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Ministry for Primary Industries
Manatū Ahu Matua

ANNUAL REPORT 2016/17

INCORPORATING THE MINISTER'S REPORTS ON NON-DEPARTMENTAL APPROPRIATIONS

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

Contents


ONLY

Director-General's **Foreword**

I am pleased to present the 2016/17 Annual Report for the Ministry for Primary Industries (MPI).

This year marks the 125th anniversary of the formation of the Department of Agriculture. That fledgling department, with a permanent staff of 83, was a small nucleus of what would later become MPI. Over the past hundred years, MPI has continued to grow through its many iterations – with its work expanding from a singular focus on agriculture to include other areas of importance such as trade, biosecurity, fisheries and food safety.

The importance of trade has seen MPI investing in resources and people to help enable primary sector growth through expanding trade relations. Earlier this year, the Trade Agenda 2030 was launched with the ambitious goal of having free trade agreements cover 90 percent of New Zealand's goods exports by 2030. The Budget 2017 process provides an additional $35.3 million for MPI to invest in boosting the value of primary sector exports, including targeting non-tariff barriers.

Over the past year, we have supported responses to several biosecurity incursions and significant natural and weather-related disasters. First, the Kaikōura earthquake in November 2016 had a huge impact on affected rural communities and MPI staff. This was followed by the severe flooding in April 2017 in Edgecumbe, where MPI worked alongside the National Crisis Management Centre, local Rural Support Trusts and other stakeholders to ensure affected people got the help they needed.

Biosecurity remains critical to MPI, with Biosecurity 2025 being rolled out this year. This will strengthen New Zealand's biosecurity system to ensure it continues to protect New Zealand against pest and diseases. It will guide our work on the biosecurity system through to 2025 and beyond.

Food safety continues to be a key area of work, with a customer-centric approach being taken to support businesses to meet the new requirements of the Food Act 2014. The rollout of the successful "Cook, Clean, Chill" food safety campaign created a useful resource for consumers to avoid the risk of foodborne illness in the home.

This year also saw the launch of the Primary Sector Science Roadmap. This is a living document that captures all science across the primary sector to ensure we manage science in a cohesive way. In support of its growing attention on science, MPI awarded the inaugural Director-General Science Prize at the fourth MPI Science Conference in May 2017.

We further developed our Career Pathways programme to further build capability within the organisation. The Professional Specialist Pathway was launched in November 2016 and our final pathway (Leadership) was launched in July 2017. Our hard work in this space was also recognised with a win at the 2017 Institute of Public Administration New Zealand Public Sector Excellence Awards for our Careers and Capability programme.

We have continued to make significant progress on our Modern Workplaces programme, with staff at both Christchurch and Auckland preparing to move into purpose-built office spaces that provide flexible and efficient working conditions.

Lastly, I would like to say it has been a great privilege to spend time meeting and talking with staff around the country, getting to see first-hand the dedication and hard work going towards growing and protecting New Zealand.

Martyn Dunne CNZM
Director-General

Who we are
and what we do

The Ministry for Primary Industries (MPI) employs over 2,500 people and conducts a range of operational, readiness and response, policy, regulatory, diplomatic and industry development activities to support New Zealand's primary sector.

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

MPI's scope allows for a broad view of issues and opportunities across the full value chain of primary production. This view extends from the paddock, orchard, forest or ocean, through to the processing, packaging and transportation system, all the way to the market and ultimately the consumer. Because of MPI's size, staff can be deployed across regulatory systems, such as fisheries, animal welfare and food safety, meaning the organisation can quickly respond to events. In addition to its operational work, MPI provides independent policy advice on all these matters.

MPI's work in these areas is essential to achieving government and sector priorities as well as its purpose of "Growing and Protecting New Zealand".

MPI's role – nature and scope of operations

Growing and Protecting New Zealand

MPI works to help the primary sector double the value of its exports by enabling the primary industries to grow, manage risk and strengthen their environmental performance.

MPI's core business is directed through seven systems. These are:

- biosecurity;
- fisheries;
- food safety;
- forestry;
- sustainable economic development;
- animal welfare; and
- trade.

The systems are the building blocks for primary sector growth, and shape MPI's work. They are the vehicle for MPI's strategic delivery. Each system is monitored by governance boards who oversee their performance of the systems.

Other areas of MPI's business

Crown Forestry

MPI's Crown Forestry business unit manages a significant amount of Crown-owned and commercial forests, most of which is on Māori-owned land. Crown Forestry works to manage these assets to their best commercial advantage, while also working to remove the Crown from the business of commercial forestry – which it generally does through lease surrender to lessors and sales of forests.

As well as negotiating directly with landowners over Crown forests on Māori land, Crown Forestry works closely with the Office of Treaty Settlements in the Ministry of Justice to prepare Crown Forestry assets planted on Crown land for offer to iwi as part of the Treaty of Waitangi settlement processes.

Crown entities

MPI monitors one Crown entity – the New Zealand Walking Access Commission.

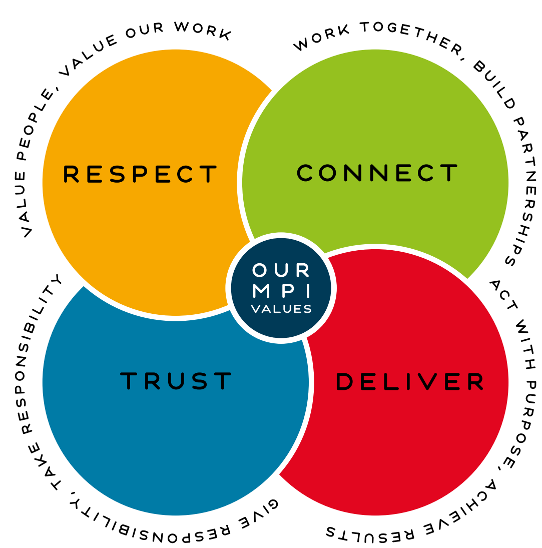
The New Zealand Walking Access Commission is a small Crown entity responsible for leading and supporting the negotiation, establishment, maintenance and improvement of walking access over public and private land. It was created by the Walking Access Act 2008. The Commission's overall vision is "...to enhance free, certain, enduring and practical walking access to the outdoors, and to strengthen our access to culture and heritage".

In addition to the Commission, MPI also has joint monitoring of Crown Irrigation Investments Limited (CIIL). This joint monitoring is shared with the Treasury, which is responsible for the direct monitoring of CIIL.

CIIL is a Crown-owned company established to co-invest in off-farm water storage schemes that are expected to be commercially viable in the long term, and to exit those investments once this goal is achieved. From July 2016 onward, CIIL also provides grant funding to support regional-scaled schemes to progress through key stages of the development timeline and become investment-ready.

Our values

Four values underpin MPI's culture. The values are MPI's touchstones, because they shape both organisational and individual decisions and behaviour.



