

# FINANCIAL STATEMENTS

## Statement of Accounting Policies for the Year Ended 30 June 2005

### Reporting Entity

The Department of Labour is a government department as defined by Section 2 of the Public Finance Act 1989.

These are the financial statements of the Department of Labour prepared pursuant to Public Finance Act 1989.

In addition, the Department has reported the trust monies and memorandum account which it administers, and separate schedules for non-Departmental activities.

### Measurement System

The financial statements have been prepared on a modified historical cost basis except for certain items with specific accounting policies outlined below.

### Accounting Policies

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

#### (a) Budget Figures

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

#### (b) Revenue

The Department derives revenue through the provision of outputs to the Crown, for immigration services, sale of publications to third parties and interest

received from Westpac Trust and overseas bank accounts. Such revenue is recognised when earned and is reported in the financial period to which it relates.

#### (c) Property, Plant and Equipment

Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence. Freehold properties (land and buildings) in New Zealand and overseas are individually revalued on a three-yearly cycle.

The results of revaluing land and buildings are credited or debited to an asset revaluation reserve for that class of asset. Where a revaluation results in a debit balance in the revaluation reserve, the debit balance will be expensed in the Statement of Financial Performance.

Fixed assets are recorded at cost or valuation, less accumulated depreciation.

Fixed assets or groups of assets forming part of a network which are material in aggregate, costing more than \$5,000, are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the Statement of Financial Performance.

#### (d) Depreciation

Depreciation is provided on a straight-line basis on all fixed assets, other than freehold land and items under construction, at a rate which will write off the cost (or valuation) of the assets to

Assets	Useful Life	Depreciation Rate
<b>BUILDINGS</b>	40 years	(2.5%)
<b>LEASEHOLD IMPROVEMENTS</b>	Up to 10 years	(10% to 100%)
<b>MOTOR VEHICLES</b>	4 years	(25%)
<b>FURNITURE AND FITTINGS:</b>		
Fixtures and fittings	Up to 10 years	(10% to 100%)
Carpets and drapes	4 to 7 years	(14.3% to 25%)
Office equipment	4 years	(25%)
<b>COMPUTER EQUIPMENT:</b>		
Software	Up to 5 years	(20% to 100%)
Other	Up to 4 years	(25% to 100%)
<b>SPECIALISED EQUIPMENT</b>	8 years	(12.5%)

their estimated residual value over their useful lives.

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the improvements.

The useful lives and associated depreciation rates of the major classes of assets have been estimated as shown above:

**(e) Operating Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases.

The Department leases office premises and office equipment. Payments arising from operating lease commitments are charged against earnings in the periods in which they are incurred over the period of the lease.

**(f) Finance Leases**

Leases which effectively transfer to the Department substantially all the risks and benefits incident to ownership of the leased items are classified as finance leases. These are capitalised at

the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the Statement of Financial Position. The leased assets are depreciated over the period the Department is expected to benefit from their use.

**(g) Taxation**

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

**(h) Goods and Services Tax (GST)**

The Statement of Unappropriated Expenditure and the Statements of Departmental and Non-Departmental Expenditure and Appropriations are inclusive of GST (where applicable). The Statement of Financial Position is exclusive of GST, except for Creditors and Payables and Debtors and Receivables, which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to or from the Inland Revenue Department at balance

date, being the difference between Output GST and Input GST, is included in Creditors and Payables or Debtors and Receivables (as appropriate).

**(i) Debtors and Receivables**

Receivables are recorded at estimated realisable value after providing, where necessary, for doubtful and uncollectible debts.

**(j) Foreign Currencies**

Foreign currency transactions are converted into New Zealand dollars at a rate approximating the exchange rate at the date of the transaction.

At balance date, monetary assets and liabilities in foreign currencies are translated to New Zealand dollars at the closing exchange rate. The resulting unrealised exchange gain or loss is recognised in the Statement of Financial Performance. Other exchange gains or losses, whether realised or unrealised, are recognised in the Statement of Financial Performance in the period to which they relate.

**(k) Financial Instruments**

The Department is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors, creditors and foreign currency forward contracts. This includes the investment of funds not immediately required for expenditure by the Insolvent Insurers Fund as required by section 275 of the Accident Insurance Act 1998.

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

Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

The Department is exposed to currency risk and credit risk:

**Currency Risk**

The Department operates foreign currency bank accounts to support the operations of the overseas branches of the Immigration Service. Funding of these accounts is limited to the amounts necessary to enable the settlement of transactions as they fall due. All material foreign exchange transaction exposures arising in the normal course of business are identified as early as possible in the budgetary cycle. The Department may utilise forward contracts to hedge exposures when recognised. The Department has policies in place to limit foreign exchange exposure.

**Credit Risk**

The risk that a bank with which funds are deposited will fail, or that a party with which future or current transactions are outstanding will not meet its obligations, is minimised by only opening accounts with banks following Treasury approval.

The Department deals only, where there is a choice, with banks that have a high credit standing. Exposure to any one counterparty is limited to NZ\$5 million, including unsettled forward exchange contracts, bank account balances and contracts due for settlement on the day the exposure is calculated. This limit does not apply when the counterparty is the New Zealand Debt Management Office (NZDMO) or the Reserve Bank of New Zealand.

**(l) Commitments**

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments (at the point a contractual obligation arises) to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

**(m) Contingent Liabilities and Assets**

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

**(n) Cost Accounting Policies**

Costs that can be causally linked and assigned to an output economically are direct costs. Costs incurred to produce more than one output are indirect costs, which are allocated to outputs according to the amount of resource consumption or use.

The Department's accounting systems record costs by outputs. The costs may be direct or indirect. The direct costs of personnel, operating, depreciation and capital charge costs are assigned directly to outputs. There are two types of indirect costs that are allocated to outputs:

- Workgroups' head/regional office costs
  - These are specific to a workgroup and, as such, are allocated across the workgroups' outputs according to the most appropriate base. Resource use is based on time consumption, staff numbers or resource usage analysis.
- Corporate costs are mainly shared across all workgroups and, as such, are allocated to each output according to the most appropriate base. Both staff numbers and resource usage were used for this purpose. For the year ended 30 June 2005, direct costs accounted for 75% of the Department's costs (2004: 77%).

**(o) Employee Entitlements**

Provision is made in respect of the Department's liability for annual, long service and retirement leave. Annual leave and other entitlements that are expected to be settled within 12 months of reporting date are measured at nominal values on an actual entitlement basis at current rates of pay.

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, has been calculated on an actuarial basis on present value of expected future entitlements.

**(p) Taxpayers' Funds**

This is the Crown's net investment in the Department.

**Changes in Accounting Policies**

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

All policies have been applied on a basis consistent with other years.

**STATEMENT OF FINANCIAL PERFORMANCE** for the year ended 30 June 2005

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
<b>REVENUE</b>					
120,361	Crown		<b>146,360</b>	138,526	146,650
1,188	Department	1	<b>1,817</b>	1,885	1,823
69,068	Other	2	<b>77,611</b>	84,332	80,110
54	Interest		<b>71</b>	11	11
<b>190,671</b>	<b>Total Operating Revenue</b>		<b>225,859</b>	<b>224,754</b>	<b>228,594</b>
<b>EXPENDITURE</b>					
87,894	Personnel costs		<b>105,266</b>	102,031	107,215
91,850	Operating costs	3	<b>104,080</b>	113,730	118,849
5,762	Depreciation	4	<b>9,803</b>	10,628	10,900
1,593	Capital charge	5	<b>2,532</b>	2,642	2,537
<b>187,099</b>	<b>Total Expenses</b>		<b>221,681</b>	<b>229,031</b>	<b>239,501</b>
<b>3,572</b>	<b>Net surplus / (deficit)</b>		<b>4,178</b>	<b>(4,277)</b>	<b>(10,907)</b>

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

For information on major variances against budget refer to Note 19 (pages 138-139).

