

ANNUAL REPORT

for the year ended 30 June 2009

DEPARTMENT
of the Prime Minister
and CABINET



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CHIEF EXECUTIVE'S OVERVIEW

Over the past year the Department of the Prime Minister and Cabinet has had a particular requirement to deliver on its fundamental responsibilities. First and foremost, we were required to provide support to the incoming Prime Minister and his new Government following their election to office in the general election held on 8 November 2008. This activity contributed to achieving one of the department's five core outcomes – "Executive government is well conducted and continues in accordance with accepted conventions and practices".

Our principal purpose following the election was to support and advise the Prime Minister as he formed his Government, and then to help members of the new Ministry settle into their roles as quickly and effectively as possible. Secondly, in our policy advisory role, we took an early lead in providing advice to the new Government on the execution of its programme and (with other agencies such as the Treasury) in advising the Prime Minister on the global economic crisis. The coincidence of the meltdown on the New York financial markets and New Zealand's general election meant that the new ministers faced unexpected circumstances on assuming office. With the Treasury and the State Services Commission (SSC), DPMC had to lift its performance to assist ministers in dealing with the pressing new situation they faced – characterised in particular by rapidly declining fiscal revenues, rising unemployment, and pressures on public services. That advisory role continues.

Our 2008 *Statement of Intent* noted that DPMC has an ongoing requirement to be responsive to changing circumstances yet also understand longer-term policy challenges. We also have a responsibility, with our central agency colleagues, to improve the performance of the state sector as a whole, focusing on coherence, service delivery and value for money. These aspects of the department's role have come into sharp focus over the last year as a result of the economic crisis and its fiscal impacts on New Zealand, and also because of the advent of the new Government and its new policy priorities.

One of the first tasks the department undertook after the swearing-in of the new Government was to coordinate work by departments in support of the 100 Day Action Plan. The Plan included a wide range of initiatives and urgent actions in areas such as public health, the economy and taxation, law and order, education, and electoral law. DPMC convened a working group of chief executives whose agencies provided relevant policy advice and drafted the necessary legislation for introduction in the House of Representatives. All elements of the Government's Plan were delivered on time.

The department also supported and coordinated preparations for the Prime Minister's Summit on Employment, which was held in Manukau City on 27 February 2009; and in this we worked closely with the Summit's Chair Mark Weldon, the private sector leaders of the various workstreams, and contributing departments. The Summit produced a substantial list of initiatives and recommendations – such as the National Cycleway, the Nine Day Fortnight, and an Expanded Home Insulation Scheme – for subsequent government action or consideration.

Other policy areas where the department has been actively engaged include climate change and emissions trading (such as leading an ongoing policy dialogue with the Department of Climate Change in Canberra on exploring the scope for aligning Australia's and New Zealand's emissions trading schemes), freshwater management, Treaty of Waitangi settlements, youth support and education policies, and a review of business assistance.

Early in the term of the new Government, final contract decisions were taken on the Government House Conservation Project. A local Wellington contractor, L T McGuinness Ltd, commenced work on the site early in the New Year. Work is proceeding well, and is on schedule. The scope of the originally agreed project was trimmed somewhat as a result of the search for budget savings in the Government's line-by-line review; but the core of the project – restoration of the main house – has been retained in full.

As part of the preparations for commencement of the Conservation Project, a suite of refurbished offices for Their Excellencies and key support staff was created in the Islington Office, in the grounds of Government House. Full support services have been maintained through the transition phase. Vogel House in Lower Hutt was also prepared for use as the alternate Official Residence in Wellington, and Their Excellencies took up residence at Vogel House in February.

The move from Government House Wellington as a result of the Conservation Project necessitated a major restructuring of the Governor-General's programme, with a greater focus on Auckland and regional activities and an increased use of alternative venues for major ceremonial and constitutional events. Despite this major restructuring, Their Excellencies' programme was full and varied. It included regional visits to Northland, the West Coast, Canterbury, and the Chatham Islands; and in addition the Governor-General and Lady Satyanand undertook state visits to Tonga, China, Mongolia, India, and Turkey – the highlight of which included representing New Zealand at the annual Gallipoli commemoration at ANZAC Cove. The Governor-General's programme also saw a wide range of activities in support of the more than 150 community organisations for which Their Excellencies are patrons. A further highlight was the launch of a new website for the Governor-General, which has been very well received.

In March the Prime Minister announced that titular honours would be reinstated as part of the New Zealand Order of Merit. The Cabinet Office provided technical advice on that issue and implemented the decision in time for the Queen's Birthday Honours List, as well as providing the option for those who had received PCNZMs and DCNZMs since 2000 to be redesignated as knights and dames.

The Domestic and External Security Group had a very full work programme over the past year, coordinating a range of cross-government activities to bolster security and enhance resilience. Fortunately, there were no major emergencies or natural calamities. The advent of a serious swine flu epidemic

in late April, however, showed very clearly how important was the work that the Ministry of Health had led four years earlier (within the Officials' Domestic and External Security Group system) to develop an Influenza Pandemic Action Plan. Following detection of swine flu in New Zealand a range of national, border, and district health board responses – including critical public messages – were taken in rapid succession. Together these responses allowed the New Zealand health authorities to stem the reach and speed of the influenza pandemic in a manner that would not have been possible without the earlier work and associated exercises. The pandemic has demonstrated very clearly the value of in-depth preparation for known public-security risks.

Just prior to the election, the department also played a role in coordinating the preparation of a package of initiatives to commemorate the life of Sir Edmund Hillary. These included inauguration of the Hillary Shield for rugby test matches between New Zealand and England, and a Sir Edmund Hillary Fellowship for India and Nepal.

It has been a privilege to lead this small department over the past year. The manner in which staff have continued to acquit themselves has been impressive – in particular during the critical period of the general election and formation of the incoming Government. The outgoing Prime Minister, the Rt Hon Helen Clark, personally expressed her thanks to departmental staff past and present when she left office, noting the high standards of service she had received during her nine years in office, the professionalism of the staff, and the strong ethic of public service and political impartiality within the department. I am very grateful for the support I continue to receive from all staff, in particular my senior management colleagues: they continue to carry heavy responsibilities and workloads, but with a positive spirit of service.



Maarten Wevers CNZM
Chief Executive



THE DEPARTMENT'S ROLE

The Department of the Prime Minister and Cabinet occupies a unique position at the centre of New Zealand's system of democratic government. It exists to support the effective conduct of executive government by the Prime Minister, the Governor-General and members of the Cabinet. The department's principal role is provision of advice, on a daily basis, to the Prime Minister and Cabinet on the wide range of complex issues that confront the Government – particularly its policy priorities. Issues that governments are required to deal with are often complex or pressing, and require well-founded advice and judgement. DPMC also provides impartial advice, through the Clerk of the Executive Council and Government House, to the Governor-General. It plays a role in coordinating and leading the work of government departments and agencies, and other entities as appropriate, to ensure that decision-making takes account of all relevant viewpoints and that advice is as coherent and complete as possible. In addition, it supports the Cabinet decision-making process.

SUPPORTING THE PRIME MINISTER AND CABINET

The Prime Minister is the political leader of the government and the country – and its main public “face”. The Prime Minister is also the chair of the Cabinet, and is responsible for the effective operation of executive government. These roles combine political and executive responsibilities.

DPMC provides assistance to the Prime Minister in three broad categories.

Issues that are the direct responsibility of the Prime Minister

The department provides free and frank advice and support on constitutional issues relating to the conduct of executive government – including during elections and transitions between administrations – and on issues associated with the operation of the Cabinet system.

Issues that arise across the full range of government business

We also provide a continuous flow of advice to the Prime Minister on major and daily issues, along with oversight of wider government activity and access to information and assessments. DPMC works with central agencies to draw together departments in support of the Government's priorities, to focus agencies on providing options for action, to ensure implementation of agreed programmes and policies, to drive for enhanced agency performance, and to deal effectively with issues which affect the nation. DPMC also provides the secretariat support for decision-making by the Cabinet and its committees.

Administrative support to the Prime Minister

This includes preparation of replies to Parliamentary questions, and dealing with Official Information Act requests and other correspondence. A totally separate body, the Office of the Prime Minister, also advises the Prime Minister: it is the primary point of responsibility for managing political issues and relationships with other political parties and for providing administrative and media support.

SUPPORTING THE GOVERNOR-GENERAL

New Zealand is a constitutional monarchy, with the Governor-General occupying a leading position in our constitutional framework. He serves as the representative of The Queen, New Zealand's head of state – although The Queen's powers and those of her representative are almost always exercised only on the advice of ministers – and his constitutional, ceremonial, and community roles together seek to maintain national unity and foster national identity. The Clerk of the Executive Council and Government House staff support the Governor-General in carrying out his functions.

BRINGING THE SYSTEM TOGETHER

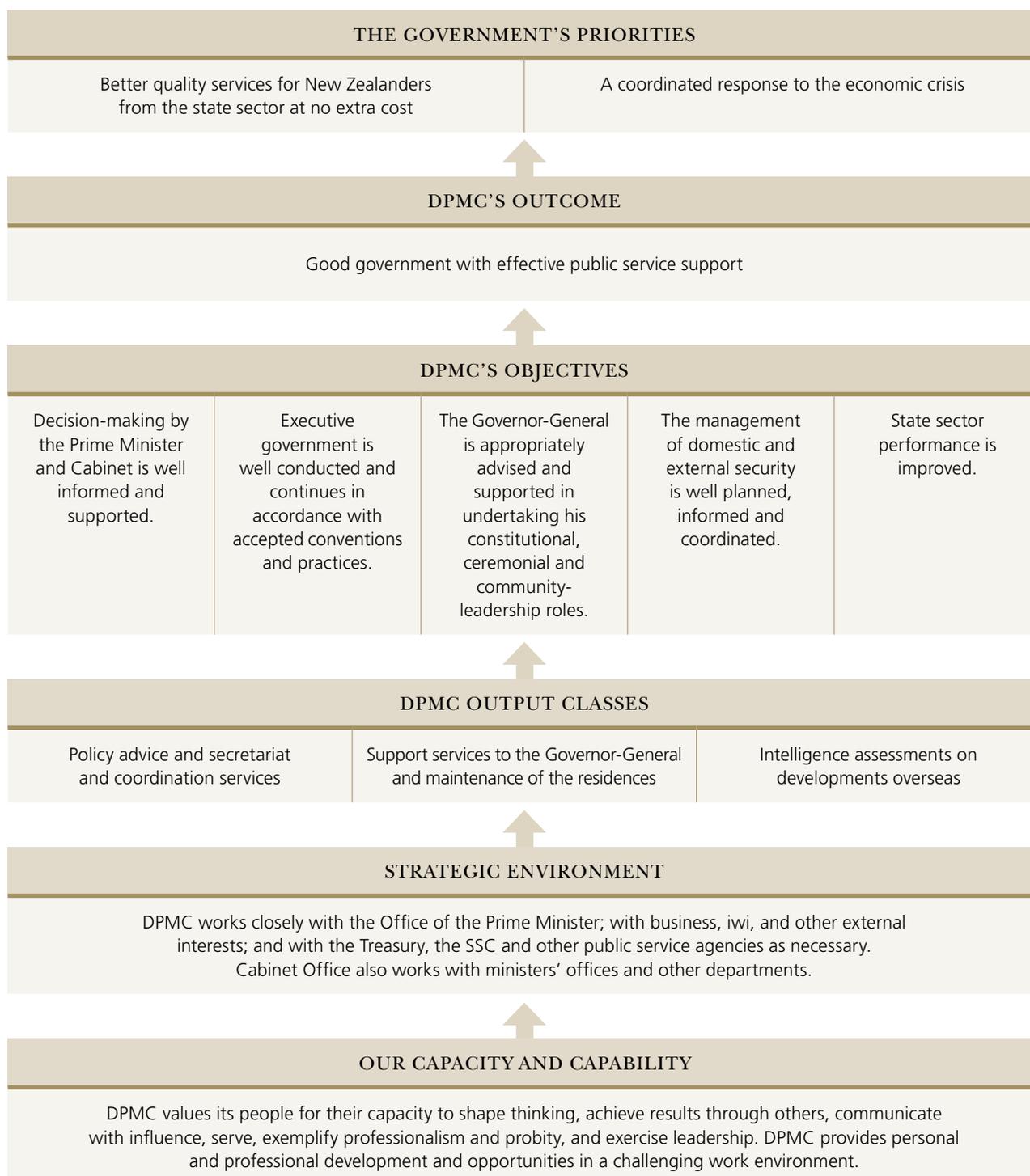
DPMC strives to support a high standard of executive decision-making by providing quality advice that is timely, responds to the directions set by the Government, is forward-looking, is cognisant of changing circumstances and emerging issues, and gives assurance that policies are being delivered in an effective and coordinated manner.

