Our financial performance

Departmental statements

FOR THE YEAR ENDED 30 JUNE 2015

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2015

Actual 30 June 2014 $000		Notes	Actual 30 June 2015 $000	Unaudited budget 2015 $000	Unaudited forecast 2016 $000
	Revenue				
544,984	Crown		521,810	517,284	534,048
2,772	Department		2,903	3,943	4,977
37,345	Other revenue	2	40,384	48,173	46,275
585,101	Total revenue		565,097	569,400	585,300
	Expenditure				
258,721	Personnel costs	3	256,267	255,535	261,964
203,435	Operating costs	4	175,043	189,739	191,145
63,938	Capital charge	5	68,962	67,652	72,824
56,674	Depreciation, amortisation and impairment	6,8	56,497	56,487	56,419
582,768	Total expenditure		556,769	569,413	582,352
2,333	Net surplus/(deficit)		8,328	(13)	2,948
	Other comprehensive revenue and expense				
	Item that will not be reclassified to net surplus/(deficit)				
37,381	Gain on property revaluations		28,012	–	–
37,381	Total other comprehensive revenue and expense		28,012	–	–
39,714	Total comprehensive revenue and expense		36,340	(13)	2,948

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

The accompanying notes form part of these financial statements.

Statement of financial position

AS AT 30 JUNE 2015

Actual 30 June 2014 $000		Notes	Actual 30 June 2015 $000	Unaudited budget 2015 $000	Unaudited forecast 2016 $000
	Assets				
	Current assets				
59,360	Cash and cash equivalents		46,725	53,201	40,792
147,857	Debtors and other receivables	9	162,996	113,296	103,224
5,616	Prepayments		3,482	5,700	5,795
2,277	Assets held for sale	7	2,399	–	–
215,110	Total current assets		215,602	172,197	149,811
	Non-current assets				
664,766	Property, plant and equipment	6	749,481	787,444	949,830
73,590	Intangible assets	8	66,078	79,753	91,169
738,356	Total non-current assets		815,559	867,197	1,040,999
953,466	Total assets		1,031,161	1,039,394	1,190,810
	Liabilities and taxpayers' funds				
	Current liabilities				
14,286	Creditors and other payables	10	16,111	14,359	45,198
3,119	Provisions	11	14,166	14,748	2,856
31	Finance lease		–	–	–
4,528	GST payable		3,402	3,998	3,523
31,204	Accrued expenses		23,654	31,204	–
2,335	Return of operating surplus	12	8,419	–	3,000
21,793	Employee entitlements	13	16,130	20,489	15,184
77,296	Total current liabilities		81,882	84,798	69,761
	Non-current liabilities				
6,783	Employee entitlements	13	6,921	6,700	6,738
16,485	Provisions	11	3,247	–	–
23,268	Total non-current liabilities		10,168	6,700	6,738
100,564	Total liabilities		92,050	91,498	76,499
	Equity				
719,155	Taxpayers' funds	14	777,570	814,149	981,020
388	Memorandum accounts	14	297	388	–
133,359	Property revaluation reserves	14	161,244	133,359	133,291
852,902	Total equity		939,111	947,896	1,114,311
953,466	Total equity and liabilities		1,031,161	1,039,394	1,190,810

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

The accompanying notes form part of these financial statements.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2015

Actual 30 June 2014 $000		Notes	Actual 30 June 2015 $000	Unaudited budget 2015 $000	Unaudited forecast 2016 $000
800,081	Equity as at 1 July		852,902	852,902	911,438
39,714	Total comprehensive revenue and expense		36,340	(13)	2,948
(2,335)	Return of operating surplus to the Crown	12	(8,419)	–	(3,000)
18,507	Capital injection from the Crown		38,288	95,007	202,925
–	Capital transfers from other government agencies (cash)		20,000	–	–
23	Capital injection – non cash		–	–	–
(1,750)	Capital withdrawal – non cash		–	–	–
(1,338)	Capital withdrawal		–	–	–
852,902	Equity as at 30 June	14	939,111	947,896	1,114,311

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

The accompanying notes form part of these financial statements.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2015

Actual 30 June 2014 $000		Notes	Actual 30 June 2015 $000	Unaudited budget 2015 $000	Unaudited forecast 2016 $000
	Cash flows from operating activities				
	Cash was provided from:				
532,187	Receipts from the Crown		509,101	554,361	564,048
2,632	Receipts from other departments		2,913	4,912	4,439
38,392	Receipts from others		37,612	44,690	46,731
573,211	Total cash flows from operating activities		549,626	603,963	615,218
	Cash was applied to:				
(257,498)	Payments to employees		(261,175)	(257,188)	(261,017)
(190,888)	Payments to suppliers		(176,798)	(192,599)	(207,024)
(63,938)	Payment for capital charge		(68,962)	(67,652)	(72,824)
1,335	Goods and services tax (net)		(1,127)	(531)	1
(510,989)	Total cash applied for operating activities		(508,062)	(517,970)	(540,864)
62,222	Net cash flows from operating activities	20	41,564	85,993	74,354
	Cash flows from investing activities				
	Cash was provided from:				
1,508	Receipts from sale of property, plant and equipment		2,617	2,276	–
	Cash was applied to:				
(33,471)	Purchase of intangible assets		(18,819)	(23,911)	(32,079)
(49,455)	Purchase of property, plant and equipment		(93,916)	(161,421)	(242,391)
(81,418)	Net cash flows from investing activities		(110,118)	(183,056)	(274,470)
	Cash flows from financing activities				
	Cash was provided from:				
18,507	Capital injection from the Crown	14	38,288	95,007	202,925
–	Capital transfers from other government agencies	14	20,000	–	–
	Cash was applied to:				
(162)	Payments of finance lease		(31)	(31)	–
(1,338)	Capital withdrawal		–	–	–
(411)	Return of operating surplus		(2,335)	(4,072)	(3,000)
16,596	Net cash flows from financing activities		55,922	90,904	199,925
(2,600)	Net increase/(decrease) in cash held		(12,632)	(6,159)	(191)
61,960	Cash as at 1 July		59,360	59,360	40,983
59,360	Closing cash as at 30 June		46,728	53,201	40,792

The GST (net) component of operating activities reflects the net GST paid to and received from the Inland Revenue. The GST (net) component has been presented on a net basis as the gross amounts do not provide meaningful information for financial reporting purposes.

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

The accompanying notes form part of these financial statements.

Statement of commitments

AS AT 30 JUNE 2015

CAPITAL COMMITMENTS

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant, and equipment and intangible assets that have not been paid for or not recognised as a liability at balance date. The Ministry has no capital commitments (2013/14: $26.453 million).

NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The Ministry leases property in the normal course of its business.

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

The majority of these leases are for premises that have a non-cancellable leasing period ranging from 3 to 10 years, with regular rent reviews.

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

The total of minimum future sublease payments expected to be received under non-cancellable subleases at the balance date is $996,000 (2013/14: $945,000).

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Capital commitments	
26,453	Property, plant and equipment	–
26,453	Total capital commitments	–
	Operating leases as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:	
19,469	Not later than 1 year	20,571
47,527	Later than 1 year and not later than 5 years	53,010
48,093	Later than 5 years	51,493
115,089	Total non-cancellable operating lease commitments	125,074
141,542	Total commitments	125,074

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets

AS AT 30 JUNE 2015

Actual 30 June 2014 $000		Actual 30 June 2015 $000
105	Personal grievances	125
105	Total contingent liabilities	125

PERSONAL GRIEVANCES

Personal grievances represent amounts claimed by employees for personal grievances cases.

UNQUANTIFIABLE CONTINGENT LIABILITIES

The Ministry has no unquantifiable contingent liabilities (2013/14: nil).

CONTINGENT ASSETS

The Ministry has no contingent assets (2013/14: nil).

The accompanying notes form part of these financial statements.

Note 1. **Statement of accounting policies for the year ended 30 June 2015**

REPORTING ENTITY

The Ministry of Justice (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. These financial statements have been prepared pursuant to section 45B of the Public Finance Act 1989. The Ministry's ultimate parent is the Crown.

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

The Ministry's primary objective is to provide services to the New Zealand public. The Ministry does not operate to make a financial return. Accordingly, the Ministry has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The Ministry is responsible for the following core functions:

- the delivery of operational services, including court and tribunal-related services, collections, electoral services and negotiations for settling historical Treaty of Waitangi claims
- the provision of support to the judiciary
- the provision of policy advice
- leadership of the justice sector
- the management of non-departmental output classes.

The Ministry administers these functions in 3 Votes: Justice, Courts, and Treaty Negotiations.

The financial statements of the Ministry are for the year ended 30 June 2015. The financial statements were authorised for issue by the Chief Executive of the Ministry on 29 September 2015.

BASIS OF PREPARATION

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

STATEMENT OF COMPLIANCE

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

The financial statements have been prepared in accordance with tier 1 PBE accounting standards.

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. The material adjustments arising on transition to the new PBE accounting standards are explained in note 23.

PRESENTATION CURRENCY AND ROUNDING

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

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into New Zealand dollars (the functional currency) using the spot exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the surplus or deficit.

MEASUREMENT BASE

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings and certain financial instruments at fair value.

CHANGES IN ACCOUNTING POLICY

There have been no changes in accounting policies during the financial year.

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

STANDARDS ISSUED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Ministry has applied these standards in preparing the 30 June 2015 financial statements.

In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. The Ministry will apply these updated standards in preparing its 30 June 2016 financial statements. The Ministry expects there will be minimal or no change in applying these updated accounting standards.

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

REVENUE

The specific accounting policies for significant revenue items are explained below:

REVENUE CROWN

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

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

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement. Revenue from the Crown is recognised on the basis of the supply of outputs to the Crown and is recognised when earned.

OTHER REVENUE

Departmental and other revenue are from the supply of goods and services to other government departments and 3rd parties. This revenue is exchange revenue whereby the Ministry receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange.

Revenue from filing and similar fees is recognised when the obligation to pay the fee is incurred. Rental income is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Interest income is accrued using the effective interest rate method.

CAPITAL CHARGE

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following asset classes: land, buildings, leasehold improvements, furniture and office equipment, computer equipment and motor vehicles.

Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation.

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

ADDITIONS

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

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

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Individual assets are capitalised if their cost is greater than $3,000. Grouped assets are capitalised if their cost is greater than $5,000.

Capital work in progress is recognised as costs are incurred. Depreciation is not recorded until the asset is fully acceptance tested, operational and capitalised.

ASSET REVALUATION

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from their fair value. All land and buildings are inspected and valued on a rolling basis over 3 years. In any 1 year, a selection of land and buildings are inspected and the remaining properties are desktop valued by a registered valuer.

Land and building revaluation movements are accounted for on a class-of-asset basis. The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

DEPRECIATION

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of property, plant and equipment have been estimated as follows:

Asset category	Asset life (years)	Residual value
Buildings	Up to 100	Nil
Fit-out/leasehold improvements	Up to 25	Nil
Computer equipment	Up to 7	Nil
Furniture and fittings, office equipment	Up to 10	Nil
Motor vehicles	5	30% of cost

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

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

DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluation reserve in respect of the disposed asset is transferred to taxpayers' funds.

SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

ASSETS HELD FOR SALE

Assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Assets held for sale are not depreciated or amortised while they are classified as held for sale.

INTANGIBLE ASSETS

Intangible assets are initially recorded at cost. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for internal use by the Ministry are recognised as an intangible asset.

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

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

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses. Amortisation is charged to the surplus or deficit on a straight-line basis over the useful life of the asset. Estimated useful lives are:

Asset category	Asset life (years)
Acquired software	Up to 7
Internally generated software	Up to 7

IMPAIRMENT

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

The carrying amounts of property, plant and equipment and intangible assets are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the surplus or deficit unless the asset is carried at a revalued amount, in which case any impairment loss is treated as a revaluation decrease.