MPI's Leadership Team

As at 30 June 2017

Martyn Dunne
Director-General

Dan Bolger
Office of the Director-General

Roger Smith
Operations

Ben Dalton
Sector Partnerships and Programmes

Bryan Wilson
Regulation and Assurance

John Ryan
Corporate Services

Deborah Roche
Policy and Trade

Delivering Performance:

Our 2016/17 Outcomes

MAXIMISE EXPORT OPPORTUNITIES

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

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

IMPROVE SECTOR PRODUCTIVITY

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

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

KEY ACHIEVEMENTS FOR 2016/17

Maximise export opportunities

Establishment of **Exporter Regulatory Advice Service**

Establishment of the **Economic Intelligence Unit**

Launch of the **Supply Chain Integrity Programme**

Chilled meat agreement negotiated with China

100% of animal welfare education initiatives progressed

100% of timeframes for complex animal welfare investigations met

New bobby calf regulations came into force

Introduction of **Dairy Industry Restructuring Amendment Bill** 2017 into Parliament

Improve sector productivity

Launch of the **Primary Sector Science Roadmap**

1 new Primary Growth Partnership (PGP) programme commenced: Sheep – Horizon Three

16 PGP programmes currently live

4 PGP programmes completed

1000th project under the Sustainable Farming Fund announced

Supported the **Growing Our Future – Primary Industry Champions** initiative

Supporting the **Future Skills Work Programme**

Piloting **FarmIQ** tool with Sri Lanka

15 new Māori agribusiness projects

INCREASE SUSTAINABLE RESOURCE USE

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

PROTECT FROM BIOLOGICAL RISK

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

KEY ACHIEVEMENTS FOR 2016/17

133 fish stocks managed within acceptable limits

2,164 hectares of aquaculture production approved

6% increase in export values of on-board tonnage of aquaculture produce

25,503 recreational fisheries inspections delivered

2,551 educational contacts with recreational fishers

95% of recreational fishers were compliant

Supporting **Rural Mental Wellness**

National Environmental Standards for Plantation Forestry launched

98.8% of international passengers comply with biosecurity requirements by the time they leave the airport

92% of import clearance processes completed within timeframes

5 new Government Industry Agreement deeds signed

210 groups now part of the National Biosecurity Capability Network

Launch of **Biosecurity 2025**

115,000 food safety information items distributed

100% of food recalls completed and closed

Food Safety Law Reform Bill introduced to Parliament

Raw Milk for Sale to Consumers Regulations 2015 came into force

Joint support for the **National Action Plan** for antimicrobial resistance

OUTCOME: Maximise export opportunities

Supporting trade and improving market access

MPI has significant influence over the export opportunities available to New Zealand's primary sectors and their ability to maximise those opportunities. Its work includes negotiating technical market access for all primary products, while at the same time managing the regulatory certification systems – giving overseas markets confidence that New Zealand is meeting its market access requirements. Additionally, MPI also assists in negotiating international trade agreements alongside partner agencies.

To achieve this long-term outcome, MPI has an international network of staff and dedicated market access and international policy functions, which has seen increased investment in recent years.

Removing barriers to trade

MPI works with other government agencies, such as the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise, to support New Zealand's international trade programme. This combined effort resulted in the launch of the Trade Agenda 2030 in March 2017.

The Trade Agenda 2030 delivers a refreshed trade policy strategy to ensure New Zealand remains agile and continues to benefit from international trade. The Trade Agenda 2030 sets the direction for the next 10 to 15 years and includes actions to help primary sector exporters succeed in overseas markets.

Of particular interest are the efforts to extend free trade agreements. In addition, exporters face an increasing range of non-tariff barriers, effectively restricting imports or exports. Examples of non-tariff barriers are sanitary and phytosanitary barriers, import quotas, unnecessary testing and border clearance delays with the intention of preventing or impeding trade. Alongside this trend is the global shift towards protectionism.

To address these trends, MPI is accelerating its work on non-tariff barriers by growing its international presence in its main markets, increasing the levels of onshore technical expertise to address priority non-tariff barriers and targeting co-operation programmes with trading partners.

In New Zealand, MPI is supporting exporters with initiatives such as the new Exporter Regulatory Advice Service (ERAS). After being piloted in 2016, ERAS has become fully established as a result of funding received in the Budget 2017. ERAS is designed to help exporters, particularly small companies, navigate complex regulatory environments. MPI will continue to refine the service as new tools are developed over the next 12 to 18 months.

The establishment of the Economic Intelligence Unit during the past year is one example of how MPI works to support the delivery of New Zealand's products into international markets. The unit focuses on strengthening MPI's analytical capability – helping exporters identify and quantify emerging market trends. Data and tools developed by the Economic Intelligence Unit have helped build insights and market intelligence information, which are used to support trade negotiations and related activities.

Strategic engagement

CHINA

The importance of New Zealand's trading relationship with China has been re-emphasised this year with work underway to upgrade the 2008 free trade agreement. As the world's second largest economy, China presents significant opportunities for New Zealand exporters and investors, particularly due to the increasing demand from China's growing middle class for quality goods.

One area MPI was involved in negotiating was a chilled meat agreement, announced in April 2017. The agreement provides for formal access for chilled meat from specific New Zealand meat processors for a six-month trial basis initially, with a view to evaluating their performance and potentially expanding to other processors at a later date.

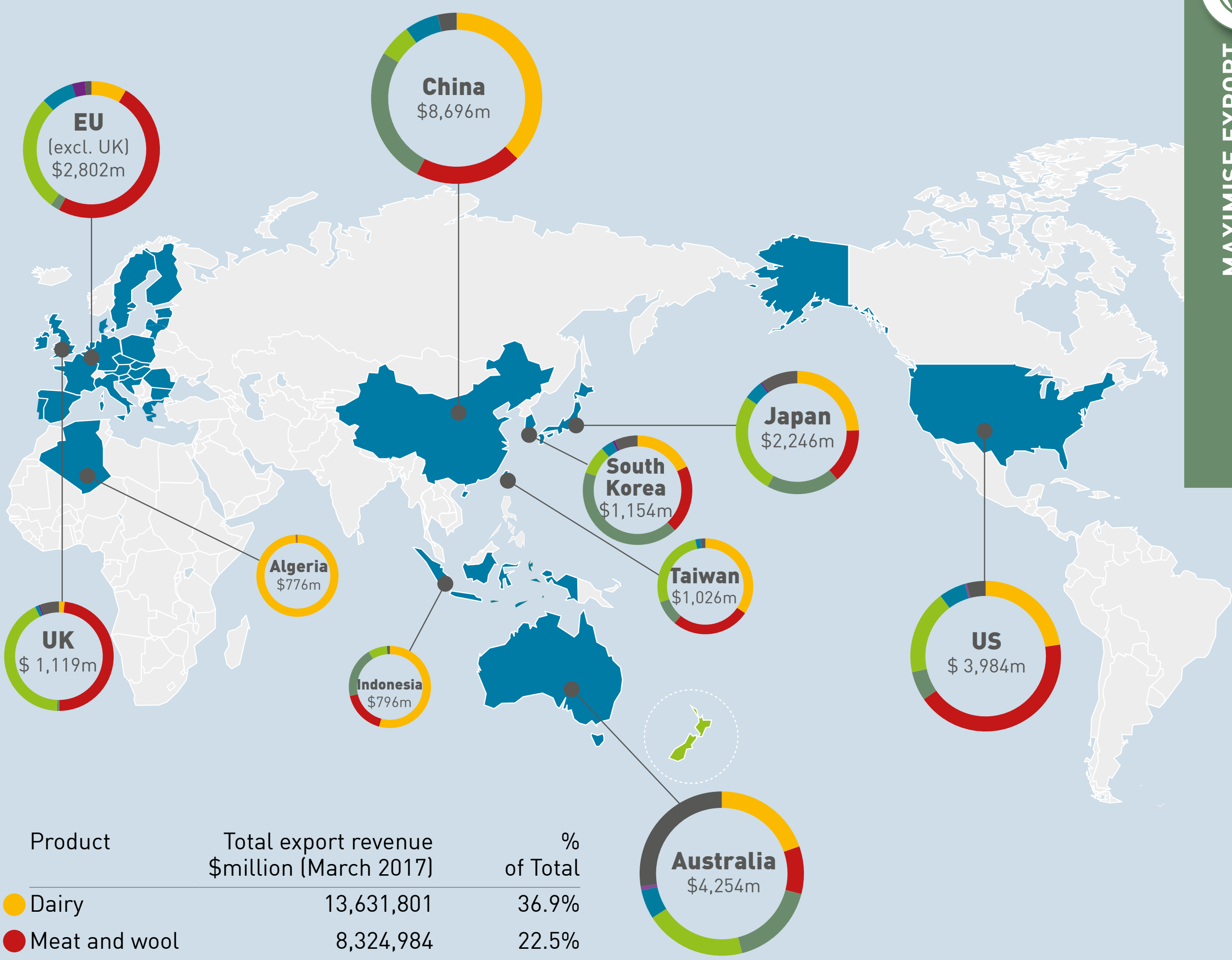
To meet the growing interest in organic goods traded in both directions, MPI signed an arrangement with China in November 2016. The Mutual Recognition Arrangement for Certified Organic Products supports the growth of the organics industry in New Zealand. This includes Chinese organic ingredients in New Zealand products and provides increased assurance for consumers in both China and New Zealand about the origin of organic goods.

