leases and have expiry dates ranging from 2016 to 2082. The commitments shown are the Ministry's best estimate of the minimum.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	Non-cancellable operating lease commitments	
47,556	Not later than one year	53,783
199,029	Later than one year and not later than five years	201,702
241,422	Later than five years	211,331
488,007	Total non-departmental operating lease commitments	466,816

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

# Statement of Non-Departmental Trust Monies

For the year ended 30 June 2016

## Declared Overfishing Trust Account

Funds held in relation to the deemed value of fish taken in excess of quota under the quota management system.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
3,035	Balance at 1 July	4,222
3,652	Contributions	4,695
(2,565)	Distributions	(1,743)
100	Revenue	153
4,222	Balance at 30 June	7,327

## Forfeit Property Trust Account

Proceeds received from the sale of seized forfeited property that is disposed of in accordance with Ministerial or Court direction.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
1,913	Balance at 1 July	2,278
376	Contributions	40
(67)	Distributions	(1,108)
56	Revenue	44
2,278	Balance at 30 June	1,254

## Seized Timber Trust Account

The Forest Trust Account holds proceeds from the sale of timber seized under the provisions of Part IIIA of the Forests Act 1949.

ACTUAL 2015 \$000		ACTUAL 2016 \$000
1	Balance at 1 July	11
20	Contributions	–
(10)	Distributions	–
11	Balance at 30 June	11

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2016.

# Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2016

## Note 1: Statement of accounting policies

### Reporting entity

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

These non-departmental balances are consolidated into the Financial Statements of the Government, for the year ended 30 June 2016. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government.

### Basis of preparation

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, and in accordance with relevant Treasury instructions and Treasury circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice (for Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities (PBEs).

### Functional and presentation currency

The non-departmental statements and schedules are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Ministry is New Zealand dollars.

### Significant Accounting Policies

#### BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2016. They are consistent with the financial information in the Main Estimates. In addition, these non-departmental schedules and statements also present the updated budget information from the Supplementary

Estimates of Appropriations for the year ending 30 June 2016.

#### FORECAST FIGURES

The 2017 forecast figures for the year ending 30 June 2017 are those submitted to Treasury for purposes of consolidation into the 2016 Budget Economic and Fiscal Update (2016 BEFU out-year 1 figures).

The forecast financial statements and schedules have been prepared as required by the Public Finance Act 1989 to communicate forecast information for accountability purposes.

Transparency is improved by providing further context of this year's results by providing next year's forecast for comparison.

The forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements and schedules. They comply with the public benefit entity accounting standards.

The forecast financial statements and schedules were authorised for issue by the Director-General of the Ministry for Primary Industries on 12 April 2016. The Director-General is responsible for them, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Ministry regularly updates its forecasts, updated forecast financial statements and schedules for the year ending 30 June 2017 (2016/17 financial year) will not be published.

The forecast has been compiled on the basis of existing government policies and Ministerial expectations.

The main assumptions are as follows:

- the Ministry's non-departmental activities conducted on behalf of the Crown will remain substantially the same as the previous year;
- estimated year-end information for 2015/16 is used as the opening position for the 2016/17 forecasts.

Factors that could lead to material differences between the forecast information presented and the 2016/17 actual financial results include changes in activities required by the Government, year-end revaluations, and technical adjustments.

The only significant post-BEFU accounting adjustment that materially impacts the forecast financial statements and schedules was for the 30 June 2016 revaluation of Crown forests that resulted in revaluation gain of \$18.681 million.

## Revenue

### FINES AND PENALTIES

Revenue from fines and penalties are recognised when the infringement notice is issued.

### FORESTRY ENCOURAGEMENT LOAN INTEREST

Interest income is recognised using the effective interest method.

### SALES OF FOREST PRODUCE

Revenue from the sale of forest produce is recognised at the point of sale, for example, delivered to mill or port, on truck or on skid (heavy vehicle used in logging operations for pulling trees out of the forest).

### COST RECOVERY LEVIES

Cost recovery levies recover the costs of fisheries-related conservation services and fisheries services:

- provided to manage the harvesting or farming of fisheries resources; or
- provided to avoid, remedy, or mitigate a risk to, or an adverse effect on, the aquatic environment or the biological diversity of the aquatic environment.

The cost of fisheries services provided by the Ministry during the period 1 July 2015 to 30 June 2016 is primarily recovered from the commercial fishing sector over the period 1 October 2014 to 30 September 2015. Such revenue is reported in the financial period to which the revenue relates.

### DEEMED VALUE CHARGES

Revenue from deemed value charges is recognised three months after the end of the fishing year on completion of review processes.

## Grant expenditure

Where grants are discretionary until payment, the expense is recognised when payment is made.

Otherwise the expense is recognised when specified criteria have been fulfilled.

## Goods and services tax

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for debtors and creditors, which are inclusive of GST. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the government financial statements.

## Cash and cash equivalents

Cash includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

## Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs.

## Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

### Forestry encouragement loans

Forestry encouragement loans issued at below-market interest rates are initially recognised at fair value, which is determined as the present value of their expected future cash flows, discounted using an interest rate for loans of a similar term and credit risk. They are subsequently measured at amortised cost using the effective interest method to reflect actual and revised estimated cash flows. The difference between the face value and present value of the expected future cash flows of the loans on initial recognition and for subsequent carrying value changes are recognised in the schedule of non-departmental expenditure or income.

### Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the schedule of non-departmental expenses.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

### Property, plant and equipment

Property, plant and equipment consists of land, buildings, roads, bridges, fencing, motor vehicles, plant and equipment. Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$5,000. The value of an individual asset that is less than \$5,000 and is part of a group of similar assets is capitalised.

### ADDITIONS

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Crown and the cost of the item can be measured reliably. In

most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in the schedule of non-departmental income or expenses.

When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves in respect of those assets are transferred to general funds.

### SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Crown and the cost of the item can be measured reliably.

### DEPRECIATION

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings	5 to 45 years (2.2–20%)
Roads	20 to 25 years (4–5%)
Bridges and fencing	5 to 25 years (4–20%)
Motor vehicles	5 to 10 years (10–20%)
Plant and equipment	3 to 5 years (20–33%)

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

### REVALUATION

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value, and at least every five years. Fair value is determined from

market-based evidence by an independent valuer. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost.

### ACCOUNTING FOR REVALUATIONS

The Crown accounts for revaluations of property, plant and equipment on a class-of-asset basis. The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is expensed. Any subsequent increase on revaluation that offsets a previous decrease in value expensed will be recognised first as income up to the amount previously expensed, and then credited to the asset revaluation reserve for that class of asset.

### Forests

Forests are independently revalued annually at their fair value less estimated costs to sell for one growth cycle. Fair value is determined based on the present value of future cash flows discounted at a current market-determined rate. Where market-determined prices or values are not available, forestry assets are measured at cost less any accumulated depreciation and impairment losses.

Gains or losses arising on initial recognition of forests valued at fair value less estimated point-of-sale costs and from a change to fair value less estimated point of sale costs are recognised in the schedule of non-departmental income or expenses.

The costs to maintain the forests are included in the schedule of non-departmental expenses.

### Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### Onerous contracts

Where the benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation under the contract, a provision is recognised. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

### Provisions

Provisions are 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.

### Contingent liabilities and assets

Contingent liabilities and assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent 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.

### Non-cancellable operating lease commitments

Future expenses and liabilities to be incurred on non-cancellable operating lease contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

### Critical accounting estimates and assumptions

In preparing these financial statements the Ministry on behalf of the Crown has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- forest valuations (see note 5);
- onerous contract provisions (see note 12b); and
- non-cancellable operating lease commitments (see *Statement of Commitments*).

## Note 2: Fines, penalties and levies

ACTUAL 2015 \$000		ACTUAL 2016 \$000
	Cost recovery levies from fishing industry	
27,062	– Fisheries services	25,381
1,571	– Conservation services	1,759
1,867	Biosecurity Act 1993 fines	2,784
–	Forfeitures for fisheries offences	518
815	Dairy industry levy	618
133	Fisheries Act 1996 infringement notices	301
31,448	Total fines, penalties and levies income	31,360

## Note 3: Forestry encouragement loans

ACTUAL 2015 \$000		ACTUAL 2016 \$000
6,389	Balance at 1 July	5,759
510	Interest	431
(1,686)	Repayments	(1,686)
546	Unwind present value adjustments	509
5,759	Balance at 30 June	5,012
1,686	Current asset portion	1,686
4,073	Non-current asset portion	3,325

Loans were advanced to local authorities between 1981 and 1986 at interest rates ranging from 4.5 percent to 7.0 percent under the Forestry Encouragement Loan Regulations (1967) to encourage afforestation. Loans become repayable when either 30 or 40 years has passed from the first loan advance or when clear felling in the loan forest commences.

Forestry encouragement loans were initially recorded at fair value based on the projected future cash flows discounted using market rates for loans of similar terms and credit risk. To ascertain comparable market rates at the time the loans were advanced, the Ministry used variable first mortgage housing rates sourced from the Reserve Bank historical series. Interest rates used to calculate fair value ranged from 15.38 percent to 17.28 percent. The loans have subsequently been re-measured at amortised cost using the effective interest method to reflect actual and revised estimated cash flows.