EMPLOYEE ENTITLEMENTS

SHORT-TERM EMPLOYEE ENTITLEMENTS

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

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

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

The Ministry recognises a liability and an expense for performance payments where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

LONG-TERM EMPLOYEE ENTITLEMENTS

Employee benefits that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis.

The calculations are based on:

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

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

PRESENTATION OF EMPLOYEE ENTITLEMENTS

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

PROVISIONS

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

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

RESTRUCTURING

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

ONEROUS CONTRACTS

Where the benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation under the contract, a provision is recognised. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

SUPERANNUATION

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

COST ALLOCATION

The Ministry derives the costs of outputs using a cost allocation system outlined below.

CRITERIA FOR DIRECT AND INDIRECT COSTS

Direct costs are those costs that can be directly attributed to output(s). Indirect costs are those that cannot be identified in an economically feasible manner to specific output(s).

COST ALLOCATION POLICY

Direct costs are charged to output classes as and when they occur. Indirect costs are accumulated and allocated to output classes based on cost drivers such as assessment of personnel time, building area occupied or asset utilisation, which reflect an appropriate measure of resource consumption usage. Costs identified to overhead areas are accumulated and allocated to output classes based on resource consumption usage, where possible (such as full-time equivalent staff numbers), or in proportion to the direct and indirect charges made to the output class.

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

COMMITMENTS

Expenses yet to be incurred on non-cancellable operating lease and capital contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities and contingent assets are recorded at the point at which the contingency is evident.

INCOME TAX

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

GOODS AND SERVICES TAX (GST)

The statement of financial position is exclusive of GST, except for debtors and other receivables and creditors and other payables, which are GST inclusive. All other statements are GST exclusive.

The amount of GST owed to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is shown as a current asset or current liability as appropriate in the statement of financial position.

The amount of GST paid to, or received from, the Inland Revenue Department, including GST relating to investment activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

BUDGET AND FORECAST FIGURES

BASIS OF THE BUDGET AND FORECAST FIGURES

The 2015 budget figures are for the year ended 30 June 2015 and were published in the 2013/14 annual report. They are consistent with the Ministry's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2014/15 and any known approved initiatives at the time of preparation of these budget figures.

The 2016 forecast figures are for the year ending 30 June 2016, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 2015/16.

The budget and forecast financial statements have been prepared as required by the PFA to communicate forecast financial information for accountability purposes.

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

The 30 June 2016 forecast figures have been prepared in accordance with PBE FRS 42 Prospective Financial Statements and comply with PBE FRS 42.

The forecast financial statements were approved for issue by the Chief Executive on 8 April 2015. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2016 will not be published.

SIGNIFICANT ASSUMPTIONS USED IN PREPARING THE FORECAST FINANCIALS

The forecast figures contained in these financial statements reflect the Ministry's purpose and activities and are based on a number of assumptions on what may occur during the 2015/16 year. The forecast figures have been compiled on the basis of existing government policies and ministerial expectations at the time the main estimates were finalised.

The main assumptions, adopted 8 April 2015, were as follows:

- The Ministry's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities.
- Personnel costs are based on over 3,000 full-time equivalent staff, which takes into account staff turnover.
- Operating costs are based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Ministry's best estimate of future costs that will be incurred.
- Remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Land and buildings are not revalued.
- Estimated year-end information for 2014/15 is used as the opening position for the 2015/16 forecasts.

The actual financial results achieved for 30 June 2016 are likely to vary from the forecast information presented, and the variations may be material.

Since the approval of the forecasts, the only significant change or event that would have a material impact on the forecasts has been the revaluation of land and buildings at 30 June 2015. This resulted in a revaluation increase of approximately 5.42%. Although it is difficult to reliably forecast land and building values, it is likely that the valuation increase to 30 June 2015 will result in land and building values at 30 June 2016 being higher than in the existing 2016 forecast figures.

FINANCIAL INSTRUMENTS

The Ministry is party to financial instruments as part of its normal operations. These include bank accounts, debtors and creditors. All financial instruments are recognised in the statement of financial position, and all revenues and expenses in relation to financial instruments are recognised in the surplus or deficit.

DEBTORS AND OTHER RECEIVABLES

Short-term receivables are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Ministry will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of 3 months or less. The Ministry is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

FINANCIAL LIABILITIES

Other financial liabilities are recognised initially at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the surplus or deficit as is any gain or loss when the liability is derecognised.

CREDITORS AND OTHER PAYABLES

Short-term creditors and other payables are recorded at their face value.

LEASES

FINANCE LEASES

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases where the Ministry is the lessee are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item and the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether the Ministry will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to manage exposure to foreign exchange risk arising from the Ministry's operational activities. The Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.

EQUITY

Equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts and property revaluation reserves.

MEMORANDUM ACCOUNTS

Memorandum accounts reflect the cumulative surplus/(deficit) on those departmental services provided that are intended to be fully cost recovered from 3rd parties through fees, levies or charges. The balance of each memorandum account is expected to trend toward zero over time.

PROPERTY REVALUATION RESERVES

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the Ministry has made estimates and assumptions about the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. The estimates and assumptions that have a risk of causing an adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

RETIRING AND LONG SERVICE LEAVE

Note 13 provides analysis of the exposures and uncertainties relating to retiring and long-service leave liabilities.

VALUATION OF LAND AND BUILDINGS

Revaluations of land and buildings are carried out each financial year to ensure the carrying amount reflects fair value. As fair value is determined based on market evidence, movements in property values may affect the fair value of land and buildings owned by the Ministry.

CRITICAL JUDGEMENTS IN APPLYING THE MINISTRY'S ACCOUNTING POLICIES

Management has exercised critical judgement in applying the Ministry's accounting policies for the period ended 30 June 2015.

Note 2. **Other revenue**

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Unaudited budget 2015 $000
26,194	Filing fees	26,279	28,194
10,568	Other	13,318	19,439
583	Interest	787	540
37,345	Total other revenue	40,384	48,173

Note 3. **Personnel costs**

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Unaudited budget 2015 $000
226,490	Salaries and wages	229,110	229,047
6,535	Employer contributions to defined contribution plans	6,608	7,850
1,820	Increase/(decrease) in employee entitlements	626	1,531
23,876	Other	19,923	17,107
258,721	Total personnel costs	256,267	255,535

Employer contributions to defined contribution plans include contributions to the Government Superannuation Fund, KiwiSaver and the State Sector Retirement Savings Schemes.

Note 4. **Operating costs**

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Unaudited budget 2015 $000
410	Audit fees for financial statements audit	420	420
17	Fees to Audit New Zealand for other services	–	–
9	Bad debts written off/provided for	278	–
35,359	Computer and telecommunications	37,708	36,596
2,520	Advertising and publicity	802	986
7,078	Jurors fees and expenses	6,320	6,666
920	Ministry library and information services	855	918
5,649	Judicial library and information services	5,509	5,678
467	Judicial education/development	556	467
7,064	Disposal loss on intangibles, property, plant and equipment	3,247	–
12,863	Maintenance of facilities	9,031	12,588
20,996	Other occupancy costs (excluding rental)	21,698	20,927
43,938	Professional services	28,409	29,855
20,752	Property rental	19,756	20,884
8,346	Printing, stationery and postage	7,371	8,127
11,036	Sitting fees and judicial costs	11,694	10,630
13,469	Staff and judicial travel	11,439	11,557
24	Koha	34	30
12,518	Other operating costs	9,916	23,410
203,435	Total operating expenses	175,043	189,739

Note 5. **Capital charge**

The Ministry pays a capital charge to the Crown on its equity (adjusted for memorandum accounts and the retention of $500,000 of the 2012/13 surplus) as at 31 December and 30 June each year. The capital charge rate for the year ended 30 June 2015 was 8.00% (2013/14: 8.00%).

Note 6. **Property, plant and equipment**

	Land (at valuation) $000	Buildings (at valuation) $000	Fitout/ leasehold improvements $000	Computer equipment $000	Computer equipment (finance lease) $000	Furniture and fittings, office equipment $000	Motor vehicles $000	Work in progress (WIP) $000	Total $000
Cost/valuation									
Balance at 1 July 2013	152,034	388,102	41,483	63,797	1,108	41,895	7,301	27,254	722,974
Additions	–	6,570	6,609	5,921	126	3,484	1,005	30,340	54,055
Revaluation increase/ (decrease)	13,809	(283)	–	–	–	(1)	–	–	13,525
Transfer to held for sale	(3,805)	–	–	–	–	–	–	–	(3,805)
Reclassification of assets	–	(3,135)	3,026	(5)	–	114	–	–	–
Disposals	–	–	(80)	–	–	–	(970)	–	(1,050)
Balance at 30 June 2014	162,038	391,254	51,038	69,713	1,234	45,492	7,336	57,594	785,699
Balance at 1 July 2014	162,038	391,254	51,038	69,713	1,234	45,492	7,336	57,594	785,699
Additions	–	4,399	1,019	2,968	–	7,638	141	80,674	96,839
Revaluation increase/(decrease)	11,483	(7,161)	–	–	–	–	–	–	4,322
Transfer to held for sale	(2,279)	–	–	–	–	–	–	–	(2,279)
Reclassification of assets	–	(1,155)	1,361	–	–	(206)	–	2,357	2,357
Other movements	–	–	–	–	–	–	–	(674)	(674)
Disposals	–	–	–	–	–	(9)	(434)	–	(443)
Balance at 30 June 2015	171,242	387,337	53,418	72,681	1,234	52,915	7,043	139,951	885,821
Accumulated depreciation and impairment losses									
Balance at 1 July 2013	–	281	20,027	51,073	1,052	28,047	3,631	–	104,111
Depreciation expense	–	24,115	5,686	5,843	151	4,794	794	–	41,383
Eliminate on disposal	–	–	(40)	–	–	–	(665)	–	(705)
Eliminate on revaluation	–	(23,855)	–	–	–	(1)	–	–	(23,856)
Reclassification of assets	–	(85)	70	–	–	15	–	–	–
Balance at 30 June 2014	–	456	25,743	56,916	1,203	32,855	3,760	–	120,933
Balance at 1 July 2014	–	456	25,743	56,916	1,203	32,855	3,760	–	120,933
Depreciation expense	–	23,919	4,901	5,726	31	4,278	554	–	39,409
Eliminate on disposal	–	–	–	–	–	(9)	(304)	–	(313)
Eliminate on revaluation	–	(23,689)	–	–	–	–	–	–	(23,689)
Reclassification of assets	–	(686)	712	–	–	(26)	–	–	–
Balance at 30 June 2015	–	–	31,356	62,642	1,234	37,098	4,010	–	136,340

	Land (at valuation) $000	Buildings (at valuation) $000	Fitout/ leasehold improvements $000	Computer equipment $000	Computer equipment (finance lease) $000	Furniture and fittings, office equipment $000	Motor vehicles $000	Work in progress (WIP) $000	Total $000
Carrying amounts									
At 1 July 2013	152,034	387,821	21,456	12,724	56	13,848	3,670	27,254	618,863
At 30 June/1 July 2014	162,038	390,798	25,295	12,797	31	12,637	3,576	57,594	664,766
At 30 June 2015	171,242	387,337	22,062	10,039	–	15,817	3,033	139,951	749,481

Work in progress (WIP) totals $139.951 million (2013/14: $57.594 million) and is made up of the following classes: Land $580,821, buildings $122.617 million, leasehold improvements $2.787 million, computer equipment $11.441 million, furniture and fittings and office equipment $2.476 million and motor vehicles $49,573.