To provide this support the department draws on close relationships with other departments and agencies, crown entities, local government, business, iwi, and the wider community.

DPMC'S BUSINESS UNITS

The department has 120 staff in six business units: Cabinet Office, which includes the Honours Secretariat; Policy Advisory Group (PAG); External Assessments Bureau (EAB); Corporate Services; Domestic and External Security Group (DESG); and Government House. For further detail, see DPMC's website (www.dPMC.govt.nz).

OUTCOMES





STATEMENT OF ACCOUNTABILITY

The Chief Executive of the Department of the Prime Minister and Cabinet is accountable to the Prime Minister for the financial and human resources management of the Crown's investment in the department and for the production of the classes of outputs detailed in its Statement of Service Performance, with the following exceptions:

- The Secretary of the Cabinet is responsible directly to the Prime Minister for the impartial recording of Cabinet decisions and the development and administration of Cabinet processes. The Secretary is also responsible to Cabinet as a whole for ensuring the confidentiality of Cabinet proceedings and the impartial and effective operation of the Cabinet system.
- The Secretary of the Cabinet, as Clerk of the Executive Council, is responsible directly to the Governor-General and the Prime Minister for servicing the Executive Council and providing advice as may be required on constitutional matters.
- The Director of the External Assessments Bureau is accountable to the Prime Minister for the provision of impartial information and assessments under Output Class 3: Intelligence assessments on developments overseas.

Maarten Wevers CNZM

CHIEF EXECUTIVE

Date: 25 September 2009

COUNTERSIGNED BY

Brent Anderson

CORPORATE SERVICES MANAGER

Date: 25 September 2009



STATEMENT OF SERVICE PERFORMANCE

Output Class 1: Policy advice and secretariat and coordination services

DESCRIPTION

This class of outputs involves:

- providing immediate, medium and long-term impartial policy advice that is delivered freely and frankly to the Prime Minister and, at the Prime Minister's request, to other ministers
- promoting and facilitating the coordination of interdepartmental policy development and promoting a more collective approach across the state sector to the formulation and implementation of the government's key priorities
- coordinating central government activities to enhance New Zealand's domestic and external security, including intelligence, counter-terrorism preparedness, emergency/crisis management, and defence operations
- providing advice to the Governor-General, the Prime Minister and ministers on constitutional issues relating to the conduct of executive government to support the conduct and continuity of government within accepted conventions and practices (this includes support for the change of Governor-General)
- providing impartial secretariat services to Cabinet, Cabinet committees and the Executive Council; and promulgating their decisions
- providing advice on the policies, processes and procedures relating to the Executive Council, Cabinet and Cabinet committees; and adapting these as required
- coordinating the policy and administrative aspects of the legislative programme as directed by the Cabinet Legislation Committee
- advising on central government decision-making processes
- providing policy advice and administrative support for the New Zealand royal honours system.

The department assists the Prime Minister in overseeing and leading the government as a whole. In addition, it supports the Cabinet decision-making process. As a central agency, the department has a clear role to play in promoting effective policy coordination across the public service. Ministers need to have complete trust in the quality of the advice and support the department offers on the proper conduct of government business within accepted conventions and practices.

Output Class 1 Financial Performance

30.06.08		30.06.09		30.06.09	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
8,801	Revenue – Crown	8,404	8,537	8,404	
–	Revenue – Other	3	–	4	
8,774	Expenditure	8,250	8,537	8,408	
27	Surplus	157	–	–	

Output Class 1 Service Performance

PERFORMANCE MEASURES	2008/09	
	ACTUAL STANDARD	BUDGET STANDARD
Advice provided meets the department's quality, quantity, and timeliness standards.	Stakeholder survey indicates high satisfaction.	Key stakeholders are satisfied.
Services provided meet quality, accuracy, impartiality and timeliness criteria.	Stakeholder survey indicates high satisfaction.	Key stakeholders are satisfied.

OUTPUT CLASS 1 SERVICE PERFORMANCE: POLICY ADVISORY GROUP

Policy advice to the Prime Minister

Objective

To provide high-quality information, analysis and advice that enables the Prime Minister to lead and manage the public policy business of the government.

Performance

The Policy Advisory Group provided advice to the Prime Minister as necessary on Cabinet and Cabinet committee papers in time for these to be used in Cabinet or Cabinet committee meetings.

The Policy Advisory Group provided briefing notes on issues of interest to the Prime Minister, either in response to requests from the Prime Minister or on the Group's initiative.

The Policy Advisory Group led a number of inter-agency projects such as the Prime Minister's Summit on Employment and projects for At Risk Youth.

All written advice provided to the Prime Minister was reviewed by the Director of the Policy Advisory Group and/or the Chief Executive. In most cases this review occurred after the advice was tendered; in sensitive or difficult matters the Director or Chief Executive reviewed the advice before it was submitted.

Feedback from the Prime Minister on any advice tendered was made available to the Chief Executive, the Director of the Policy Advisory Group, and the advisor concerned.

The Policy Advisory Group also participated in a wide range of whole-of-government processes.

DPMC worked with the Treasury and the SSC to provide ministers with a better sense of overall state sector performance and how to improve it. Under SSC leadership the central agencies developed to a pilot stage a new tool, the Performance Improvement Framework, for assessing departmental performance.

Together with the Cabinet Office, the Policy Advisory Group provided advice on establishing officials' committees in support of Cabinet committees. Policy Advisory Group staff either convened or participated in all Cabinet officials' committees.

Objective

To satisfy the Prime Minister that the Group's advice and coordination services are provided to a high standard.

Performance

The Prime Minister gave regular verbal and written feedback on the advice provided by the Policy Advisory Group.

Objective

To satisfy the Prime Minister that the department's leadership and coordination roles are carried out effectively in a timely manner.

Performance

The Prime Minister is regularly advised by the Chief Executive (with the support of the Director of the Policy Advisory Group, the Secretary of the Cabinet, and the Director of DESG in their own specialist areas) of the range of activities undertaken to facilitate cross-agency coordination of policy advice and implementation. These activities include: fortnightly meetings of departmental chief executives, which are convened to share information on policy directions; weekly meetings with counterpart central-agency chief executives; and interdepartmental coordination of a wide range of policy priorities.

OUTPUT CLASS 1 SERVICE PERFORMANCE: CABINET OFFICE

Support for the proper and effective operation of the key institutions of executive government

Objective

To provide impartial, efficient and effective secretariat services to Cabinet and Cabinet committees to ensure they operate smoothly and within Cabinet's rules.

Performance

During the first half of this performance year the Cabinet Office provided secretariat services during a sustained period of extremely heavy committee agendas. Following the election

and the formation of the new National-led Government, the Cabinet Office had a significant role in supporting the resumption of normal Cabinet decision-making processes as soon as possible. Feedback from the Prime Minister about this process has been positive. A new Cabinet committee system commenced in February 2009, with some committees under the previous Government discontinued or superseded by new committees.

The Cabinet Office provided secretariat services to 203 (2007/08 comparison: 221) Cabinet and Cabinet committee meetings, and 42 (42) Executive Council meetings during the year. See "Meeting statistics" table.

The Prime Minister, the chairs of Cabinet committees, and ministers' offices were consulted as required on the compilation of agendas and the acceptance of submissions for meetings.

There were 2028 (2,524) summary cover sheets prepared for submissions to Cabinet and Cabinet committees during the past year.

Our performance target for the delivery of submissions to ministers' offices is for all papers to be delivered by the close of business two days before the meeting. In the past year, 85 (87) per cent of submissions were received in the Cabinet Office within the Cabinet deadline for lodging papers and we achieved a delivery rate of 77 per cent of all papers to ministers' offices within the period stated in our performance target.

There were 2,299 (2,904) Cabinet and committee minutes recorded over the year. Only 16 (14) of these required amendment by the Cabinet office. (This excludes amendments to committee minutes made as a result of a Cabinet decision.)

All Cabinet committee minutes were issued within three days of the meeting, before the next meeting of Cabinet.

Ninety-one (89) per cent of all Cabinet minutes were issued within three days of the Cabinet meeting.

Meeting statistics for the year ended 30 June 2009

	Number of meetings	Number of agenda items	Average number of items per meeting
Executive Council	42	338	8
Cabinet	45	655	14
Cabinet Strategy Committee [#]	11	20	2
Cabinet Committee on Treaty of Waitangi Negotiations [#]	7	24	3
Cabinet Committee on Implementation of Auckland Governance Reforms [#]	2	3	1
Cabinet Economic Growth and Infrastructure Committee [#]	13	102	8
Cabinet Social Policy Committee [#]	13	48	3
Cabinet External Relations and Defence Committee [#]	9	40	4
Cabinet Legislation Committee	22	168	7
Cabinet Appointments and Honours Committee	13	172	13
Cabinet Expenditure Control Committee [#]	6	15	2
Cabinet Committee on Domestic and External Security Coordination	0	0	0
Cabinet Business Committee	22	346	16
Cabinet Domestic Policy Committee [#]	12	53	4
Cabinet Policy Committee [*]	8	180	22
Cabinet Committee on Government Expenditure and Administration [*]	4	43	11
Cabinet Social Development Committee [*]	8	63	8
Cabinet Economic Development Committee [*]	8	96	12
Subtotal of Cabinet committee meetings	158	1373	8
Total including Cabinet	203	2028	10

[#] New Cabinet committees.