The face value of forestry encouragement loans outstanding is \$6.519 million (2015: \$7.774 million) as at 30 June 2016, comprising four loans (2015: 4) held by one local authority (2015: 1). All outstanding loans are projected to be repaid by 31 December 2020.

The Crown holds no collateral over forestry encouragement loans.

## Note 4: Non-current forestry assets held for sale

Non-current assets held for sale consist of the Crown's interest in forests and associated property, plant and equipment that are subject to Treaty of Waitangi settlements or other Treaty of Waitangi obligations.

The accumulated property revaluation reserve recognised in equity for these assets at 30 June 2016 is \$203,000 (2015: \$203,000).

## Note 5: Forests

ACTUAL 2015 \$000		ACTUAL 2016 \$000
<b>FORESTS MEASURED AT FAIR VALUE</b>		
171,023	Opening balance 1 July	158,079
14,750	Changes in fair value	43,457
(27,694)	Decrease due to harvesting	(24,777)
–	Decrease due to disposals	(385)
158,079	Balance at 30 June	176,374
<b>FOREST MEASURED AT COST, LESS IMPAIRMENT</b>		
7,211	Opening cost 1 July	7,211
–	Decreases due to harvesting	–
7,211	Closing cost 30 June	7,211
(4,435)	Opening accumulated impairment 1 July	(4,776)
(341)	Impairment	(2,435)
(4,776)	Closing accumulated impairment 30 June	(7,211)
2,435	Balance 30 June	–
160,514	Total carrying value of forests	176,374

The Ministry manages the Crown's interest in forests established on Crown-owned land, leased Māori land and freehold land (under forestry rights). At 30 June 2016 the net stocked area of trees was 15,855 hectares (2015: 18,593 hectares).

During the year ended 30 June 2016:

- 1,380 hectares (2015: 3,511 hectares) of silvicultural tending were completed;
- 834,454 cubic metres of logs (2015: 999,043 cubic metres) were produced from harvesting operations;
- no forests were purchased (2015: nil);
- 3,633 hectares of Crown Forestry managed estate was surrendered or sold (2015: 25,668).

### Forests measured at fair value

The valuations at 30 June 2015 and 30 June 2016 were carried out by Alan Bell and Associates, registered forestry consultants specialising in forest valuation. The following valuation assumptions (unchanged from 2015) have been adopted in determining the fair value of forestry assets:

- a discount rate of 6.5 percent has been used for forests greater than 1,000 ha and 7 percent for forests less than 1,000 ha in discounting the present value of expected post-tax cash flows;
- the prevailing company tax rate applied to pre-tax cash flows was 28 percent;
- notional land rental costs have been included for freehold land and actual rents for leased land and forestry rights;
- the forest has been valued on a going concern basis and only includes the value of the existing crop on a single rotation basis;
- no allowance for inflation has been provided except in calculating the cost-of-bush taxation effect;
- costs are current average costs; and
- log prices are based on a start point of current prices (adjusted March quarter 2016), then moving on a straight line basis to trend prices (12-quarter unadjusted average prices) after five years, and then remaining constant at trend prices.

### Forests measured at cost less impairment

On 1 January 2009, [2008/09 year] the Ministry purchased 5,300 hectares of special purpose species (SPS) forest from Timberlands West Coast Limited (TWC). The SPS forest consists of a forestry right on Ngāi Tahu land and was planted between 1993 and 2007 under an agreement between TWC and the Crown.

The fair value of the SPS forest cannot be reliably measured as market-determined prices are not available for significant quantities of cypress or blackwood logs, the relevant species in the SPS areas. The forest has therefore been valued at cost, less impairment. An impairment assessment was carried out using a discounted cash flow analysis to model a net present value. Yield and log price assumptions are best estimates only and the resulting value is highly sensitive.

### Financial risk management strategies

The Crown is exposed to financial risks arising from changes to international log prices and currency fluctuations. Log prices climbed in the second half of the year and remained high through to the end of June. A combination of a favourable exchange rate, low freight rates and low fuel costs strengthened log prices into China which set the benchmark in other export markets and the domestic market. On top of this, increased prices for pruned logs on the export market saw a corresponding increase in pruned log prices to domestic sawmills. The Ministry experienced strong demand for log sales over the 2015/16 year in both the domestic and export sectors. Pulp prices remained flat in the Central North Island. The Ministry's marketing strategy is based on a spread of domestic and export sales, and a spread of customers within both of these markets.

## Note 6: Debtors and other receivables

ACTUAL 2015 \$000		ACTUAL 2016 \$000
22,695	Debtors and other receivables – fine, penalties and levies	20,988
8,089	Debtors and other receivables – Crown forestry operations and miscellaneous revenues	5,764
(5,784)	Less provision for impairment	(1,366)
25,000	Total debtors and other receivables	25,386

The carrying value of debtors and receivables approximate their fair value.

The ageing profile of debtors and other receivables at year end is detailed below:

	2015			2016		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due	23,515	–	23,515	26,424	–	26,424
Greater than 30 days	984	–	984	7	–	7
Greater than 60 days	185	–	185	25	–	25
Greater than 90 days	6,100	(5,784)	316	297	(1,366)	(1,069)
Total	30,784	(5,784)	25,000	26,752	(1,366)	25,386

The provision for impairment has been calculated based on expected losses for the Crown's pool of debtors. Expected losses have been determined based on a review of individual debtors.

At 30 June 2016, the Ministry has identified 61 debtors (2015: 73) totalling \$446,000 that are insolvent (2015: \$5.599 million).

Movement in the provision for impairment of receivables is as follows:

	ACTUAL 2015 \$000	ACTUAL 2016 \$000
5,784 Balance at 1 July		5,784
– Additional provisions made		439
– Receivables written off		(4,857)
5,784 Balance at 30 June		1,366

## Note 7: Property, plant and equipment

	LAND \$000	BUILDINGS \$000	ROADS, FENCES AND EQUIPMENT \$000	MOTOR VEHICLES \$000	TOTAL \$000
<b>Cost or valuation</b>					
Balance 1 July 2014	14,559	140	5,523	402	20,624
Additions	–	–	387	–	387
Revaluations	(57)	–	–	–	(57)
Reversal of accumulated depreciation on revaluation	–	–	–	–	–
Disposals	–	–	–	–	–
Transfer to held for sale	(180)	–	–	–	(180)
Balance 30 June 2015	14,322	140	5,910	402	20,774
Balance 1 July 2015	14,322	140	5,910	402	20,774
Additions	–	–	–	–	–
Revaluations	–	–	–	–	–
Reversal of accumulated depreciation on revaluation	–	–	–	–	–
Disposals	–	–	(12)	–	(12)
Transfer to held for sale	–	–	–	–	–
Balance 30 June 2016	14,322	140	5,898	402	20,762
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2014	–	6	4,607	312	4,925
Depreciation expense	–	3	231	9	243
Reversal of accumulated depreciation on revaluation	–	–	–	–	–
Eliminate on disposal	–	–	–	–	–
Transfer to held for sale	–	–	–	–	–
Balance 30 June 2015	–	9	4,838	321	5,168
Balance at 1 July 2015	–	9	4,838	321	5,168
Depreciation expense	–	3	183	12	198
Reversal of accumulated depreciation on revaluation	–	–	–	–	–
Eliminate on disposal	–	–	(12)	–	(12)
Transfer to held for sale	–	–	–	–	–
Balance 30 June 2016	–	12	5,009	333	5,354
<b>Carrying amounts</b>					
At 1 July 2014	14,559	134	916	90	15,699
At 30 June and 1 July 2015	14,322	131	1,072	81	15,606
At 30 June 2016	14,322	128	889	69	15,408

Land and buildings have been valued at fair value as at June 2012 by independent registered valuers JL Hancock of Crighton Anderson Property Infrastructure Ltd; C Hawkey of PGG Wrightson Real Estate Ltd; D Armstrong of Forest Land Consultants Ltd; GW Banfield of Veitch Morison Valuers Ltd; J Dunckley of Crighton Anderson Property Infrastructure Ltd; and MH Morice of Morice Ltd.

## Note 8: New Zealand Walking Access Commission

The New Zealand Walking Access Commission is a Crown entity established under the Walking Access Act 2008 to provide leadership and co-ordination of walking access, the negotiation and funding of new access over private land and the creation of a code of responsible conduct in respect of walking access.

## Note 9: Crown Irrigation Investments Limited

The Crown Irrigation Investments Limited is a Crown-owned company incorporated under the Companies Act 1993 on 1 July 2013 to facilitate the Crown's investments in regional water storage and off-farm irrigation infrastructure schemes. The shares in the company are owned by the Minister for Primary Industries and the Minister of Finance. The company is also listed in Schedule 2 of the Crown Entities Act 2004.

## Note 10: Creditors and other payables

ACTUAL 2015 \$000		ACTUAL 2016 \$000
977	Accounts payable	–
1,252	GST payable	3,104
12,772	Grants payable	7,204
5	Creditor property, plant and equipment	–
6,955	Other accrued expenses	8,259
21,961	Total creditors and other payables	18,567

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## Note 11: Over- and under-recovered costs from fishing industry

Section 265 of the Fisheries Act 1996 creates a mandatory obligation on the Minister for Primary Industries to have regard to under- and over-recovery of costs of any conservation service or fisheries service in a previous financial year when recommending a cost recovery levy order for a current/future year.

This liability reflects the balance of the net over- and under-recovery of cost recovery levies for the period 1 October 1995 to 30 June 2016 to be applied against future cost recovery levy orders.