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

The Ministry has assets valued at $56.590 million listed under the Historic Places Trust Act 1993 (2013/14: $58.981 million), which are included in the assets above.

The land and buildings were valued at fair value as at 30 June 2015 by Nigel Hoskin, BBS (VPM) ANZIV, of Beca Valuations Limited, and are in accordance with the New Zealand Institute of Valuers' Asset Valuation Standards. The total value of land and buildings valued to fair value by Beca Valuations Limited in 2015 was $558.580 million (2013/14: $552.837 million).

The valuations are performed on a rolling basis over 3 years. Land and buildings purchased and/or capitalised during the current financial year have not been revalued at 30 June 2015 and are shown at cost less accumulated depreciation, which approximates to and is not materially different from the respective fair values.

LAND

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the 'unencumbered' land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

Restrictions on the Ministry's ability to sell land would normally not impair the value of the land because the Ministry has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

BUILDINGS

The Ministry's non-specialised buildings are valued at fair value using market-based evidence. Market rents and capitalisation rate methodologies were applied in determining the fair value of buildings.

The Ministry's specialised buildings have been valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings. This approach is used for buildings that are deemed to be seldom traded on an open market or have a restricted market for the use of the asset. Depreciated replacement cost is determined using a number of significant assumptions.

Significant assumptions include:

- The replacement asset is based on the replacement with modern equivalent assets with adjustments where appropriate for optimisation due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information.
- The remaining useful life of assets is estimated.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

FINANCE LEASE

The net carrying amount of office equipment held under finance leases is nil (2013/14: $31,000).

Note 7. **Assets held for sale**

The Ministry of Justice has identified 1 building which is no longer required. The Ministry is working through a process with Land Information New Zealand (LINZ) whereby the Ministry will transfer surplus property to LINZ who will then manage the disposal process.

Two land properties are identified as held for sale. This land relates to the sale and lease back arrangements with iwi groups through the Treaty of Waitangi settlement process and is expected to be completed within the next 12 months.

	Actual 30 June 2015 $000
Balance at 1 July 2013	1,408
Transfer to held for sale from property, plant and equipment	2,023
Disposals	(1,154)
Balance at 30 June 2014	2,277
Balance at 1 July 2014	2,277
Transfer to held for sale from property, plant and equipment	2,279
Disposals	(2,157)
Balance at 30 June 2015	2,399
Assets held for sale include:	
Buildings	120
Land	2,279
Total assets held for sale	2,399

The accumulated revaluation reserves for these properties as at 30 June 2015 are $275,000.

Note 8. **Intangible assets**

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

Cost	Acquired software $000	Internally generated software $000	Work in progress (WIP) $000	Total $000
Balance at 1 July 2013	45,709	105,054	17,133	167,896
Additions	7,573	33,663	(4,054)	37,182
Disposals	(1,895)	(5,019)	–	(6,914)
Balance at 30 June 2014	51,387	133,698	13,079	198,164
Balance at 1 July 2014	51,387	133,698	13,079	198,164
Additions	1,631	13,739	430	15,800
Disposal	–	(3,247)	–	(3,247)
Other movement	–	–	(620)	(620)
Reclassification of assets	–	–	(2,357)	(2,357)
Balance at 30 June 2015	53,018	144,190	10,532	207,740
Accumulated amortisation and impairment losses				
Balance at 1 July 2013	26,259	83,024	–	109,283
Amortisation expense	2,487	12,804	–	15,291
Balance at 30 June 2014	28,746	95,828	–	124,574
Balance at 1 July 2014	28,746	95,828	–	124,574
Amortisation expense	2,775	14,313	–	17,088
Balance at 30 June 2015	31,521	110,141	–	141,662
Carrying amounts				
At 1 July 2013	19,450	22,030	17,133	58,613
At 30 June/1 July 2014	22,641	37,871	13,079	73,590
At 30 June 2015	21,497	34,049	10,532	66,078

Work in progress (WIP) totals $10.532 million (2013/14: $13.079 million) and is made up of the following classes: acquired software $1.074 million and internally generated software $9.458 million.

Note 9. **Debtors and other receivables**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
142,797	Debtor Crown	155,506
172	Travel advances	163
5,182	Sundry debtors	7,789
(294)	Less: provision for doubtful debts	(462)
4,888	Total sundry debtors	7,327
147,857	Total debtors and other receivables	162,996
	Total receivables comprise:	
5,060	Receivables from exchange transactions	7,490
142,797	Receivables from non-exchange transactions	155,506
147,857	Total debtors and other receivables	162,996

The carrying value of debtors and other receivables approximates their fair value. As at 30 June 2015, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

Gross 2014 $000	Impairment 2014 $000	Net 2014 $000		Gross 2015 $000	Impairment 2015 $000	Net 2015 $000
142,817	–	142,817	Not past due	155,714	–	155,714
3,818	–	3,818	Past due 1–30 days	6,772	–	6,772
179	–	179	Past due 31–60 days	139	–	139
92	–	92	Past due 61–90 days	47	–	47
1,245	(294)	951	Past due >90	786	(462)	324
148,151	(294)	147,857	Total	163,458	(462)	162,996

All receivables greater than 30 days in age are considered to be past due.

Movements in the provision for impairment of receivables are as follows

Actual 30 June 2014 $000		Actual 30 June 2015 $000
347	Balance as at 1 July	294
91	Additional provisions made during the year	331
(128)	Less: reversal of prior year provision	(16)
(16)	Less: receivables written off during the year	(147)
294	Balance as at 30 June	462

The provision for impairment has been calculated based on a review of specific overdue invoices.

Note 10. **Creditors and other payables**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Current liabilities	
14,286	Creditors and other payables	16,111
14,286	Total creditors and other payables	16,111
	Total creditors and other payables comprise:	
8,873	Payables from exchange transactions	10,644
5,413	Payables from non-exchange transactions	5,467
14,286	Total creditors and other payables	16,111

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

Note 11. **Provisions**

	Onerous contract $000	Make good $000	Christchurch earthquake $000	Restructuring $000	Other provision $000	Total $000
Opening balance 1 July 2013	–	–	11,927	2,653	38	14,618
Additional provisions made	981	3,550	1,737	–	–	6,268
Amount utilised	–	–	(27)	(1,141)	–	(1,168)
Unused provisions reversed	–	–	–	(114)	–	(114)
Closing balance 30 June 2014	981	3,550	13,637	1,398	38	19,604
Opening balance 1 July 2014	981	3,550	13,637	1,398	38	19,604
Additional provisions made	–	525	–	25	288	838
Amount utilised	(689)	(445)	–	(390)	–	(1,524)
Unused provisions reversed	(292)	(408)	–	(795)	(10)	(1,505)
Transfers	–	28	–	–	(28)	–
Closing balance 30 June 2015	–	3,250	13,637	238	288	17,413

The make-good provision relates to contractual obligations resulting from the Ministry entering into lease contracts. The lease obligations require the Ministry to make good the condition of the land and buildings upon terminating the lease and vacating the premises.

The Ministry has assumed that the option to renew its leases will be exercised in measuring the provision. The cash flows associated with the non-current portion of the lease make-good provision are expected to occur in 2016/17 and 2017/18.

The Christchurch earthquake provision relates to make good obligations the Ministry has as a result of the Christchurch earthquakes. Costs are expected to be incurred in 2015/16.

Restructuring provisions provide for the expected costs arising from the reorganisation within the Ministry. These costs are expected to be expensed by 2017/18.

The other provision relates to the digitisation of courts processes, and this is expected to be expensed in 2015/16.

The current and non-current provisions are as follows:

	Onerous contract $000	Make good $000	Christchurch earthquake $000	Restructuring $000	Other provision $000	Total $000
Current portion	903	780	–	1,398	38	3,119
Non-current portion	78	2,770	13,637	–	–	16,485
Total provisions 30 June 2014	981	3,550	13,637	1,398	38	19,604
Current portion	–	135	13,637	106	288	14,166
Non-current portion	–	3,115	–	132	–	3,247
Total provisions 30 June 2015	–	3,250	13,637	238	288	17,413

Note 12. **Return of operating surplus**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
2,333	Net surplus/(deficit)	8,328
2	(Surplus)/deficit of memorandum accounts	91
2,335	Total return of operating surplus	8,419

The net surplus for 2014 is based on the net surplus reported in the Ministry's 2014 annual report. There were no adjustments made in relation to the transition to the new PBE accounting standards.

The net operating surplus from the delivery of outputs must be repaid by 31 October of each year.

Note 13. **Employee entitlements**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Current liabilities	
2,514	Retirement and long-service leave	2,665
4	Sick leave	3
12,263	Annual leave	12,600
7,012	Salaries	862
21,793	Total current liabilities	16,130
	Non-current liabilities	
6,783	Retirement and long-service leave	6,921
6,783	Total non-current liabilities	6,921
28,576	Total provision for employee entitlements	23,051

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

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

The discount rate used was 2.93% with 2.63% salary inflation for year 1 of the projection (2013/14: 3.70% with 3.10% salary inflation). The discount rates and salary inflation factor used are those advised by the Treasury.

If the discount rate were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated $545,000 higher/lower.

If the salary inflation factor were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated $553,000 higher/lower.

The valuations of long-service leave and retirement leave as at 30 June 2015 were conducted by an independent actuary, Greg R Lee, BSc FIA, of AON Hewitt.

Note 14. **Equity**

Equity comprises the 4 components of contributed capital, accumulated surplus/(deficit), memorandum accounts and property valuation reserves. These are set out below.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
702,224	Taxpayers' funds as at 1 July	719,155
39,714	Total comprehensive income	36,340
(37,381)	Transfer revaluation gain to property revaluation reserves	(28,012)
1,489	Transfer realised revaluation from property valuation reserves	127
18,507	Capital injection (cash) from the Crown	38,288
23	Capital injection (non cash)	–
–	Capital transfers from other government agencies (cash)	20,000
(1,750)	Capital withdrawal (non-cash) from the Crown	–
(1,338)	Capital withdrawal (cash) from the Crown	–
(2,335)	Return of operating surplus to the Crown	(8,419)
2	Transfer of memorandum account net (surplus)/deficit	91
719,155	Taxpayers' funds as at 30 June	777,570
	Memorandum accounts	
390	Opening balance 1 July	388
(2)	Net memorandum account surplus/(deficit) for the year	(91)
388	Balance as at 30 June	297
	Property valuation reserves	
97,467	Balance at 1 July	133,359
37,381	Revaluation gains	28,012
(1,489)	Transfer realised revaluation to taxpayers' funds	(127)
133,359	Property valuation reserves as at 30 June	161,244
852,902	Total equity	939,111
	Property valuation reserves consist of:	
27,465	Land revaluation reserve	38,822
105,894	Buildings revaluation reserve	122,422
133,359	Total property valuation reserves	161,244

Note 15. **Related party transactions and key management personnel**

The Ministry is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Ministry would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

RELATED PARTY TRANSACTIONS REQUIRED TO BE DISCLOSED

The Ministry has received funding from the Crown of $521.810 million (2013/14: $544.984 million) to provide services to the public for the year ended 30 June 2015. The Ministry did not draw down all of this funding in 2014/15, and has an available balance of $155.506 million (2013/14: $142.797 million).

The Ministry entered into transactions with other Crown-related entities on commercial terms for goods and services. Purchases from these government-related entities for the year ended 30 June 2015 totalled $19.526 million (2013/14: $23.087 million). These purchases included the purchase of electricity from Genesis and Meridian, air travel from Air New Zealand, legal services from Crown Law Office, and postal services from New Zealand Post.

In conducting its activities, the Ministry is required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Ministry is exempt from paying income tax.