^{*} Cabinet committees discontinued, or superseded by new Cabinet committees.

Objective

To provide impartial and effective advice to the Prime Minister and ministers to support the proper operation of Cabinet and Cabinet committees.

Performance

During this performance year, the election and change of government were the key features for the Cabinet Office's provision of advice under this objective. As part of supporting the Prime Minister in establishing his administration, for example, the Cabinet Office provided advice on options for a new Cabinet committee structure and subsequently implemented the new structure on the Prime Minister's behalf.

Twelve Cabinet Office circulars were prepared and issued in 2008/09 on a range of issues including constitutional procedures after the general election, government decision-making during the period of caretaker government, arrangements for transition to the new administration, Cabinet committee terms of reference, and statute amendment bills.

The Cabinet Office provided 19 (2007/08: 8) briefing seminars to departments and interested parties on the Cabinet decision-making process. In addition, it provided briefings for the office staff of new ministers after the general election. The Secretary of the Cabinet also gave briefings to a number of meetings of chief executives on election and government-formation procedures.

Feedback from the Prime Minister and other stakeholders was positive.

Objective

To provide impartial and effective advice to the Governor-General, the Prime Minister and ministers:

- to support the proper and effective operation of the key institutions of executive government
 - to ensure the constitutional processes involving the Governor-General, the Prime Minister and ministers are appropriately facilitated and supported.
-

Performance

Advice and support was provided to the Prime Minister and the Governor-General on a range of matters relating to constitutional issues and the functioning of executive government. This included providing support and advice in the period surrounding the general election.

The Cabinet Office prepared and issued seven Cabinet Office circulars relating to executive government procedures and principles around the general election. Briefings and information on procedures and the application of constitutional conventions

in the pre- and post-election periods were provided to the Governor-General, the Prime Minister, departments, and (via the DPMC website) the general public.

The Cabinet Office supported and facilitated the smooth transition between administrations. This included: advice to the Governor-General, the Prime Minister, and departments during the government-formation period; the ceremony and documentation for the appointment of the new administration; and a briefing programme for new ministers and their staff.

Feedback from the Prime Minister and the Governor-General was positive.

Objective

To coordinate the policy and administrative aspects of the legislative programme, as directed by the Cabinet Legislation Committee.

Performance

Following the change of administration, advice and support was provided to the new Leader of the House and the Cabinet Legislation Committee on the management of the Government's legislative programme, and on the preparation and management of the legislative programme for the 2009 calendar year.

Objective

To provide advice on the policy aspects of the New Zealand royal honours system, support for the compilation of honours lists, and administration of the honours system.

Performance

The Honours Secretariat advised and assisted the Cabinet Appointments and Honours Committee on the compilation of the 2009 New Year Honours List (192 recipients) and the 2009 Queen's Birthday Honours List (172 recipients). See "New Zealand and other honours" table.

The most significant work undertaken during the reporting period was the implementation of the Government's decision to reinstate titular honours in time for the 2009 Queen's Birthday Honours List. This initiative also enabled those appointed to the top two levels of The New Zealand Order of Merit between 18 May 2000 and 31 December 2008 to elect to become a knight or dame of the Order. The Queen gave her approval to the Amending Royal Warrant that gave effect to these changes in March 2009, and the project has been completed on time. In addition, the Honours Secretariat has been working with the New Zealand Defence Force in progressing a government proposal to institute a new medal that will cover a wide range of military service that currently receives no honours recognition.

During the reporting period, the Secretariat dealt with some 4,000 enquiries from the public about the honours system.

The Cabinet Office coordinated the final step in the successful resolution of Te Arawa's claim for proper recognition of Haane Manahi. The Governor-General attended a ceremony to present the Queen's Altar Frontal for Haane Manahi to Saint Faith's Anglican Church and to Te Arawa.

Feedback received from the Governor-General and the Prime Minister was complimentary about the work of the Honours Secretariat.

New Zealand and other honours granted by the Queen for the year ended 30 June 2009

The Order of New Zealand	
Ordinary Member (ONZ)	
The New Zealand Order of Merit	
Principal Companion (PCNZM)	1
Dame Companion	2
Knight Companion	1
Distinguished Companion (DCNZM)	4
Companion (CNZM)	20
Officer (ONZM)	42
Additional Officer (ONZM)	1
Honorary Officer (ONZM)	1
Member (MNZM)	101
Additional Member (MNZM)	2
Honorary Member (MNZM)	2
The Queen's Service Order	
Companion (QSO)	27
The Queen's Service Medal	
Medal (QSM)	152
The Distinguished Service Decoration	
Decoration (DSD)	8
TOTAL	364
Other honours and appointments	
Grant of the title "The Honourable" for life	22
GRAND TOTAL	386

All honours and appointments were promulgated in the *New Zealand Gazette*.

Objective

To maintain the records of Cabinet; and to provide related information services.

Performance

The Cabinet Office maintains records of all Cabinet and Cabinet committee meetings, administers the convention on access to documents of previous administrations, and provides advice to ministers' offices on the storage and disposal of Cabinet papers.

The Cabinet Office receives and redirects Official Information Act requests for Cabinet documents and handles substantive requests for information about the work of the Cabinet Office. In addition, on behalf of the Prime Minister, it consults with the Leader of the Opposition about the proposed release of official information dating from previous Opposition administrations.

In 2008/09 the Cabinet Office handled 205 (2007/08: 225) enquiries and requests from ministers' offices and departments about Cabinet papers and related information.

The Cabinet Office upgraded its computer network infrastructure, software, and electronic document and records management system (EDRMS).

OUTPUT CLASS 1 SERVICE PERFORMANCE: DOMESTIC AND EXTERNAL SECURITY GROUP (DESG)

Objective

To provide integrated advice on issues involving national security and defence, emergency management, intelligence, and counter-terrorism; and to guide and coordinate crisis-management arrangements across the government.

Performance

The Domestic and External Security Group (DESG) provides leadership, support and coordination on a range of policies and plans designed to strengthen national security and stability and to help deal with various civil contingencies.

In particular, DESG works with a number of government agencies and with local authorities to:

- strengthen early warning of emerging security issues
- assess and evaluate possible threats or national risks
- identify potential vulnerabilities and likely consequences
- determine options for controlling significant risks
- develop management policies for government
- coordinate strategic planning and response around security risks.

This work is part of a long-term programme that continues to reap positive returns for the management of domestic and external security issues, and for building resilience in communities. National management, including responsiveness and coordination among central government agencies at times of crisis, has improved steadily in recent years.

As a critical aspect of its coordination role, DESG provided policy advice and support for periodic meetings of departmental chief executives under ODESC (Officials' Committee for Domestic and External Security Coordination); chaired Watch Group (close situation monitoring) meetings of specialists to deal with detail; and conducted regular meetings with officials from central government and key people from industry, local government and other areas to advance policy and practical solution-finding.

Issues covered include:

- assuring the security of New Zealanders at major events overseas (for example Gallipoli)
- management of security planning and coordination for the 2011 Rugby World Cup, which is to be held in New Zealand
- government management of natural disasters (such as flooding, earthquakes, and volcanic eruptions)
- planning for, and assisting the Ministry of Health in managing, responses to the influenza pandemic in New Zealand
- improving national protection against terrorism and other security threats
- ongoing examination of the functioning and resilience of critical infrastructure
- improving security management in the government sector
- coordinating a national programme of exercises to test New Zealand's readiness for dealing with risks such as a large Wellington earthquake, and terrorism.

The Prime Minister has given positive feedback on the advice and coordination provided by DESG. A stakeholder survey also reported that DESG adds considerable value to government coordination and risk management.

Objective

To provide a system of foreign intelligence collection and assessment activity that reflects policy priorities, national requirements and available resources, and that also ensures a coordinated and harmonised outcome.

Performance

DESG chaired and provided secretariat support for meetings of intelligence committees on a number of sensitive issues throughout the past year. It also undertook other intelligence coordination, which included:

- support for intelligence sector projects
- facilitation of inter-agency cooperation
- intelligence support to ODESC, Watch Groups, and other inter-agency groupings
- provision of a shared resource to assist agencies in dealing with operational issues.

In the past five years there has been growing emphasis on the use of intelligence to enhance security across a range of government departments. As a consequence, DESG has been involved in an increasing range of coordination and guidance activity.



STATEMENT OF SERVICE PERFORMANCE

Output Class 2: Support services to the Governor-General and maintenance of the two Government Houses

DESCRIPTION

This class of outputs involves:

- providing financial, administrative, communications, travel, and advisory services to the Office of the Governor-General; and providing domestic and personal services to the Governor-General
- conducting a range of official functions, investitures and receptions at Government House, and hosting state and other dignitaries
- providing for the general upkeep and security of the Government Houses and grounds in Wellington and Auckland
- maintaining the other residences and buildings associated with the two Government Houses.

The Governor-General is The Queen's representative in New Zealand – and has constitutional, ceremonial and community roles. He requires high-quality advice and support to carry out these roles in a way that is appropriate for the representative of our head of state. Government House Wellington and Government House Auckland are important facilities for carrying out the Governor-General's duties, and are also important as listed historic places.

Output Class 2 Financial Performance

30.06.08		30.06.09		
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates 000
3,476	Revenue – Crown	3,512	3,561	3,512
50	Revenue – other	52	62	58
3,506	Expenditure	3,491	3,591	3,545
20	Surplus	73	32	25

Output Class 2 Service Performance

PERFORMANCE MEASURES	2008/09	
	ACTUAL STANDARD	BUDGET STANDARD
Support to the Governor-General is efficient and effective.	Positive feedback received.	Feedback from the Governor-General is positive.
Events at Government Houses are well organised.	Stakeholder survey indicates high satisfaction.	Feedback from key stakeholders on the quality of events is positive.
Maintenance of Governor-General's programme is appropriate and well-balanced.	Feedback has been predominantly positive.	Feedback from the Governor-General and other key stakeholders is positive.
The usefulness and heritage value of the two Government Houses is maintained or increased.	Feedback has been positive.	Feedback from key stakeholders is positive.

OUTPUT CLASS 2 SERVICE PERFORMANCE: SUPPORT SERVICES TO THE GOVERNOR- GENERAL AND MAINTENANCE OF THE TWO GOVERNMENT HOUSES

Support services to the Governor-General

Objective

To provide efficient and effective support to the Governor-General to facilitate the ceremonial and the community roles of the Governor-General.