## Note 12: Provisions

ACTUAL 2015 \$000		ACTUAL 2016 \$000
Current		
1,463	Rural veterinarians bonding scheme	1,518
3,701	Commercial aquaculture claims settlement	2,560
5,164	Total current provisions	4,078
Non-current provisions		
245	Rural veterinarians bonding scheme	325
1,043	Onerous contracts	1,129
1,288	Total non-current provisions	1,454
6,452	Total provisions	5,532

### Note 12a: Rural Veterinarians Bonding Scheme

ACTUAL 2015 \$000		ACTUAL 2016 \$000
1,713	Opening balance	1,708
1,304	Additional provisions made	2,785
(1,309)	Amounts used	(2,650)
1,708	Closing balance	1,843

The rural veterinarians bonding scheme provides payments to veterinary professionals agreeing to work in understaffed rural areas. Payments are for a maximum of \$11,000 per annum for five years and are made after the third, fourth and fifth year. The scheme commenced on 1 January 2009, and this provision represents the Ministry's liability at balance date for the 135 (2015:107) veterinarians currently in the scheme.

### Note 12b: Onerous contracts

ACTUAL 2015 \$000		ACTUAL 2016 \$000
2,900	Opening balance	1,043
–	Additional provisions made	–
(1,800)	Unused amount reversed upon sale of West Coast forest plantations	–
(57)	Increase/(decrease) for passage in time and change in discount rate	86
1,043	Closing balance	1,129

The remaining provision relates to a non-cancellable contract for the lease of land for forestry purposes on the east coast of the North Island. Based on current market conditions the unavoidable costs of meeting the contract exceed the economic benefits to be received from it. The provision has been measured at the present value of the net cash outflows expected to be incurred in respect of the contract. A market-determined discount rate of 8.5 percent (2015: 7%) has been used that reflects the time value of money and the risks specific to the obligation. The contract expires in 2079.

## Note 12c: Commercial aquaculture claims settlement

ACTUAL 2015 \$000		ACTUAL 2016 \$000
5,809	Opening balance	3,701
(2,108)	Amounts used	(1,141)
3,701	Closing balance	2,560

The Māori Commercial Aquaculture Claims Act 2004 provides a full and final settlement of Māori contemporary claims to commercial aquaculture space created since 21 September 1992. The Act establishes the Crown's obligation to provide iwi with the equivalent of 20 percent of the aquaculture space created between 21 September 1992 and 31 December 2004 ("pre-commencement space") plus an additional obligation to provide 20 percent of all new space created. If the pre-commencement settlement cannot be achieved through a transfer of "space", then it must be resolved through a financial transfer to iwi.

## Note 13: Explanations of major variances

Explanations for major variances from the Ministry's non-departmental estimated figures in the Main Estimates are as follows.

### Non-departmental revenue

Log prices increased significantly in 2015/16 and resulted in revenue from the sale of forestry produce being \$16.164 million more than budget. This was caused by a combination of a favourable exchange rate, low freight costs and low fuel costs that strengthened log prices in China, which set the benchmark for other markets.

The increase in log prices has impacted on the annual revaluation of Crown forestry assets, resulting in a net gain of \$18.681 million. The Crown accounting policy is not to budget for annual revaluation movements.

### Non-departmental expenses

Operating expenses were \$45.940 million higher than budgeted. This was primarily due to a carry forward of \$33.348 million for aquaculture settlements to 2015/16 which was not included in the Estimates of Appropriations. Other factors contributing to this include high harvest volumes in Crown Forestry, additional funds required for the Kiwifruit Psa-V response and a severe weather event in Manawatū-Wanganui, Taranaki and Westland.

Research and development costs are \$11.395 million lower than budget. This is due to changes in timing for projects impacted by external factors and some reprioritising of spending to support Government budget priorities.

### Non-departmental capital expenditure

Capital investments by Crown Irrigation Investments Ltd (CIIL) in regional storage and off-farm irrigation infrastructure were lower than forecast. This relates to delays experienced in two large projects. The Hurunui Water Project work programme is affected by the Environment Court's resolution of resource consents and appeals. The Hunter Downs Development Company is progressing re-scoped work packages, which were delayed by the review to confirm scheme viability. Further information on CIIL can be found in its annual report. As the expenditure is against a multi-year appropriation, the underspend in 2015/16 is still available in 2016/17.



# OTHER INFORMATION



# Legislation

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## Administered by MPI as at 30 June 2016

MPI administers 52 statutes and approximately 360 sets of regulations.

### Public Acts

- Agricultural and Pastoral Societies Act 1908
- Agricultural Compounds and Veterinary Medicines Act 1997
- Airports [Cost Recovery for Processing of International Travellers] Act 2014
- Animal Control Products Limited Act 1991
- Animal Products Act 1999
- Animal Welfare Act 1999
- Biosecurity Act 1993
- Commodity Levies Act 1990
- Dairy Industry Restructuring Act 2001
- Driftnet Prohibition Act 1991
- Fisheries Act 1983
- Fisheries Act 1996
- Food Act 2014
- Forestry Encouragement Act 1962
- Forestry Rights Registration Act 1983
- Forests Act 1949
- Forests (West Coast Accord) Act 2000
- Hop Industry Restructuring Act 2003
- Irrigation Schemes Act 1990
- Kaikōura [Te Tai o Marokura] Marine Management Act 2014
- Kiwifruit Industry Restructuring Act 1999
- Māori Commercial Aquaculture Claims Settlement Act 2004
- Māori Fisheries Act 2004
- Marine Farming Act 1971 (this Act is repealed except for some transitional provisions)
- Meat Board Act 2004
- Ministries of Agriculture and Forestry [Restructuring] Act 1995, 1997, 1998
- National Animal Identification and Tracing Act 2012
- New Zealand Horticulture Export Authority Act 1987
- Plants Act 1970
- Pork Industry Board Act 1997
- Primary Products Marketing Act 1953
- Public Works Act 1981 (Part XIX)

- Royal New Zealand Institute of Horticulture Act 1953
- Taratahi Agricultural Training Centre (Wairarapa) Act 1969
- Treaty of Waitangi (Fisheries Claims) Settlement Act 1992
- Veterinarians Act 2005
- Walking Access Act 2008
- Wine Act 2003
- Wool Industry Restructuring Act 2003

### Private Acts

- Auckland Agricultural Pastoral and Industrial Shows Board Act 1972
- Canterbury Agricultural and Pastoral Association Empowering Act 1982
- Clevedon Agricultural and Pastoral Association Empowering Act 1994
- Kumeu District Agricultural and Horticultural Society Act 1991
- Marlborough Agricultural and Pastoral Association Empowering Act 1974
- Telford Farm Training Institute Act 1963
- Tokoroa Agricultural and Pastoral Association Empowering Act 1968
- United Wheatgrowers Act 1936
- Waikato Show Trust Act 1965

# Grants Approved

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## 1 July 2015 to 30 June 2016

MPI administers several grant programmes to help land managers and rural communities manage New Zealand's natural resources in a sustainable manner. They are explained below.

### Adverse Climatic Events

This grant programme covers adverse natural disasters, climatic or biosecurity events affecting the rural community. It includes floods, storms, droughts, snowstorms, frosts, tsunamis, volcanic eruptions, earthquakes and hailstorms. The Government's role in adverse events is to help citizens in times of adversity, where government involvement is justified by benefit to the wider community.

Government responds to situations beyond the capacity of the wider community to cope, but not to individual requests for assistance. After an adverse event, the Government has a role in restoring public infrastructure and protecting the health and safety of its citizens. The Government may also help primary producers that acutely feel the effect of an adverse event.

### Afforestation Grants Scheme

The Afforestation Grants Scheme has funding available for five years up to 2020. The Afforestation Grants Scheme is a contestable fund designed to encourage more planting of trees in small forests and on farms.

### Irrigation Acceleration Fund

The Irrigation Acceleration Fund primarily supports rural water harvesting, storage and distribution infrastructure. Funding is available for two distinct components that target the delivery of rural water infrastructure proposals:

- **Strategic water management studies** – to help with the development of regional approaches to integrated water management, particularly the potential of rural irrigation-related infrastructure.

- **Community irrigation schemes** – to help new, smaller-scale community scheme developments, as well as capital upgrades of existing community scheme infrastructure. Proposals must be consistent with agreed regional strategies.

### Erosion Control Funding Programme

The Erosion Control Funding Programme (formerly known as the East Coast Forestry Project) was established to deal with the wide-scale erosion problem in the Gisborne district. Since 1992, MPI has provided funding to landholders to control erosion on the worst eroding or erosion-prone land in the district.

### Primary Growth Partnership

The Primary Growth Partnership is a government–industry partnership that invests in significant programmes of research and innovation to boost the economic growth and sustainability of New Zealand's primary and food sectors, including forestry.

## Sustainable Farming Fund

The purpose of the Sustainable Farming Fund is to support the economic, environmental and social performance of New Zealand's productive land-based sectors. It does this by funding projects that are:

- based on solving problems or taking up opportunities related to increasing sustainable productivity resource use; and
- defined and driven by a farmer, grower or forester.

## Sustainable Land Management Hill Country Erosion Programme

The Sustainable Land Management Hill Country Erosion Programme, through regional initiatives, provides targeted government support to communities that need to protect erosion-prone hill country. It recognises that, wherever possible, farmers seek to retain the maximum practical production from their land.