MIDDLE EAST

Following the signing of a new Agricultural Co-operation Arrangement with Iran last year, MPI concluded a Meat Arrangement with the Iranian Veterinary Organization in February 2017. The Meat Arrangement provides the conditions for chilled and frozen sheep meat and beef exports to resume with Iran. In addition, Zespri and Iran's Ministry of Agriculture signed a Statement of Intent acknowledging the potential of the Iranian market as a large consumer and grower of fruit. The Statement of Intent outlines undertakings to further explore commercial opportunities in Iran.

New Zealand had a strong presence at the Gulfood Trade Show in March 2017, signalling the importance of its relationships with the United Arab Emirates and the wider Gulf region. Work to finalise the Gulf Co-operation Council free trade agreement has been identified as an important next step in enhancing trade opportunities.

Top 10 export destinations



Product	Total export revenue $million (March 2017)	% of Total
Dairy	13,631,801	36.9%
Meat and wool	8,324,984	22.5%
Forestry	5,384,322	14.6%
Horticulture	5,172,451	14.0%
Seafood	1,746,914	4.7%
Arable	198,086	0.5%
Other	2,508,929	6.8%
Primary industries total	**36,967,487**	**100%**

ARGENTINA

Two-way trade between New Zealand and Argentina has continued to grow over the years. Recognition of the importance of this relationship has resulted in the signing of an Agricultural Cooperation Arrangement in March 2017.

The arrangement is aimed at building closer relationships between New Zealand and Argentina, and will allow for greater co-operation in the agricultural, livestock and agro-industrial sectors. It will also provide opportunities to increase technical exchanges and support joint research, as well as to develop innovation and value ideas.

General export requirements for halal animal material and halal animal products

Following a review of the halal export assurance system for animal material and animal products, the assurance system was expanded to include dairy material and dairy products and poultry meat and poultry meat products. Export requirements for halal products are regulated under the Animal Products Notice: General Export Requirements for Halal Animal Material and Halal Animal Products. Under this new requirement, which came into force on 1 January 2017, the export assurance system now applies to all countries and not only traditional halal markets. Significant economic benefits can be gained from having access to a wider range of markets which have significant Muslim populations.

The updated notice also ensures that halal claims for dairy products, poultry meat and poultry meat products are verifiable against a regulatory standard in the same way as meat and meat products are currently.

Growing New Zealand's international brand

The importance of New Zealand as an international brand in its own right should not be underestimated when seeking to increase the value of New Zealand-produced goods in export markets. New Zealand's reputation as a producer of safe, high-quality goods is something MPI works to maintain through its regulatory and economic work programmes.

Launched in 2016, MPI's Supply Chain Integrity Programme (SCIP) is a foundation programme to develop agricultural growth partnerships. It provides a whole-of-system framework to discuss agricultural co-operation with partner countries.

Under this framework, initial engagement with a partner country will involve a Tier 1 SCIP study tour either in New Zealand or in the partner country. This tour enables the partner country to identify specific areas of the supply chain(s) and sector(s) they want to concentrate on. It gives them an overview of New Zealand's approach to integrity across supply chains, and an appreciation of the comparative advantages of New Zealand's food supply chains. The study tour is followed up with training, research collaboration or use of a case study approach on areas of identified need.

Successful SCIPs have been run with Iran, Mexico, Peru, Colombia and Cuba. SCIP has multiple benefits; in particular, it enables New Zealand to tell the story of the integrity of its agricultural production system. Outcomes include establishing a common understanding of the main elements contributing to successful trade. This, in turn, enables New Zealand and the partner country to identify specific areas for further co-operation that contribute to the economic development ambitions of both countries.

Impacts

Intermediate outcomes

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

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

Progress indicators and results

EXPORT ASSURANCES ARE TRUSTED BY MARKETS

For the 2016/17 year, 99.96 percent of all export certificates met importing country technical requirements (281,758 out of 281,869) categorised as follows:

- Live animals: 99.73 percent (4,772 out of 4,788);
- Plants and plant products (including forestry products): 99.87 percent (64,158 out of 64,241);
- Wine: 100 percent (of 1,765);
- Animal products: 99.99 percent (194,863 out of 194,875).

ADOPTION AND RETENTION OF NEW ASSURANCES BY MARKETS

Two customer assurance fact sheets were issued by MPI in 2016/17. In addition, four systems-based customer assurances are being pursued with the beef and lamb sector as a pilot. This trial will help inform the systems and standards needed to support these complex assurances. As well as the trial, prototype customer assurances are being looked at with the forestry, deer and poultry industries.

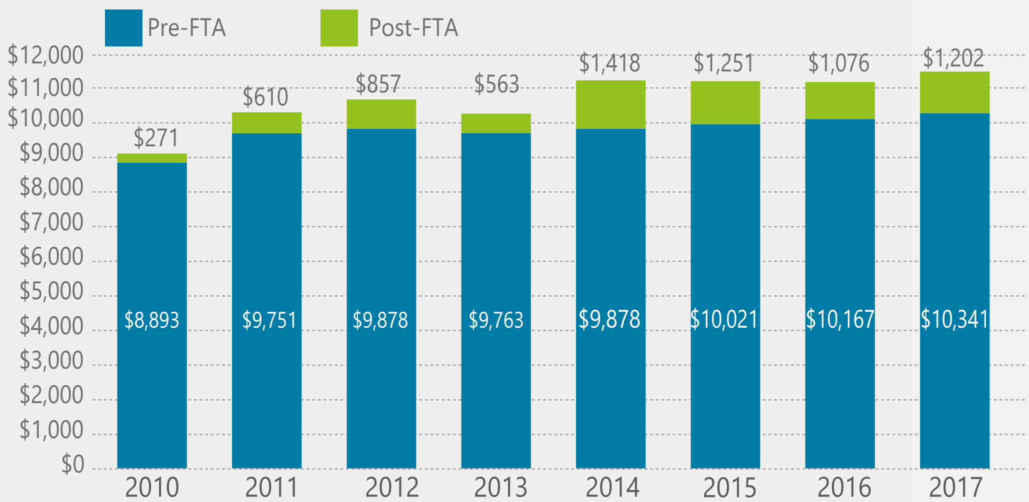
PRIMARY SECTOR BUSINESSES USE ATTRIBUTES OF THE NEW ZEALAND STORY TO ENHANCE THEIR OWN STORIES

With regard to food and beverage companies, 897 are now registered on the New Zealand Story website – a 41 percent increase for the 2016/17 year.
New Zealand Story workshops were held across the country and were well attended by businesses from across all sectors.