KEY MANAGEMENT PERSONNEL COMPENSATION

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Leadership team, including the Chief Executive	
3,708	Remuneration	3,794
9	Full-time equivalent staff	11

The above key management personnel disclosure excludes the Minister of Justice and the Minister for Treaty of Waitangi Negotiations. The ministers' remuneration and other benefits are not received only for their role as a member of key management personnel of the Ministry. The ministers' remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Justice.

Note 16. **Financial instruments**

The Ministry is a party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, debtors and creditors.

All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the surplus or deficit. They are shown at their estimated fair value.

CREDIT RISK

Credit risk is the risk that a 3rd party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of its business, the Ministry incurs credit risk from transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The Ministry is only permitted to deposit funds with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors (note 9). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

FAIR VALUE

The fair value of financial assets and liabilities is equivalent to the carrying amount disclosed in the statement of financial position.

CURRENCY RISK AND INTEREST RATE RISK

The Ministry has no exposure to interest rate risk or currency risk on its financial instruments, as there were no foreign currency forward contracts at balance date and the Ministry does not hold any interest bearing financial instruments.

LIQUIDITY RISK

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

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with the expected cash drawdowns as negotiated with the New Zealand Debt Management Office through the Treasury. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below shows the Ministry's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Creditors/ other payables 30 June 2014 $000	Finance leases 30 June 2014 $000		Creditors/ other payables 30 June 2015 $000	Finance leases 30 June 2015 $000
45,490	31	Less than 6 months	39,765	–
45,490	31	Total	39,765	–

Note 17. **Categories of financial instruments**

The carrying amounts of financial assets and financial liabilities are as follows.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Loans and receivables	
59,360	Cash and cash equivalents	46,725
147,857	Debtors and other receivables (note 9)	162,996
207,217	Total loans and receivables	209,721
	Financial liabilities measured at amortised cost	
14,286	Creditors and other payables (note 10)	16,111
31,204	Accrued expenses	23,654
45,490	Total financial liabilities measured at amortised cost	39,765

Note 18. **Capital management**

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

The Ministry manages its revenue, expenses, assets, liabilities and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities and compliance with the government budget processes, Treasury's instructions and the Public Finance Act 1989.

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

Note 19. **Memorandum accounts**

These accounts summarise financial information related to the accumulated surpluses and deficits incurred by the Ministry on a full cost recovery basis.

The Second Hand Dealers and Pawnbrokers and Legal Complaints Review Officers memorandum accounts require separate recognition within the financial statements. The remaining memorandum accounts are 'notional' accounts and are included for transparency around outputs that are fully cost-recovered from 3rd parties through fees charged for services.

The use of these accounts enables the Ministry to take a long-run perspective to fee setting and cost recovery. The balance of each memorandum account is expected to trend towards zero over a reasonable period of time, with interim deficits being met either from cash from the Ministry's statement of financial position, or by seeking approval for a capital contribution from the Crown. Capital contributions will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

The Second Hand Dealers and Pawnbrokers account records the financial activities around the licensing of second-hand dealers and pawnbrokers and the certification of certain employees of licence holders.

The Motor Vehicle Dealers account records the financial activities of the tribunal that inquires into and determines applications made by purchasers of motor vehicles against motor vehicle traders.

The Legal Complaints Review Officers (LCRO) account records the financial activities of the LCRO, which provides independent oversight and review of the decisions made by the standards committees of the New Zealand Law Society and the New Zealand Society of Conveyancers.

The Real Estate Agents Disciplinary Tribunal (READT) account records the financial activities of the READT, which deals with matters relating to the licensing and discipline of persons licensed under the Real Estate Agents Act 2008 to carry out real estate agency work.

The Private Security Personnel and Private Investigators (PSPPI) account records the financial activities of PSPPI, which deals with the regulation of the private security and private investigation industry and establishes the new licensing authority.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Second Hand Dealers and Pawnbrokers	
592	Opening balance/(deficit) at 1 July	607
240	Revenue	178
(225)	Expenses	(203)
607	Closing balance/(deficit) at 30 June	582
	Motor Vehicle Dealers	
(1,361)	Opening balance/(deficit) at 1 July	(1,412)
487	Revenue	405
(538)	Expenses	(476)
(1,412)	Closing balance/(deficit) at 30 June	(1,483)
	Legal Complaints Review Officers	
(203)	Opening balance/(deficit) at 1 July	(220)
1,072	Revenue	1,297
(1,089)	Expenses	(1,362)
(220)	Closing balance/(deficit) at 30 June	(285)
	Real Estate Disciplinary Tribunal	
203	Opening balance/(deficit) at 1 July	(46)
439	Revenue	475
(688)	Expenses	(647)
(46)	Closing balance/(deficit) at 30 June	(218)
	Private Security Personnel and Private Investigators	
1,350	Opening balance/(deficit) at 1 July	975
881	Revenue	1,189
(639)	Expenses – Ministry of Justice	(710)
(617)	Expenses – Department of Internal Affairs	(617)
975	Closing balance/(deficit) at 30 June	837

Note 20. **Reconciliation of net surplus/(deficit) to net cash flows from operating activities**

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Unaudited budget 2015 $000
2,333	Net surplus/(deficit)	8,328	(13)
	Add/(deduct) non-cash items		
56,674	Depreciation and amortisation	56,497	56,487
56,674	Total non-cash items	56,497	56,487
	Add/(deduct) movements in working capital items		
909	(Increase)/decrease in debtors and other receivables	(2,431)	(236)
43	(Increase)/decrease in prepayments	2,138	(80)
(12,797)	(Increase)/decrease in debtor Crown	(12,709)	34,797
26,713	Increase/(decrease) in creditors and other payables	(17,129)	(4,993)
14,868	Total movements in working capital	(30,131)	29,488
	Add/(deduct) items classified as investing and financing activities		
(10,341)	(Increase)/decrease in accrued expenses in property, plant and equipment	2,535	–
36	(Increase)/decrease in finance lease	31	31
7,064	Loss/(gain) on disposal of HFS, property, plant and equipment and intangibles	2,910	–
(8,412)	Other non-cash item	1,394	–
(11,653)	Total movement in investing and financing activities	6,870	31
62,222	Net cash flows from operating activities	41,564	85,993

Note 21. **Budget variation**

Explanations for major variances from the Ministry's budget figures are as follows.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Other revenue was $7.789 million lower than budget, mainly due to a reduction in the number of applications filed in courts for which fees are charged.

Expenditure was below budget by $12.644 million. The reduced expenditure is a result of changes in the phasing of some specific projects including modernising courts and the demolition of derelict buildings work programme. A number of the under spends were anticipated and approvals in principle were obtained to carry these forward to 2015/16.

STATEMENT OF CASH FLOWS

Net cash received from operating activities was $44.429 million lower than budget. This was mainly due to less Crown funding being drawn down from the Treasury to fund operating and capital expenditure.

Net cash paid on investing activities was lower than budget due to changes in timing of the Ministry's capital programme.

STATEMENT OF FINANCIAL POSITION

Debtors and other receivables were $49.700 million higher than budget. This is mainly due to a higher debt owing from the Treasury of $47.506 million more than initially budgeted. The Ministry did not draw down all eligible funding from the Treasury as a result of delays in some capital projects.

Plant, property and equipment, and intangible assets are $51.638 million lower than budget. This is due to a combination of unbudgeted property valuations and changes in timing of the Ministry's capital programme. The lower capital spend has resulted in less cash drawn from the Treasury, resulting in a higher debt owing from the Treasury.

Note 22. **Events after the balance sheet date**

There have been no significant events after the balance date.

Note 23. **Adjustments on transition to the new PBE accounting standards**

The Ministry has reviewed all its revenue streams to determine whether the revenue is exchange or non-exchange and, if non-exchange, whether there are any conditions attached to the revenue received. The Ministry has identified that Revenue Crown is non-exchange in nature with no use or return conditions attached.

Non-departmental statements and schedules

For the year ended 30 June 2015

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial statements of the government* for the year ended 30 June 2015.

Schedule of non-departmental revenue and receipts

For the year ended 30 June 2015

The schedule of non-departmental revenue and receipts summarises non-departmental revenue that the Ministry administers on behalf of the Crown.

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Main estimates 30 June 2015 $000
114,203	Court fines	106,758	167,721
3,874	Offender levies	3,606	5,106
51	Money forfeited to the Crown	–	200
17,656	Legal aid debt established	17,081	33,000
5,705	Community Law Centre receipts	6,894	4,903
–	Family Court cost contribution orders	220	6,459
2,443	Recovery of judicial salaries from Crown entities	1,865	476
8,170	Rental from land bank properties	8,030	7,340
727	Gain on property, plant and equipment and assets held for sale	715	–
29,802	Interest unwind on fines receivable	32,099	–
14,704	Other revenue	15,495	15,254
197,335	Total revenue and receipts	192,763	240,459

Explanations of significant variances against budget are detailed in note 11.

Explanations of adjustments on transition to the new PBE accounting standards are detailed in note 13.

The accompanying notes form part of these financial statements.

Schedule of non-departmental capital receipts

No capital receipts were received by the Ministry on behalf of the Crown during the year ended 30 June 2015 (2013/14: nil).

Schedule of non-departmental expenses

For the year ended 30 June 2015

The schedule of non-departmental expenses summarises non-departmental expenses that the Ministry administers on behalf of the Crown.

Actual 30 June 2014 $000		Actual 30 June 2015 $000	Main estimates 30 June 2015 $000
118,084	Personnel – judges'/coroners' salaries and allowances	125,047	119,262
217,678	Crown expenditure Vote Justice (details on page 134)	246,344	222,955
92,798	Crown expenditure Vote Courts (details on page 135)	82,944	143,992
537,832	Crown expenditure Vote Treaty Negotiations (details on page 136)	108,412	503,722
966,392	Total non-departmental expenditure	562,747	989,931

Explanations of significant variances against budget are detailed in note 11.

The accompanying notes form part of these financial statements.

Schedule of non-departmental assets

As at 30 June 2015

The schedule of non-departmental assets summarises non-departmental assets that the Ministry administers on behalf of the Crown.

Actual 30 June 2014 $000		Notes	Actual 30 June 2015 $000	Main estimates 30 June 2015 $000
	Current assets			
81,819	Cash		39,645	63,626
72,000	Fines receivable	2	72,000	68,466
41,986	Other accounts receivable	3	33,907	79,852
40,856	Assets held for sale	4	45,589	44,256
236,661	Total current assets		191,141	256,200
	Non-current assets			
96,000	Fines receivable	2	90,000	99,767
68,740	Other accounts receivable	3	57,970	17,219
340,079	Assets held for Treaty of Waitangi settlements	4	354,553	318,394
66,379	Ngati Whatua Lending		–	66,379
1,209	Hotel investment account advances		1,209	1,209
572,407	Total non-current assets		503,732	502,968
809,068	Total non-departmental assets		694,873	759,168

Explanations of significant variances against budget are detailed in note 11.

In addition, the Ministry monitors 6 Crown entities. These are the Privacy Commissioner, Law Commission, Independent Police Conduct Authority, Human Rights Commission, Real Estate Agents Authority and Electoral Commission. The investment in those entities is consolidated in the *Financial statements of the government* on a line-by-line basis.

The accompanying notes form part of these financial statements.

Schedule of non-departmental liabilities and revaluation reserves

As at 30 June 2015

The schedule of non-departmental liabilities summarises non-departmental liabilities that the Ministry administers on behalf of the Crown.