**STATEMENT OF MOVEMENT IN TAXPAYERS' FUNDS** for the year ended 30 June 2005

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
18,746	Taxpayers' funds as at 1 July		<b>32,126</b>	25,834	32,126
3,572	Net surplus / (deficit)		<b>4,178</b>	(4,277)	(10,907)
2,856	Net revaluations: land and buildings		-	1,502	-
<b>6,428</b>	<b>Total recognised revenues and expenses for the year</b>		<b>4,178</b>	<b>(2,775)</b>	<b>(10,907)</b>
10,524	Capital contribution		<b>17,968</b>	16,500	29,710
-	Capital repayment		<b>(1,934)</b>	-	(1,934)
(3,572)	Provision for repayment of surplus to the Crown	10	<b>(4,178)</b>	-	-
-	Transfers between Departments	6	<b>(69)</b>	-	(69)
<b>32,126</b>	<b>Taxpayers' Funds at 30 June</b>		<b>48,091</b>	<b>39,559</b>	<b>48,926</b>

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

For information on major variances against budget refer to Note 19 (pages 138-139).

**STATEMENT OF FINANCIAL POSITION** *as at 30 June 2005*

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
<b>TAXPAYERS' FUNDS</b>					
27,768	General funds	13	<b>43,733</b>	38,057	44,568
4,358	Revaluation reserve	13	<b>4,358</b>	1,502	4,358
<b>32,126</b>	<b>TOTAL TAXPAYERS' FUNDS</b>		<b>48,091</b>	<b>39,559</b>	<b>48,926</b>
Represented by:					
<b>CURRENT ASSETS</b>					
37,461	Cash and bank balances		<b>56,258</b>	35,369	44,396
1,018	Prepayments		<b>2,315</b>	1,040	1,030
1,235	Debtors and receivables		<b>1,988</b>	970	970
<b>39,714</b>	<b>Total current assets</b>		<b>60,561</b>	<b>37,379</b>	<b>46,396</b>
<b>NON-CURRENT ASSETS</b>					
33,365	Fixed assets	7	<b>37,421</b>	36,382	43,000
<b>33,365</b>	<b>Total non-current assets</b>		<b>37,421</b>	<b>36,382</b>	<b>43,000</b>
<b>73,079</b>	<b>Total assets</b>		<b>97,982</b>	<b>73,761</b>	<b>89,396</b>
<b>CURRENT LIABILITIES</b>					
24,782	Creditors and payables	8	<b>35,340</b>	26,268	28,532
740	Provisions	9	<b>443</b>	-	387
2,092	Finance lease	12	<b>1,303</b>	-	2,092
3,572	Provision for repayment of surplus to the Crown	10	<b>4,178</b>	-	-
4,673	Provision for employee entitlements	11	<b>4,902</b>	5,102	4,449
<b>35,859</b>	<b>Total current liabilities</b>		<b>46,166</b>	<b>31,370</b>	<b>35,460</b>
<b>NON-CURRENT LIABILITIES</b>					
1,597	Finance lease	12	<b>325</b>	-	1,587
3,497	Provision for employee entitlements	11	<b>3,400</b>	2,832	3,423
<b>5,094</b>	<b>Total non-current liabilities</b>		<b>3,725</b>	<b>2,832</b>	<b>5,010</b>
<b>40,953</b>	<b>Total liabilities</b>		<b>49,891</b>	<b>34,202</b>	<b>40,470</b>
<b>32,126</b>	<b>NET ASSETS</b>		<b>48,091</b>	<b>39,559</b>	<b>48,926</b>

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

For information on major variances against budget refer to Note 19 (pages 138-139).

**STATEMENT OF CASH FLOWS** for the year ended 30 June 2005

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
CASH FLOWS – OPERATING ACTIVITIES					
Cash was provided from:					
120,147	Supply of outputs to Crown		<b>146,134</b>	138,526	146,424
1,188	Supply of outputs to Departments		<b>1,499</b>	1,885	1,823
63,517	Supply of outputs to Others		<b>78,384</b>	83,087	82,259
54	Interest		<b>71</b>	11	11
Cash was disbursed for:					
(184,100)	Cost of producing outputs		<b>(203,188)</b>	(218,710)	(224,533)
(1,593)	Capital charge		<b>(2,532)</b>	(2,642)	(2,537)
<b>(787)</b>	<b>Net cash inflow/(outflow) from operating activities</b>	<b>14</b>	<b>20,368</b>	<b>2,157</b>	<b>3,447</b>
CASH FLOWS – INVESTING ACTIVITIES					
Cash was provided from:					
786	Sale of fixed assets		<b>774</b>	628	531
Cash was disbursed for:					
(17,841)	Purchase of fixed assets		<b>(14,660)</b>	(21,367)	(21,172)
<b>(17,055)</b>	<b>Net cash inflow/(outflow) from investing activities</b>		<b>(13,886)</b>	<b>(20,739)</b>	<b>(20,641)</b>
CASH FLOW – FINANCING ACTIVITIES					
Cash was provided from:					
10,524	Capital contributions		<b>17,968</b>	16,500	29,710
Cash was disbursed for:					
(2,266)	Repayment of surplus to Crown		<b>(3,572)</b>	(1,310)	(3,572)
-	Capital repayments		<b>(1,934)</b>	-	(1,934)
<b>8,258</b>	<b>Net cash inflow/(outflow) from financing activities</b>		<b>12,462</b>	<b>15,190</b>	<b>24,204</b>
<b>(9,584)</b>	<b>Net increase/(decrease) in cash held</b>		<b>18,944</b>	<b>(3,392)</b>	<b>7,010</b>
47,019	Add: opening cash brought forward		<b>37,461</b>	38,761	37,461
26	Add: effect of unrealised exchange rate changes on foreign currency balances		<b>(147)</b>	-	(75)
<b>37,461</b>	<b>Closing Cash Balance</b>		<b>56,258</b>	<b>35,369</b>	<b>44,396</b>
CLOSING CASH BALANCE CONSISTS OF:					
<b>37,461</b>	Cash and bank balances		<b>56,258</b>	<b>35,369</b>	<b>44,396</b>

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

For information on major variances against budget refer to Note 19 (pages 138-139).

**STATEMENT OF COMMITMENTS** *as at 30 June 2005*

The Department has long-term leases on premises, which are subject to regular reviews. The amounts disclosed below as future commitments are based on the current rental rates. Operating leases include lease payments for premises and information technology assets. The majority of the commitments relate to non-cancellable accommodation leases (53%) and non-cancellable contracts for the supply of goods and services (41%).

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
	OPERATING LEASE COMMITMENTS	
22,755	Within one year of balance date	27,403
15,667	One to two years	17,359
18,996	Two to five years	12,809
553	Over five years	1,402
<b>57,971</b>	<b>Total operating lease commitments</b>	<b>58,973</b>
<b>2,499</b>	<b>Capital commitments</b>	<b>4,988</b>
<b>60,470</b>	<b>TOTAL COMMITMENTS</b>	<b>63,961</b>

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

The main reasons for the increase in capital commitments relate to Crown-funded IT development projects, upgrading leasehold premises and the purchase of equipment to replace items at the end of their lease period.

**STATEMENT OF CONTINGENT LIABILITIES AND ASSETS** as at 30 June 2005

**CONTINGENT LIABILITIES**

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
<b>9,500</b>	Outstanding legal proceedings	<b>9,527</b>

The Department's contingent liabilities can be broken down as follows:

- Thirteen claims totalling \$9.487 million based on allegations of negligence or other tortious cause of action.
- One employment-related claim against the Department, totalling \$40,000.
- Three claims that, at this stage, either do not include any request for a financial settlement or any possible financial settlement has not been quantified.

Further information usually required by Financial Reporting Standard No 15 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation.

No provision has been made in the financial statements in respect of these legal claims against the Department as, in the opinion of the Department, no material expense is expected to be incurred.

The Department has not given any guarantees under section 65ZD of the Public Finance Act 1989 as at 30 June 2005 (2004: nil).