The Creative Collective, which provides co-funding to New Zealand companies wanting to promote their provenance story through video production, was launched this year. To date, 21 businesses have been allocated funding.

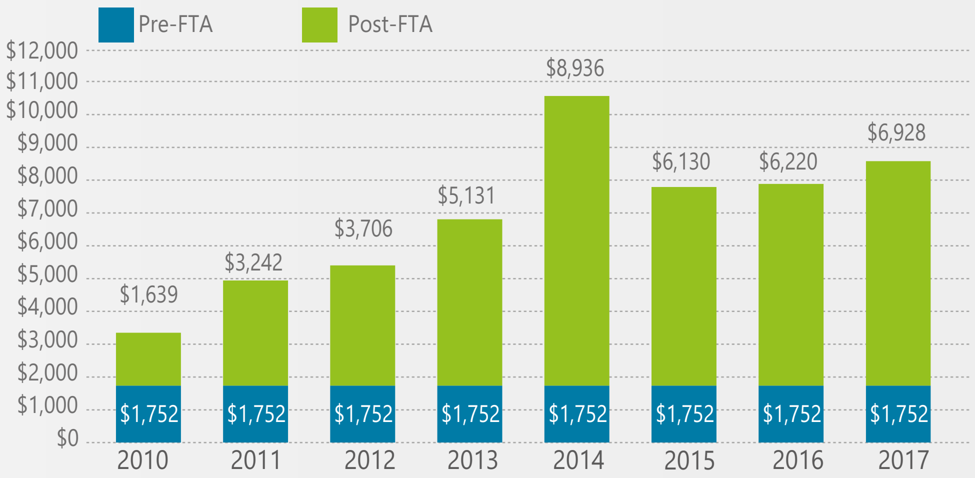
A significant component of the New Zealand Story is the FernMark Licence Programme. This has evolved to include a unique licence number for each brand to support the need for authenticity and verification. The number of licensees now totals 61, with over half from the food and beverage sector.

Primary industry exports to Free Trade Agreement (FTA) partners (excluding China) ASEAN, Hong Kong, Chinese Taipei, Australia, Chile and South Korea



Since 2006, New Zealand has entered into new free trade agreements with ASEAN countries, Hong Kong, South Korea, Chile, Chinese Taipei and China. (China is presented in a separate graph.)

Primary industry free trade agreement (FTA) exports to China ($m)

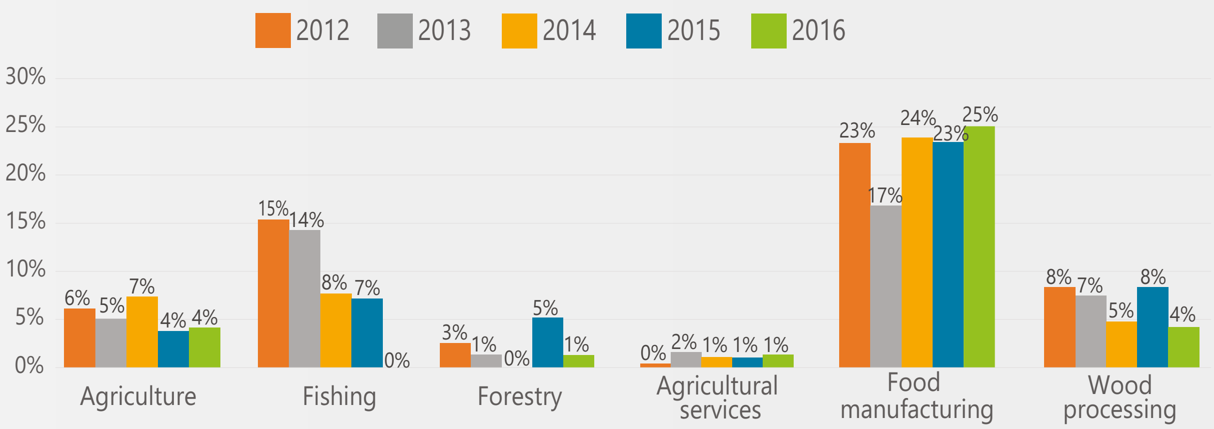


Primary sector exports to China continued to increase slightly in the year ended March 2017. Whole milk powder volumes exported to China are continuing to recover slowly from the large drop in 2015.

PROPORTION OF BUSINESSES ENTERING NEW EXPORT MARKETS

The proportion of primary industry companies reporting entry to new markets has increased for both the agriculture and food manufacturing sectors, whereas the ratio declined for forestry, wood processing and fishing, compared with previous years. This is likely due to continued high demand from existing markets, such as China.

Proportion of businesses entering new export markets



VALUE OF TRADE RETAINED THROUGH RESOLUTION OF MARKET ACCESS THREATS

A large proportion of New Zealand's trade in primary products (worth $38.1 billion in the year to June 2017) is accompanied by MPI export assurances to foreign governments.

Food safety or biosecurity incursion incidents occurring in New Zealand can have an immediate impact on overseas markets' acceptance of those assurances and of the exported products, and can call into question New Zealand's hard-won reputation for good performance and integrity.

In the past year, no major incidents occurred that led to markets shutting. MPI undertook considerable work with overseas counterparts to ensure their trust in New Zealand systems was maintained.

OUTCOME: Improve sector productivity

Leading investment and change

Science, innovation and research are essential to a well-performing primary sector. Together, they provide the building blocks for new technologies and production techniques and new consumer products. The mortar holding these building blocks together is the availability of investment capital – whether it is through government funds or privately sourced – and the skilled workforce necessary to support innovation. MPI works to bring these elements together to improve sector productivity. Much of its work in this area is in the regions, combining primary sector development with Māori agribusiness and community development.

Innovation and investment

Identifying opportunities for investment enables MPI to support primary sector scientists and businesses to become leaders in creating new ideas to support farming systems, develop cutting-edge science, or push for new technology and innovation. Some of this work is delivered through specific investment programmes, such as the Primary Growth Partnership (PGP), while other activities are supported directly by MPI.

FARM SYSTEMS CHANGE

The Farm Systems Change initiative complements existing dairy sector programmes, including Transforming the Dairy Value Chain (a PGP programme), and various research and extension activities led by DairyNZ. The programme aims to accelerate progress towards farming systems that deliver sustainable growth and improved business resilience through improved triple bottom-line performance (financial, environmental and animal).

MPI has conducted case studies that focus on how high-performing dairy farms manage their working expenses, while maintaining animal health. These case studies also focused on ways to increase resilience through "weatherproofing" production, by doing things such as changing feed types and improving pasture and irrigation management. A report on the case studies undertaken to date is being prepared. MPI is also working closely with dairy industry groups to look at ways of progressing the programme.