Actual 30 June 2014 $000		Note	Actual 30 June 2015 $000	Main estimates 30 June 2015 $000
	Current liabilities			
41,781	Creditors and other payables	6	39,487	48,788
38,702	Judges' leave entitlements	7	39,103	30,455
346,665	Treaty settlement creditors – property settlements, interest accruals, etc	5	231,127	377,400
427,148	Total current liabilities		309,717	456,643
	Non-current liabilities			
510,542	Treaty settlement creditors – property settlements, interest accruals, etc	5	442,047	417,084
29,944	Judges' leave entitlements	7	31,534	32,993
540,486	Total non-current liabilities		473,581	450,077
967,634	Total non-departmental liabilities		783,298	906,720
	Revaluation reserves			
98,210	Property revaluation reserves	8	107,933	96,888

Explanations of significant variances against budget are detailed in note 11.

The accompanying notes form part of these financial statements.

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2015

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Quantifiable contingent liabilities	
585	Māori Land Court quantifiable contingent liabilities	128
5	Other quantifiable contingent liabilities	5
590	Total quantifiable contingent liabilities	133

Māori Land Court contingent liabilities arise from orders made by the Court where any costs that arise from the order will be a charge against the Māori Land Court Special Aid Fund in terms of section 98 of the Te Ture Whenua Māori Act 1993.

The other quantifiable contingent liability arises from claim for false imprisonment.

NON-QUANTIFIABLE LIABILITIES

NON-DEPARTMENTAL NON-QUANTIFIABLE LIABILITIES – VOTE JUSTICE

JUSTICES OF THE PEACE, COMMUNITY MAGISTRATES AND DISPUTES TRIBUNAL REFEREES

Section 11CE of the District Courts Act 1947 and Section 4F of the Justices of the Peace Act 1957 require the Crown to indemnify justices of the peace and community magistrates, respectively, against damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified. Prior to 1 July 2013, these provisions were covered by Section 197 of the Summary Proceedings Act 1957.

Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

CRIMINAL PROCEEDS (RECOVERY) ACT

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

NON-DEPARTMENTAL NON-QUANTIFIABLE LIABILITIES – VOTE TREATY NEGOTIATIONS

TREATY OF WAITANGI CLAIMS

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims against the Crown through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

TREATY OF WAITANGI CLAIMS – SETTLEMENT RELATIVITY PAYMENTS

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Waikato-Tainui's and Ngāi Tahu's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17 percent for Waikato-Tainui and approximately 16 percent for Ngāi Tahu.

The relativity mechanism has now been triggered, and in future years, additional costs are likely to be incurred in accordance with the relativity mechanism as Treaty settlements are reached. However, no value can be placed on these at this point in time, as there is uncertainty as to when each negotiation will settle, and the value of any settlement when reached. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

CONTINGENT ASSETS

The Ministry on behalf of the Crown has no contingent assets (2013/14: nil).

COMMITMENTS

The Ministry on behalf of the Crown has no commitments (2013/14: nil).

The accompanying notes form part of these financial statements.

Statement of trust monies

For the year ended 30 June 2015

The following trust money was administered on behalf of the Crown under Part VII of the Public Finance Act 1989.

The schedule shows the opening and closing trust balances and the movements during the year.

	Court Law $000	Fines $000	Employment Court $000	Māori Land Court $000	Prisoners' and Victims' Claims $000	Supreme Court $000	Legal Complaints Review $000
Opening cash balance	14,486	40,590	695	60	–	101	6
Contributions	30,537	208,920	196	4	31	64	1
Distributions	(27,000)	(211,143)	(542)	(21)	(27)	(113)	(6)
Closing cash balance	18,023	38,367	349	43	4	52	1

COURT LAW TRUST ACCOUNT

This trust account holds deposits made by individuals filing for action in the District Court, the High Court or the Court of Appeal. There are 56 individual Law Trust accounts, which are managed by the individual courts and collections offices.

FINES TRUST ACCOUNT

This trust account holds deposits for all fines collected and associated fees prior to disbursement back to the Crown and local authorities or victims. Fines collected are court-imposed (including reparations) and infringements collected on behalf of New Zealand Police, local authorities and other prosecuting agencies.

EMPLOYMENT COURT TRUST ACCOUNT

This trust account holds deposits as security for costs against outstanding proceedings, as required by the Employment Relations Authority and the Employment Court under the Employment Relations Act 2000.

MĀORI LAND COURT TRUST ACCOUNT

This trust account holds money for security for costs and for other matters associated with proceedings of the court.

PRISONERS' AND VICTIMS' CLAIMS ACT TRUST ACCOUNT

This trust account is established under section 50 of the Prisoners' and Victims' Claims Act 2005. This account holds payments of compensation money.

SUPREME COURT TRUST ACCOUNT

This trust account holds deposits made by individuals filing for action and to allow the Supreme Court to administer proceedings.

LEGAL COMPLAINTS REVIEW TRUST ACCOUNT

This trust account holds levies received by the Ministry to reimburse the costs of the Legal Complaints Review process.

FOREIGN CURRENCY UNITED STATES DOLLAR TRUST ACCOUNT

This trust account, on instruction from court judges, holds US Dollar deposits made from time to time where the final outcome of cases is yet to be determined.

There were no transactions in 2014/15.

The accompanying notes form part of these financial statements.

Note 1. **Statement of significant accounting policies for the year ended 30 June 2015**

REPORTING ENTITY

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

These non-departmental balances are consolidated into the *Financial statements of the government* for the year ended 30 June 2015. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the *Financial statements of the government*.

BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The non-departmental statements and schedules have been prepared in accordance with the accounting policies of the *Financial statements of the government*, Treasury instructions, and Treasury circulars. Measurement and recognition rules applied in the preparation of these non-departmental statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

These non-departmental statements and schedules are the first prepared in accordance with the new PBE accounting standards. The material adjustments arising on transition to the new PBE accounting standards are explained in note 13.

PRESENTATION CURRENCY AND ROUNDING

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

MEASUREMENT BASE

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings and certain financial instruments at fair value.

EARLY ADOPTION OF STANDARDS AND INTERPRETATIONS

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that apply to the Financial Statements of Government for the financial year beginning 1 July 2014. The Government has adopted all Public Sector PBE standards and interpretations issued to date for the 2014/15 year.

CHANGES IN ACCOUNTING POLICY

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

There have been no changes in accounting policies during the financial year.

SIGNIFICANT ACCOUNTING POLICIES

The following particular accounting policies have been applied.

REVENUE

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

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from fines is recognised when the infringement notice is issued. Revenue is measured at fair value. The initial fair value write-down in sovereign receivables is now required to be recognised as a reduction in sovereign revenue. Fair value is determined using a model that uses past experience to forecast the expected collectability of fines and timing of receipts and discounts these to present value using an appropriate discount rate.

Revenue from legal aid is recognised when a case is finalised, and the amount to be recovered from the customer has been agreed. Revenue is measured at fair value. The initial fair value write-down is netted off against legal aid revenue received. Fair value is determined using a model that projects future repayments based on outstanding debt balances as at valuation date and debt repayment rates. The repayment rates are estimated based on past experience and the expectation of future trends. This is then used to forecast the expected collectability of the legal aid revenue and timing of receipts and discounts these to present value using an appropriate discount rate.

REVENUE FROM EXCHANGE TRANSACTIONS

All other revenue are deemed exchange revenue. For example, revenue received from the New Zealand Law Society (NZLS) Special Fund for the funding of Community Law Centres is recognised as revenue when received. Rental income from landbank properties is recognised on a straight-line basis over the term of the lease.

JUDGES' LEAVE ENTITLEMENTS

Provision is made for the liability for judges' entitlement to annual, sabbatical and retiring leave. The sabbatical and retiring leave provisions are calculated on an actuarial basis, based on the present value of expected future entitlements.

GOODS AND SERVICES TAX (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, no input tax deduction is claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the *Financial statements of the government*.

COMMITMENTS

Expenses yet to be incurred on non-cancellable operating lease and capital contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable operating lease and capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the lower of the remaining contractual commitment and the value of that penalty or exit cost.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities and contingent assets are recorded at the point at which the contingency is evident.

PROPERTY, PLANT AND EQUIPMENT (ASSETS HELD FOR TREATY SETTLEMENT)

Property, plant and equipment are shown at cost or valuation less any accumulated depreciation and impairment losses.

ASSET CAPITALISATION

Property, plant and equipment are initially recorded at cost of purchase.

Capital work in progress is recognised as costs are incurred. Depreciation is not recorded until the asset is fully acceptance tested, operational and therefore capitalised.

The carrying amounts of plant, property and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the schedule of non-departmental expenses, unless the asset is carried at a revalued amount, in which case any impairment loss is treated as a revaluation decrease.

ASSET REVALUATION

Land and buildings are stated at fair value. Fair value is determined from market-based evidence by an independent valuer as at 30 June 2015. All major land and buildings (over $400,000) are inspected and valued on a rolling basis over 5 years. For all other land and buildings (less than $400,000), a sample of the properties are subject to desktop valuation to ensure that the overall value of the portfolio reflects fair value.

Any surplus on revaluation of a class of land or buildings is transferred directly to the applicable property, plant and equipment revaluation reserve, unless it offsets a previous decrease in value recognised in the schedule of non-departmental expenses, in which case it is recognised in the schedule of non-departmental expenses.

A decrease in value relating to a class of land or buildings is recognised in the schedule of non-departmental expenses where it exceeds the surplus previously transferred to revaluation reserves.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

CULTURAL ARTEFACTS

Cultural artefacts are recorded at cost or valuation. Artefacts are valued once every 3 years. Acquisitions to collections between revaluations are recorded at cost.

Where the revaluation results in a debit balance in the asset revaluation reserve, this balance is expensed through the statement of comprehensive income. Any subsequent increase on revaluation that offsets a previous decrease in value recognised through the statement of comprehensive income will be recognised first through the statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

As cultural artefacts tend to have an indefinite life and are generally not of a depreciable nature, depreciation is not applicable.

DEPRECIATION

Fixed assets are depreciated on a straight-line basis over their estimated useful lives after allowing for residual values (where appropriate by asset category). The estimated useful life of major asset categories is as follows.

Asset category	Asset life (years)	Residual value
Buildings	Up to 65	Nil
Improvements	Up to 50	Nil
Plant and equipment	Up to 25	Nil

Land, cultural artefacts and work in progress are not depreciated. The total cost of work in progress is transferred to the appropriate asset class on its completion and depreciated accordingly.

DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Where property, plant or equipment is disposed of, the gain or loss recognised in the schedule of non-departmental expenses is calculated as the difference between the sale price and the carrying amount. If an asset is sold that has contributed to the revaluation reserve, the related portion of the reserve is transferred to general funds within equity.

BIOLOGICAL ASSETS

Biological assets (for example, trees) managed for harvesting into agricultural produce (for example, logs) are measured at fair value less estimated point-of-sale costs, with any realised and unrealised gains or losses reported in the schedule of non-departmental expenses. For commercial forests, fair value takes into account age, quality of timber and the forest management plan.

Biological assets (for example, farm shelter belts) not managed for harvesting into agricultural produce are reported under property, plant and equipment.

ASSETS HELD FOR SALE

Assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of assets held for sale are recognised in the schedule of non-departmental expenses.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Assets held for sale are not depreciated or amortised while they are classified as held for sale.

Assets are held in 2 separate categories: those where the assets are no longer required for Treaty settlements and those that are part of a Treaty settlement where transfer to the claimant group is expected to be completed within the next 12 months.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The estimates and assumptions that have a risk of causing an adjustment to the carrying amount of assets and liabilities within the next financial year are as follows.

RECEIVABLES

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

Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into insolvency, bankruptcy, receivership, or liquidation, and default in payments are considered indicators that the receivable is impaired.