Performance

A strategic programme framework was implemented to better support and augment the Governor-General's ceremonial and community roles. A full domestic and international programme was maintained by Their Excellencies including visits in support of New Zealand's foreign-policy objectives to Tonga, China, Mongolia, India, London, and Turkey. Regional visits within New Zealand were made to the East Coast/Poverty Bay region, the Chatham Islands, and the West Coast and Nelson regions. Close liaison in support of these visits was maintained with other agencies such as MFAT, Cabinet Office, Veterans' Affairs, Culture and Heritage, Defence, and Police. Full briefing as well as travel and administrative support was provided. In addition to these activities, the Governor-General hosted or supported a range of community and patronage-related events.

The Governor-General's ceremonial programme included Waitangi Day activities at Waitangi and in other parts of New Zealand; attendance at Anzac Day commemorations in Gallipoli; seventeen investiture ceremonies for the recipients of the 2008 Queen's Birthday Honours and 2009 New Year's Honours awards; six credential ceremonies for newly accredited heads of diplomatic missions; and state welcomes for the heads of state of Timor Leste and South Korea. Their Excellencies' participation in these events was warmly received and well covered by the media. In addition, Government House supported visits to New Zealand by the US Secretary of State and the Australian Prime Minister.

Their Excellencies were kept well informed on all programme-planning activities, with regular reviews of the strategic programme framework, weekly programme-planning meetings, and full debriefings after overseas and regional visits. Regular feedback was sought and received from the Governor-General on the range of services provided in support of his ceremonial and community roles. Feedback on performance was also sought from external agencies as part of a stakeholder survey.

Objective

To provide services to the Governor-General to ensure the efficient and effective running of the official programme and the household. These services include advisory, administrative and household activities, and the organising of functions.

Performance

Support was provided to Their Excellencies during the closure of Government House Wellington and the consequent transition to Vogel House and the new Islington Office. The role of Government House staff over this period was favourably commented on by Their Excellencies and by the Conservation Project Advisory Board: administrative systems and processes were fully maintained alongside a full range of programme activities; functional support in and around the 2008 general election was provided; and the closure and emptying of Government House was actively and constructively carried out. This last task included overseeing the storage of some 45,000 items, advising on policies for the disposal of assets and the lending of art works, organising and implementing a revised garden contract, organising and conducting media tours, and developing a comprehensive communications strategy. Their Excellencies were kept fully informed on progress and arrangements during this period.

A diverse range of functions was delivered and supported throughout the year to the standard required by the Governor-General. This included 189 official engagements throughout New Zealand and the hosting of 65 functions at Government House Wellington (including Vogel House) and Government House Auckland, with an estimated 5,824 persons participating as guests. Feedback from Their Excellencies and guests confirm that these events were well organised and maintained the dignity and standard expected of the Office of the Governor-General.

In other areas, a review of Government House operations was undertaken to assess whether the current management and staffing structure was optimally configured to support Government House operations during the period of the Conservation Project and to consider what management and staffing resources would be required once normal business operations resume. The review recommendations are being progressively implemented.

All correspondence including Royal Prerogative of Mercy applications and commemorative cards and letters were dealt with in a timely and appropriate manner. In consultation with the Governor-General, a new Government House website and information brochure was launched. Highly favourable feedback was received on the informative content of the website and its capability to deliver accessible information. Some 221 draft speeches were also prepared for Their Excellencies on a wide range of topics; these speeches were well received and favourably commented on by Their Excellencies for their content and informative style.

Maintenance of the two Government Houses

Objective

To preserve, secure, and enhance the buildings and grounds of both Government Houses as appropriate residences for the head of state and as historic places.

Performance

The major focus for the year has been further development of plans for the conservation and refurbishment of Government House Wellington. Construction is now underway and is proceeding in accordance with its planned completion date of mid 2011.

A review of the project in February at the request of the Prime Minister resulted in savings of \$4.7 million on the capital cost. This was achieved by reducing the project scope to exclude a visitors' centre and some outbuildings and a carpark, rather than by compromising the extent or overall quality of finish in the main house.

The Government House Conservation Project is designed to meet the uses and requirements of Governors-General both now and in the future, to address regulatory and statutory requirements, to incorporate environmentally sustainable design features, and to maintain the heritage values of the building.

At Government House Auckland, airconditioning was installed in the recently completed pavilion to allow it to be used more effectively throughout the year. Alterations to the staff cottage were also completed, to allow greater use by Wellington-based staff who are required to support functions held at Auckland.

The views of the Governor-General on the maintenance and development programmes for both Government Houses were sought regularly and taken account of.



STATEMENT OF SERVICE PERFORMANCE

Output Class 3: Intelligence assessments on developments overseas

DESCRIPTION

This class of outputs involves:

- producing intelligence assessments on political, economic, scientific, environmental, strategic, and biographic subjects overseas affecting New Zealand's interests
- collecting, collating, evaluating, and analysing information that is used in the production of these assessments.

The use of effective planning and coordination processes in government can manage the risks of certain adverse events occurring, and can lessen their effect if they do occur. The department is responsible for assessing, monitoring, and responding to threats of any kind in a timely and structured way.

Output Class 3 Financial Performance

30.06.08		30.06.09		30.06.09	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000	
3,339	Revenue – Crown	3,482	3,399		3,482
–	Revenue – Other	2	–		2
3,339	Expenditure	3,378	3,399		3,484
–	Surplus	106	–		–

Output Class 3 Service Performance

PERFORMANCE MEASURES	2008/09	
	ACTUAL STANDARD	BUDGET STANDARD
The assessments of developments overseas are high-quality, accurate and succinct	100% of assessments were factually correct.	100% of assessments are factually correct.
	At least 90% of assessments required no more than minor revision.	90% of assessments require no more than minor revision.
	Stakeholder survey indicates high satisfaction.	Feedback from key stakeholders is positive.
The assessments are of policy relevance to New Zealand	Stakeholder survey indicates high satisfaction.	Feedback from key stakeholders is positive.

OUTPUT CLASS 3 SERVICE PERFORMANCE: EXTERNAL ASSESSMENTS BUREAU (EAB)

Objective

To ensure the effective provision of high-quality, accurate and succinct assessments of overseas developments that are of policy relevance to New Zealand.

Performance

There were no instances of significant factual errors being reported in papers that had already been issued.

In a few instances, readers (particularly in New Zealand diplomatic missions overseas) provided additional information, insights and interpretations subsequent to the publication of papers, especially for biographical reports. (EAB generally seeks such input before publication as part of its established process of consultation to improve the quality of its assessments.)

Limits on the length of papers continued to be enforced strictly and EAB continues to strive for a high level of readability.

A priority this year was in seeking guidance and feedback on the incoming Government's requirements. The indications were that stakeholders did not require radical changes to reporting, and that they continued to find value in the range of reporting types that EAB produces – biographical reports; short, quick-response items; and longer items on "big-picture", "cross-cutting" issues. EAB did, however, adjust the balance of its portfolio assignments in order to refocus on the incoming Government's external policy interests and to remain as responsive as possible to the needs of its readers.

During the reporting period:

- The National Assessments Committee (NAC) approved 61 (2007/08: 74) papers. (As in the previous year, EAB was not the sole author of reports commissioned by the NAC. The New Zealand Defence Force prepared one report for the NAC.) This fall in the number of assessments approved by the NAC was the result of a decision to reduce the number of papers presented so that there would be more time for scrutiny of each one and weekly meetings would be less likely to run over time. The normal practice now is

that no more than two papers are presented at each meeting. The reduction in EAB's contribution of papers to the NAC was exactly balanced by an increase in the number of the assessments it issued in the same format under its own letterhead.

- EAB prepared 622 (575) biographical reports.
- There were 201 (201) other assessments and reports prepared, including 90 (93) executive intelligence summaries.

Biographic reports were delivered to primary customers before the visits and conferences to which the reports related.

Relevant EAB reports were available at the start of Watch Group (close situation monitoring) meetings.

Objective

To ensure that the Prime Minister, other senior ministers, and officials are satisfied with the assessments and reports provided.

Performance

Assessments reflected national priorities, and those done in response to specific tasking addressed the topics specified by those who requested them. Positive feedback was received from the Prime Minister and stakeholders.

At least 90 per cent of assessments submitted to the NAC required no more than minor revision. (This performance indicator remains unchanged from last year.) EAB maintains a file record of the outcome of every NAC meeting so that its performance against this criterion is documented. From time to time the Intelligence Coordinator takes the NAC chair to provide independent oversight of the performance of both EAB and the NAC itself. See "EAB assessments" table.

EAB assessments and reports

	2009	2008	2007	2006
National Assessments Committee reports	61	74	71	77
Biographical reports	622	575	536	541
Other reports and assessments	111	108	99	136
Executive intelligence summaries	90	93	92	93

SENIOR MANAGEMENT TEAM



Maarten Wevers CNZM
CHIEF EXECUTIVE



Gregory Baughen
DIRECTOR,
EXTERNAL
ASSESSMENTS
BUREAU



Steve Long QSO
DIRECTOR,
DOMESTIC
& EXTERNAL
SECURITY GROUP



Brent Anderson
CORPORATE
SERVICES
MANAGER



Andrew Kibblewhite
DIRECTOR,
POLICY
ADVISORY
GROUP



Rebecca Kitteridge
SECRETARY OF
THE CABINET &
CLERK OF THE
EXECUTIVE
COUNCIL



Robert Taylor
OFFICIAL
SECRETARY,
GOVERNMENT
HOUSE

OUR DEMOGRAPHICS

as at 30 June 2009

	2009		2008	2007	2006
	Full time	Part time			
Office of the Chief Executive	2	0	2	2	2
Policy Advisory Group	15	2	16	16	14
Domestic and External Security Group	7	1	6	8	7
External Assessments Bureau	28	2	27	28	29
Cabinet Office	20	6	25	27	27
Corporate and Support	14	1	15	15	15
Corporate – Government House Project	2	0	2	11	–
Government House	18	1	27	28	29
Sub-total	106	13			
TOTAL	119 ¹		120 ²	125 ³	123 ⁴

GENDER DISTRIBUTION	2009	2008	2007	2006
Female	52%	55%	55%	47%
Male	48%	45%	45%	53%

ETHNICITY	2009	2008	2007	2006
NZ European	79%	81%	82%	90%
NZ Māori	7%	7%	8%	10%
Pacific peoples	1%	2.5%	2%	– ⁵
Asian	3%	2.5%	2%	– ⁵
Other	12%	7%	6%	– ⁵

¹ Includes 14 staff seconded from other departments and organisations.

² Total includes 13 part-time staff and 12 seconded from other departments and organisations.

³ Total includes 11 staff seconded from other departments and organisations. Casual staff are not included.

⁴ Total includes 16 part-time staff and 11 seconded from other departments and organisations.