**CONTINGENT ASSETS**

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
<b>55</b>	Property rental receivable	<b>55</b>

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

## STATEMENT OF UNAPPROPRIATED EXPENDITURE for the year ended 30 June 2005

The Department has incurred \$17.802 million (GST inclusive) unappropriated expenditure during the year (2004: nil). This unappropriated expenditure has been approved by the Minister of Finance in terms of Section 12 of the Public Finance Act 1989.

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	APPROPRIATION 30 JUNE 2005 \$000	UNAPPROP. EXPENDITURE 30 JUNE 2005 \$000
	<b>VOTE: EMPLOYMENT</b>			
	DEPARTMENTAL OUTPUT CLASS			
-	Transition management	3,402	3,300	102
	<b>VOTE ACC</b>			
	NON-DEPARTMENTAL OUTPUT CLASS			
-	Case management and supporting services	57,964	50,864	7,100
-	Claim entitlements and services	396,816	391,350	5,466
-	Public health acute services	183,629	183,229	400
	BENEFITS AND OTHER UNREQUITED EXPENSES			
-	Other compensation	100,452	95,718	4,734
-	<b>Total</b>	<b>742,263</b>	<b>724,461</b>	<b>17,802</b>

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

### VOTE: EMPLOYMENT

Transition Management (\$0.102 million)

As part of the repositioning of the Government's community employment activities, the Community Employment Group (CEG) of the Department of Labour was disestablished in September 2004. The transition management output class was created in September 2004 to provide transition management services including the settlement of employment contract obligations and lease buy-out costs as a result of the disestablishment of the Community Employment Group. The unappropriated expenditure in this output class is due to higher than anticipated costs of settlement of employment contract obligations.

### VOTE: ACC

Non-Departmental Output Classes and Benefits and Other Unrequited Expenses (\$17.700 million)

ACC undertakes its main annual review of the overall ACC scheme for the Budget Economic and Fiscal Update (BEFU) which is completed and reviewed by early May. Updates to the funding of the pay-as-you-go (PAYG) element of the Non Earners' Account are based on this information. Due to the timing of BEFU results the main annual review of funding for the Non Earners' Account occurs in the October Baseline Update (OBU) in the following year. The application of generally accepted accounting practice has ACC accruing revenue to reflect projected funding requirements for the PAYG part of the Non Earners' Account.

Higher projected operating costs and claim rates in the PAYG part of the ACC Non-Earners' Account in the 2004/05 financial year have resulted in the following overspends:

- Case management and supporting services (\$7.100 million)
- Claim entitlements and services (\$5.466 million)
- Public health acute services (\$0.400 million)
- Other compensation (\$4.734 million)



## STATEMENT OF TRUST MONIES *for the year ended 30 June 2006*

The Department operates trust accounts as the agent under section 66 of the Public Finance Act 1989. The transactions through these accounts and their balances at 30 June 2005 are not included in the Department's own financial statements.

Movements in these accounts during the year ended 30 June 2005 were as follows:

ACCOUNT	AS AT 1 JULY 2004 \$000	CONTRIBUTION \$000	DISTRIBUTION \$000	REVENUE \$000	EXPENSE \$000	AS AT 30 JUNE 2005 \$000
Employment Relations Service Trust	6	193	(183)	-	-	16
Employment Relations Act Security of Costs Trust	219	162	(370)	-	-	11
NZ Immigration Trust	5,375	4,661	(4,205)	206	(755)	5,282
<b>TOTAL</b>	<b>5,600</b>	<b>5,016</b>	<b>(4,758)</b>	<b>206</b>	<b>(755)</b>	<b>5,309</b>

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

The Employment Relations Service Trust (previously called the Industrial Relations Trust) was established in September 1988 and handles trust monies received by Labour Inspectors on behalf of workers.

The Employment Relations Act Security of Costs Trust (previously called the Employment Court Trust) was established in February 1990 and handles monies held at the direction of the Employment Relations Authority. The Employment Relations Act Security of Costs Trust previously also contained monies held at the direction of the Employment Court – these funds were transferred to a trust account administered by the Ministry of Justice during the year.

The NZ Immigration Trust was established in 1999 and is used as a holding account for bonds paid by medium-risk applicants who are applying for visitor visas. The expenses figure includes \$703,000 forfeits to the Crown, of which \$611,000 was accrued at year end June 2004. The closing balance reflects the Trust bank account balance as at 30 June 2005.

**MEMORANDUM ACCOUNT – VISA AND PERMITS** for the year ended 30 June 2006

	AS AT 1 JULY 2004 \$000	REVENUE \$000	EXPENSES \$000	LESS CAPITAL INJECTION \$000	ADD CAPITAL REPAYMENT \$000	AS AT 30 JUNE 2005 \$000
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(Figures are GST exclusive)

<b>Sales of visa and permits</b>	<b>21,001</b>	<b>74,828</b>	<b>(82,323)</b>	<b>(3,250)</b>	<b>1,934</b>	<b>12,190</b>
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The accompanying accounting policies and notes form part of these financial statements.

This account summarises financial information relating to the accumulated financial surplus and deficits incurred in the sale of visa and permits by the Department of Labour.

The surplus/deficit levels are dependent upon the business conditions and Government's policy settings prevailing during that period. The expectation is that, with fluctuations in the immigration market, possible changes to immigration policy and the potential need for future capital contributions for expansion and improvement of visa and permit services, the balance of this account will, over time, reduce.

This memorandum account has been operating since 1 July 1999, and reflects forecasts based on the current strong demand for visa and permit services. Changes to these demand levels during or between years may mean actual outturns differ from forecast.

In 2004/05, expenditure was higher than revenue due to the continuation of the subsidy on visitor visas, one-off expenditure relating to the introduction of the Skilled Migrant category, and expenditure approved in Budget 2004.

The \$3.250 million capital drawdown was for the upgrade of branches in Auckland, Manukau and Palmerston North, and to implement changes to the Samoan and Pacific Access Quotas, the Seasonal Labour Strategy and new Investor Policy. These amounts were offset by the repayment of capital that was drawn down in error in the year ended 30 June 2004.

**NOTES TO THE FINANCIAL STATEMENTS** for the year ended 30 June 2005

**1. REVENUE – DEPARTMENT**

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
-	Ministry of Economic Development: Energy Safe <sup>24</sup>	-	330	-
943	Refugee Services	960	846	846
142	State Services Commission – State Sector Retirement Savings Scheme	750	709	789
-	MFAT – Pacific Security Fund project	107	-	188
103	Other	-	-	-
<b>1,188</b>	<b>Total Revenue Department</b>	<b>1,817</b>	<b>1,885</b>	<b>1,823</b>

24. Increases to a departmental output class were approved to transfer \$330,000 (GST exclusive) from the Ministry of Economic Development to the Department of Labour for a review of the safety regime for electrical and gas workers, dependent on enactment of the Energy Safety Review Bill. As enactment is now not expected to occur before 1 December 2005, \$25,000 was transferred from 2004/05 into 2005/06 to cover transitional costs. The remaining 2004/05 appropriation of \$305,000 was returned as savings to the Crown.

**2. REVENUE – OTHER**

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
68,264	Immigration fees	75,755	82,314	77,659
222	Sale of publications	185	480	480
336	Funding from ERMA to fund local capacity in hazardous substances compliance and monitoring	1,502	1,344	1,774
100	Property rental recovery	97	194	194
-	Net profit on sale of fixed assets	42	-	3
146	Other	30	-	-
<b>69,068</b>	<b>Total Revenue Other</b>	<b>77,611</b>	<b>84,332</b>	<b>80,110</b>

### 3. OPERATING COSTS

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
159	Fees to auditors for audit of the financial statements	167	160	172
62	Fees to auditors for other services provided	46	-	-
19,134	Lease and rental charges	18,097	21,969	18,969
(395)	Realised foreign exchange (gains)/losses	(426)	507	265
(26)	Unrealised foreign exchange (gains)/losses	147	-	114
70	Bad debts written off	17	18	4
(4)	Change in provision for doubtful debts	(19)	-	(10)
111	Net loss on sale of fixed assets	-	18	-
72,739	Other operating costs	86,051	91,058	99,335
<b>91,850</b>	<b>Total Operating Costs</b>	<b>104,080</b>	<b>113,730</b>	<b>118,849</b>

The Department has also capitalised \$23,740 of fees from Audit New Zealand, the Department's external auditor, for assurance work done in relation to the Work Info project (2003/04: \$20,000).