For receivables not individually impaired, a collective assessment of impairment is also carried out. This considers past practice of collection history across the receivables portfolio. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

FINES RECEIVABLE

The future fair value of the fines receivable is dependent on ongoing collection and remittal rates as well as the discount rate utilised in the valuation. Note 2 provides an analysis of the uncertainties relating to the valuation of fines.

DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method less any provision for impairment.

LEGAL AID RECEIVABLES

The future fair value of legal aid receivables is dependent on ongoing repayment rates as well as the discount rate utilised in the valuation. Note 3 and 3a provides an analysis of the uncertainties relating to the valuation of legal aid receivables.

LEGAL AID ACCRUAL

At each balance date, the Ministry uses an independently developed actuarial model to calculate the legal aid accrual figure for the 3 law types: criminal, family and civil. The assumptions adopted are as follows:

- The model excludes cases determined as inactive based on a probability mechanism that assesses the likelihood a case will have an additional claim.
- The cost of service still to be incurred is based on estimates of the total cost of the case (based on the law type, matter type and average case length) less invoices paid.

At each balance date the Ministry also produces an accrual for legally aided cases before the Waitangi Tribunal. The unique nature of each individual Waitangi legal aid case means it is not possible to calculate this accrual using the actuarial model. The accrual for Waitangi legal aid is based on the average monthly invoice amount for active cases multiplied this by the number of months since the last invoice was received. Note 6 provides an analysis of the creditors and other payables.

BUDGET FIGURES

The budget figures are consistent with the best estimate financial information submitted to the Treasury.

Note 2. **Fair value: fines receivable**

The impaired and fair value of fines receivable has been determined on an actuarial basis by discounting the expected flow of repayments, net of servicing costs, at a discount rate of 7.00% (2013/14: 7.00%) resulting in a fair value of $162 million (2013/14: $168 million). If the discount rate was 2.00% higher, the impaired value would decrease by $6 million, to $156 million; if 2.00% lower the value would increase by $6.7 million, to $168.7 million.

The discount rate is made up of the 2 components of a risk-free rate and a risk premium rate. The risk-free rate of 3% is based on the 3-year spot rate, with the risk premium rate of 4% reflecting traded risky debt with similar characteristics to the fines debt.

The impaired and fair value was calculated by Andrea Gluyas, Actuary, FNZSA, FIAA, of PricewaterhouseCoopers.

The table below shows the gross value of fines collectable and the analysis of the receivable into current and non-current.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Non-exchange transaction	
363,067	Fines receivable	364,236
(195,067)	Impairment provision	(202,236)
168,000	Impaired value	162,000
	Being:	
72,000	Current	72,000
96,000	Non-current	90,000
168,000	Total	162,000

Movements in the impairment provision for fines receivable are as follows.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Non-exchange transaction	
	Fines provisioning:	
195,446	Opening balance as at 1 July	195,067
85,828	Impairment on initial recognition	66,879
(60,681)	Impairment recovered	(62,422)
(25,526)	Valuation changes	2,712
195,067	Closing balance as at 30 June	202,236

Note 3. **Other accounts receivable**

Legal aid receivables represent the debts that have been set as a result of a grant of legal aid. These debts have been set by legal aid legislation and comprise:

- 2000 and 2006 Act debt
- 1991 Act debt
- 1969 Act debt.

This debt has been impaired using an actuarial model based on an assessment of the recoverable amount. This assessment takes into account whether the debt is secured against property and receipts to date against the debt.

The discount rate is made up of 2 components: a risk-free rate and a risk premium rate.

The risk-free rate is the return that an investor could achieve without risk and is taken to be the yield on government bonds. The risk-free rate used is the 7-year government yield at 30 June 2015, of 3.30% (2013/14: 4.40%).

The risk premium has been estimated by finding traded debt with a comparable default rate to the default rate of the outstanding debt, and determining a risk premium based on that debt. The risk premium used is 4.00% (2013/14: 3.00%).

Adding the risk-free rate and the risk premium together gives a discount rate of 7.30% (2013/14: 7.40%).

The impaired and fair value was calculated by Andrea Gluyas, Actuary, FNZSA, FIAA, of PricewaterhouseCoopers.

The carrying value of accrued revenue and other receivables approximates their fair value.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Current assets	
15,290	Fines	11,523
12,787	Legal aid receivable (note 3a)	13,571
13,909	Other receivables	8,813
41,986	Total current assets	33,907
	Non-current assets	
40,882	Legal aid receivable (note 3a)	40,746
27,858	Other receivables	17,224
68,740	Total non-current assets	57,970
110,726	Total debtors and receivables	91,877
	Total receivables comprise:	
5,602	Receivables from exchange transactions	2,905
105,124	Receivables from non-exchange transactions	88,972
110,726	Total debtors and receivables	91,877

Note 3a. **Legal aid receivable**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
125,373	Legal aid receivable	127,400
(71,704)	Impairment provision	(73,083)
53,669	Impaired value	54,317
	Being:	
12,787	Current	13,571
40,882	Non-current	40,746
53,669	Total	54,317

Movement in the impairment provisions for legal aid receivable are as follows.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
75,295	Opening balance as at 1 July	71,704
(3,947)	Interest unwind	(4,051)
(6,818)	Impairment (charge)/reversal	(2,566)
7,174	Fair value write-down	7,996
71,704	Closing balance as at 30 June	73,083

Gross debt 30 June 2014 $000	Net debt 30 June 2014 $000		Gross debt 30 June 2015 $000	Net debt 30 June 2015 $000
46,241	23,875	Secured	44,977	23,730
79,132	29,794	Unsecured	82,423	30,587
125,373	53,669	Total	127,400	54,317

Note 4. **Assets held for Treaty of Waitangi settlements**

The Office of Treaty Settlements operates a mechanism to protect surplus Crown, District Health Board and Crown Research Institute land and other assets for potential use in settling historical Treaty of Waitangi claims. Where the Crown agrees the asset meets the criteria, it is purchased and held in a regional landbank. Landbank assets are available for transfer to claimant groups through Treaty settlements. Until all Treaty claims within a regional landbank area are settled, the options for disposal of assets are limited. The value assigned to an asset selected for settlement may differ from the carrying value for financial reporting purposes, once specific covenants and restrictions included in the deed of settlement are taken into account.

The table below shows the classification for financial reporting of assets held for Treaty settlements.

Actual 30 June 2014 $000		Note	Actual 30 June 2015 $000
334,610	Property, plant, equipment and other assets	4a	348,094
5,114	Forests	4b	5,540
–	Orchards	4c	625
355	Shares in cooperative companies	4d	294
340,079	Total assets held for Treaty of Waitangi settlements		354,553
40,856	Assets held for sale	4e	45,589
380,935	Total assets and assets held for sale for Treaty of Waitangi settlements		400,142

Note 4a. **Property, plant and equipment and other asset**

Land, building and improvements valuations were conducted by an independent valuer, Nigel Hoskin, BBS (VPM) ANZIV, of Beca Valuations Limited, and are in accordance with the New Zealand Institute of Valuers' Asset Valuation Standards. In 2015, the percentage of land and buildings assets revalued (Treaty property portfolio) is 29.37 percent of total assets (2013/14: 15.02 percent). The total value of land and buildings valued to fair value by Beca Valuations Ltd in 2015 was $117.52 million.

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the 'unencumbered' land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

Non-specialised buildings are valued at fair value using market-based evidence. Market rents and capitalisation rate methodologies were applied in determining the fair value of buildings.

Specialised buildings have been valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings. This approach is used for building which is deemed to be seldom traded on an open market or have a restricted market for the use of the asset. Depreciated replacement cost is determined using a number of significant assumptions.

Significant assumptions include:

- The replacement asset is based on the replacement with modern equivalent assets with adjustments where appropriate for optimisation due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information.
- The remaining useful life of assets is estimated.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

There are no restrictions over the title of the Landbank property, plant and equipment, nor are any these assets pledged as security for liabilities.

In 2015, the balance of work in progress of $206,000 (2013/14: $172,000) is classified under non-residential building.

	Land (at valuation) $000	Non-residential building (at valuation) $000	Residential building (at valuation) $000	Plant and equipment $000	Cultural artefact $000	Work in progress $000	Total $000
Cost/valuation							
Balance at 1 July 2013	270,455	34,265	43,515	382	–	501	349,118
Additions	15,406	251	1,918	12	4,645	–	22,232
Revaluation increase/(decrease)	3,439	367	79	–	–	–	3,885
Transfer to held for sale	(13,109)	(819)	(536)	–	–	–	(14,464)
Transfer from held for sale	1,880	–	–	–	–	–	1,880
Reclassification of assets	–	24	–	(24)	–	–	–
Revaluation (prior to transfer)	(12,275)	(740)	(83)	–	–	–	(13,098)
Other asset movement	(491)	212	503	117	–	(329)	12
Disposals	–	(586)	(313)	–	–	–	(899)
Balance at 30 June 2014	265,305	32,974	45,083	487	4,645	172	348,666

	Land (at valuation) $000	Non-residential building (at valuation) $000	Residential building (at valuation) $000	Plant and equipment $000	Cultural artefact $000	Work in progress $000	Total $000
Balance at 1 July 2014	265,305	32,974	45,083	487	4,645	172	348,666
Additions	14,120	516	1,518	18	–	34	16,206
Revaluation increase/(decrease)	5,765	1,453	2,403	–	355	–	9,976
Transfer to held for sale	(10,425)	(1,138)	(768)	–	–	–	(12,331)
Transfer from held for sale	103	151	96	–	–	–	350
Revaluation (prior to transfer)	(3,606)	(808)	(196)	(42)	–	–	(4,652)
Other asset movement	560	–	–	–	–	–	560
Disposals	–	–	(74)	–	–	–	(74)
Balance at 30 June 2015	271,822	33,148	48,062	463	5,000	206	358,701
Accumulated depreciation and impairment losses							
Balance at 1 July 2013	4,066	4,651	1,836	139	–	–	10,692
Depreciation expense	–	1,394	1,214	68	–	–	2,676
Eliminate on disposal	–	(43)	(18)	–	–	–	(61)
Eliminate on revaluation (depreciation & impairment loss)	(4)	(1,161)	(804)	(9)	–	–	(1,978)
Eliminate on transfer to held for sale	–	(740)	(83)	–	–	–	(823)
Other asset movement	–	–	503	–	–	–	503
Impairment losses	619	2,353	63	12	–	–	3,047
Balance at 30 June 2014	4,681	6,454	2,711	210	–	–	14,056
Balance at 1 July 2014	4,681	6,454	2,711	210	–	–	14,056
Depreciation expense	–	1,375	1,314	72	–	–	2,761
Eliminate on disposal	–	–	(9)	–	–	–	(9)
Eliminate on revaluation (depreciation & impairment loss)	(3,472)	(1,360)	(664)	–	–	–	(5,496)
Eliminate on transfer to held for sale	(3,606)	(808)	(196)	(42)	–	–	(4,652)
Impairment losses	3,366	430	150	1	–	–	3,947
Balance at 30 June 2015	969	6,091	3,306	241	–	–	10,607
Carrying amounts							
At 1 July 2013	266,389	29,614	41,679	243	–	501	338,426
At 30 June/1 July 2014	260,624	26,520	42,372	277	4,645	172	334,610
At 30 June 2015	270,853	27,057	44,756	222	5,000	206	348,094

Note 4b. **Forests**

The 4 forests managed for harvesting are Mahia Forest, Pukeoroa Forest, Upper Bluehills Forest and Waikune Forest. All 4 forests are bearer biological assets.

	Forests $000
Cost/valuation	
Balance at 1 July 2013	4,387
Gain/(loss) in fair value from valuation	727
Balance at 30 June 2014	5,114
Balance at 1 July 2014	5,114
Gain/(loss) in fair value from valuation	426
Balance at 30 June 2015	5,540

There were no other activities carried out in the forests aside from regular management and maintenance of these assets during this financial year.