⁵ Data not reported in 2006.

DEPARTMENTAL HEALTH AND CAPABILITY

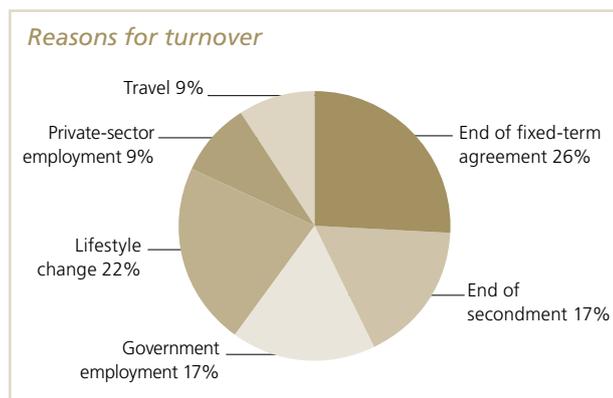
Creating a supportive and focused workplace is central to the department's ability to maintain high performance.

Key capability requirements in DPMC are fairly constant. They are based on our ability to attract and retain high-performing staff who can communicate with influence, maintain agency credibility, build and sustain strong networks and effective working relationships, ensure robust infrastructure, and deliver strong information-management. DPMC seeks to create a workplace where staff are treated – and treat each other – fairly and with respect, where staff are well managed, and where unhelpful barriers to work and personal development are removed as much as possible.

Our people

One-third of our staff have been with us for more than five years – and half of this one-third have been with us for more than ten years. This is almost the same as two years ago, indicating that DPMC continues to retain a proportion of staff with good organisational knowledge.

Planned turnover (defined as retirement and secondment) and unplanned turnover dropped slightly in the last 12 months to 19 per cent (2007/08: 20 per cent). DPMC's solid practice of secondment of staff is reflected in this figure; staff are attracted to the department to broaden their policy coordination experience in a whole-of-government environment or to work on specialist projects or taskforces with the intention of using this experience upon their return to a line agency.



The integration of equality and diversity is a key ingredient for organisational success. In July 2008 DPMC updated its Flexible Work Policy in line with the Employment Relations (Flexible Working Arrangements) Amendment Act 2007 and published easy-to-use forms and guides for employees and managers alike. We recognise that achieving a work-life balance is a shared responsibility and that we need to continue discussing ways in which we can improve. The department this year promoted Te Wiki o Te Reo in July 2008, the Privacy Awareness week in August 2008, and Fraud Awareness Week in March 2009. It also audited policies and documents to ensure relevance and compliance with privacy requirements.

Our performance management and development framework operates through individual performance agreements and a process of regular feedback exchanges between employees and their managers during the year. The framework ensures that all employees understand their roles in the department and the standards of performance expected of them as well as identifying and addressing learning and development needs. Participation in the Leadership Development Centre (LDC) remains high, with good participation in the two Newly Nominated Managers Clinics run by the LDC; and in July 2008 the "Made In New Zealand" NZ Leadership Week sponsored by the Sir Peter Blake Trust was well patronised by our staff. We are committed to providing staff with learning and development opportunities to maximise our capabilities. Staff continue to participate in the Advanced Leadership Programme, in the Australia New Zealand School of Government (ANZSOG) offerings, in the special clinics and case study courses provided by LDC and, where possible, in secondments to other departments. In addition, 2008/09 saw the development of stronger collegiality between central agencies in the learning and development space, with the Treasury and the SSC opening opportunities to DPMC staff; and together the central agencies ran an induction programme on three separate occasions for new staff to understand the role and function of each central agency.

Our health

Creating a healthy and safe work environment is an ongoing departmental priority. Our staff are encouraged to participate in a wide variety of health and wellbeing activities.

Absence due to illness continues to remain low. Average sick-leave usage is 5.7 (4) days per annum; average accrued sick leave is 41.8 (40) days. We continue to monitor sick leave and actively encourage staff to stay home when they are sick. The department has been vigilant in its response to the H1N1 influenza outbreak by supplying all employees with a personal pack of hand antiseptic, providing travel packs for those travelling for work purposes, arranging extra cleaning services of commonly used services, and advising staff and managers to stay home if they have any flu symptoms.

DPMC also provides a comprehensive occupational health service to all staff. This includes:

- immunisation for influenza (free vaccination)
- eye tests
- a health and exercise subsidy
- ergonomic assessment for all new staff as part of induction, and further assessment on request.

The department has a counselling programme (the Employee Assistance Programme) available to employees and has been actively promoting the use of this service to staff and managers. As a result the number of staff accessing the service has increased to 10.1 per cent (4 per cent) and referrals by managers have doubled, demonstrating good awareness of and support for the programme.

The Health and Safety Committee met four times during 2008/09 and facilitated occupational health and safety discussion between management and staff. In addition, one health and safety investigation was undertaken by DPMC and validated by an external resource: the investigation highlighted good practices and low risk to staff, and demonstrated responsiveness to workplace health concerns.

Our performance

In September 2008, the results of the stakeholder survey were received. The aim of the survey was to evaluate how effective stakeholders perceive DPMC to be in providing its services and to identify areas where stakeholders thought DPMC could improve. The primary objectives of this study were to:

- develop an understanding of perceptions held by stakeholders about the service provided by DPMC
- develop an understanding of performance of key services provided by DPMC
- explore in depth any service issues that have arisen, and identify where service improvements can be made.

DPMC is perceived to be performing well. Stakeholders were positive about the department's business, its highly professional business units, its strong leadership at senior levels, and the high calibre of its staff. Stakeholders value the support that DPMC brings to their organisations, particularly the willingness to engage at senior level. The role of DPMC is clear, with stakeholders commenting that DPMC is responsible for coordination between the political and policy systems as well as for coordinating the development of policy across a number of government agencies. Providing advice to the Prime Minister, assessing risk and issues of importance to New Zealand, and being a vital communication channel between the Prime Minister and government agencies are also key areas where DPMC is perceived to be performing well.

Risk-assurance processes

DPMC continues to update its strategic risk profile; and, after further efforts from a DPMC-wide working group, the Senior Management Group has instituted a formal agenda item to review each of our high-level risks and associated mitigation strategies. This review process is expected to continue into the 2009/10 financial year.

The Audit and Risk Committee has continued to meet regularly to review and assess a range of DPMC capabilities and areas of potential risk and report on these to the Chief Executive. The committee consists of two external members (Michael Wintringham, who is also the Chair; and Souella Cumming) and one DPMC representative (Steve Long).

Information management

The department completed the integration of its three networks into a single managed environment over six locations.

Upgrading of the document management system has been completed for Cabinet Office and EAB. Development of a business process tool for the Honours Secretariat is well underway, and systems have been put in place to enable DPMC staff to work away from our Wellington office when required.

Migration on to the Government Shared Network was completed earlier in the year and the process of switching over to the new rationalised One.Govt model is nearing completion.

Challenges for network management, security, and the protection of data integrity continue to mount in the face of an ever-increasing frequency of viruses, spam, and cyber threats.

STATUTORY AND FORMAL RESPONSIBILITIES

Chief Executive

The Chief Executive has the following responsibilities:

- the statutory responsibility to appoint such officers as may be required to assist the Intelligence and Security Committee of Parliamentarians (established under the Intelligence and Security Committee Act 1996) to carry out its duties
- coordination responsibilities in the response phase of an emergency under the International Terrorism (Emergency Powers) Act 1987.

Secretary of the Cabinet and Clerk of the Executive Council

The statutory and formal responsibilities of the Secretary of the Cabinet and the Clerk of the Executive Council are:

- to administer the Letters Patent Constituting the Office of the Governor-General of New Zealand 1983
- to preserve and maintain the official records of Cabinet, and to administer the convention on access to documents of a previous administration
- to administer the Civil List Act 1979
- to certificate subordinate legislation approved in Executive Council in terms of Section 32 of the Evidence Act 1908
- to certificate other instruments executed by the Governor-General in terms of the Official Appointments and Documents Act 1919
- to administer the Oath of Allegiance and the Executive Councillors' Oath in terms of Section 23 of the Oaths and Declarations Act 1957
- to administer the Statutes of The Queen's Service Order (2007), The Order of New Zealand (1987), and The New Zealand Order of Merit (1996)
- to administer the Royal Warrants of the New Zealand Gallantry Awards and the New Zealand Bravery Awards (1999)
- to administer the Seal of New Zealand Act 1977
- to administer the Royal Titles Act 1978.



STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Department of the Prime Minister and Cabinet, for preparation of the department's financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provides reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the department for the year ended 30 June 2009.

Maarten Wevers CNZM
CHIEF EXECUTIVE

Date: 25 September 2009

COUNTERSIGNED BY

Brent Anderson
CORPORATE SERVICES MANAGER

Date: 25 September 2009

Financial Statements

for the year ended 30 June 2009

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DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2009

30.6.08			30.6.09	30.6.09	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	REVENUE				
15,616	Revenue – Crown		15,398	15,497	15,398
50	Revenue – other	3	57	62	64
15,666	TOTAL REVENUE		15,455	15,559	15,462
	EXPENSES				
10,685	Personnel costs	4	10,854	11,646	10,932
288	Depreciation and amortisation expense	7,8	308	565	520
58	Capital charge	5	53	63	53
4,588	Other operating expenses	6	3,904	3,253	3,932
15,619	TOTAL EXPENDITURE		15,119	15,527	15,437
47	NET SURPLUS		336	32	25

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2009

30.6.08			30.6.09	30.6.09	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	CURRENT ASSETS				
2,163	Cash and cash equivalents		2,080	1,098	1,016
72	Other receivables		–	–	–
119	Prepayments		102	12	12
100	Inventory		100	100	100
2,454	TOTAL CURRENT ASSETS		2,282	1,210	1,128
	NON-CURRENT ASSETS				
328	Inventory		325	317	328
726	Property, plant and equipment	7	716	1,490	1,396
46	Intangible assets	8	122	40	176
1,100	TOTAL NON-CURRENT ASSETS		1,163	1,847	1,900
3,554	TOTAL ASSETS		3,445	3,057	3,028
	CURRENT LIABILITIES				
1,270	Creditors and other payables	9	1,145	1,220	1,080
47	Provision for repayment of surplus	10	336	32	25
650	Employee entitlements	11	663	516	624
434	Provisions	12	–	–	120
2,401	TOTAL CURRENT LIABILITIES		2,144	1,768	1,849
	NON-CURRENT LIABILITIES				
–	Provisions	12	241	120	–
450	Employee entitlements	11	357	466	476
450	TOTAL NON-CURRENT LIABILITIES		598	586	476
2,851	TOTAL LIABILITIES		2,742	2,354	2,325
703	NET ASSETS		703	703	703
	TAXPAYERS' FUNDS				
703	General funds	13	703	703	703
703	TOTAL TAXPAYERS' FUNDS		703	703	703