## Sustainable Land Management Climate Change Research Programme

This programme helps the agriculture and forestry sectors with the challenges arising from climate change. Each year, MPI approves a number of priority topics that address one of the following research themes:

- impacts of climate change and adaptation;
- mitigation of agricultural and forestry greenhouse gas emissions; and
- cross-cutting issues, including economic analysis, life-cycle analysis, farm catchment systems analysis and social impact.

## Rural Veterinarian Bonding Scheme

To deal with a shortage of veterinarians in rural areas, the Government has committed to a voluntary bonding scheme for veterinarians. The scheme gives veterinarians a taxable payment of \$11,000 for every year they work in an eligible area, up to a maximum of five years.





# MINISTER'S REPORTS ON NON- DEPARTMENTAL APPROPRIATIONS



## Vote

# Primary Industries and Food Safety

The following reports are in relation to selected non-departmental appropriations for the year ended 30 June 2016

## Aquaculture Settlements

This report covers Vote Primary Industries and Food Safety non-departmental other expense Aquaculture Settlements.

The Māori Commercial Aquaculture Claims Settlement Act 2004 (the Act) provides a full and final settlement of Māori contemporary claims to commercial aquaculture space created since September 1992. The Act establishes the Crown's obligation to provide iwi with assets representative of 20 percent of aquaculture space where that space is pre-commencement space or new space.

These obligations apply and must be satisfied on a regional basis.

### Statement of service performance

#### Scope of appropriation

This appropriation is limited to the recognition of settlements negotiated under the Māori Commercial Aquaculture Claims Settlement Act 2004.

#### Intended impacts, outcomes or objectives

The Act provides for the full and final settlement of contemporary Māori claims to commercial aquaculture. The Act was developed as part of the 2004 aquaculture law reforms and provided for claims to be settled partly through allocating authorisations for 20 percent of aquaculture management areas to iwi aquaculture organisations (IAOs). The 2011 amendments to the Act removed the requirement for aquaculture management areas to be established by councils. As a result of this amendment, a new delivery mechanism for the settlement was developed.

Since 2011, settlements are delivered through regional agreements or, when an agreement is not reached within the specified timeframe, through a default provision in the Act (in the case of new space).

The Act delivers a full and final settlement through providing settlement assets to Te Ohu Kaimoana Trustee Ltd (the Trustee). The Trustee then distributes these assets to the IAOs. The settlement assets must be representative of 20 percent of aquaculture space, where that space is either:

- **pre-commencement space:** marine farming space generally applied for (if subsequently granted) between 21 September 1992 and 31 December 2004; or
- **new space:** new marine farming space (consented or anticipated) from 1 October 2011 onwards.

#### Service performance – non-financial

The process to settle granted pre-commencement space is nearly 99 percent complete (by value). The Trustee and MPI will continue to engage with iwi in the regions where outstanding obligations remain.

Significant steps were taken in 2014 to progress the Crown's aquaculture new space obligations when the New Space Plan was approved by the Minister for Primary Industries. The Māori Commercial Aquaculture Settlement New Space Plan is the framework for how the Crown will deliver on the settlement of new space under the Act.

The Crown is on schedule to settle its new space obligations to the IAOs within statutory timeframes.

## Service performance – financial

ACTUAL EXPENSES COMPARED TO THAT APPROPRIATED (FUNDED BY THE CROWN)	BUDGETED 2013/14 \$000	BUDGET 2014/15 \$000	BUDGET 2015/16 \$000	MAIN ESTIMATED 2016/17 \$000	ESTIMATED 2016/17 & OUTYEARS \$000
Pre-commencement	10,848	–	–	–	–
New space	52,000	9,500	13,000	–	–
Expense transfers in 2013	(10,848)	10,848	–	–	–
Expense transfers in 2014	(52,000)	46,000	6,000	–	–
Expense transfers in 2015	–	(66,348)	66,348	–	–
Expense transfers in 2016	–	–	(33,000)	33,000	–
Revised baseline	–	–	52,348	33,000	–

### ADDITIONAL COMMENTS

The Crown has a legislative obligation under the Māori Commercial Aquaculture Claims Settlements Act 2004 to settle pre-commencement and new space obligations to iwi.

### PRE-COMMENCEMENT SPACE OBLIGATIONS TO IWI

The Crown has discharged a significant component of its pre-commencement space obligations. The total amount of granted space to be settled is nearly 20,300 hectares (noting that further space could be granted in the future). To date, the Crown has settled 19,157.75 hectares of pre-commencement space by transferring \$104.6 million to the Trustee for distribution to the IAOs.

In 2015, nearly \$1.1 million was transferred to the Trustee in settlement of the Waikato-West region and the Auckland region under regional agreements. As well, Tasman Bay space in Marlborough was settled under the existing Deed of Settlement for the South Island and Coromandel.

In 2016, four harbours in Northland were settled under three regional agreements. The total value of settling the four harbours is \$517,000.

All outstanding pre-commencement space obligations on the Crown can be met by appropriated funds.

### NEW SPACE OBLIGATIONS TO IWI

Funding of \$74.5 million is appropriated to meet the Crown's new space obligations. New space settlements are complex, due to the prospective nature of the settlement. The complexities of the settlement include forecasting estimated growth of aquaculture space for the three commercially grown species (oysters, mussels and salmon) and the valuation of the estimated growth.

In 2015, three regions were settled under regional agreements between iwi, the Trustee and the Crown (Tasman, Marlborough and Auckland). In addition, the Northland region was settled under the Act's default provision. The settlement of these four regions resulted in the transfer of \$51.3 million to the Trustee for distribution to iwi. Imprest supply from Treasury enabled the payment to proceed in August 2015, before the October baseline update.

In 2016, settlement of the Wellington region is being completed under the Act's default provision because a regional agreement to settle the space could not be completed with the IAOs.

Negotiations to settle three other regions in which the Crown has a current new space obligation are progressing and could be completed in the 2016 calendar year. Those regions are Waikato-East, Canterbury and Southland.

A regional agreement to settle the Waikato-East region is scheduled to be signed by 30 September 2016. The statutory timeframe for completing Canterbury and Southland is 30 November 2016.

The entire \$74.5 million is now appropriated for 2014/15 and 2015/16.

In 2014/15, \$66.348 million was carried forward, which, when combined with the prior supplementary estimates of \$19 million, gives a total of \$85.348 million appropriated in 2015/16 for aquaculture settlements.

# Climate Change Research

## Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Climate Change Research.

The Sustainable Land Management and Climate Change (SLMACC) research programme was established in 2007 to address the knowledge base required for climate change for the agriculture and forestry sectors. It consists of separate elements that focus on:

- impacts and adaptation to climate change;
- reducing emissions in agriculture and forestry and creating carbon sinks; and
- capitalising on business opportunities arising from climate change.

Research priorities are established for the fund each year using a strategic research framework and SLMACC subject matter experts. The priorities focus on areas where gaps in knowledge and/or potential exists for advances in responding to climate change by the agriculture and forestry sectors.

The aim of the research programme is to provide research that is timely in achieving the goals of the three pillars of adaptation, mitigation and business opportunities. The knowledge generated by this fund is used to inform and develop policies and to generate further research. This knowledge is also transferred to land users and their advisers through the SLMACC technology transfer programme and other means.

SLMACC research funding is for projects that are either one, two or three years, and meet the quality criteria of the fund. In 2015/16, \$2.38 million was available for SLMACC research. Of this, \$1.76 million was committed from previous funding rounds. The balance of \$619,000 was transferred to the 2016/17 funding round.

Non-departmental outputs purchased by the Crown under this appropriation relate to research projects undertaken by research providers. These providers include universities, Crown research institutes and private sector research providers.

## Statement of service performance

### Scope of appropriation

This appropriation is limited to obtaining science, research, technology, capacity and capability in climate change research related to the primary land-based sectors.

### Intended impacts, outcomes or objectives

The objective of the SLMACC research fund is to increase knowledge of agricultural and forestry emissions, mitigation practices and technologies, and business opportunities. The research generated includes basic, strategic and applied knowledge that can support further research and policy development, and/or be used directly by farmers or their advisers.

Investments in SLMACC research aim to generate knowledge that can be used to:

- understand the impacts of climate change;
- enhance and support adaptation to climate change;
- reduce agricultural greenhouse gases;
- encourage the establishment of forest sinks in indigenous and planted forests;
- manage deforestation;
- capitalise on new business opportunities arising from the world's response to climate change;
- address cross-cutting issues, including economic analysis, life-cycle analysis, farm, catchment and systems analysis, and social impacts; and
- policy research to address targeted policy questions.

### Description of activities

This other expense covers payments for:

- research activities;
- scientific report writing;
- extension;
- project management; and
- financial management.

### Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Eighty percent of research projects funded completed within contracted timeframes	Achieved: 100% All projects were completed within their contracted timeframes.

### Service performance – financial

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES 2016 \$000	SUPP ESTIMATES 2016 \$000
3,825	Actual expenses incurred compared with that appropriated in estimates (funded by the Crown)	1,765	2,384	2,384

### Additional comments

There are no significant movements to the Main Estimates.

## Control of TB Vectors

### Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Control of TB Vectors.

The Control of TB Vectors appropriation provides for the Crown's contribution to the implementation of the National Bovine Tuberculosis Pest Management Plan (the Plan).