### 4. DEPRECIATION

Actual 30 June 2004 \$000		Actual 30 June 2005 \$000	MAIN ESTIMATES 30 June 2005 \$000	SUPP. ESTIMATES 30 June 2005 \$000
<b>8</b>	<b>Buildings</b>	<b>20</b>	<b>15</b>	<b>19</b>
1,502	Leasehold improvements	1,544	1,761	1,647
206	Office equipment – owned	116	88	116
-	Office equipment – leased	177	133	173
423	Furniture and fittings	370	332	407
<b>2,131</b>	<b>Sub total office equipment and fittings</b>	<b>2,207</b>	<b>2,314</b>	<b>2,343</b>
30	Special equipment	37	30	31
2,521	Computer equipment – owned	4,937	5,405	5,571
-	Computer equipment – leased	1,597	1,707	1,759
<b>2,551</b>	<b>Sub total plant and equipment</b>	<b>6,571</b>	<b>7,142</b>	<b>7,361</b>
1,072	Motor vehicles	1,005	1,157	1,177
<b>5,762</b>	<b>Total Depreciation Charge</b>	<b>9,803</b>	<b>10,628</b>	<b>10,900</b>

### 5. CAPITAL CHARGE

The capital charge represents a charge by the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for 2004/05 was 8.0% (2003/04: 8.5%).

## 6. TRANSFERS BETWEEN DEPARTMENTS

In 2004/05 the responsibility for administrative support for the Employment Court transferred from the Department of Labour to the Ministry of Justice. Fixed assets with a net book value totalling \$69,000 relating to the Employment Court were transferred to the Ministry of Justice.

## 7. FIXED ASSETS

30 JUNE 2004 \$000		30 JUNE 2005 \$000
	LAND	
-	At cost	-
3,753	At valuation – 16 and 20 February 2004	3,753
<b>3,753</b>	<b>Land – net book value</b>	<b>3,753</b>
	BUILDINGS	
	At cost	-
778	At valuation – 16 and 20 February 2004	799
(4)	Accumulated depreciation	(24)
<b>774</b>	<b>Buildings – net book value</b>	<b>775</b>
	LEASEHOLD IMPROVEMENTS	
13,955	At cost	14,107
(9,549)	Accumulated depreciation	(9,902)
<b>4,406</b>	<b>Leasehold improvements – net book value</b>	<b>4,205</b>
	SPECIALISED EQUIPMENT	
498	At cost	566
(372)	Accumulated depreciation	(410)
<b>126</b>	<b>Specialised equipment – net book value</b>	<b>156</b>
	OFFICE EQUIPMENT – OWNED	
2,094	At cost	1,629
(1,454)	Accumulated depreciation	(1,381)
<b>640</b>	<b>Office equipment – Owned – net book value</b>	<b>248</b>
	OFFICE EQUIPMENT – LEASED	
528	At cost	462
-	Accumulated depreciation	(177)
<b>528</b>	<b>Office equipment – Leased – net book value</b>	<b>285</b>
	FURNITURE AND FITTINGS	
4,470	At cost	4,363
(3,275)	Accumulated depreciation	(3,308)
<b>1,195</b>	<b>Furniture and fittings – net book value</b>	<b>1,055</b>

30 JUNE  
2004  
\$000

30 JUNE  
2005  
\$000

	COMPUTER EQUIPMENT – OWNED	
26,271	At cost	35,048
(15,507)	Accumulated depreciation	(20,250)
<b>10,764</b>	<b>Computer equipment – Owned – net book value</b>	<b>14,798</b>
	COMPUTER EQUIPMENT - LEASED	
3,161	At cost	2,940
-	Accumulated depreciation	(1,597)
<b>3,161</b>	<b>Computer equipment – Leased – net book value</b>	<b>1,343</b>
	MOTOR VEHICLES	
7,597	At cost	6,764
(2,826)	Accumulated depreciation	(2,401)
<b>4,771</b>	<b>Motor vehicles – net book value</b>	<b>4,363</b>
	ITEMS UNDER CONSTRUCTION	
514	Leasehold improvements	1,992
2,719	Computer equipment	4,448
14	Furniture and fittings, office equipment, special equipment	-
<b>3,247</b>	<b>Items under construction – net book value</b>	<b>6,440</b>
	TOTAL FIXED ASSETS	
66,352	At cost and valuation	76,871
(32,987)	Accumulated depreciation	(39,450)
<b>33,365</b>	<b>Total Carrying Amount of Fixed Assets</b>	<b>37,421</b>

Land and buildings in Suva were revalued at fair value as at 20 February 2004, by an independent registered valuer, Serupepeli Navuta, of Rolle Hillier Parker. Land and buildings at the Mangere Resettlement Centre in Auckland were revalued at fair value as at 16 February 2004, by an independent registered valuer, Rene McLean of Quotable Value NZ. There were no significant assumptions or limiting conditions set out in the valuation reports.

The Department recognised assets rented under finance lease arrangements for the first time as at 30 June 2004. Accordingly, there was no depreciation charge for that financial year. The Department's liability in respect of future lease payments is disclosed in Note 12.

## 8. CREDITORS AND PAYABLES

30 JUNE 2004 \$000		30 JUNE 2005 \$000
2,071	Creditors	2,501
11,263	Accrued expenses	19,649
11,100	Income in advance	12,648
122	GST payable	542
226	Debtor Crown	-
<b>24,782</b>	<b>Total Creditors and Payables</b>	<b>35,340</b>

Creditors include invoices received but not paid as at 30 June 2005. Accrued expenses relate to operating goods and services received but where the invoices have not been received as at 30 June 2005. Income in advance mainly relates to unearned immigration fee revenue.

## 9. PROVISIONS

CLASS	AS AT 1 JULY 2004 \$000	ADDITIONAL PROVISIONS DURING THE YEAR \$000	CHARGE AGAINST PROVISION FOR YEAR \$000	AS AT 30 JUNE 2005 \$000
Refund of NZIS lapsed General Skills applications	695	32	(349)	378
ACC Partnership Programme <sup>25</sup>	45	30	(10)	65
<b>Total</b>	<b>740</b>	<b>62</b>	<b>(359)</b>	<b>443</b>

<sup>25</sup> The provision relating to the ACC Partnership Programme was incorrectly included in the provision for lapsed General Skill application refunds in the 2003/04 Annual Report.

A provision for refunding of lapsed General Skills applications was established in June 2003. Refunding has largely been completed during the last two years, with 11,103 applications refunded. Approximately 608 applications remain unclaimed as at balance date. The additional provision was made to ensure the remaining provision reflected the cost of refunding the remaining applications.

In January 2003, the Department entered into the ACC's Partnership Programme with the ACC. Under the Partnership Programme, the Department took responsibility for workplace injury management. This includes rehabilitation and claims management for staff injured at work. In return, the Department is able to substantially reduce the ACC employers' levy. This provision relates to costs payable to ACC at the end of the contracted two-year claims management period.

## 10. PROVISION FOR REPAYMENT OF SURPLUS TO THE CROWN

30 JUNE 2004 \$000		30 JUNE 2005 \$000
3,572	Net surplus	4,178
<b>3,572</b>	<b>Total Provision for Repayment of Surplus</b>	<b>4,178</b>

The 2003/04 surplus was repaid to New Zealand Debt Management Office in November 2004.