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

for the year ended 30 June 2009

30.6.08			30.6.09	30.6.09	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
703	Balance at 1 July		703	703	703
47	Surplus for the year		336	32	25
47	TOTAL RECOGNISED REVENUE AND EXPENSES FOR THE YEAR		336	32	25
(47)	Provision for repayment of surplus to the Crown	10	(336)	(32)	(25)
-	MOVEMENTS IN TAXPAYERS' FUNDS FOR THE YEAR		-	-	-
703	TAXPAYERS' FUNDS AS AT 30 JUNE		703	703	703

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2009

30.6.08		30.6.09	30.6.09	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	CASH FLOW – OPERATING ACTIVITIES			
15,616	Receipts from the Crown	15,398	15,497	15,398
50	Receipts from other revenue	57	62	64
(4,459)	Payments to suppliers	(4,338)	(3,348)	(4,614)
(10,643)	Payments to employees	(10,740)	(11,551)	(10,575)
(58)	Payments for capital charge	(53)	(63)	(53)
5	Goods and services tax (net)	12	–	–
511	NET CASH FLOW FROM OPERATING ACTIVITIES	336	597	220
	CASH FLOW – INVESTING ACTIVITIES			
(227)	Purchase of property, plant and equipment	(264)	(1,270)	(1,170)
(43)	Purchase of intangible assets	(108)	(50)	(150)
(270)	NET CASH FLOW FROM INVESTING ACTIVITIES	(372)	(1,320)	(1,320)
	CASH FLOW – FINANCING ACTIVITIES			
(46)	Repayment of net surplus to the Crown	(47)	(112)	(47)
(46)	NET CASH FLOW FROM FINANCING ACTIVITIES	(47)	(112)	(47)
195	Net increase/(decrease) in cash and cash equivalents	(83)	(835)	(1,147)
1,968	Cash and cash equivalents at the beginning of the year	2,163	1,933	2,163
2,163	CASH AND CASH EQUIVALENTS AT END OF YEAR	2,080	1,098	1,016

The accompanying notes form part of these financial statements.

RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

for the year ended 30 June 2009

30.6.08		30.6.09	30.6.09	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
47	NET SURPLUS	336	32	25
	ADD/(LESS) NON-CASH ITEMS			
288	Depreciation	308	565	520
(17)	Increase/(decrease) in non-current employee entitlements	(93)	–	–
(120)	Increase/(decrease) in non-current provisions	–	–	–
(151)	TOTAL NON-CASH ITEMS	215	565	520
	ADD/(LESS) WORKING CAPITAL MOVEMENTS			
(141)	(Increase)/decrease in receivables and prepayments	89	–	179
(11)	(Increase)/decrease in inventory	3	–	–
(103)	Increase/(decrease) in creditors and other payables	(125)	–	(190)
134	Increase/(decrease) in current employee entitlements	13	–	–
434	Increase/(decrease) in current provisions	(195)	–	(314)
313	WORKING CAPITAL MOVEMENTS – NET	(215)	–	(325)
511	NET CASH FLOW FROM OPERATING ACTIVITIES	336	597	220

The accompanying notes form part of these financial statements.

STATEMENT OF COMMITMENTS

as at 30 June 2009

Non-cancellable operating lease commitments

The department leases premises on the third and fifth floors of the Reserve Bank Building, and at 108 The Terrace in Wellington (see note 6).

The annual lease payments are subject to two-yearly and ten-yearly reviews. The amounts disclosed as future commitments are based on the current rental rates. Other operating commitments include contracts for photocopying services and garden maintenance services.

There are no restrictions placed on the department by any of the operating leasing arrangements.

30.6.08		30.6.09
Actual \$000		Actual \$000
	OPERATING COMMITMENTS	
577	Accommodation leases	637
101	Other operating commitments	106
678	TOTAL COMMITMENTS	743
	TERM CLASSIFICATION FOR OPERATING COMMITMENTS	
307	Less than one year	503
371	One to five years	240
678	TOTAL COMMITMENTS	743

The accompanying notes form part of these financial statements.

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

as at 30 June 2009

Contingent liabilities

At 30 June 2009 the department has no contingent liabilities. (2008: nil)

Contingent assets

At 30 June 2009 the department has no contingent assets. (2008: nil)

STATEMENT OF UNAPPROPRIATED EXPENDITURE

for the year ended 30 June 2009

The department has no unappropriated departmental expenditure for the year ended 30 June 2009. (2008: 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 2009

30.6.08			30.6.09	30.6.09	
Actual \$000		Note	Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	<i>Vote: Prime Minister and Cabinet</i>				
	APPROPRIATIONS FOR OUTPUT EXPENSES				
8,774	D1 – Policy advice and secretariat and coordination services	18	8,250	8,537	8,408
3,506	D2 – Support services to the Governor-General and maintenance of the two Government Houses	18	3,491	3,591	3,545
3,339	D3 – Intelligence assessments on developments overseas	18	3,378	3,399	3,484
15,619	TOTAL OUTPUT EXPENSES		15,119	15,527	15,437
	APPROPRIATIONS FOR CAPITAL EXPENDITURE				
232	Property, plant and equipment	18	467	1,320	1,320
232	TOTAL CAPITAL EXPENDITURE		467	1,320	1,320

The accompanying notes form part of these financial statements.

NOTES TO THE DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2009

Reporting entity

The Department of the Prime Minister and Cabinet (“the department”) is a government department as defined by the Public Finance Act 1989 and is domiciled in New Zealand.

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

The primary objective of the department is to provide services to the public rather than making a financial return. Accordingly the Department of the Prime Minister and Cabinet is a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the department are for the year ended 30 June 2009. The financial statements were authorised for issue by the Chief Executive of the department on 25 September 2009.

Basis of preparation

The financial statements of the department have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practices (NZ GAAP).

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on historical-cost basis. The accrual basis of accounting has been used.

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

Judgements and estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

Judgements that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are:

Retirement and long-service leave

Note 11 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long-service leave liabilities.

Revenue

Revenue is measured at the fair value of consideration received.

Revenue from the Crown is earned in exchange for the provision of outputs and is recognised as revenue when earned. The department receives its revenue through the Crown’s appropriation process.

Revenue from the supply of goods and services is recognised as earned.

Rental income is recognised as other revenue in the Statement of Financial Performance when it is earned.

Revenue from the sales of items of property, plant and equipment is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Capital charge

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

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that the department will not be able to collect amounts due under 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 Statement of Financial Performance.

Financial instruments

The department is a party to financial arrangements as part of its everyday operations. These include instruments such as cash and cash equivalents, receivables, and creditors and other payables. Financial assets and financial liabilities are initially measured at fair value plus transaction costs. The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

Cash and cash equivalents

Cash includes cash on hand and bank accounts.

Inventory

Inventories held for distribution for public benefit purposes are recorded at the lower of cost calculated using the first-in first-out method or current replacement cost.

Property, plant and equipment

Overview

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

All individual assets are capitalised if their purchase cost is \$2,000 or greater.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

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 department and the cost of the item can be measured reliably.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an asset, less any estimated residual value, over its estimated useful life. The useful life and associated depreciation rates are as follows:

Fixtures and fittings	10 years	10%
IT equipment	3 years	33%
Office equipment	5 years	20%
Furniture	5 years	20%
Motor vehicles	4 years	25%
Kitchen equipment	5 years	20%
Plant and equipment	5–10 years	10–20%
Ground improvements	5 years	20%

Intangible assets

Software acquisition and development

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct costs include software acquisition and development, and consultancy costs. Staff training costs are recognised as an expense when incurred.

Amortisation

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses.

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 an asset is available for use and ceases at the date that an asset is de-recognised. The amortisation charge for each period is recognised in the Statement of Financial Performance.

The useful life and associated amortisation rate of computer software is as follows:

Acquired computer software	3 years	33%
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Impairment of non-financial assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed at least annually to determine if there is any indication of impairment, i.e. that 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 amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value-in-use.

Value-in-use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Losses resulting from impairment are recognised in the Statement of Financial Performance.

Employee entitlements

Short-term employee entitlements

Short-term 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, annual leave, and sick leave and are recognised in the Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment, without realistic possibility of withdrawal, either to terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy.

The department recognises a liability for sick leave. The amount of the liability is calculated on the unused sick-leave entitlement that can be carried forward at balance date, to the extent that the department anticipates it will be used by staff to cover future sick-leave absences.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long-service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements 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. (The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.)

Defined-contribution plans

Obligations for contributions to defined-contribution pension plans are recognised as an expense in the Statement of Financial Performance when they are due.

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.

Leases

The department leases office premises and photocopiers. As substantially all risks and rewards incidental to ownership of assets are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the Statement of Financial Performance on a straight-line basis over the term of the lease.

Superannuation schemes*Defined-contribution schemes*

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and individual retirement funds are accounted for as defined-contribution schemes and are recognised as expenses in the Statement of Financial Performance when they are incurred.

Provisions

The department recognises a provision for future expenditure of uncertain amounts or timing when there is a present obligation (either legal or constructive) as a result of a past event, when it is probable that an outflow of future economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Taxpayers' funds

Taxpayers' funds are the Crown's investment in the department and are measured as the difference between total assets and total liabilities. They consist of general funds.

Commitments

Expenses yet to be incurred on non-cancellable contracts that were entered into on or before balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

Cancellable commitments that have, explicit in the agreement, penalty or exit costs on exercising the option to cancel are included in the Statement of Commitments at the value of that penalty or exit cost.

Contingent liabilities and contingent assets

Contingent liabilities and contingent 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 (GST)

All items in the financial statements, including the appropriation statements, are GST exclusive – except for receivables and payables, which are on a GST-inclusive basis.

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.

Commitment and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are those included in the department's Budget Estimates for the year ended 30 June 2009, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates.

Statement of cost accounting policies

The department has determined the cost of outputs using the cost allocation system that follows:

- Direct costs are expenses incurred from activities in producing outputs. These costs are charged directly to the related output classes.
- Indirect costs are expenses incurred by Corporate Services and by the Office of the Chief Executive. Indirect costs are allocated to each output class based on cost drivers, related activity, and usage information.

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

Changes in accounting policies

Accounting policies are changed only if the change is required by a standard or interpretation, or if it otherwise provides more reliable and more relevant information.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Related parties

The department is a wholly owned entity of the Crown. The government significantly influences the roles of the department as well as its source of revenue.

The department undertakes transactions with other departments, Crown entities, and state-owned enterprises. These transactions are carried out at an arm's length basis and are not considered to be related-party transactions.

Apart from those transactions described above, the department has not entered into any related-party transactions.