TBfree New Zealand is appointed under the Biosecurity (National Bovine Tuberculosis Pest Management Plan) Order 1998 as the management agency for the Plan. The two main components of the Plan are disease control, which is fully industry-funded, and vector control, which is funded by the Crown, local government, some rural land occupiers and industry.

### Statement of service performance

#### Scope of appropriation

This appropriation is limited to the Crown's contribution to the implementation of the National Bovine Tuberculosis Pest Management Plan.

#### Intended impacts, outcomes or objectives

To control the spread of bovine tuberculosis from vectors to farm animals through the implementation of large- and small-scale control operations against all bovine tuberculosis vectors, including possums and ferrets.

## Description of activities

This output covers the Crown's contribution to implementation of the Plan. The objective is to test the feasibility of eradicating bovine tuberculosis from wildlife populations, while maintaining freedom in existing vector-free areas. The Plan also aims to maintain infected herd levels at no more than 0.4 percent.

Under the Plan, the primary objectives are to establish the feasibility of eradicating endemic bovine tuberculosis from wildlife populations across a representative range of New Zealand terrains by achieving the following during the Plan's term:

- (a) eradication of bovine tuberculosis from vector populations over at least 2.5 million hectares of tuberculosis vector risk areas, including two extensive forest areas representing relatively difficult operational terrain;
- (b) continued freedom from wildlife infection in areas where bovine tuberculosis is considered to have been eradicated from wildlife populations;
- (c) eradication of, and continued freedom from, bovine tuberculosis, enabling the classification of the areas described in paragraphs (a) and (b) as tuberculosis vector-free areas; and
- (d) prevention of bovine tuberculosis being established in possum populations in vector-free areas.

The Plan's secondary objective is to maintain the national annual bovine tuberculosis infected herd period prevalence at the lowest possible level while achieving the primary objectives, and at no greater than 0.4 percent throughout the term of the Plan.

The Crown funding is managed through a funding agreement with TBfree New Zealand. The Crown funding under this output is based on the Crown's assessed obligations, due to the presence of wildlife vectors on Crown land (called TB vectors), plus a proportional contribution to common costs of delivering the Plan. The funding contributes to vector control measures and monitoring of the Crown estate, adjoining land and private land for this purpose.

The Plan has been reviewed and a revised plan will be in place from 1 July 2016.

## Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Number of hectares (cumulative) where eradication has been achieved reclassified as free from vector risk (target 1.38 million hectares)	Achieved: 1.56 million hectares
Annual period prevalence of infected cattle and deer herds of no more than 0.4 percent of herds	Achieved: 0.11%

## Service performance – financial

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES 2016 \$000	SUPP ESTIMATES 2016 \$000
30,000	Actual expenses incurred compared with that appropriated in estimates (funded by the Crown)	30,000	30,000	30,000

## Additional comments

The entire appropriation for 2015/16 was spent.

# East Coast Afforestation Grants

## Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense East Coast Afforestation Grants Scheme.

The Erosion Control Funding Programme (ECFP), formerly the East Coast Forestry Project, was established in 1992 to address the wide-scale erosion problem in the Gisborne district.

The ECFP funds three primary types of erosion treatments:

- forestry planting;
- pole planting (willows or poplars);
- indigenous reversion.

The ECFP grant can be used to control erosion on the worst eroding or erosion-prone land in the district (MPI refers to this type of land as target land). The ECFP provides a grant for establishing an effective tree cover through planting or encouraging natural reversion to native bush.

Grant rates are calculated on the treatment type. Grant rates for pole treatments are calculated on actual and reasonable costs, and rates for reversion and forestry are on a per hectare basis. Forestry and reversion treatments within the catchments of high-priority gullies are also entitled to an additional \$500 per hectare over and above the standard rate for these treatment types.

The ECFP supports:

- the Crown to meet its commitments in the Deed of Settlement and subsequent Relationship Accord agreed in April 2014 with Ngāti Porou regarding the 100-year Restoring the Waiapu Catchment programme;
- implementation of the Gisborne District Council's Sustainable Hill Country Programme as part of the Combined Regional Land and District Plan.

In 2009, the Gisborne District Council implemented District Plan Rule Land Overlay 3A (LO3A), which requires landowners with LO3A land to either have effective tree cover or have certified land plans by 2011 and effective tree cover by 2021. The rule is conditional on the availability of ECFP funding, so will lapse should the ECFP or an alternative funding source not be available.

## Erosion in the Gisborne district

The Gisborne district has a severe erosion problem; 26 percent of the Gisborne district's land is susceptible to severe erosion, compared with only 8 percent of all land in New Zealand. Severe erosion includes large-scale gully erosion, earthflow erosion and deep-seated slumps.

Severe erosion causes long-term damage to the productivity of rural land. It threatens communities and rural businesses, including farms and orchards, and roads and bridges. It lowers water quality by contributing large amounts of sediment to river systems, and it harms the natural and cultural values of the land and the coastal environment.

The Gisborne district is susceptible to regular high-intensity weather events that cause soil erosion and downstream flooding. These weather events are likely to get heavier and/or more frequent. For a mid-range global greenhouse gas emission scenario, a 1-in-100-year event now could become a 1-in-50-year event by the end of the century.

## Scheme improvements

The ECFP underwent a transformation as a result of two reviews by MPI in 2011 and 2012, and public consultation held in 2012/13.

In addition to allowing covenants to be replaced by 15-year grant agreements, the changes also provide a window of up to four years to establish trees on the target land. This is to better recognise the seasonal nature and practicalities of planting programmes.

Further options to increase uptake, including operational changes and strategic adjustments, are currently being assessed. Successful options will be implemented throughout the remaining years of the ECFP.

## Statement of service performance

### Scope of appropriation

This appropriation is limited to applications for grant funding of erosion treatments that were approved and administered under the Forestry (East Coast) Grants Regulations 2000 as well as applications that have been approved since 1 July 2014 and administered by way of grant agreements.

### Intended impacts, outcomes or objectives

The primary objective of the ECFP is to encourage the establishment of erosion control treatments on the worst eroding or erosion-prone land in the Gisborne district.

By treating erosion, long-term productivity will improve through retaining productive land, reducing the impact of sediment entering waterways and reducing the damage to infrastructure caused by extreme weather events. Erosion treatments help with reducing flood peaks, reduce the likely impacts of climate change, improve water quality by reducing nutrient leaching and improve indigenous biodiversity.

### Description of activities

In the 2015/16 funding round, 20 applications were assessed for funding eligibility with 19 approved for funding for planting in subsequent years.

A total of 833.93 hectares of erosion treatments were established in 2015/16, with maintenance also carried out on projects undertaken in previous years. All erosion treatment milestones funded through the ECFP underwent a site inspection before payment, to determine if work was completed to an acceptable standard and in accordance with the approved grant conditions. The actual planted area established was mapped using a geographic information system and grant money was paid, based on the land planted and in accordance with the agreed grant rate.

### Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Number of hectares approved for planting/treatment (1,000 hectares)	Not achieved: 726 hectares
Total area afforested since initial implementation of the scheme (41,000 hectares)	Achieved: 41,251 hectares

### Additional comments

The performance standard for 2015/16 was not met. The ECFP is in the mature phase of the programme uptake. Most of the investment-ready participants have joined the scheme in previous years.

The worst erosion-prone land is in the north of the district in the Waiapu catchment and adjacent catchments. The owners of these blocks present unique challenges (for example, small blocks, low income generated from the land, multiple-owned land with limited governance structures in place). MPI is working alongside landowners in partnership with Gisborne District Council and Te Rūnanganui o Ngāti Porou in a concerted effort to get these difficult blocks treated through the ECFP. The focus has increased on building relationships with landowners, and it is expected that the 2016/17 funding round will reflect this through an increase in the number of applications and hectares applied for.

### Service performance – financial

The East Coast Afforestation Grants expenditure is covered by a multi-year appropriation over four years from 1 July 2013 to 30 June 2017. Multi-year appropriations give departments flexibility to manage expenses over several years, up to a maximum of five years. They are used for activities where total costs are well defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	\$'000
Original appropriation	18,460
Adjustments for 2013/14	4,495
Adjustments for 2014/15	–
Adjustments for 2015/16	–
Adjusted Appropriation	22,955
Actual expenses for 2013/14	(3,357)
Actual expenses for 2014/15	(1,264)
Actual expenses for 2015/16	(1,312)
Appropriation remaining	17,022

## Global Research Alliance on Agricultural Greenhouse Gases

### Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Global Research Alliance on Agricultural Greenhouse Gases.

The Global Research Alliance (the Alliance) was established in 2009 and now has 46 member countries. The Alliance is focused on research, development and extension of technologies and practices that will help deliver ways to grow more food (and more climate-resilient food systems) without increasing greenhouse gas emissions.

The Alliance brings together interested countries and organisations to drive greater effort and investment. The current chair is the United States of America, with Mexico as the vice chair. Mexico will take over the chair at the Global Research Alliance Council meeting in October 2016. New Zealand was the Council chair from 2011–2012 and interim vice chair in the last half of 2014.

The Alliance's work is centred on the following three research groups and two cross-cutting groups (with countries that co-ordinate each group identified):

- Croplands Research Group (United States of America and Brazil);
- Livestock Research Group (New Zealand and the Netherlands);
- Paddy Rice Research Group (Japan and Uruguay); and
- Integrated Research Group (Australia, Canada and France).