PRIMARY SECTOR SCIENCE ROADMAP – TE AO TŪROA

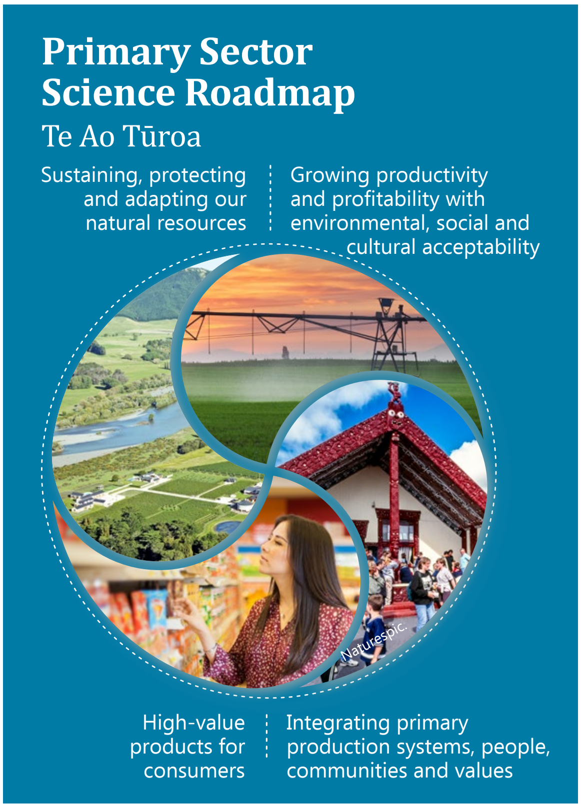
The Primary Sector Science Roadmap – Te Ao Tūroa was launched at the 2017 National Fieldays. The Roadmap provides an integrated, shared view of the future science needs and opportunities for New Zealand's primary sector over the next 10 to 20 years. The Roadmap supports and guides activities throughout New Zealand's science system, including funding and investment decisions, aligning research, developing capability and encouraging industry partnerships and international collaborations. It forms part of the Government's overall strategy for the science system, as set out in the National Statement of Science Investment 2015–2025, and aligns with the Conservation and Environment Science Roadmap.

Four cross-sector areas identify future challenges that science needs to support:

- sustaining, protecting and adapting our natural resources;
- growing productivity and profitability with environmental, social and cultural acceptability;
- high-value products for consumers; and
- integrating primary production systems, people, communities and values.

Eight interconnected science themes guide users of the Roadmap, and each theme contributes to the four cross-sector areas. These themes are priority directions for science research opportunities:

- adding value;
- harnessing the value and power of data;
- innovating with advanced technology;
- innovating through genetics;
- innovating through kaupapa Māori;



- protecting and sustaining resources;
- deriving value from complex systems;and
- integrating people and values.

CROWN FORESTRY

The Crown Forestry business unit produced a total trading turnover for 2016/17 of $89.7 million, with net profit of $64 per cubic metre achieved. The increase in net profit per cubic metre for the 2016/17 year (up from $60 in 2015/16) reflects stronger and more stable trading conditions in both export and domestic markets over the past 12 months.

As at 30 June 2017, Crown Forestry administers six forests with a total planted area of 14,294 hectares, seven afforestation leases totalling 10,264 hectares, and three registered Forestry Encouragement Loans.

SUPPORTING THE PRODUCTION OF SHEEP MILK PRODUCTS THROUGH THE PRIMARY GROWTH PARTNERSHIP

The PGP between MPI and industry invests in developing business-led and market-driven innovation programmes. These programmes aim to boost productivity and value across the primary sector value chain – from producer to consumer.

During the year, one new programme (Sheep – Horizon Three) started. The programme involves identifying new genetics and farming systems and developing high-premium niche products to boost New Zealand's sheep milk industry. With increasing demand for sheep milk, particularly in the Asian region, New Zealand has an opportunity to tap into this market and further position itself as a producer of premium products. MPI is working with Spring Sheep Dairy NZ Limited Partnership to lead this new programme, which is due for completion in 2023.

SHARING THE FarmIQ MANAGEMENT TOOL

The FarmIQ tool was developed as part of the FarmIQ PGP programme with Silver Fern Farms and Landcorp New Zealand. The tool allows farmers to build an integrated, demand-led value chain for their products. As part of its contribution to the Sri Lanka–New Zealand Dairy Cooperation Arrangement, MPI facilitated a pilot of FarmIQ in Sri Lanka.

By capturing and analysing data throughout the value chain, farmers are able to link on-farm practices to farm outputs and revenue. The Sri Lanka FarmIQ pilot specifically measures the impact of dairy farm inputs and practices on milk output, quality and profitability and helps support the overall development of the dairy sector in Sri Lanka. New Zealand has valuable expertise to share with the Sri Lankan dairy industry, and officials from both countries are confident the pilot will lift the performance of local farmers.

PROJECT MILESTONE FOR SUSTAINABLE FARMING FUND

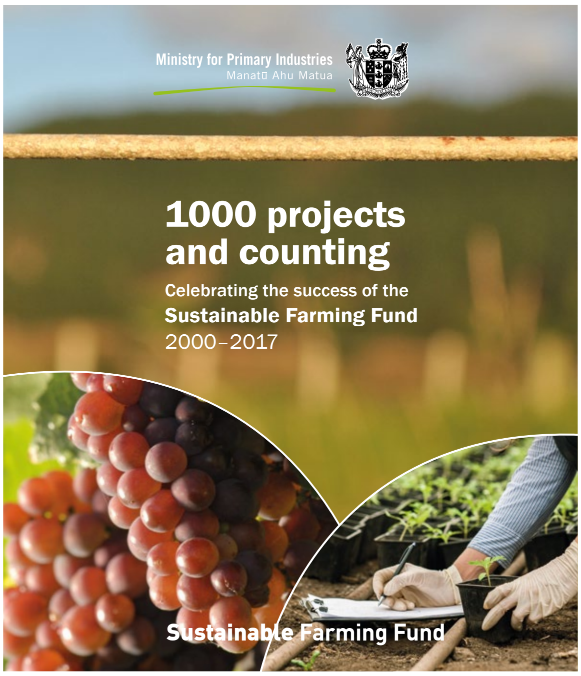
At the 2017 National Fieldays, MPI announced the 1000th project to be funded through the Sustainable Farming Fund since the programme began in 2000. These 1,000 projects represent a funding investment of around $150 million by government into primary sector projects. The 1000th project, "Ka Matau ka Ora (People and Capability)", headed by Tuhono Whenua Horticulture Ltd, aims to provide a tailored system of learning, knowledge transfer, and transformation for Māori kiwifruit orchardists. This project represents the essential nature of the fund, to support grassroots growers who identify a problem or opportunity, grow a community of interest and make the project happen.

Regional economic development

MPI continued to partner with the Ministry of Business, Innovation and Employment and other stakeholders (businesses, Iwi and councils) to support the Regional Growth Programme (RGP). The programme has grown to span 10 regions: Tai Tokerau/Northland; Bay of Plenty; Manawatū–Whanganui; Gisborne/Tairāwhiti; Hawke's Bay; Waikato; Taranaki; Canterbury; West Coast; and Southland.

The RGP's focus in 2016/17 has been on launching regional action plans or strategies. These plans are specifically designed for each area, identifying particular activities that will help increase employment opportunities, social inclusion, investment and more sustainable use of productive resources. Action plans have now been launched for Tai Tokerau/Northland, Bay of Plenty, Gisborne/Tairāwhiti, Manawatū–Whanganui, Hawke's Bay, Canterbury and Southland.

One of the many opportunities identified through the RGP has been to support and help young people into employment. The Growing Regional Opportunities through Work programme began in February 2016 and provided a full year of support for young people aged 16–24 years in Kaikohe who had left school and were not in employment or training. Pastoral care and support



covered various issues, including personal health and transport. Direct support was provided to employers and training providers to ensure the young people were effectively integrated into a workplace or training programme. Results so far are promising – of the 34 who were originally enrolled, 15 are now in work or employment-focused development pathways.