The valuations of forests were conducted by independent valuers Andy Dick, NZIF Registered Member of Interpine Forestry Ltd, Peter J Wilks, NZIF Registered Forestry Consultant and Theo Vos, NZIF Registered Forestry Consultant, of PF Olsen Limited and are in accordance with the New Zealand Institute of Valuers' Asset Valuation Standards. The date of the valuation is at 30 June 2015. The increase in value of the forests reflects the increased maturity of the forest, which is partly offset by a small decrease in projected log prices and increases in cartage costs.

Note 4c. **Orchards**

	Orchards $000
Cost/valuation	
Balance at 1 July 2014	–
Increase due to purchases	625
Balance at 30 June 2015	625

Four kiwifruit orchards were acquired in June 2015. All 4 orchards are bearer biological assets.

The orchards were valued at fair value which is the acquisition cost when it was acquired.

There were no other activities carried out in the orchards since it was acquired aside from regular management and maintenance of these assets during this financial year.

Note 4d. **Shares in cooperative companies**

	Shares $000
Cost/valuation	
Balance at 1 July 2013	773
Revaluation increase/(decrease)	(418)
Balance at 30 June 2014	355
Balance at 1 July 2014	355
Revaluation increase/(decrease)	(61)
Balance at 30 June 2015	294

To facilitate farm operations on leased properties, shares in cooperative companies are required to be held.

Note 4e. **Assets held for sale**

	Held for sale – settlements $000
Balance at 1 July 2013	41,180
Transfer to held for sale from property, plant and equipment	14,464
Transfer from held for sale to property, plant and equipment	(1,880)
Disposals	(12,839)
Other asset movement	(69)
Balance at 30 June 2014	40,856
Balance at 1 July 2014	40,856
Transfer to held for sale from property, plant and equipment	12,331
Transfer from held for sale to property, plant and equipment	(351)
Disposals	(7,247)
Balance at 30 June 2015	45,589

This asset category includes assets committed to Treaty settlements expected to be completed within the next 12 months. The next table shows the asset groups from which assets held for sale have been transferred.

	Held for sale – settlements $000
Asset type pre-transfer:	
Land	33,619
Non-residential improvement	5,363
Plant and equipment	2,880
Residential improvement	3,727
Balance at 30 June 2015	45,589

Note 5. **Treaty settlement creditors**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
1,652	Other Treaty settlement creditors	1,388
855,555	Accrued settlement expenses	671,786
857,207	Total Treaty settlement creditors	673,174
	Total Treaty settlement creditors comprise:	
1,559	Payables from exchange transactions	1,329
855,648	Payables from non-exchange transactions	671,845
857,207	Total Treaty settlement creditors	673,174

Note 6. **Creditors and other payables**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
16,591	Legal aid payable	17,748
2,094	Taxes payable	2,103
3,790	Creditors	3,700
18,570	Accrued expenses	15,408
736	Other payables	528
41,781	Total creditors and other payables	39,487
	Total creditors and other payables comprise:	
23,096	Payables from exchange transactions	19,636
18,685	Payables from non-exchange transactions	19,851
41,781	Total creditors and other payables	39,487

Other payables include a $24,000 (2013/14: $75,000) onerous lease provision which relates to rental payments for a property no longer occupied. Payments will be made until December 2015.

Creditors and other payables are non-interest bearing and are normally settled within 12 months, therefore the carrying value of creditors and other payables approximates their fair value.

Note 7. **Judges' leave entitlements**

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Current liabilities	
30,548	Retiring and sabbatical leave	32,926
4,482	Annual leave	4,974
3,672	Salaries	1,203
38,702	Total current liabilities	39,103
	Non-current liabilities	
29,944	Retiring and sabbatical leave	31,534
29,944	Total non-current liabilities	31,534
68,646	Total provision for judges' leave entitlements	70,637

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

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

The discount rate used was 2.93% with 2.63% salary inflation for year 1 of the projection (2013/14: 3.7% with 3.1% salary inflation). The discount rates and salary inflation factor used are those advised by the Treasury.

If the discount rate were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated $2.226 million higher/lower.

If the salary inflation factor were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability and the surplus/deficit would be an estimated $1.387 million higher/lower.

The valuation of retiring and sabbatical leave as at 30 June 2015 was conducted by an independent valuer, Greg R Lee, BSc FIA, of AON Hewitt.

Note 8. **Property revaluation reserves**

	Land $000	Non-residential building $000	Residential building $000	Cultural artefact $000	Total $000
Balance at 1 July 2013	81,741	13,318	15,829	–	110,888
Current year movement	(9,691)	(827)	821	–	(9,697)
Transfer to general funds on disposal	(2,226)	(505)	(250)	–	(2,981)
Balance at 30 June 2014	69,824	11,986	16,400	–	98,210
Balance at 1 July 2014	69,824	11,986	16,400	–	98,210
Current year movement	5,870	2,383	2,916	355	11,524
Transfer to general funds on disposal	(1,461)	107	(447)	–	(1,801)
Balance at 30 June 2015	74,233	14,476	18,869	355	107,933

Note 9. **Financial instruments**

The Ministry on behalf of the Crown is a party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, debtors and creditors.

All financial instruments are recognised in the schedule of non-departmental assets and the schedule of non-departmental liabilities and revaluation reserves. All revenues and expenses in relation to financial instruments are recognised in the schedule of non-departmental revenue and receipts and the schedule of non-departmental expenses. They are shown at their estimated fair value.

CREDIT RISK

Credit risk is the risk that a 3rd party will default on its obligation to the Ministry on behalf of the Crown, causing the Ministry on behalf of the Crown to incur a loss.

Credit risk arises from debtors and deposits with banks.

Funds must be deposited with Westpac, a registered bank.

In the normal course of its business, the Ministry, on behalf of the Crown, incurs credit risk from transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

FAIR VALUE

The fair value of financial assets and liabilities is equivalent to the carrying amount disclosed in the schedule of non-departmental assets and the schedule of non-departmental liabilities.

CURRENCY RISK AND INTEREST RATE RISK

The Ministry on behalf of the Crown has no exposure to interest rate risk or currency risk on its financial instruments, as there were no foreign currency forward contracts at balance date and the Ministry, on behalf of the Crown, does not hold any interest bearing financial instruments.

LIQUIDITY RISK

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

In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with the expected cash drawdowns as negotiated with the NZDMO through the Treasury. The Ministry maintains a target level of available cash to meet liquidity requirements.

The table below shows the financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Treaty creditors and other payables 30 June 2014 $000	Creditors and other payables 30 June 2014 $000		Treaty creditors and other payables 30 June 2015 $000	Creditors and other payables 30 June 2015 $000
1,652	41,781	Less than 6 months	1,388	39,487
345,013	–	Between 6 months and 1 year	161,244	–
510,542	–	Between 1 and 5 years	510,542	–
857,207	41,781	Total	673,174	39,487

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Loans and receivables	
81,819	Cash and cash equivalents	39,645
345,105	Debtors and other receivables	253,877
426,924	Total loans and receivables	293,522
	Financial liabilities measured at amortised cost	
24,863	Creditors and other payables	25,467
874,125	Accrued expenses	687,194
898,988	Total financial liabilities measured at amortised cost	712,661

Note 10. **Memorandum accounts**

This account summarises financial information related to the accumulated surpluses and deficits incurred by the Crown on a full cost recovery basis. These transactions are included as part of the schedules of non-departmental revenue and receipts and expenses.

The use of these accounts enables the Crown to take a long-run perspective to cost recovery.

The Real Estate Agents Authority is required to ensure that costs incurred by the Crown for the establishment of new functions and bodies under legislation are recovered from the real estate industry.

Actual 30 June 2014 $000		Actual 30 June 2015 $000
	Real Estate Agents Authority	
(3,686)	Opening balance/(deficit) at 1 July	(2,425)
1,261	Revenue	1,261
(2,425)	Closing balance/(deficit) at 30 June	(1,164)

Note 11. **Major budget variations**

Explanations for major variances from the budgeted figures in the *Information Supporting the Estimates of Appropriations* are as follows.

SCHEDULE OF NON-DEPARTMENTAL REVENUE AND RECEIPTS

The decrease in court fines of $60.963 million is mainly due to the change in accounting standards where sovereign revenue is now recognised at fair value. The initial fair value write-down in sovereign receivables is now required to be recognised as a reduction in sovereign revenue. However, any subsequent impairment of sovereign receivables continues to be recognised as an expense.

The decrease in legal aid debt revenue of $15.919 million is mainly due to the change in accounting standard where legal aid revenue is now recognised at fair value write down. The initial fair value write-down is netted off against legal aid revenue received.

There is a new revenue line of $32.099 million which relates to interest unwind from fines receivables. The change in accounting standard requires interest unwind to be recognised as revenue and not offset against impairment of fines receivable.

SCHEDULE OF NON-DEPARTMENTAL EXPENSES

Crown expenditure in Vote Justice and Vote Courts were lower than the main estimates. The initial write-down of sovereign receivables and legal aid receivables were previously recognised as impairment expenses. The new standard now requires these impairments to be netted off against revenue received.

Crown expenditure in Vote Treaty Negotiations is $395.310 million lower than the main estimates. This is mainly due to lower than expected Treaty settlement expenses which, by their nature, are hard to predict with accuracy in terms of timing and amount.

Personnel costs (judges' and coroners' salaries and allowances) were $5.785 million higher than the main estimates. This increase was due to the judges' determination effective 1 Oct 2014 and coroners' determination effective 1 Jan 2015.

Note 12. **Events after the balance sheet date**

There have been no significant events after the balance date.

Note 13. **Adjustments on transition to the new PBE accounting standards**

The Ministry has adjusted the comparative year non-departmental schedules for the year ended 30 June 2014 due to adjustments arising from transition to the new PBE accounting standards. The adjustments are shown in the table below.

	NZ IFRS (PBE) 2014	Adjustment	PBE accounting standards 2014
Schedule of non-department revenue			
Court fines	174,472	(60,261)	114,211
Offender levies	4,558	(684)	3,874
Interest unwind on fines receivable	–	29,802	29,802
Miscellaneous revenue	8,616	6,088	14,704
Legal aid debt established	30,766	(13,110)	17,656
Schedule of non-department expenses			
Impairment of legal aid debt	11,958	(7,022)	4,936
impairment of offender levy	684	(684)	–
Impairment of fines receivables	36,886	(30,459)	6,427
Levies, fines and penalty receivables			
Gross fine receivables	366,717	–	366,717
Impairment of fine receivables	(198,402)	–	(198,402)
Net carrying value	168,315	–	168,315

Appropriation statements

STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Ministry for the year ended 30 June 2015.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations

FOR THE YEAR ENDED 30 JUNE 2015

Actual expenditure exclusive of remeasurements 30 June 2014 $000		Actual expenditure inclusive of remeasurements 30 June 2015 $000	Remeasurements[A] 30 June 2015 $000	Actual expenditure exclusive of remeasurements 30 June 2015 $000	Appropriation voted[B] 30 June 2015 $000	Location of end-of-year performance information
	Vote Justice					
29,173	Administration of Legal Services	27,230	2	27,228	27,941	40
24,887	Public Defence Service	25,450	2	25,448	25,722	42
8,339	Sector Leadership and Support	7,490	1	7,489	8,260	43
20,815	**Justice Policy Advice and Related Services MCA**	**19,271**	**1**	**19,270**	**19,708**	**45**
16,299	*Justice Policy Advice*	*14,948*	*1*	*14,947*	*15,158*	*45*
4,516	*Legal and Ministerial Services*	*4,323*	*–*	*4,323*	*4,550*	*46*
83,214	Total Vote Justice	79,441	6	79,435	81,631	
	Vote Courts					
455,178	**Courts, Tribunals and Other Authorities Services, including the Collection and Enforcement of Fines and Civil Debts Services MCA**	**436,852**	**32**	**436,820**	**445,078**	**49**
62,582	*Collection and Enforcement of Fines and Civil Debts Services*	*61,540*	*5*	*61,535*	*64,600*	*50*
235,597	*District Court Services*	*218,392*	*16*	*218,376*	*220,195*	*50*
69,508	*Higher Court Services*	*70,561*	*5*	*70,556*	*71,744*	*53*
87,491	*Specialist Courts, Tribunals and Other Authorities Services*	*86,359*	*6*	*86,353*	*88,539*	*55*
455,178	Total Vote Courts	436,852	32	436,820	445,078	