The groups have developed work plans that cover a wide range of collaborative activities designed to share methodologies and techniques, build capacity amongst scientists and other practitioners, and move towards breakthrough solutions in addressing greenhouse gas emissions.

New Zealand played a leading role in the Alliance's establishment and continues to be a major contributing country, including hosting the Alliance Secretariat, co-chairing its Livestock Research Group (LRG), providing scientific representation in almost all of the other groups, and being an active member of its council.

New Zealand has contributed \$65 million until 2020 to support the work of the Alliance. This appropriation is made up of \$45 million that was allocated in 2011 and a further \$20 million that was announced in 2015. The

initial multi-year appropriation ends 30 June 2016 but will continue to be managed in a second multi-year appropriation until 30 June 2020. The budget is administered by MPI. It is used primarily to invest in international and domestic research and capability-building opportunities, and extension activities that arise through the Alliance, particularly the LRG. A small amount is used to meet the administrative and operational costs to New Zealand of participating in the Alliance, including hosting its secretariat, and to support Alliance activities.

MPI contracts with the New Zealand Agricultural Greenhouse Gas Research Centre to provide services to support New Zealand's Alliance work programme, including:

- co-chairing the Alliance's LRG;
- leading New Zealand's scientific input into the Alliance and contributing to the Alliance's overall development;
- providing a programme of capability-building activities, including fellowship and award schemes, and training for developing country scientists; and
- negotiating and administering select research contracts on MPI's behalf.

A major feature of the Alliance appropriation is the New Zealand Fund for Global Partnerships in Livestock Emissions Research (GPLER). This contestable international fund was launched in 2011, in support of the Alliance's aims, and invests in research on mitigating greenhouse gas emissions from pastoral livestock systems.

Three funding rounds have been held, with a fourth round being opened on 30 May 2016. Four projects were funded from Round 1, totalling \$6.82 million; three projects were funded from Round 2, totalling \$2.36 million; and three projects were funded from Round 3, totalling \$3.2 million. Projects from Rounds 1 and 2 were due for completion by 30 June 2016.

Projects from the third funding round are due for completion by 30 June 2019. All applications to the GPLER were assessed by an international technical assessment panel chaired by the Prime Minister's Chief Science Advisor, Professor Sir Peter Gluckman. Final projects are approved by MPI's Director-General.

Research funded under the GPLER must be significantly beyond business as usual, resulting in innovative, cost-effective, sustainable solutions that can be readily adopted by New Zealand farmers (and those in other countries with similar livestock emissions) or that will benefit New Zealand in other ways. The fund is administered by MPI and aims to build on and complement New Zealand's main research strengths and existing investments in this area.

Other ways that the Alliance appropriation is invested in research include supporting priority projects of the Alliance's LRG (run as open-tender processes), bilateral or multi-country research calls, capability-building projects, training and engagement workshops, extension activities and other related activities.

## Statement of service performance

### Scope of appropriation

This appropriation is limited to the Global Research Alliance on Agricultural Greenhouse Gases.

### Intended impacts, outcomes or objectives

The primary objective of the Alliance is to find new and more efficient ways of co-ordinating and increasing international investment and research into reducing agricultural greenhouse gas emissions. More specifically, the Alliance seeks to:

- deepen and broaden existing networks of agriculture mitigation research and build new ones;
- enhance science capacities;
- increase international investment;
- improve understanding and measurement of agricultural emissions; and
- improve access to, and the application of, mitigation technologies and best practices.

The knowledge generated by the Alliance and its dissemination is intended to deliver on several objectives, including:

- reducing global greenhouse gas emissions from a significant source;
- developing and demonstrating mitigation technologies that can be applied to agricultural production around the world;
- better understanding optimal patterns of production and trade for agriculture; and
- increasing mitigation research into areas of interest to New Zealand.

### Description of activities

The following activities are included in the Alliance's work:

- research activities;
- demonstration and extension activities and resources;
- project management; and
- financial management.

### Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Ninety-five percent of Alliance projects funded with the New Zealand budget are completed to contracted quality standard	Achieved: 100% Completion of contracts is not accepted until they meet quality standards

### Service performance – financial

Alliance expenditure is covered by a multi-year appropriation over four years from 1 July 2012 to 30 June 2016, at which point it returns to being managed as an annual appropriation. Multi-year appropriations give departments flexibility to manage expenses over several years, up to a maximum of five years. They are used for activities where total costs are well-defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	\$000
Original appropriation	38,253
Adjustments for 2012/13	442
Adjustments for 2013/14	(9,410)
Adjustments for 2014/15	219
Adjustments for 2015/16	–
Adjusted Appropriation	29,504
Actual expenses for 2012/13	(1,955)
Actual expenses for 2013/14	(6,777)
Actual expenses for 2014/15	(5,580)
Actual expenses for 2015/16	(3,996)
Appropriation remaining	10,926

### Additional comments

The unexpended balance of this multi-year appropriation will be transferred to the new Global Research Alliance multi-year appropriation which started on 1 July 2016 and ends on 30 June 2020.

# Operational Management of the Crown Forest Estate

## Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Departmental Management of Crown Forest Estate. MPI administers the Crown's interest in forestry leases on Māori land, residual Crown forests and other forestry assets.

Specifically, as at 30 June 2016, MPI manages the Crown's interest in:

- 17 forests with a total planted area of 15,855 hectares;
- six afforestation leases where Crown forest land has been leased to other parties for forestry purposes; and
- a portfolio of four forestry encouragement loans held by City Forests Ltd (wholly owned by Dunedin City Council). The total value of the outstanding loans was \$6.5 million. These loans were established under the Forestry Encouragement Act 1962 and the Forestry Encouragement Loans Regulations 1967.

Non-departmental outputs purchased by the Crown under this appropriation relate to the day-to-day operational management of the Crown forest estate, which is contracted to five forest management companies. Business and strategic planning, and audit and administration functions related to these forest assets, are carried out by MPI staff and funded by departmental appropriations.

## Statement of service performance

### Scope of appropriation

This category is limited to the purchase of forestry operations, management services, research and related forest asset expenditure, including expenditure related to asset divestment.

### Intended impacts, outcomes or objectives

The primary objective of Crown Forestry is the effective and efficient management (that is, establishment, silviculture and harvesting) of the Crown's forests.

### Description of activities

This output expense covers payments and revenue for forest and asset management of Crown forests established on both Crown-owned and leased Māori land, and leases of Crown-owned land to other parties for forestry purposes. Payments were made for:

- pruning and thinning;
- fertilising;
- protection from fire and disease;
- the harvesting of forest produce and replanting of harvested areas;
- technical support;
- local authority rates;
- land rents; and
- stumpage.

Revenue is earned from sales of forest produce and from land rental.

## Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Manage 15,817 hectares of net stocked forest*	Achieved: 15,855 hectares
Manage 1,543 hectares of silviculture tending*	<p>Not achieved: 1,380 hectares</p> <p>The completion of lower-than-budgeted hectares of silvicultural tending mostly reflects better-than-expected progress in divesting forests.</p> <p>The programme of planting and weed control in Matahi Forest is not proceeding because the forest was sold at the end of February 2016 – earlier than anticipated.</p> <p>Fifty hectares of planned fertiliser application at Waiuku Forest has been postponed until 2016/17 (stand nutrition testing showed better-than-expected results).</p> <p>Fifteen hectares of planned blanking (replanting of failed areas) at Waipiro A4 Forest was undertaken in July 2016.</p>
857,730 cubic metres (m <sup>3</sup> ) of logs supplied (within ±10%)	<p>Achieved: 834,454 m<sup>3</sup></p> <p>The final result is -3%, which is within the ±10% band. The slightly reduced log production was due to the delayed harvest of stands in two forests – Pureora (21,600 m<sup>3</sup>) and Waiuku (11,200 m<sup>3</sup>) – for logistical and legal reasons. Not harvesting these forests was offset by slightly increased production from Rotoaira Forest.</p>
\$51 stumpage (\$ net profit) per cubic metre of logs (within ±10%)*	<p>Achieved: \$60</p> <p>The average stumpage price was \$60/m<sup>3</sup>.</p> <p>This is a much better year-end result than anticipated in the March baseline update (MBU). Actual average sales revenue for 2015/16 is \$114.37/m<sup>3</sup> compared with the MBU estimate of \$108.31/m<sup>3</sup>. The increase is due to an unforecast increase in pruned log prices together with export log prices remaining stable in the second half of this year. Actual cost of goods sold is \$55.35/m<sup>3</sup> compared with the MBU estimate of \$56.35/m<sup>3</sup> due to slightly lower-than-budgeted shipping and diesel costs.</p>
Management fee of \$22 (per net stocked hectare) exclusive of harvesting and re-investment fees	Achieved: \$22
Fixed cost of \$47 per net stocked hectare	<p>Achieved: \$40</p> <p>Fixed costs incurred are less than anticipated as a consequence of less spending on fire operations across all forests, due to lower fire risks as a result of favourable weather conditions.</p> <p>Additionally, maintenance expenditure (\$32,000) budgeted for the house located at Waiuku Forest is now scheduled to take place in 2016/17.</p>
Hectares lost from fire attributable to the quality of Crown Forestry's response and systems (0 hectares)	<p>Achieved: 0 hectares</p> <p>Target achieved. No area was lost from fire.</p>

\*Performance standards information was incorrectly entered for these measures in the Supplementary Estimates 2015/16. The corrected performance standards are reported above.