The RGP has also created options for regions to identify and develop opportunities for more productive use of natural resources to support growth. For example, the Northland Extension 350 programme is helping farmers lift their on-farm performance and profit by sharing knowledge on improving farm systems. Similarly, Gisborne's Erosion Control Funding Programme provides funding for eligible landowners to pay for planting of trees, returning farm land to native bush, or establishing exotic or indigenous forestry. Changes to better support landowners undertaking erosion control activities, and support the wider ecosystem and community, were announced in February 2017.

SUPPORTING MĀORI AGRIBUSINESS

Together with the RGP, MPI targets resources to specifically support Māori landowners to maximise economic returns through the sustainable use of primary sector assets. This includes working across MPI and other government agencies, such as Te Puni Kōkiri, on specific projects. For example, the Tai Tokerau Māori Forestry Collective has brought together owners of 35,000 hectares of Māori land used for forestry to develop business models to maximise the returns from their land.

Regional MPI staff support individual Māori businesses and landowners to identify information and resources to grow their primary sector assets. MPI also funds individual Māori agribusiness projects: 40 approved projects have been funded since 2015. These projects focus on improving the productivity of specific land blocks and include whole-farm assessments, feasibility studies and targeted consideration of a particular crop for economic production. Work also covers policy functions across MPI and government on issues relevant to Māori primary sector, such as access to water, forestry and biosecurity issues.

GROWING SKILLS CAPABILITY

The primary industries need an increase in the number of people employed and a lift in the overall level of skills, as production systems increase in complexity. MPI works closely with other government departments and industry organisations to ensure that the labour market and the education system meet the needs of the primary industries. It does this through its grant programmes and regional initiatives, and by contributing to other significant government agency initiatives, such as the Recognised Seasonal Employer scheme and the Sector Workforce Engagement Programme.

MPI also supports a Future Skills Work Programme, which aims to help meet the future capability needs of the primary industries by helping New Zealanders (particularly those of school age) to better understand the primary industries and the broad range of career opportunities available.

During 2016/17, MPI developed curriculum resources for schools. These focus on primary industry topics, such as biosecurity, food safety and animal welfare, and support the use of the *Situation and Outlook for Primary Industries* report. The PGP programmes and Sustainable Farming Fund projects also deliver educational initiatives. The Primary Industry Ambassadors programme has been effective in getting over 180 young people who work in the primary industries to visit schools and discuss their career pathways. MPI also continued the Growing Our Future – Primary Industry Champions initiative, which is showcasing people doing amazing things in the primary industries. The Champions videos have had over 33,000 views online. The Human Capability in the Primary Industries report was also published, which includes information on how the primary industries workforce is changing over time in terms of employment numbers, qualifications and diversity.

Impacts

Intermediate outcomes

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

- Actions support improvements in generating new ideas and support primary industries to adopt and adapt those ideas.
- The primary industries have greater access to capital and have the skills needed to grow and innovate.

Progress indicators and results

PRIMARY INDUSTRY BUSINESSES DEVELOPING NEW PRODUCTS AND PROCESSES

A significant rise has occurred in the proportion of businesses in the food manufacturing sector that have developed new products and processes (49 percent in 2016 versus 40 percent in 2015), which may be a result of increasing competition, both domestic and international. Food manufacturing and agriculture have shown the largest growth in the proportion of businesses developing new products and processes.

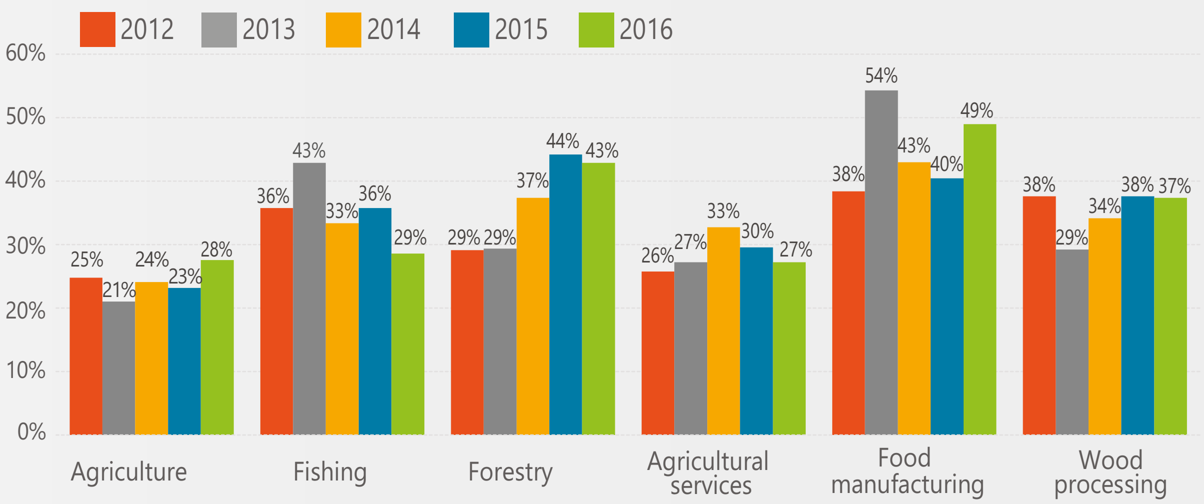
MPI-SUPPORTED PROGRAMMES REALISE PRODUCTIVITY IMPROVEMENTS

Programmes funded under the PGP focus on the full value chain. Typically, this is through the development of new technology or innovation that improves productivity and/or value in the primary sector. (For further information on PGP programmes see Minister's Reports on Non-departmental Appropriations).

PGP programme achievements that are driving productivity improvement as at 30 June 2017 include the following:

- **Clearview Innovation** has developed, trialled and launched new products such as N-Guru™ software, technology (SpreadSmart™) and extension services that lift farm productivity and improve water quality in intensively farmed areas.
- **FarmIQ** farm management software is enabling farmers to make better management decisions covering four million stock units run on 600,000 hectares. The programme has also helped develop new high-value retail and food service products in key international markets.
- **Foodplus.** Through market-led new product development this programme has commercialised 22 high-margin food, ingredient and healthcare products, manufactured from lower value animal based raw materials.
- **Marbled Grass-fed Beef** has developed a new value-chain from farmer to consumer for high-value Wagyu beef products, and farmer returns are exceeding prime steer prices.
- **NZ Sheep Industry Transformation.** This programme has successfully developed a genomic breeding value for predicting foot rot resistance in fine-wool sheep. Preventing foot rot is a key to expanding the fine wool flock.