Actual expenditure exclusive of remeasurements 30 June 2014 $000		Actual expenditure inclusive of remeasurements 30 June 2015 $000	Remeasurements[A] 30 June 2015 $000	Actual expenditure exclusive of remeasurements 30 June 2015 $000	Appropriation voted[B] 30 June 2015 $000	Location of end-of-year performance information
	Vote Treaty Negotiations					
9,892	Property Portfolio Management	9,467	1	9,466	13,126	65
34,796	**Treaty Negotiations and Marine and Coastal Area (Takutai Moana) Act MCA**	**31,008**	**2**	**31,006**	**34,127**	**66**
1,529	*Policy Advice – Treaty Negotiations and Marine and Coastal Area (Takutai Moana) Act*	*1,202*	–	*1,202*	*1,230*	*66*
1,895	*Representation – Waitangi Tribunal and Courts*	*2,629*	–	*2,629*	*2,075*	*67*
31,372	*Treaty Negotiations and Marine and Coastal Area (Takutai Moana) Act*	*27,177*	*2*	*27,175*	*30,822*	*68*
44,688	Total Vote Treaty Negotiations	40,475	3	40,472	47,253	
583,080	Total appropriation for output expenses	556,768	41	556,727	573,962	
91,237	Departmental Capital Expenditure	112,639	–	112,639	142,661	

The accompanying notes form part of these financial statements

[A] A remeasurement is generally the movement in the value of an asset or liability that is outside the control of the Ministry as defined by the Public Finance Act 1989. Remeasurements do not require an appropriation. The remeasurements shown above are the result of changes to discount rates used in the valuation of Ministry employee entitlements.

[B] This includes adjustments made in the Supplementary Estimates.

Statement of departmental unappropriated expenses and capital expenditure

FOR THE YEAR ENDED 30 JUNE 2015

TRANSFERS UNDER SECTION 26A OF THE PUBLIC FINANCE ACT 1989

No section 26A transfers were authorised in the year ended 30 June 2015.

There were no expenses and capital expenditure incurred in excess of appropriation.

There were no expenses and capital expenditure incurred without appropriation or other authority, or outside the scope of appropriation.

There were no breaches of projected departmental net asset schedules.

Statement of departmental capital injections

FOR THE YEAR ENDED 30 JUNE 2015

	Actual capital injections 30 June 2014 $000	Actual capital injections 30 June 2015 $000	Appropriation voted[A] 30 June 2015 $000
Vote Justice			
Departmental Capital Expenditure	18,507	58,288	58,288

[A] This includes adjustments made in the Supplementary Estimates.

Statement of departmental capital injections without, or in excess of authority

FOR THE YEAR ENDED 30 JUNE 2015

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

The accompanying notes form part of these financial statements

Appropriation statements

STATEMENT OF NON-DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE

The following statements report information about the non-departmental expenses and capital expenditure incurred against each appropriation administered by the Ministry for the year ended 30 June 2015.

Statement of budgeted and actual non-departmental expenses and capital expenditure incurred against appropriations

For the year ended 30 June 2015

Actual expenditure exclusive of remeasurements 30 June 2014 $000		Actual expenditure inclusive of remeasurements 30 June 2015 $000	Remeasurements[B] 30 June 2015 $000	Actual expenditure exclusive of remeasurements 30 June 2015 $000	Appropriation voted[C] 30 June 2015 $000	Location of end-of-year performance information
	Vote Justice					
	Non-departmental output expenses to be incurred by the Crown					
10,968	Community Law Centres	10,968	–	10,968	10,970	139
8,428	Crime Prevention and Community Safety Programmes	11,170	–	11,170	13,392	140
38,747	Electoral Services	45,690	–	45,690	45,690	E
320	Equity Promotion and Protection Services – Inspector General PLA[A]	536	–	536	550	D
73	Family Dispute Resolution Services	3,407	–	3,407	3,860	141
21,342	Justice Advocacy, Advice and Promotion Services	23,021	–	23,021	23,185	E
119,322	Legal Aid	130,360	–	130,360	125,555	142
3,278	Provision of Protective Fiduciary Services	2,627	–	2,627	2,627	E
–	Provision of Services from the Electoral Commission – Broadcasting PLA	2,829	–	2,829	2,855	D
6,032	Support and Assistance provided by Victim Support to Victims of Crime	6,032	–	6,032	6,032	143
	Non-departmental other expenses to be incurred by the Crown					
11,958	Impairment of Legal Aid Debt	5,462	(50)	5,512	18,866	D
684	Impairment of Offender Levy	–	–	–	1,366	D
4,182	Victims' Services	4,242	–	4,242	4,501	146
225,334	Total Vote Justice	246,344	(50)	246,394	259,449	

The accompanying notes form part of these financial statements.

A. This other expense appropriation covers the costs of the Inspector General and Deputy Inspector General of Intelligence and Security. This appropriation is established through a Permanent Legislative Authority under section 8 of the Inspector-General of Intelligence and Security Act 1996.

B. A remeasurement is generally the movement in the value of an asset or liability that is outside the control of the Ministry as defined by the Public Finance Act 1989. Remeasurements do not require an appropriation. The remeasurements shown above are the result of changes to discount rates used in the valuation of impairment of the legal aid debt.

C. This includes adjustments made in the supplementary estimates.

D. No reporting due to an exemption obtained under s15D(2)(b)(ii) of the Public Finance Act 1989.

E. To be reported in the annual reports of other entities as detailed in the *Estimates of Appropriations for 2014/15*.

Statement of budgeted and actual non-departmental expenses and capital expenditure incurred against appropriations for the year ended 30 June 2015 (continued)

Actual expenditure exclusive of remeasurements 30 June 2014 $000		Actual expenditure inclusive of remeasurements 30 June 2015 $000	Remeasurements[B] 30 June 2015 $000	Actual expenditure exclusive of remeasurements 30 June 2015 $000	Appropriation voted[C] 30 June 2015 $000	Location of end-of-year performance information
	Vote Courts					
	Non-departmental other expenses to be incurred by the Crown					
3,993	Abortion Supervisory Committee – Certifying Consultants Fees	4,053	–	4,053	5,063	D
–	Assistance to Victims of Crime	–	–	–	40	D
4,760	Coroners' Salaries and Allowances PLA[A]	4,769	–	4,769	5,038	D
75,924	Court and Coroner Related Costs	71,624	–	71,624	71,676	147
–	Impairment of Debt Established to Recognise Contributions towards Family Court Professional Services	5	–	5	1,292	D
36,886	Impairment of Fines Receivable	941	–	941	40,000	D
114,720	Judges' Salaries and Allowances PLA[A]	120,278	1,084	119,194	123,524	D
1,362	Judicial Review Costs	1,626	–	1,626	1,846	D
334	Justices of the Peace Association	334	–	334	350	D
4,758	Tribunal Related Fees and Expenses	4,361	–	4,361	4,824	D
242,737	Total Vote Courts	207,991	1,084	206,907	253,653	

The accompanying notes form part of these financial statements.

[A] This appropriation is established through a Permanent Legislative Authority.

[B] A remeasurement is generally the movement in the value of an asset or liability that is outside the control of the Ministry as defined by the Public Finance Act 1989. Remeasurements do not require an appropriation. The remeasurements shown above are the result of changes to discount rates used in the valuation of judges' leave entitlements.

[C] This includes adjustments made in the supplementary estimates.

[D] No reporting due to an exemption obtained under s15D(2)(b)(ii) of the Public Finance Act 1989.

Statement of budgeted and actual non-departmental expenses and capital expenditure incurred against appropriations for the year ended 30 June 2015 (continued)

Actual expenditure exclusive of remeasurements 30 June 2014 $000		Actual expenditure inclusive of remeasurement 30 June 2015 $000	Remeasurements[B] 30 June 2015 $000	Actual expenditure exclusive of remeasurements 30 June 2015 $000	Appropriation voted[C] 30 June 2015 $000	Location of end-of-year performance information
	Vote Treaty Negotiations					
	Non-departmental other expenses to be incurred by the Crown					
10,285	Claimant Funding	6,032	–	6,032	9,000	149
252	Contribution toward Determining Customary Interests in the Marine and Coastal Area	232	–	232	741	150
305	Contribution towards Northland Waitangi Tribunal Hearings	–	–	–	–	–
90	Debt Write-offs	91	–	91	120	D
2,677	Depreciation	2,761	–	2,761	3,600	D
840	Loss on Disposal or Write-off of Landbank Assets	65	–	65	160	D
	Non-departmental other expenses to be incurred by the Crown: multi-year appropriations					
523,291	Historical Treaty of Waitangi Settlements[A]	99,231	–	99,231	229,691	D
	Non-departmental capital expenditure					
9,506	Purchase of Assets for Possible Use in Future Treaty of Waitangi Settlements	16,830	–	16,830	22,494	D
12,566	Land, Stock, Plant Purchases	–	–	–	–	–
559,812	Total Vote Treaty Negotiations	125,242	–	125,242	265,806	
1,027,883	Total non-departmental expenses and appropriations	579,577	1,034	578,543	778,908	

The accompanying notes form part of these financial statements.

A. Multi-year appropriation – Historical Treaty of Waitangi Settlements. This multi-year appropriation reflects the Crown's commitment to settling historical Treaty of Waitangi claims and the uncertain timing of achieving settlement for each claim. The Supplementary Estimates for 2014/15 established the $1,400 million for the period 30 June 2014 to 30 June 2018 and replaced the unexpended balance of the appropriation covering the period 30 June 2013 to 30 June 2017. Expenditure against these appropriation over the last 4 years is as follows.

	$000
2014/15	$ 99,231
2013/14	$ 523,291
2012/13	$ 542,616
2011/12	$ 344,655
	$ 1,509,793

B. A remeasurement is generally the movement in the value of an asset or liability that is outside the control of the Ministry as defined by the Public Finance Act 1989. Remeasurements do not require an appropriation. The remeasurements shown above are the result of changes in market value of Office of Treaty Settlement landbank dairy cooperative shares.

C. This includes adjustments made in the supplementary estimates.

D. No reporting due to an exemption obtained under s15D(2)(b)(ii) of the Public Finance Act 1989.

Statement of non-departmental unappropriated expenses and capital expenditure

For the year ended 30 June 2015

Actual 30 June 2014 $000	Non-departmental	Actual 30 June 2015 $000
	Vote Justice	
	Minister of Justice	
	Non-departmental output expenses to be incurred by the Crown	
–	Legal Aid	4,805
–	Total non-departmental unappropriated expenditure Vote Justice	4,805

Approval of the above unappropriated expenditure has been sought under section 26C of the Public Finance Act 1989.

The main reasons for the unappropriated expenditure in Legal Aid were mainly due to an increase of 5% in applications for and grants of criminal legal aid compared to the previous year, some high profile and high cost criminal cases during the year.

The accompanying notes form part of these financial statements.