Standards, amendments and interpretations issued that are not yet effective and have not been adopted early

The department has elected for early adoption of all NZ IFRSs and Interpretations that were approved by the New Zealand Accounting Standards Review Board as at 30 June 2009 and are not yet applicable except for NZ IAS 1: Presentation of Financial Statements (revised), which was approved by the Accounting Standards Review Board in November 2007. NZ IAS 1: Presentation of Financial Statements (revised), which results in presentation changes only, becomes effective for periods commencing on or after 1 January 2009; it was adopted in the forecast financial statements presented with the 2009 Budget but not in those presented with the 2008 Budget, against which these financial statements are compared.

The early adoption of standards and interpretations did not have a material impact on the financial statements.

2. BUDGET COMPOSITION

	30.6.09		30.6.09
	Budget Forecast \$000	Supplementary Estimates Changes \$000	Final Budget Total \$000
REVENUE			
Crown	15,497	(99)	15,398
Other	62	2	64
TOTAL REVENUE	15,559	(97)	15,462
EXPENDITURE			
Personnel	11,646	(714)	10,932
Operating	3,253	679	3,932
Depreciation	565	(45)	520
Capital charge	63	(10)	53
TOTAL EXPENSES	15,527	(90)	15,437
NET SURPLUS	32	(7)	25

3. REVENUE – OTHER

30.6.08		30.6.09
Actual \$000		Actual \$000
50	Rental income	51
–	KiwiSaver credit	6
50	TOTAL REVENUE – OTHER	57

4. PERSONNEL COSTS

30.6.08		30.6.09	
Actual \$000		Actual \$000	
10,063	Salaries and wages	10,207	
377	Employer contributions to defined-contribution plans	369	
134	Increase/(decrease) in employee entitlements	(80)	
111	Other ¹	358	
10,685	TOTAL PERSONNEL COSTS	10,854	

¹ Other includes recruitment, staff training and attendance at conferences and seminars.

5. CAPITAL CHARGE

The department pays a capital charge on its taxpayers' funds at 30 June and 31 December each year.

The capital charge rate for the year ended 30 June 2009 was 7.5 per cent. (2007/08: 7.5 per cent)

6. OTHER OPERATING EXPENSES

30.6.08		30.6.09	
Actual \$000		Actual \$000	
46	Audit fees for audit of financial statements	46	
6	Audit fees for NZ IFRS transition	–	
415	Premises rental ¹	417	
142	Contract for photocopying services	139	
92	Inventories consumed	74	

¹ The premises rental expenses do not include the costs of accommodation for personnel located on two floors of the Beehive, which is provided by the Parliamentary Service (estimated annual rental for this furnished accommodation is \$350,000).

7. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings	Furniture	Office equipment	Motor vehicles	Plant and equipment	IT equipment	Kitchen equipment	Ground improvement	Total
COST									
Balance at 1 July 2007	880	303	316	96	610	2,214	135	33	4,587
Additions	20	–	6	57	44	58	4	–	189
Disposals	–	–	–	–	–	(27)	–	–	(27)
Balance at 30 June 2008	900	303	322	153	654	2,245	139	33	4,749
Balance at 1 July 2008	900	303	322	153	654	2,245	139	33	4,749
Additions	80	4	3	65	–	206	1	–	359
Disposals	(254)	(91)	(94)	–	(161)	(1,264)	(42)	–	(1,906)
Balance at 30 June 2009	726	216	231	218	493	1,187	98	33	3,202
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES									
Balance at 1 July 2007	488	231	259	59	520	2,076	112	22	3,767
Depreciation expense	86	19	18	22	46	80	9	3	283
Eliminate on disposal	–	–	–	–	–	(27)	–	–	(27)
Balance at 30 June 2008	574	250	277	81	566	2,129	121	25	4,023
Balance at 1 July 2008	574	250	277	81	566	2,129	121	25	4,023
Depreciation expense	78	20	18	29	51	73	5	2	276
Eliminate on disposal	(163)	(88)	(94)	–	(171)	(1,256)	(41)	–	(1,813)
Impairment losses	–	–	–	–	–	–	–	–	–
Balance at 30 June 2009	489	182	201	110	446	946	85	27	2,486
CARRYING VALUE									
At 30 June and 1 July 2008	326	53	45	72	88	116	18	8	726
AT 30 JUNE 2009	237	34	30	108	47	241	13	6	716

8. INTANGIBLE ASSETS

30.6.08		30.6.09
Actual \$000		Actual \$000
	ACQUIRED SOFTWARE	
	COST	
9	Opening balance 1 July	52
43	Additions	108
52	Closing balance 30 June	160
	ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES	
1	Opening balance 1 July	6
5	Amortisation expenses	32
6	Closing balance 30 June	38
	CARRYING VALUE	
46	AT 30 JUNE	122

9. CREDITORS AND OTHER PAYABLES

30.6.08		30.6.09
Actual \$000		Actual \$000
683	Trade creditors	492
–	Creditors relating to capital expenditure	95
506	Accrued expenses	465
81	GST payable	93
1,270	TOTAL CREDITORS AND OTHER PAYABLES	1,145

10. PROVISION FOR REPAYMENT OF SURPLUS TO THE CROWN

30.6.08		30.6.09
Actual \$000		Actual \$000
47	Current year net surplus	336
47	TOTAL PROVISION FOR REPAYMENT OF SURPLUS	336

11. EMPLOYEE ENTITLEMENTS

30.6.08		30.6.09	
Actual		Actual	
\$000		\$000	
	CURRENT EMPLOYEE ENTITLEMENTS		
420	Annual leave	447	
51	Long-service leave	44	
170	Retirement leave	163	
9	Sick leave	9	
650	TOTAL CURRENT LIABILITIES	663	
	NON-CURRENT EMPLOYEE ENTITLEMENTS		
82	Long-service leave	50	
368	Retirement leave	307	
450	TOTAL NON-CURRENT LIABILITIES	357	
1,100	TOTAL EMPLOYEE ENTITLEMENTS	1,020	

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

In determining the appropriate discount rate the department considered the interest rates on New Zealand Government bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows.

The salary-inflation factor has been determined after considering historical salary-inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to differ by 1 per cent from the department's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$30,000 higher/lower.

If the inflation factor were to differ by 1 per cent from the department's estimates, with all other factors held constant, the carrying amount would be an estimated \$28,000 higher/lower.

12. PROVISIONS

30.6.08		30.6.09	
Actual \$000		Actual \$000	
LEASE MAKE-GOOD			
120	Opening balance 1 July	120	
–	Additional provision made	–	
120	Closing balance 30 June	120	
ASSETS WRITE-OFF			
–	Opening balance 1 July	314	
314	Additional provision made	–	
–	Provision used	(193)	
314	Closing balance 30 June	121	
434	TOTAL PROVISIONS	241	

In respect of its leased premises, the department has made provision to make good any damages and to remove fixtures and fittings as required by the lessor at the expiry of the lease term.

It is the department's intention not to renew its current lease beyond 2011 and hence provision for asset write-off has been made.

13. TAXPAYERS' FUNDS

30.6.08		30.6.09	
Actual \$000		Actual \$000	
GENERAL FUNDS			
703	Balance at 1 July	703	
47	Net surplus	336	
(47)	Provision for repayment of surplus to the Crown	(336)	
703	GENERAL FUNDS AT 30 JUNE	703	

14. RELATED-PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Related-party transactions

The department is a wholly owned entity of the Crown. The government significantly influences the roles of the department as well as its source of revenue.

The department undertakes transactions with other departments, Crown entities and state-owned enterprises. These transactions are carried out at an arm's length basis and are not considered to be related-party transactions.

Apart from those transactions described above, the department has not entered into any related-party transactions.

Key management personnel compensation

30.6.08		30.6.09	
Actual \$000		Actual \$000	
1,779	Salaries and other short-term employee benefits	1,893	
1,779	TOTAL KEY MANAGEMENT PERSONNEL¹ COMPENSATION	1,893	

¹ Key management personnel are the Chief Executive and the six senior managers.

15. FINANCIAL-INSTRUMENT RISKS

The department is a party to financial arrangements as part of its everyday operations.

Credit risk

Credit risk is the risk that a third party will default on its obligations to the department, causing the department to incur a loss. In the normal course of its operations, the department incurs credit risk from sundry debtors, prepayments, bank deposits, and transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The department does not require any collateral or security to support financial instruments with the financial institutions it deals with, or with NZDMO, as these entities have high credit ratings. For other financial instruments, the department does not have significant concentrations of credit risk.

The department's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, debtors and other receivables.

Currency risk and interest-rate 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.

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, because of changes in market interest rates.

The department has no significant exposure to currency risk or interest-rate risk on its financial instruments.

Liquidity risk

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

In meeting its liquidity requirements, the department closely monitors its forecast cash requirements with expected cash drawdowns from the NZDMO. The department maintains a target level of available cash to meet liquidity requirements.

All of the department's financial liabilities (i.e. creditors and other payables – see note 9) are expected to be settled within 12 months. The contractual undiscounted cash flows equal the carrying values disclosed in note 9.

16. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

30.6.08		30.6.09
Actual \$000		Actual \$000
	LOANS AND RECEIVABLES	
2,163	Cash and cash equivalent	2,080
72	Other receivables	102
2,235	TOTAL LOANS AND RECEIVABLES	2,182
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	
1,270	CREDITORS AND OTHER PAYABLES (SEE NOTE 9)	1,145

17. CAPITAL MANAGEMENT

The department's capital is its equity (or taxpayers' funds), which comprise the general funds. Equity is represented by the net assets.

The department manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The department's equity is largely managed as a by-product of managing income, expenses, assets and liabilities and complying with the government Budget processes and Treasury instructions.

The objective of managing the department's equity is to ensure that the department is effective in achieving the goals and objectives for which it has been established, while remaining a going concern.

18. EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET

D1 – Policy advice and secretariat and coordination services

The appropriation for this output class decreased by \$129,000 in the Supplementary Estimates. The change is a result of fiscally neutral transfers to D3 – Intelligence assessments on developments overseas (\$83,000) and to D2 – Support services to the Governor-General and maintenance of the two Government Houses (\$50,000) and an adjustment for KiwiSaver credit (\$4,000).

D2 – Support services to the Governor-General and maintenance of the two Government Houses

The appropriation for this output class decreased by \$46,000 in the Supplementary Estimates. The change is a result of a decrease in Crown Revenue (\$99,000), which has been transferred to Crown Capital, combined with a fiscally neutral transfer from D1 – Policy advice and secretariat and coordination services (\$50,000) and an adjustment for KiwiSaver credit (\$3,000).

D3 – Intelligence assessments on developments overseas

The appropriation for this output class increased by \$85,000 in the Supplementary Estimates. The change is a result of a fiscally neutral transfer from D1 – Policy advice and secretariat and coordination services (\$83,000) and an adjustment for KiwiSaver credit (\$2,000).

Appropriations for capital expenditure

The variance between actual and budgeted capital expenditure was due to delay in the implementation of IT upgrades.