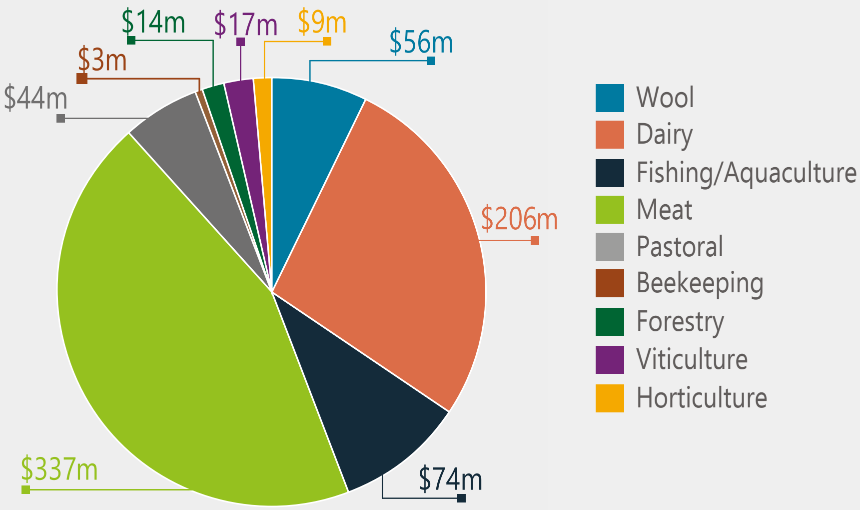
Percentage of primary industry businesses developing new products and processes, 2012–2016



IMPROVE SECTOR PRODUCTIVITY

- **Omega Lamb.** Over 15,000 lambs were raised last season with the targeted high omega-3, intramuscular and polyunsaturated fats. The premium branded Te Mana lamb product is being commercially trialled in New Zealand and Hong Kong and receiving rave reviews from chefs.
- **Pioneering to Precision** has analysed 8,052 soil and 7,280 plant samples to identify nutrient requirements for hill country farms using remote sensing. This technology is increasing farm productivity and improving sustainability through the use of precision aerial top-dressing.
- **Red Meat Profit Partnership** created a more effective extension model, which is being rolled out nationally, based on a 70-farm pilot in which 82 percent of farmers fast-tracked or adopted new productivity measures.
- **Seed and Nutritional Technology Development.** A cattle-grazing trial of a new forage crop *(Pallaton raphanobrassica)* developed under the programme showed an estimated 30 percent higher live-weight gain per hectare. The new brassica was launched at the Mystery Creek National Fieldays.

Primary Growth Partnership investment for the year ending 30 June 2017



PRIMARY INDUSTRY BUSINESSES HAVE AN IMPROVED VIEW OF GOVERNMENT REGULATIONS

PRIMARY INDUSTRY BUSINESSES HAVE ACCESS TO APPROPRIATE PERSONNEL

PRIMARY INDUSTRY BUSINESSES DO NOT CONSIDER COSTS TO BE A BARRIER TO DEVELOPING OR INTRODUCING NEW GOODS AND SERVICES

The three indicators above are due to be updated in late 2017 when the Statistics New Zealand information is available.

OUTCOME: Increase sustainable resource use

Encouraging sustainability for the future

Long-term growth and social development in New Zealand cannot occur without the sustainable use of natural resources. MPI plays a major role in sustainable use as the primary regulator of fisheries and forestry in New Zealand. It also has joint responsibility, with the Ministry for the Environment, for advising on the management of fresh water. MPI collaborates with the Environmental Protection Authority on implementation of the Emissions Trading Scheme and works with Aquaculture New Zealand, the Department of Conservation and the Ministry for the Environment on new space requirements for aquaculture activities.

Sustainable use of natural resources

MANAGING WATER

In February 2017, the Government launched the Clean Water Package, which includes freshwater reforms for swimmable rivers and lakes. This new package had input from the Land and Water Forum, which includes environmental non-governmental organisations, primary sector peak bodies such as Federated Farmers, the Freshwater Iwi Leaders Group and others.

A key goal of the package is for 90 percent of rivers and lakes to be swimmable by 2040. In moving towards this goal, an important contribution comes from new rules on stock exclusion from waterways. These rules build on the work already underway where dairy farmers around the country are voluntarily fencing off over 26,000 kilometres of waterways. The new freshwater reforms propose an additional 56,000 kilometres of fences protecting New Zealand waterways from stock.

In addition to the policy and regulatory changes proposed for swimmable lakes and rivers, and stock exclusion, the package invited applications for the first round of funding under the 10-year $100 million Freshwater Improvement Fund.

NUTRIENT MANAGEMENT

Under the Sustainable Farming Fund, MPI has invested in several projects that ultimately seek to reduce nitrate leaching into waterways. One such project involves testing the amount of nitrogen leaching from lucerne grazed by stock. Work in this space is captured in OVERSEER® software application with support from MPI. This project began in June 2016, with first results expected in 2017 and work expected to finish in June 2019.

Other projects are “Nitrogen – Measure it and Manage it”, running from July 2016 to June 2019, and “Utilisation of Nutrients from Effluent Ponds, Sale Yards and Haulage Ponds”, running from July 2016 to June 2018. Both projects look at effective nutrient management practices for farmers. Transforming the Dairy Value Chain PGP programme delivered over 9000 nutrient plans as well as certification schemes for nutrient and effluent advisors.

Supporting rural resilience

MPI supports primary producers throughout adverse events to maintain strong farming communities, improve their resilience and recover more efficiently. During the year, five medium-scale events were classified under the Primary Sector Recovery Policy: two droughts (eastern South Island, Northland), two storms (Bay of Plenty) and the November 2016 earthquake (centred in Kaikōura). MPI co-ordinated animal welfare support, provided advice on the issues affecting primary producers and the wider rural sector, and delivered various support measures.

Following the November 2016 earthquake, MPI helped farmers, producers and fishers in the districts of Hurunui, Marlborough and Kaikōura with farm visits by Rural Support Trusts, a skilled worker and volunteer programme, and an Earthquake Relief Fund for uninsurable infrastructure repair. A Primary Industries Earthquake Recovery Fund will fund community-driven projects relating to earthquake recovery and long-term land-use options. It will also fund professional advisory services to help individuals with long-term land-use planning. A $2 million research pool is supporting projects around the affected fisheries, while the Kaikōura pāua fishery has been closed for a year to support habitat and population recovery.

In partnership with the Ministry of Health, MPI continues to support the Rural Mental Wellness initiative, which contributes to the resilience of communities before and during adverse events. Work includes funding Rural Support Trusts to run community events, provide direct support and improve referral pathways. Other work is to train Trust members, including 80 new facilitators, and support the 15 mental health clinical champions. The Transforming the Dairy Value Chain PGP programme won an award for its GoodYarn mental health programme, which is now being syndicated through Fonterra and Ngāi Tahu.

Managing sustainable fisheries

MPI is the regulator responsible for managing commercial, customary and recreational fisheries, as part of its work to grow and protect New Zealand. Hundreds of thousands of New Zealanders enjoy fishing every year, with tangata whenua having a deep and important relationship with the seas and kaimoana, and the recreational and commercial fishing industries contributing millions of dollars to the New Zealand economy.

FUTURE OF OUR FISHERIES AND DIGITAL MONITORING OF COMMERCIAL FISHERIES

The Future of our Fisheries is a major programme of work to strengthen and future-proof the fisheries management system. The changes will ensure the sustainable economic, social and cultural value of New Zealand's fisheries.

The first major part of the programme is the development of digital monitoring of commercial fishing, which is being rolled out across the commercial fishing fleet from 1 October 2017. Digital monitoring will ultimately require every commercial fishing vessel to have geospatial position reporting, catch reporting via e-logbooks and camera footage of all fishing activity. Through this system, more accurate, verified and timely information will be available to support fisheries management decisions. The programme is also developing policy changes to support the use of the new information to both better inform decision-making and maximise the value of New Zealand's fisheries for all New Zealanders.

PROMOTING SUSTAINABLE FISHING IN THE PACIFIC

During the year, MPI worked with the New Zealand Defence Force (NZDF) to detect offences committed by a Chinese commercial fishing company. The company was found to have misreported bluefin tuna catches and was fishing without a licence next to the New Zealand exclusive economic zone. Operation Zodiac, a joint MPI and NZDF high seas patrol, detected offending by the vessels *Da Yang 15* and *Da Yang 16* in July 2016. The vessels were fishing in an area between New Zealand and Fiji when the Royal New Zealand Navy's offshore patrol vessel, the *HMNZS Otago,* found them to be in contravention of international law. This resulted in Chinese authorities deregistering the company and fining it around NZ$825,000.