## 11. PROVISION FOR EMPLOYEE ENTITLEMENTS

30 JUNE 2004 \$000		30 JUNE 2005 \$000
	CURRENT LIABILITIES	
4,219	Annual leave	4,533
282	Long service leave	235
172	Retirement leave	134
<b>4,673</b>	<b>Total current liabilities</b>	<b>4,902</b>
	NON-CURRENT LIABILITIES	
258	Long service leave	277
3,239	Retirement leave	3,123
<b>3,497</b>	<b>Total non-current liabilities</b>	<b>3,400</b>
<b>8,170</b>	<b>TOTAL PROVISION FOR EMPLOYEE ENTITLEMENTS</b>	<b>8,302</b>

An independent actuarial valuation was undertaken by Melville Jessup Weaver, as at 30 June 2005, to estimate the present value of retirement leave.

The key assumptions used in discounting to present values were:

- Discount rate for the 2005 financial year 5.0% p.a. (30 June 2004 5.5% p.a.).
- Salary growth rate for the 2005 financial year 3.0% p.a. (30 June 2004 3.0% p.a.).

## 12. FINANCE LEASE LIABILITY

30 JUNE 2004 \$000		30 JUNE 2005 \$000
	FINANCE LEASE LIABILITY	
2,092	Within one year of balance date	1,303
871	One to two years	305
726	Two to five years	20
-	Over five years	-
<b>3,689</b>	<b>Total Finance Lease Liability</b>	<b>1,628</b>

Under the Public Finance Act 1989, entering into finance lease arrangements is deemed to be raising a loan, which requires the approval of the Minister of Finance. The Department has received the Minister's approval for these leases.

The interest rates implicit in these lease contracts vary from 7–13% per annum.

## 13. TAXPAYERS' FUNDS

Taxpayers' funds comprises two components:

### General Funds

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
17,244	General funds as at 1 July	27,768	25,834	27,768
3,572	Net surplus/(deficit)	4,178	(4,277)	(10,907)
10,524	Capital contribution	17,968	16,500	29,710
-	Capital withdrawal	(1,934)	-	(1,934)
(3,572)	Provision for repayment of surplus to the Crown	(4,178)	-	-
-	Transfers between Departments	(69)	-	(69)
<b>27,768</b>	<b>General Funds as at 30 June</b>	<b>43,733</b>	<b>38,057</b>	<b>44,568</b>

### Revaluation Reserve

ACTUAL LAND 30 JUNE 2004 \$000	ACTUAL BUILDING 30 JUNE 2004 \$000	ACTUAL TOTAL 30 JUNE 2004 \$000		ACTUAL LAND 30 JUNE 2005 \$000	ACTUAL BUILDING 30 JUNE 2005 \$000	ACTUAL TOTAL 30 JUNE 2005 \$000
754	748	1,502	Opening Balance as at 1 July	3,467	891	4,358
2,713	143	2,856	Revaluation changes	-	-	-
<b>3,467</b>	<b>891</b>	<b>4,358</b>	<b>Closing Balance as at 30 June</b>	<b>3,467</b>	<b>891</b>	<b>4,358</b>

**14. RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPENING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2005**

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
3,572	<i>Net surplus</i>	<b>4,178</b>	(4,277)	(10,907)
	ADD/(LESS) NON-CASH ITEMS:			
5,762	Depreciation	<b>9,803</b>	10,628	10,900
(26)	Unrealised foreign exchange (gains)/losses	<b>147</b>	-	114
-	Other non-cash items	-	-	2
<b>5,736</b>	<b>Total non-cash items</b>	<b>9,950</b>	<b>10,628</b>	<b>11,016</b>
	ADD/(LESS) MOVEMENTS IN WORKING CAPITAL ITEMS:			
(8)	(Increase)/decrease in debtors and receivables	<b>(753)</b>	8	39
21	(Increase)/decrease in prepayments	<b>(1,297)</b>	19	(12)
(14,370)	Increase/(decrease) in creditors, payables and provisions*	<b>10,261</b>	(1,998)	3,612
462	Increase/(decrease) in employee entitlements	<b>132</b>	(2,241)	(298)
<b>(13,895)</b>	<b>Working capital movements – net</b>	<b>8,343</b>	<b>(4,212)</b>	<b>3,341</b>
	ADD/(LESS) INVESTING ACTIVITY ITEMS:			
111	Net loss/(gain) on sale of fixed assets	<b>(42)</b>	18	(3)
<b>111</b>	<b>Total investing activities</b>	<b>(42)</b>	<b>18</b>	<b>(3)</b>
	ADD (LESS) OTHER ITEMS:			
3,689	Increase/(decrease) in finance lease liability	<b>(2,061)</b>	-	-
<b>3,689</b>	<b>Total other</b>	<b>(2,061)</b>	-	-
<b>(787)</b>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>20,368</b>	<b>2,157</b>	<b>3,447</b>

\*Adjusted for non-operating items.

## 15. FINANCIAL INSTRUMENTS

### Credit Risk

Financial instruments that potentially subject the Department of Labour to credit risk principally consist of cash on hand, bank balances, forward exchange contracts and accounts receivable.

There were no major concentrations of credit risk with respect to accounts receivable.

### Interest Rate Risk

The Department has no interest rate risk as it neither borrows nor invests monies.

### Fair Value

Estimated fair values of the Department's financial assets and liabilities as at 30 June 2005 equate with the carrying amounts reflected in these financial statements.

### Currency Risk

All significant overseas operating lease commitments have been listed, along with all foreign bank account balances as at 30 June 2005.

The Department reduces its exposure to currency risk through the use of forward exchange contracts. As at balance date, there were forward contracts to purchase A\$6.5 million over the next three years to cover a large contract for the provision of ongoing management and operating services of Advance Passenger Processing. These contracts were valued at NZ\$7.2 million as at balance date.

There were forward exchange contracts in place as at 30 June 2005 to sell US\$0.75 million in July 2005, valued at NZ\$1.07 million, and to sell EUR€0.235 million from July to September 2005, valued at NZ\$0.407 million.

As at 30 June 2005, the Department had the following foreign currency exposures:

	FOREIGN CURRENCY		NEW ZEALAND CURRENCY	
	OPERATING LEASE \$000	CASH AT BANK \$000	OPERATING LEASE \$000	CASH AT BANK \$000
United States Dollar	2,944	1,096	3,836	1,564
Hong Kong Dollar	4,244	670	778	123
West Samoan Tala	36	43	18	22
Great British Pounds	1,252	157	3,164	402
Indian Rupee	10,267	2,916	334	95
Singapore Dollar	123	54	104	46
Taiwanese Dollar	15,305	1,037	685	46
Australian Dollar	6,962	70	7,578	76
Tongan Pa'anga	-	20	-	15
Philippine Peso	-	2,563	-	65
Thai Baht	4,293	1,155	147	40
Euro	-	218	-	373
Fijian Dollar	-	127	-	105
Other currencies	-	-	10	354
<b>Total foreign currency exposure</b>			<b>16,654</b>	<b>3,326</b>

## **16. RELATED PARTY INFORMATION**

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

The Department enters into numerous transactions with other government departments, Crown agencies and State-owned enterprises on an arm's length basis. Where those parties are acting in the course of their normal dealings with the Department, related party disclosures have not been made for transactions of this nature.

Apart from those transactions described above, the Department has not entered into any related party transactions, apart from one exception:

The Community Employment Group (CEG) had staff actively working in local communities, and certain members of staff held executive or advisory positions within various community groups. Some of these community groups also received grant funding from CEG. These community groups were therefore considered related parties of CEG. CEG had policies in place that required staff with conflicts of interest not to participate in decisions with any group they were associated with. CEG was disestablished in September 2004.

## **17. DISCONTINUED ACTIVITIES**

The provision of services to create sustainable community health and wellbeing through employment, delivered by the Community Employment Group (CEG), was transferred to the Ministry of Social Development during the year and CEG was disestablished. In 2004/05 the total revenue earned from delivering this service was \$9.834 million and it generated a surplus of \$0.377 million.

## **18. EXPLANATION OF MAJOR BUDGET CHANGES**

The Supplementary Estimates of Appropriations for the year ending 30 June 2005 explain all budget changes between the 2004/05 Main Estimates and the 2004/05 Supplementary Estimates as follows:

- Vote: ACC – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 1 to 7.
- Vote: Employment – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 189 to 195.
- Vote: Immigration – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 301 to 306.
- Vote: Labour – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 325 to 333.