## Service performance – financial

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES 2016 \$000	SUPP ESTIMATES 2016 \$000
76,997	Expenditure (funded by Crown)	65,575	61,904	69,112
103,071	Crown revenue (sale of forest produce)	95,738	79,719	93,113

### Additional comments

Revenue variance is attributable to significantly increased log prices, which resulted in revenue from the sale of forestry produce being much higher than budgeted. The log price increase was caused by a combination of a favourable exchange rate, low freight costs and low fuel costs that strengthened log prices in China, which set the benchmark for other markets.

There are no significant movements to the Main Estimates for expenditure.

# Primary Growth Partnership

## Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Primary Growth Partnership.

The Primary Growth Partnership (PGP) is a government–industry initiative that makes joint investment at a 40:60 ratio with private sector partners in significant programmes of research and innovation to boost the economic growth and sustainability of New Zealand's primary production, forestry and food sectors.

PGP programmes are primarily business-led and market-driven innovation programmes that work across the primary industry value chain. The PGP is about boosting productivity and profitability, and delivering long-term economic growth and sustainability across the primary sector, from producer to consumer.

MPI can contribute up to 40 percent of the total funding for new PGP programmes. Programmes approved before December 2015 were eligible for up to 50 percent of Crown funding.

## Statement of service performance

### Scope of appropriation

This appropriation is limited to primary production, food and forestry sector investment in education and skills development, research and development, product development, commercialisation, market development and technology transfer, in partnership with relevant industry groups, including research related to greenhouse gases via the New Zealand Agricultural Greenhouse Gas Research Centre.

The industries included within the scope of the PGP are:

- pastoral (including wool) and arable production;
- horticulture (including viticulture);
- seafood (including aquaculture);
- forestry and wood products; and
- food processing (including nutraceuticals and bioactives).

## Intended impacts, outcomes or objectives

The PGP will boost productivity by supporting greater levels of business-led investment in innovation, and by delivering long-term economic growth and sustainability across the primary sector, from producer to consumer. To receive funding, a PGP programme must comprise a suite of complementary and mutually supporting projects that demonstrate:

- **economic benefits:** assuming the programme is successfully implemented, it will result in direct and indirect net economic benefits to New Zealand;
- **spillover benefits:** assuming the programme is successfully implemented, there will be clearly identifiable spillover benefits to New Zealand; and
- **sustainability benefits:** assuming the programme is successfully implemented, it will maintain or improve net sustainability for New Zealand.

PGP programmes are delivering clear and tangible benefits.

For example, through the FarmlQ farm management system developed by the Integrated Value Chain for Red Meat PGP programme, around 8 percent of the red meat sector is now measuring, monitoring and benchmarking major animal performance traits. The genetic breeding programme has made a 2 percent increase in genetic gain on sheep eating quality traits, and, so far, 50 percent of the terminal sire rams provided by breeders have been bred using the new selection process. The IQ Farms being used as case studies in the programme have been able to demonstrate a 25 percent increase in carcass weight production over the six years of the programme.

Another example is the Transforming the Dairy Value Chain PGP programme's work on providing more advisers and better advice to dairy farmers, which has enabled 2,942 plans to be developed for farmers (under various farm management areas) that take into account the "whole farm" system. Supporting improved farm effluent management, 22 companies (70%) have Farm Dairy Effluent System Design accreditation. Nationwide coverage has also been achieved for nutrient management advice, with over 100 certified nutrient management advisers helping farmers to put nutrient management plans in place.

Also, under the Clearview Innovations PGP programme, Ballance Agri-Nutrients has released SpreadSmart™ technology, which is installed into topdressing planes enabling fertiliser to be applied at the optimum rate, in the right place, avoiding environmentally sensitive areas and improving returns to farmers. SpreadSmart™ is now available to North Island farmers through Ballance's aerial top dressing business Super Air. The service uses software, a digital farm map and the global positioning system guidance system in Super Air's aircraft in conjunction with an automated hopper door mechanism to improve accuracy of aerial topdressing.

Ballance estimates a net customer benefit of \$31 per hectare from the use of this technology in addition to health and safety benefits for pilots who can now concentrate on flying the aircraft rather than also having to operate the release of the fertiliser from the hopper door.

Spillover benefits from PGP programmes include the Primary Industry Capability Alliance (PICA), which was created out of the Transforming the Dairy Value Chain PGP programme and is helping to build the people capability and capacity needed to meet the future needs of New Zealand's primary industries. PICA is now a standalone entity and is growing in membership. PICA is delivering a strong industry-wide message under the brand "Growing NZ".

Importantly, the benefits of the PGP itself extend beyond individual programmes. The PGP is enabling important information and capability sharing across the primary industries – recognising that the sum of the benefits of PGP programmes working together is greater than if each programme worked in isolation.

For example, PGP programmes involving the red meat sector, such as FarmlQ, the Red Meat Profit Partnership, Marbled Grass-fed Beef and Passion2Profit, cover capabilities across the value chain ranging from breeding techniques to market analysis. They enhance skills, career pathways and the overall skill base of farmers in New Zealand.

## Description of activities

PGP programmes are innovation programmes run over several years. As of 30 June 2016, 19 programmes are under way with industry partners. One new programme started during the year (W3 – Wool Unleashed).

The following is a list of the current programmes for the PGP.

- **Innovative Steep Land Forest Harvesting** (partnering with Future Forest Research) is looking at more effective methods for harvesting trees on New Zealand's steep country.
- **New Zealand Sheep Industry Transformation** (partnering with The New Zealand Merino Company) involves targeted scientific research into breeding, phenotyping and feed inputs.
- **Integrated Value Chain for Red Meat** (partnering with FarmlIQ) aims to create a demand-driven integrated value chain for red meat.
- **Transforming the Dairy Value Chain** (partnering with Dairy NZ and Fonterra) aims to create new products, increase productivity on-farm, reduce farm environmental footprints and improve agricultural education.
- **High Performance Mānuka Plantations** (partnering with Mānuka Research Partnership (NZ) Ltd and Comvita) aims to increase the reliability of supply, and the proportion of, medical grade mānuka honey.
- **Clearview Innovations** (partnering with Ballance Agri-Nutrients) aims to improve on-farm productivity and nutrient efficiency, and reduce farms' environmental footprints.
- **Precision Seafood Harvesting** (partnering with Aotearoa Fisheries, Sanford, and Sealord Group) aims to develop new wild catch harvest technology.
- **New Generation Shellfish** (partnering with SPATnz) aims to domesticate the greenshell mussel.
- **Foodplus** (partnering with ANZCO Foods) aims to generate more value from the red meat carcass by developing new and innovative uses for parts of the animal.
- **Seed and Nutritional Technology Development** (partnering with PGG Wrightson Seeds and GrasslaNZ Technology) aims to develop technologies to improve pasture establishment, reduce the impact of pests and diseases, overcome animal health disorders, and reduce greenhouse gas emissions and losses from drought stress.
- **Marbled Grass-fed Beef** (partnering with Firstlight Foods Ltd and Brownrigg Agriculture Group Ltd) aims to develop an integrated value chain for high-value marbled beef that is internationally recognised for its superior eating qualities.
- **Whai Hua** (partnering with Wairarapa Moana ki Pouakani Incorporation, Miraka Ltd and Kanematsu New Zealand Ltd) aims to develop immune-enhancing dairy milk products targeting health-conscious consumers in Asian and New Zealand markets.
- **Red Meat Profit Partnership** (partnering with Alliance Group, ANZ Bank, ANZCO, Beef + Lamb New Zealand, Blue Sky Meats, Greenlea Premier Meats, Progressive Meats, Rabobank, and Silver Fern Farms) aims to drive sustainable, long-term profits for New Zealand's red meat sector by supporting farmers in the adoption of best practice behind the farm gate and between the farm and processor.
- **New Zealand Avocados Go Global** (partnering with Avocado Industry Council) seeks to increase the productivity and capability within the avocado industry to deliver significant additional returns for New Zealand.
- **Lifestyle Wines** (partnering with New Zealand Winegrowers and 15 contributing wineries) is designed to position New Zealand as number one in the world for high-quality lower-alcohol and lower-calorie wines.
- **Pioneering to Precision** – Application of Fertiliser in Hill Country (partnering with Ravensdown Fertiliser Co-op Ltd) seeks to improve fertiliser practice on hill country farms through remote sensing of the nutrient status of the farms and precision application of fertiliser.
- **Passion2Profit** (partnering with Deer Industry NZ) aims to grow and capture the full value available to New Zealand by collaboratively positioning farm-raised venison in new markets as a premium non-seasonal meat and by better aligning supply with demand.
- **Targeting New Wealth with High Health** (partnering with Alliance Group and Headwaters NZ) aims to reach existing and emerging markets with a new class of premium lamb products with improved health qualities.
- **W3 – Wool Unleashed** (partnering with The New Zealand Merino Company) aims to deliver premiums for New Zealand's strong wool sector. Premiums will come from applying a customer-led approach to wool production and processing to develop products that align with customer preferences.