NON-DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

The following statements and schedules record the expenses, assets, liabilities, commitments and contingent liabilities that the department manages on behalf of the Crown.

STATEMENT OF NON-DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

for the year ended 30 June 2009

30.6.08		Note	30.6.09	30.6.09	
			Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	APPROPRIATIONS FOR OTHER EXPENSES TO BE INCURRED BY THE CROWN (PERMANENT LEGISLATIVE AUTHORITY)				
700	Depreciation expenses on Crown assets	2	4,160	765	765
34	Commissioner of Security Warrants (NZSIS Amendment (No 2) Act 1999)		47	47	47
831	Government House – other payments (Civil Act 1979)	2	907	1,161	1,161
1,565	SUB-TOTAL		5,114	1,973	1,973
	APPROPRIATION FOR PURCHASE OR DEVELOPMENT OF CAPITAL ASSETS BY THE CROWN				
1,512	Government House – capital investment		6,076	6,650	7,383
1,512	SUB-TOTAL		6,076	6,650	7,383
3,077	TOTAL		11,190	8,623	9,356

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

for the year ended 30 June 2009

This schedule summarises non-departmental expenses that the department administers on behalf of the Crown.

30.6.08		30.6.09	30.6.09	
Actual \$000		Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	<i>Vote: Prime Minister and Cabinet</i>			
865	Other expenses to be incurred by the Crown	954	1,208	1,208
700	Depreciation on assets	4,160	765	765
203	GST expenditure	682	945	967
1,768	TOTAL NON-DEPARTMENTAL EXPENSES	5,796	2,918	2,940

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL NON-TAX REVENUE

as at 30 June 2009

There is non-tax revenue of \$1,500 for year ended 30 June 2009. (2008: nil)

This relates to the return of the Governor-General's salary increase.

SCHEDULE OF NON-DEPARTMENTAL ASSETS AND LIABILITIES

as at 30 June 2009

30.6.08		Note	30.6.09	30.6.09	
			Actual \$000	Main Estimates \$000	Supplementary Estimates \$000
	<i>Vote: Prime Minister and Cabinet</i>				
	CURRENT ASSETS				
2,869	Cash in bank	2	3,612	6,850	2,670
2,869	TOTAL CURRENT ASSETS		3,612	6,850	2,670
	NON-CURRENT ASSETS				
53,449	Land, property, plant and equipment	3	46,809	46,288	52,834
1,366	Construction in progress		6,339	8,500	8,599
54,815	TOTAL NON-CURRENT ASSETS		53,148	54,788	61,433
57,684	TOTAL NON-DEPARTMENTAL ASSETS		56,760	61,638	64,103
	CURRENT LIABILITIES				
499	Creditors and other payables	4	1,135	100	300
499	TOTAL CURRENT LIABILITIES		1,135	100	300
499	TOTAL NON-DEPARTMENTAL LIABILITIES		1,135	100	300

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

The accompanying notes form part of these financial statements.

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

as at 30 June 2009

There is a capital commitment of \$21.78 million as at 30 June 2009. (30 June 2008: \$634,000)

There are no operating commitments as at 30 June 2009. (30 June 2008: nil)

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

as at 30 June 2009

There are no contingent liabilities as at 30 June 2009. (30 June 2008: nil)

There are no contingent assets as at 30 June 2009. (30 June 2008: nil)

SCHEDULE OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE

for the year ended 30 June 2009

There was unappropriated non-departmental expenditure of \$3.395 million. This relates to the additional depreciation required to write down Crown assets at Government House. This unappropriated expenditure will be validated under section 26C of the Public Finance Act 2004.

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

The accompanying notes form part of these financial statements.

NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2009

Reporting entity

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

These non-departmental balances are consolidated into the Financial Statements of the Government of New Zealand. 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 of New Zealand.

Accounting policies

The non-departmental schedules and statements have been prepared in accordance with the government's accounting policies as set out in the Financial Statements of the Government of New Zealand and in accordance with the relevant Treasury instructions and Treasury circulars.

Measurement and recognition rules applied in the preparation of these non-departmental financial statements and schedules are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied:

Budget figures

The budget figures are those presented in the Budget Estimates (Main Estimates) and those amended by the Supplementary Estimates and any transfer made by Order in Council under the Public Finance Act 1989.

Goods and services tax (GST)

All statements are GST exclusive, with the exception of the Schedule of Non-Departmental Assets and Liabilities where the entries for creditors and payables are GST inclusive. In accordance with Treasury instructions, 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 in the financial statements.

Valuation of property, plant and equipment

Land and buildings are recorded at fair value, as determined by an independent registered valuer. QV Valuations revalued land and buildings in Auckland as at 30 June 2009. Fair value is determined using market-based evidence unless insufficient market-based evidence exists, in which case the land and buildings are valued at optimised depreciated replacement cost.

Land and buildings are revalued at least every three years. Additions between revaluations are recorded at cost.

Other artwork, ornaments and some antique furniture and fittings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. They are recorded at this fair value, less accumulated depreciation and impairment losses.

Any revaluation surplus arising on the revaluation of a class of asset is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the class of property, plant and equipment is recognised in the Statement of Non-Departmental Expenses and Capital Expenditure against Appropriations in the period in which it arises.

Other items of property, plant and equipment are recorded at cost, less accumulated depreciation and impairment losses. All individual assets are capitalised if their purchase cost is \$2,000 or greater.

Depreciation

All items of property, plant and equipment have been depreciated on a straight-line basis that reflects the decline in service potential of the asset during the reporting period. Specific rates of depreciation used for the various classes of property, plant and equipment for the current and comparative periods are as follows:

	2007/08	2008/09
Buildings	2%	2%–33%
Fixtures and fittings	10%	10%
Furniture	20%	20%
Motor vehicles	25%	25%
Plant and equipment	20%	20%
Other assets	2%–20%	2%–20%

In the 2008/09 financial year the useful life of Government House Wellington was revised during the demolition and construction project.

Commitments

Future payments are disclosed as commitments at the point where a contractual obligation arises, to the extent that they are equally unperformed obligations.

Financial assets and liabilities

All financial assets and financial liabilities are measured at amortised cost.

2. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Statement of Non-Departmental Expenses and Capital Expenditure against Appropriations

As at 30 June 2009, depreciation expenses on Government House Wellington were \$3.395 million overspent against the appropriation. This was a result of assets written down during the demolition and construction in 2008/09. It had previously been proposed to make depreciation adjustments at the conclusion of the building project, prior to Government House Wellington being re-occupied.

At 30 June 2009, expenditure under permanent legislative authority (the Civil List Act 1979) was \$254,000 below the appropriation because of changed or rescheduled travel arrangements.

Schedule of Non-Departmental Assets and Liabilities

At 30 June 2009, the department's bank balance was higher than shown in the Supplementary Estimates because of underspending in non-departmental expenses, and higher-than-expected creditor balances.

3. PROPERTY, PLANT AND EQUIPMENT

	Land ¹	Building ¹	Plant and equipment	Furniture and fittings	Motor vehicles	Other assets	Total
COST							
Balance at 1 July 2007	33,850	17,143	238	2,054	160	2,850	56,295
Additions	–	146	–	–	–	–	146
Disposals	–	–	–	–	–	–	–
Balance at 30 June 2008	33,850	17,289	238	2,054	160	2,850	56,441
Balance at 1 July 2008	33,850	17,289	238	2,054	160	2,850	56,441
Additions	–	692	–	411	–	–	1,103
Revaluation increase/(decrease)	(3,630)	86	–	–	–	–	(3,544)
Disposals	–	(3,999)	(211)	(292)	–	(517)	(5,019)
Balance at 30 June 2009	30,220	14,068	27	2,173	160	2,333	48,981
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
Balance at 1 July 2007	–	341	238	775	160	778	2,292
Depreciation expense	–	362	–	225	–	113	700
Eliminate on disposal	–	–	–	–	–	–	–
Eliminate on revaluation	–	–	–	–	–	–	–
Balance at 30 June 2008	–	703	238	1,000	160	891	2,992
Balance at 1 July 2008	–	703	238	1,000	160	891	2,992
Depreciation expense	–	3,775	–	275	–	110	4,160
Eliminate on disposal	–	(3,999)	(211)	(290)	–	(480)	(4,980)
Impairment losses	–	–	–	–	–	–	–
Balance at 30 June 2009	–	479	27	985	160	521	2,172
CARRYING VALUE							
At 30 June and 1 July 2008	33,850	16,586	–	1,054	–	1,959	53,449
AT 30 JUNE 2009	30,220	13,589	–	1,188	–	1,812	46,809

¹ Land and buildings in Auckland have been revalued to fair value as at 30 June 2009 by an independently contracted registered valuer, QV Valuations.

4. CREDITORS AND OTHER PAYABLES

30.6.08		30.6.09	
Actual \$000		Actual \$000	
20	Trade creditors	22	
403	Creditors relating to capital expenditure	1,045	
76	Accrued expenses	68	
499	TOTAL CREDITORS AND OTHER PAYABLES	1,135	

AUDIT REPORT

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

To the readers of the Department of the Prime Minister and Cabinet's Financial Statements and Statement of Service Performance for the year ended 30 June 2009

The Auditor-General is the auditor of the Department of the Prime Minister and Cabinet (the Department). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Department for the year ended 30 June 2009.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Department on pages 26 to 46:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Department's financial position as at 30 June 2009;
 - the results of its operations and cash flows for the year ended on that date;
 - its expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009; and
 - its unappropriated expenses and capital expenditure for the year ended 30 June 2009.
 - The schedules of non-departmental activities on pages 47 to 54 fairly reflect the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Department on behalf of the Crown for the year ended 30 June 2009.
 - The statement of service performance of the Department on pages 7 to 17:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards included in the statement of forecast service performance adopted at the start of the financial year; and

- its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 25 September 2009, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;

- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE AND THE AUDITOR

The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009. The financial statements must also fairly reflect the Department's unappropriated expenses and capital expenditure for the year ended on that date.

In addition, the Chief Executive is responsible for preparing schedules of non-departmental activities, in accordance with the Treasury Instructions 2008 that must fairly reflect the assets, liabilities, revenues, expenses, contingencies and commitments managed by the Department on behalf of the Crown for the year ended 30 June 2009.

The statement of service performance must fairly reflect, for each class of outputs, the Department's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year.

The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

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



S B Lucy
AUDIT NEW ZEALAND

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 Department of the Prime Minister and Cabinet for the year ended 30 June 2009 included on the Department of the Prime Minister and Cabinet's website. The Department of the Prime Minister and Cabinet's Chief Executive is responsible for the maintenance and integrity of the Department of the Prime Minister and Cabinet's website. We have not been engaged to report on the integrity of the Department of the Prime Minister and Cabinet'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 and related audit report dated 25 September 2009 to confirm the information included in the audited financial statements, statement of service performance and schedules of non-departmental activities presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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