## 19. EXPLANATION OF SIGNIFICANT ACTUAL VARIATIONS

The following notes explain the significant variances between Supplementary Estimates and Actuals.

### Statement of Financial Performance

The decrease in Revenue Other of \$2.499 million results from lower immigration fees received.

Total Expenditure was below budget by \$17.820 million. The major factors that contribute to this shortfall is as follows by output class.

		Expenditure below budget \$'000
Vote: Labour Policy Advice – Labour	<ul style="list-style-type: none"> <li>Delays in policy programmes that have resulted in \$1.5 million requested “in principle” transfer from 2004/05 to 2005/06.</li> <li>A shortage of policy analysts that resulted in less or later recruitment of additional staff.</li> </ul>	2,667
Vote: Labour – Services to Promote and Support Fair and Productive Employment Relationships	<ul style="list-style-type: none"> <li>Lower than forecast expenditure in the newly created Small Business Support Information Unit and the new Partnership Resource Centre. An “in principle” expense transfer of \$0.300 million was requested for the Partnership Resource Centre.</li> </ul>	2,505
Vote: Labour – Services to promote and support safe and healthy people and workplaces	<ul style="list-style-type: none"> <li>Vacancies and delays in setting up the Auckland Contact Centre.</li> </ul>	1,607
Vote: Immigration – Services to increase the capacity of New Zealand through immigration	<ul style="list-style-type: none"> <li>The Department has been focused on meeting the Immigration Programme. Focusing on the Immigration Programme meant that some Business projects proceeded more slowly than planned or were deferred altogether.</li> <li>Departmental restructuring resulted in some infrastructure projects not progressing. Training was deferred while awaiting the appointment of staff to new structures and some vacancies also remained unfilled while structures were settled.</li> </ul>	7,924
Vote: Immigration – Services to position New Zealand as an international citizen with immigration-related interest and obligations	<ul style="list-style-type: none"> <li>Lower refugee status appeals.</li> <li>Lower overall spending in Asia and European visa and permit branches.</li> </ul>	1,357
Vote: Employment – Policy, purchase advice and monitoring	<ul style="list-style-type: none"> <li>Further under spending in the LEEDS project and Workplace Information Survey.</li> <li>Delays in work being completed by outside agencies on the Future of Work programme.</li> </ul>	0,636
Vote: Employment – Services to generate sustainable community wealth and wellbeing	<ul style="list-style-type: none"> <li>Lower depreciation following the earlier than anticipated disposal of assets.</li> </ul>	0,346
Vote: ACC – Policy and monitoring	<ul style="list-style-type: none"> <li>Vacancies held during the year.</li> </ul>	0,436

The variances explained are GST exclusive, while the variances identified on the Statement of Departmental Expenditure and Appropriations are GST inclusive.

## Statement of Financial Position (and Cash Flows)

		Net Assets higher (lower) \$000
Cash and Bank Balances	<ul style="list-style-type: none"> <li>Required to cover higher year end creditors</li> <li>Drawdowns of capital not yet spent</li> </ul>	11,862
Prepayments	<ul style="list-style-type: none"> <li>Year-end payments made early as consequence of systems changes</li> </ul>	1,285
Debtors and Receivables	<ul style="list-style-type: none"> <li>Landlords' contribution to fitout owing at year end</li> <li>Funding due for the employers' contribution to the State Services Retirement Savings Scheme</li> </ul>	1,018
Fixed Assets	<ul style="list-style-type: none"> <li>Lower capital expenditure following delays in IT projects as the result of departmental restructuring</li> </ul>	(5,579)
Creditors and Payables	<ul style="list-style-type: none"> <li>Expenditure to complete the departmental restructuring</li> <li>Timing of supplier billings resulting in higher amounts outstanding</li> <li>Increased activity toward year end as the Department settled into the new structure</li> <li>\$3.3m owing to DoL Crown</li> </ul>	(6,808)
Finance Lease	<ul style="list-style-type: none"> <li>Finance leases being replaced by operating leases</li> </ul>	2,051

## Statement of Movements in Taxpayers' Funds

		Net Assets higher (lower) \$000
Net Surplus (Deficit)	<ul style="list-style-type: none"> <li>Lower than planned activities and expenditure</li> </ul>	15,085
Capital Contribution	<ul style="list-style-type: none"> <li>Lower than expected expenditure resulting in lower funding being required</li> </ul>	(11,742)

## 20. POST BALANCE DATE EVENTS

There were no post balance date events occurring between year end and the signing of the financial statements.

## SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
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(Figures are GST inclusive where applicable)

36,830	Revenues and receipts	<b>151,187</b>	39,282	147,602
723,934	Expenses	<b>754,558</b>	758,032	745,094
16,081	Assets	<b>22,314</b>	5,723	3,947
2,816	Liabilities	<b>19,215</b>	4,213	687

The following non-Departmental statements and schedules record the expenses, revenue and receipts, assets and liabilities that the Department manages on behalf of the Crown. The Department administered \$754.6 million (\$723.9 million – 2003/04) of non-Departmental payments, \$151.2 million (\$36.8 million – 2003/04) of non-Departmental revenue and receipts, \$22.3 million of assets (\$16.1 million – 2003/04) and \$19.2 million (\$2.8 million – 2003/04) of liabilities on behalf of the Crown for the year ended 30 June 2005. Further details of the Department's management of these Crown assets and liabilities are provided in the Statement of Objectives and Service Performance section of the Annual Report.

These non-Departmental balances are consolidated into the Crown Financial Statements. Therefore readers of these statements and schedules should also refer to the Crown Financial Statements for 2004/05.

## STATEMENT OF ACCOUNTING POLICIES

### Measurement System

Measurement and recognition rules applied in the preparation of these non-Departmental statements and schedules are consistent with generally accepted accounting practice and Crown accounting policies.

### Accounting Policies

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

#### (a) Budget Figures

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

#### (b) Revenue

The Department collects revenue on behalf of the Crown. This revenue includes the Health and Safety in Employment Levy and the Migrant Levy, which are legislated under the Health and Safety in Employment Act 1992 (section 59) and the Immigration Act 1987 (section 149B) respectively.

Revenue is recognised when earned and is reported in the financial period to which it relates.

#### (c) Goods and Services Tax (GST)

The Schedules of Non-Departmental Revenue and Expenses and the Statement of Expenditure and Appropriations are inclusive of GST (where applicable). The Schedules of Assets and Liabilities are exclusive of GST, except for Creditors and Payables and Debtors and Receivables, which are GST inclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Creditors and Payables or Debtors and Receivables (as appropriate).

#### (d) Debtors and Receivables

Receivables are recorded at estimated realisable value after providing, where necessary, for doubtful and uncollectable debts.

#### (e) Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments (at the point a contractual obligation arises) to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

#### (f) Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

## SCHEDULE OF NON-DEPARTMENTAL REVENUE for the year ended 30 June 2005

Non-Departmental revenues are administered by the Department of Labour on behalf of the Crown. As these revenues are not established by the Department nor earned in the production of the Department's outputs, they are not reported in the Departmental financial statements. Figures are GST inclusive where applicable.