## Monitoring of PGP projects

Individual PGP programmes are monitored in the following ways:

- **Quarterly progress reports** – funding agreements require co-investors to submit quarterly progress reports, which are reviewed by the Investment Advisory Panel and MPI. Summaries are published on the MPI website.
- **Annual business plan update** – funding agreements require each programme's business plan to be reviewed and updated annually to ensure that the programme is operating effectively, meeting its objectives and tracking towards outcomes.
- **Invoicing** – co-investors submit invoices for payment by MPI at least quarterly. These invoices are checked against the agreed budgets and work plans or milestones for the same period.
- **Financial management audit** – financial management is audited through programme audits (as well as each participating organisation's existing auditing and other reporting requirements), which are published on the MPI website.
- **Progress review** – programmes are required to have at least one external review carried out during the contract term to assess progress towards outcomes, programme governance and other matters selected on a case-by-case basis. Comprehensive summaries are published on the MPI website.
- **PGP annual meeting** – the annual meeting is attended by key Ministers, Investment Advisory Panel members, programme partners and government officials. This provides an opportunity to discuss the progress of programmes, highlight significant achievements and share learnings and ways of operating.

## Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Ninety percent of quarterly reports signed-off by Programme Steering Group	Achieved: 100%
Ninety percent of annual business plans reviewed and accepted in accordance with specific PGP agreements	Not achieved: 84% Three programmes did not meet the contractual requirements to provide an annual plan update within a specified timeframe. The reasons for non-compliance were: <ul style="list-style-type: none"> <li>• two of the draft annual plans were presented on time to the Programme Steering Groups, but both required changes due to insufficient information being provided on progress towards outcomes;</li> <li>• in the case of the third, staff changes meant that the new programme manager took longer than anticipated to develop a satisfactory annual plan.</li> </ul>
The annual meeting is held in accordance with Investment Advisory Panel Terms of Reference	Achieved: Meeting held on 15 October 2015

## Service performance – financial

The PGP fund expenditure is covered by a multi-year appropriation over five years from 1 July 2012 to 30 June 2017. Multi-year appropriations give departments flexibility to manage expenses over several years, up to a maximum of five years. They are used for activities where total costs are well defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	\$000
Original appropriation	352,380
Adjustments for 2012/13	1,371
Adjustments for 2013/14	(27,000)
Adjustments for 2014/15	(50,695)
Adjustments for 2015/16	(14,971)
Adjusted Appropriation	261,085
Actual expenses for 2012/13	(36,729)
Actual expenses for 2013/14	(41,995)
Actual expenses for 2014/15	(50,867)
Actual expenses for 2015/16	(45,697)
Appropriation remaining	85,797

### Additional comments

The decrease in appropriation by \$14.971 million to \$261.085 million is due to the reprioritisation of funding within Vote Primary Industries and Food Safety, primarily to contribute towards food safety, biosecurity and the Sustainable Farming Fund.

## Sustainable Farming Fund

### Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Sustainable Farming Fund.

The Sustainable Farming Fund (SFF) invests in projects that deliver economic, environmental and social benefits to New Zealand's land-based primary industries and aquaculture sector. These projects include:

- applied research and development;
- field trials and demonstration projects;
- information, knowledge and technology transfer;
- identifying barriers to, and options for, improved land use and management;
- improving decision support; and
- adding value and exploring market opportunities.

The SFF also funds projects that specifically support the three core objectives of the MPI Climate Change Plan of Action around mitigation, adaptation and business opportunities.

Nearly 200 SFF projects are under way at any one time. SFF projects are led by farmers, growers, foresters and marine farmers, often with the support of industry organisations, agribusiness, researchers or consultants.

MPI administers the SFF and makes grant payments of around \$7 million per annum.

The maximum SFF grant available is \$600,000 (that is, \$200,000 over three years), excluding GST. The SFF may fund up to 80 percent of the project value; however, most successful SFF projects are able to leverage a high proportion of other partnership funding or in-kind support to complement the SFF grant.

SFF grant applications undergo a contestable process, which is consistently oversubscribed. Applications are assessed and approved by an independent panel representing the primary industries and rural community.

Non-departmental outputs purchased by the Crown under this appropriation relate to projects that are part-funded by MPI SFF grants.

### Statement of service performance

#### Scope of appropriation

This appropriation is limited to community-driven projects aimed at improving economic and environmental performance in farming.

#### Intended impacts, outcomes or objectives

The SFF seeks to make a measurable difference to sustainability by partnering with farmers, growers, foresters, marine farmers, industry good bodies and Crown research institutes on innovative projects and by creating links between individuals, sector groups and MPI. SFF funding supports community-driven projects aimed at improving the sustainability of the agriculture, horticulture, forestry, aquaculture, and related sectors, and the improved management of New Zealand's natural resources.

Specifically, SFF funding:

- provides opportunities for the adoption of new and improved practices;
- overcomes production and resource management problems;
- supports and engages rural industries and interest groups;
- improves environmental performance; and
- facilitates market opportunities.

### Description of activities

This other expense covers grant payments for:

- applied research activities;
- demonstration and extension activities and resources;
- information sharing and technology transfer activities;
- project management; and
- financial management.

### Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Eighty-five percent of project milestones met	Achieved: 92%

### Service performance – financial

ACTUAL JUNE 2015 \$000		ACTUAL JUNE 2016 \$000	MAIN ESTIMATES 2016 \$000	SUPP ESTIMATES 2016 \$000
5,417	Actual expenses incurred compared with that appropriated in estimates (funded by the Crown)	8,817	8,311	9,811

### Additional comments

The increase in appropriation by \$1.500 million to \$9.811 million is due to a reprioritisation of funding from the PGP to fund high-value programmes.

# Water Storage and Irrigation Investment Proposals

## Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Water Storage and Irrigation Investment Proposals. This appropriation is given effect through the Irrigation Acceleration Fund (IAF).

IAF funding for rural water infrastructure proposals is available for three distinct components.

- Regional rural water infrastructure – to help the development of regionally significant water harvesting, storage and distribution proposals. Proposals must be consistent with agreed regional approaches to the sustainable use and management of water.
- Strategic water management studies – to help the development of regional approaches to integrated water management, particularly the potential of irrigation-related rural water infrastructure to contribute to the sustainable use and management of water for future generations.
- Community irrigation schemes – to help both capital upgrades of existing community scheme infrastructure and new smaller-scale community scheme developments. Proposals must be consistent with agreed regional strategies.

The IAF contribution to agreed programmes is based on a sliding scale up to a maximum of 50 percent. As far as practicable, the IAF also adopts a multi-year development, programme-based approach, subject to achievement of milestones and the critical assessment of continuing project viability at identified stop/go decision points.

The 2011 Budget allocated \$35 million over five years to support the development of irrigation infrastructure proposals to the investment-ready prospectus stage.

Non-departmental outputs purchased by the Crown under this appropriation relate to grants provided to proponents of irrigation and rural water infrastructure schemes for the development of investment-ready proposals.

Grant funding for regional-scale irrigation schemes was successfully transitioned from MPI to Crown Irrigation Investments Ltd (CIIL). From 1 July 2016, CIIL will manage government funding for regional irrigation schemes, and MPI will continue to manage government funding for community irrigation schemes and strategic water management studies.

These are operational changes only, and the amount of government funding available through the IAF supporting irrigation remains the same. MPI also remains the first point of contact for all new schemes.

This change will increase the effectiveness of government intervention in irrigation infrastructure by leveraging CIIL's commercial capability earlier in the development phases of schemes. This will ensure viable schemes are well prepared for private investment, which should drive earlier construction of schemes.

## Statement of service performance

### Scope of appropriation

This appropriation is limited to preparation of proposals for irrigation schemes to an investment-ready stage.

### Intended impacts, outcomes or objectives

The objective of the IAF is to influence the development of proposed irrigation and rural water infrastructure schemes so that they are established on a strong commercial footing and are able to attract investment.

Increased investment in irrigation infrastructure has the potential to deliver economic growth through:

- increased production and better use of existing resources;
- diversified land use and a wider range of high-value crops;
- certainty of production and access to high-value markets;
- improved farm business risk management;
- providing a buffer for regional and national economic shocks from drought and climate change; and
- more economic and competitive use of value-added processing facilities.

### Description of activities

This other expense covers grant payments for:

- technical work programmes required in the development of scheme proposals; and
- community consultation and engagement.

### Service performance – non-financial

PERFORMANCE STANDARD 2015/16	PERFORMANCE RESULTS
Total potential new irrigated area enabled by IAF-supported projects that are commissioned, in construction or in development – 220,000 hectares target	Achieved: 260,500 hectares The scheme also supported the funding of three water studies and trials, one of which has the potential for delivering 35,000 hectares of new irrigated land.

### Service performance – financial

The IAF expenditure is covered by a multi-year appropriation over four years from 1 July 2012 to 30 June 2016. Multi-year appropriations give departments flexibility to manage expenses over a number of years, up to a maximum of five years. They are used for activities where total costs are well-defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	\$000
Original appropriation	32,500
Adjustments for 2012/13 – balance of 2011/12 appropriation	725
Adjustments for 2013/14	–
Adjustments for 2014/15	–
Adjustments for 2015/16	–
Adjusted Appropriation	33,225
Actual expenses for 2012/13	(5,994)
Actual expenses for 2013/14	(8,418)
Actual expenses for 2014/15	(4,480)
Actual expenses for 2015/16	(6,958)
Appropriation remaining	7,375

### Additional comments

The unexpended balance of this multi-year appropriation will be transferred to the new Water Storage and Irrigation Investment Proposals multi-year appropriation, which started on 1 July 2016 and ends on the 30 June 2021.

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