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
	ADMINISTERED ON BEHALF OF THE MINISTER OF LABOUR SOVEREIGN /POWER REVENUE			
225	Employment Court, Employment Relations Authority and Employment Tribunal Fees	215	240	214
30,259	Health and Safety in Employment Levy	31,843	27,859	29,067
44	OSH fees and licences	30	33	33
9	Contestable fund recoveries	81	-	59
214	Recovery of Higher Salaries Commission <sup>26</sup> costs of setting local authority members' remuneration	238	250	250
3	Infringement notice fines	39	247	247
<b>30,754</b>	<b>Total Non-Departmental Revenue administered on behalf of the Minister of Labour</b>	<b>32,446</b>	<b>28,629</b>	<b>29,870</b>
	ADMINISTERED ON BEHALF OF THE MINISTER FOR ACC			
-	Recoveries from ACC <sup>27</sup>	107,091	-	107,091
-	<b>Total Non-Departmental Revenue administered on behalf of the Minister for ACC</b>	<b>107,091</b>	<b>-</b>	<b>107,091</b>
	ADMINISTERED ON BEHALF OF THE MINISTER OF IMMIGRATION SOVEREIGN/POWER REVENUE			
5,305	Migrant Levy	10,148	10,550	10,550
611	Visitor Bonds	92	-	-
-	English Language Bonds	1,252	-	-
<b>5,916</b>	<b>Total Non-Departmental Revenue administered on behalf of the Minister of Immigration</b>	<b>11,492</b>	<b>10,550</b>	<b>10,550</b>
	ADMINISTERED ON BEHALF OF THE MINISTER FOR SOCIAL DEVELOPMENT AND EMPLOYMENT SOVEREIGN/POWER REVENUE			
160	Programme recoveries	158	103	91
<b>160</b>	<b>Total Non-Departmental Revenue administered on behalf of the Minister for Social Development and Employment</b>	<b>158</b>	<b>103</b>	<b>91</b>
<b>36,830</b>	<b>TOTAL NON-DEPARTMENTAL REVENUE ADMINISTERED BY THE DEPARTMENT</b>	<b>151,187</b>	<b>39,282</b>	<b>147,602</b>

26. The Higher Salaries Commission became the Remuneration Authority from 1 April 2003 as the result of the passing of the Remuneration Authority (Members of Parliament) Amendment Act 2002.

27. In the Supplementary Estimates of Appropriation revenue and receipts are shown exclusive of GST. The GST exclusive amount of Recoveries from ACC is \$90.248 million.

The accompanying accounting policies and notes from part of these financial schedules.

## SCHEDULE OF NON-DEPARTMENTAL EXPENSES for the year ended 30 June 2005

The Schedule of Expenses summarises non-Departmental expenses that the Department administers on behalf of the Crown. Further details are provided in the Statement of Expenditure and Appropriations on page 124. Figures are GST inclusive where applicable.

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
<b>VOTE: LABOUR</b>					
2,430	Non-Departmental output classes		<b>2,913</b>	2,978	5,418
5,707	Other expenses to be incurred by the Crown		<b>5,074</b>	6,612	5,645
<b>8,137</b>	<b>Total Non-Departmental Expenses – Vote: Labour</b>		<b>7,987</b>	<b>9,590</b>	<b>11,063</b>
<b>VOTE: ACC</b>					
622,038	Non-Departmental output classes	4	<b>638,409</b>	650,184	625,443
75,656	Benefits and other unrequited expenses	4	<b>100,452</b>	74,488	95,718
-	Other expenses to be incurred by the Crown		<b>4</b>	-	250
<b>697,694</b>	<b>Total Non-Departmental Expenses – Vote: ACC</b>		<b>738,865</b>	<b>724,672</b>	<b>721,411</b>
<b>VOTE: EMPLOYMENT</b>					
18,103	Other expenses to be incurred by the Crown		<b>7,706</b>	23,770	12,620
<b>18,103</b>	<b>Total Non-Departmental Expenses – Vote: Employment</b>		<b>7,706</b>	<b>23,770</b>	<b>12,620</b>
<b>723,934</b>	<b>TOTAL NON-DEPARTMENTAL EXPENSES</b>		<b>754,558</b>	<b>758,032</b>	<b>745,094</b>

Annual and other appropriations have been classified together in the above Schedule, but are separately disclosed in the Statement of Non-Departmental Expenditure and Appropriations.

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

**STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS**  
for the year ended 30 June 2005

The Statement of Expenditure and Appropriations details expenditure and capital payments incurred against appropriations. The Department administers these appropriations on behalf of the Crown. Figures are GST inclusive where applicable.

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
<b>ANNUAL APPROPRIATIONS</b>					
<b>VOTE: LABOUR</b>					
NON-DEPARTMENTAL OUTPUT CLASSES:					
-	Pay and Employment Equity Contestable Fund	6	<b>126</b>	-	1,000
1,452	Employment Relations Education Contestable Fund	6	<b>1,809</b>	2,000	3,440
978	Health and Safety in Employment Levy – Collection services		<b>978</b>	978	978
OTHER EXPENSES TO BE INCURRED BY THE CROWN:					
1,091	International Labour Organisation	6	<b>999</b>	1,400	1,400
1,061	Joint Equal Employment Opportunities Trust		<b>1,061</b>	1,061	1,061
15	New Zealand Industrial Relations Foundation		<b>15</b>	15	15
<b>4,597</b>	<b>Total Vote: Labour</b>		<b>4,988</b>	<b>5,454</b>	<b>7,894</b>
<b>Vote: ACC</b>					
NON-DEPARTMENTAL OUTPUT CLASSES:					
47,347	Case management and supporting services	4, 6	<b>57,964</b>	49,006	50,864
391,462	Claim entitlements and services	4, 6	<b>396,816</b>	417,949	391,350
183,229	Public health acute services	4	<b>183,629</b>	183,229	183,229
BENEFITS AND OTHER UNREQUITED EXPENSES:					
75,656	Other compensation	4, 6	<b>100,452</b>	74,488	95,718
OTHER EXPENSES TO BE INCURRED BY THE CROWN:					
-	Victims of tsunami in Indian Ocean	6	<b>4</b>	-	250
<b>697,694</b>	<b>Total Vote: ACC</b>		<b>738,865</b>	<b>724,672</b>	<b>721,411</b>
<b>VOTE: EMPLOYMENT</b>					
OTHER EXPENSES TO BE INCURRED BY THE CROWN:					
16,103	Community employment and development projects	6	<b>5,706</b>	21,770	10,620
2,000	Māori Women's Development Fund		<b>2,000</b>	2,000	2,000
<b>18,103</b>	<b>Total Vote: Employment</b>		<b>7,706</b>	<b>23,770</b>	<b>12,620</b>
<b>720,394</b>	<b>TOTAL ANNUAL APPROPRIATIONS</b>		<b>751,559</b>	<b>753,896</b>	<b>741,925</b>

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

Continued over ...

## STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS

for the year ended 30 June 2005 continued

ACTUAL 30 JUNE 2004 \$000	NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP ESTIMATES 30 JUNE 2005 \$000
<b>OTHER APPROPRIATIONS</b>				
<b>VOTE: LABOUR</b>				
OTHER EXPENSES TO BE INCURRED BY THE CROWN:				
1,163		433	1,400	433
2,377		2,566	2,736	2,736
<b>3,540</b>	<b>Total Vote: Labour</b>	<b>2,999</b>	<b>4,136</b>	<b>3,169</b>
<b>3,540</b>	<b>TOTAL OTHER APPROPRIATIONS</b>	<b>2,999</b>	<b>4,136</b>	<b>3,169</b>
<b>723,934</b>	<b>TOTAL NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS</b>	<b>754,558</b>	<b>758,032</b>	<b>745,094</b>

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

## SCHEDULE OF NON-DEPARTMENTAL ASSETS as at 30 June 2005

ACTUAL 30 JUNE 2004 \$000	NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
<b>CURRENT ASSETS</b>				
13,781		16,800	4,542	1,483
2,300		5,514	1,181	2,464
<b>16,081</b>	<b>Total Current Assets</b>	<b>22,314</b>	<b>5,723</b>	<b>3,947</b>
-	<b>Total Non-Current Assets</b>	-	-	-
<b>16,081</b>	<b>TOTAL ASSETS</b>	<b>22,314</b>	<b>5,723</b>	<b>3,947</b>

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES *as at 30 June 2005*

ACTUAL 30 JUNE 2004 \$000		NOTE	ACTUAL 30 JUNE 2005 \$000	MAIN ESTIMATES 30 JUNE 2005 \$000	SUPP. ESTIMATES 30 JUNE 2005 \$000
	CURRENT LIABILITIES				
1,635	Creditors and payables	2, 6	<b>18,814</b>	3,038	285
235	Provisions	3	<b>244</b>	211	257
<b>1,870</b>	<b>Total Current Liabilities</b>		<b>19,058</b>	<b>3,249</b>	<b>542</b>
	TERM LIABILITIES				
946	Provisions	3	<b>157</b>	964	145
<b>946</b>	<b>Total Term Liabilities</b>		<b>157</b>	<b>964</b>	<b>145</b>
<b>2,816</b>	<b>TOTAL LIABILITIES</b>		<b>19,215</b>	<b>4,213</b>	<b>687</b>

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

## STATEMENT OF NON-DEPARTMENTAL COMMITMENTS *as at 30 June 2005*

ACTUAL 30 JUNE 2004 \$000			ACTUAL 30 JUNE 2005 \$000
	OPERATING COMMITMENTS		
3,984	Within one year of balance date		<b>1,823</b>
-	One to two years		-
-	Two to five years		-
-	Over five years		-
<b>3,984</b>	<b>Total operating commitments</b>		<b>1,823</b>
-	<b>Total capital commitments</b>		-
<b>3,984</b>	<b>TOTAL COMMITMENTS</b>		<b>1,823</b>

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

The operating commitments are for:

- Employment Relations Contestable Fund contracts of \$1.523 million that are still to be completed as at 30 June 2005 (2004: \$1.440 million)
- Pay and Equity Contestable Fund contracts of \$300,000 that are still to be completed as at 30 June 2005 (2004: \$ nil).
- In addition, in 2004 there was \$2.544 million for the Community Employment Group uncompleted contracts. This does not apply in 2005 following the transfer of these grants to the Ministry of Social Development.

## STATEMENT OF NON-DEPARTMENTAL CONTINGENT LIABILITIES *as at 30 June 2005*

There were no non-Departmental contingent liabilities or assets as at 30 June 2005 (2003/04: Nil).

### NOTES TO THE SCHEDULES

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

#### 1. RECEIVABLE AND ADVANCES

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
1,783	Debtors and receivables	5,032
517	Prepayments	482
<b>2,300</b>	<b>Total Receivables and Advances</b>	<b>5,514</b>

#### 2. CREDITORS AND PAYABLES

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
761	Creditors	4
259	Accrued expenses	18,060
69	Income in advance	48
546	GST payable	702
<b>1,635</b>	<b>Total Creditors and Payables</b>	<b>18,814</b>

### 3. PROVISIONS

ACTUAL 30 JUNE 2004 \$000		ACTUAL 30 JUNE 2005 \$000
	CURRENT LIABILITIES	
226	Annual Leave	244
9	Long Service Leave	-
<b>235</b>	<b>Total current liabilities</b>	<b>244</b>
	NON-CURRENT LIABILITIES	
8	Long Service Leave	10
938	Retirement Leave	147
<b>946</b>	<b>Total Non-current liabilities</b>	<b>157</b>
<b>1,181</b>	<b>TOTAL PROVISIONS</b>	<b>401</b>

### 4. VOTE: ACC

Funding is provided by the government through the Department of Labour to ACC for costs relating to the Non-Earners' Account. The Non-Earners' Account covers all personal injuries to people not in the paid workforce; students, beneficiaries, older people and children.

For claims that originated after 1 July 2001, ACC funding is provided based on an actuarial assessment of the whole-of-life cost. This is reassessed annually and funding appropriated from the Crown and provided to ACC. This is referred to as "fully funded" and cost \$614.102 million in 2004/05.

For claims that originated prior to 1 July 2001, ACC funding is provided to cover the costs relating to claims in the year the costs are incurred. The cost of this is assessed during the year and appropriation sought from the Crown and funding provided to ACC. This is referred to as "pay as you go", and cost \$124.859 million in 2004/05. The estimated future liability of servicing these claims that has been recognised by ACC in relation to this account is \$1,250 million. These costs will be met by government appropriation in the year they fall due.

### 5. EXPLANATION OF MAJOR BUDGET CHANGES

(Figures are GST inclusive where applicable.)

The Supplementary Estimates of Appropriations for the year ending 30 June 2005 explain all budget changes between the 2004/05 Main Estimates and the 2004/05 Supplementary Estimates as follows:

- Vote: ACC – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 1 to 7.
- Vote: Employment – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 189 to 195.
- Vote: Immigration – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 301 to 306.
- Vote: Labour – Supplementary Estimates of Appropriations, B7 Vol 1 – Pages 325 to 333.

## 6. EXPLANATION OF SIGNIFICANT ACTUAL VARIATIONS

The following notes explain the significant variances between Supplementary Estimates and Actuals. Explanations are provided for variances of greater than \$1 million or 5%.

### SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS

		Expenditure higher (lower) \$000
Vote: Labour – Non-Departmental output classes	Pay and Employment Equity Contestable Fund	(0,874)
	<ul style="list-style-type: none"> <li>• New non-Departmental output class in 2004/05.</li> <li>• Created to support the development of capability and systems of employer or union organisations that are involved in pay and employment equity reviews or negotiations.</li> <li>• 2004/05 contracts commenced later than expected.</li> <li>• An “in principle” expense transfer of \$800,000 to 2005/06 has been approved.</li> </ul>	
Vote: Labour – Non-Departmental output classes	Employment Relations Education Contestable Fund	(1,631)
	<ul style="list-style-type: none"> <li>• Slower than anticipated completion of the 2003/04 and earlier contracts.</li> <li>• Later than expected commencement of 2004/05 contracts.</li> <li>• An “in principle” expense transfer of \$1,550,000 to 2005/06 has been approved.</li> </ul>	
Vote: Labour – Other Expenses to be incurred by the Crown	International Labour Organisation	(0,401)
	<ul style="list-style-type: none"> <li>• Savings gained from a favourable foreign exchange rate between NZ Dollar and Swiss Franc when New Zealand’s annual subscription to the International Labour Organisation (ILO) was paid.</li> </ul>	
Vote: ACC – Non-Departmental output classes	Case management and supporting services	7,100
	<ul style="list-style-type: none"> <li>• Higher operating costs in the pay-as-you-go part of the Non-Earners’ Account.</li> </ul>	
Vote: ACC – Non-Departmental output classes	Claim entitlements and services	5,466
	<ul style="list-style-type: none"> <li>• Higher than projected claim rates and costs in the pay-as-you-go part of the Non-Earners’ Account.</li> </ul>	
Vote: ACC – Benefits and other unrequited expenses	Other compensation	4,734
	<ul style="list-style-type: none"> <li>• Higher than projected claims for weekly compensation and loss of potential earnings in the pay-as-you-go part of the Non-Earners’ Account.</li> </ul>	

		Expenditure higher (lower) \$000
Vote: ACC – Other expenses to be incurred by the Crown	Victims of tsunami in Indian Ocean <ul style="list-style-type: none"> <li>• New non-Departmental output class in 2004/05.</li> <li>• Created to provide for cost of claims for trauma treatment, as part of the governmental response to the tsunami disaster of 26 December 2004.</li> <li>• Few claims to date.</li> <li>• An “in principle” expense transfer of \$246,000 to 2005/06 has been approved.</li> </ul>	(0,246)
Vote: Employment – Other Expenses to be incurred by the Crown	Community employment and development projects <ul style="list-style-type: none"> <li>• In September 2004 the Community Employment Group was disestablished and community employment activities previously undertaken by this group were subsequently transferred in part to the Ministry of Social Development.</li> </ul>	(4,914)

#### SCHEDULE OF NON-DEPARTMENTAL ASSETS

		Net assets higher (lower) \$000
Cash and Bank Balances	<ul style="list-style-type: none"> <li>• Cash drawn down for community employment and development projects not spent with the transfer of these activities to the Ministry of Social Development.</li> </ul>	15,317
Receivables and Advances	<ul style="list-style-type: none"> <li>• Money owing from the Department of Labour departmental account because of a transfer of funding that was not required.</li> </ul>	3,050

#### SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

		Net liabilities higher (lower) \$000
Creditors and Payables	<ul style="list-style-type: none"> <li>• Higher than anticipated Vote: ACC costs accrued at year end</li> </ul>	18,529