New Zealand is committed to working with China to protect sustainable fish stocks in the Pacific region. In March 2017, MPI signed a communiqué with China aimed at promoting sustainable fishing and combatting illegal, unreported and unregulated fishing.

AQUACULTURE UPDATE

MPI is working on three outcomes for aquaculture: stabilising the existing industry, and improving Resource Management Act 1991 planning, and enabling sustainable growth, particularly of high-value finfish farming.

MPI, the Ministry for the Environment and the Department of Conservation, with a reference group of stakeholders, have jointly developed a proposal for a National Environmental Standard for Marine Aquaculture. This proposal aims to make the replacement consenting pathway for existing marine farms more consistent and efficient, while still ensuring good environmental outcomes, and to implement best practice on-farm biosecurity management for existing and new farms. As a result, increased investor confidence is expected in the marine aquaculture industry – freeing up resources to invest in innovation. Consultation with the public and iwi authorities is underway from June to August 2017.

MPI is working closely with other agencies and key stakeholders to investigate growth opportunities in Southland, Hauraki and Ōpōtiki. Iwi aquaculture settlement is progressing well, with work under way to support iwi aspirations for aquaculture in Colville and Ōpōtiki.

Sustainably growing timber

PLANTATION FORESTRY

The final version of the National Environmental Standards for Plantation Forestry (NES-PF) was published in August 2017. The NES-PF contains regulations made under the Resource Management Act 1991. It provided a nationally consistent set of planning rules designed to improve the management of the environmental effects of plantation forestry across New Zealand. The NES-PF establishes rules under which plantation forestry activities are permitted – where appropriate – and where there is unlikely to be any significant adverse effect on the environment. It also removes unwarranted variation between councils' Resource Management Act rules for plantation forestry. Regional and district councils are still able to manage the environmental risks or impacts of forestry through stricter rules. These will apply in unique and sensitive environments, such as heritage and wāhi tapu sites, and in significant natural areas, like estuaries and freshwater bodies.

Where the risk of environmental effects is too high, or permitted activities cannot be complied with, a consent is now required. This will give greater consistency in the environmental outcomes from plantation forest management practices and more certainty for foresters and potential investors. The NES-PF will commence in early to mid-2018, allowing time for MPI and the Ministry for the Environment to support and guide councils and foresters in understanding the NES-PF, and how to apply it in their day-to-day operations.

Climate change

SUPPORTING THE ONGOING REVIEW OF THE NEW ZEALAND EMISSIONS TRADING SCHEME

New Zealand ratified the Paris Agreement under the United Nations Framework on Convention on Climate Change on 4 October 2016, and committed to a target of reducing greenhouse gas emissions by 30 percent below 2005 levels by 2030.

In 2016/17, MPI's main focus was on funding the research and development of options to reduce emissions from the primary sector and building a robust evidence base with key stakeholders to understand the mitigation potential of biological emissions. Support was also provided to the Ministry for the Environment on the review of the New Zealand Emissions Trading Scheme (NZ ETS).

The review's purpose is to assess the overall operation and effectiveness of the NZ ETS and ensure its settings support New Zealand's ability to meet future emissions reduction targets. MPI is leading work to improve the effectiveness of the NZ ETS, to incentivise increased afforestation through improved accounting rules and to reduce the operational complexity for all forests in the NZ ETS.

MPI continues to administer the forestry components of the NZ ETS, allocating seven million New Zealand Units to the owners of post-1989 forests over 2016/17. MPI is also preparing to process Mandatory Emissions Returns from January 2018.

Impacts

Intermediate outcomes

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

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

Progress indicators and results

MAINTAINING AND IMPROVING WATER QUALITY

Work over the past year has targeted reform, to better manage fresh water and to provide for the range of values placed on it nationally. The Clean Water Package, released for consultation by the Ministry for the Environment in February 2017, proposes an ambitious reform programme, including work to exclude stock from waterways on a phased approach starting from 1 July 2017 through to 1 July 2025.

Analysis of available river water quality data revealed that, between 1989 and 2013, water clarity improved at more monitoring sites than declined. Total nitrogen worsened at more sites than improved. Total phosphorus trends could not be determined at many sites over the 25-year period, however, from 2004 to 2013, more sites improved than worsened.

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

INCREASED NUMBER OF FARM NUTRIENT MANAGEMENT PLANS

The Sustainable Dairying Water Accord reports that, during the 2016/17 season, 9,517 nutrient budgets (supported by the Transforming the Dairy Value Chain PGP programme) were processed and nitrogen information provided back to farmers. This represents 83 percent of the Accord dairy farms and is a significant gain from the 56 percent achieved for year one Accord reporting.

INCREASED NUMBER OF HECTARES UNDER IRRIGATION

Water storage projects in the construction stages during 2016/17 will irrigate an additional 41,800 hectares – an increase of 5.8 percent above the 2012 Agricultural Production Census baseline. This increased area will be realised once the projects below are commissioned and on-farm developments are completed. This is derived from the following schemes:

- Central Plains Stage 2 – 16,000 hectares;
- Central Plains Water Limited (CPW) Sheffield – 4,300 hectares;
- North Otago – 13,000 hectares;
- Mayfield Hinds – 4,500 hectares; and
- Ashburton/Lyndhurst Stage 2 – 4,000 hectares.

INCREASED NUMBER OF FISH STOCKS MANAGED WITHIN ACCEPTABLE LIMITS

The number of fish stocks managed within acceptable levels increased from 130 in 2015 to 133 in 2017 – this now represents 83 percent of scientifically evaluated stocks. For the remaining stocks, corrective management actions have been implemented to facilitate rebuilding.

The number of stocks below the hard limit has remained constant at 11. The hard limit is a biomass below which a stock is deemed to be collapsed. Fisheries on five of these stocks have been closed, four have had substantial reductions in catch limits and two are highly migratory species managed by international organisations.

RECREATIONAL FISHING COMPLIANCE

MPI carries out several activities designed to help fishers voluntarily comply with fisheries laws. The compliance rate for 2016/17 was 94.7 percent, compared with 94 percent the year before.

During 2016/17:

- 25,503 recreation inspections were delivered;
- 2,551 educational contacts were made with recreational fishers;
- 89 amateur charter vessels were inspected;

- 89,782 visits were made to fish size limits and fishing methods on MPI's webpages;
- 17,416 downloads were made of the fishing app, with around 100,000 downloads since it was launched in 2011.

NUMBER OF HECTARES IN AQUACULTURE PRODUCTION

In 2016/17, an additional 2,164 hectares of inshore consented aquaculture was approved under the Resource Management Act 1991. This brings the total inshore consented space to approximately 12,800 hectares, a 20 percent increase from 2015/16, although not all of the inshore consented space is in production at any one time.

The total offshore consented space has not changed in 2016/17 and remains at 9,717 hectares. To date, there is only limited trial farming within this area due to technical, economic, and biophysical constraints. Commercial development of the offshore space is likely to occur in the near future. Work is underway on a business case for the offshore farm at Ōpōtiki in the Bay of Plenty.

INCREASED VALUE OF FRESH ON-BOARD TONNAGE OF AQUACULTURE PRODUCE EXPORTED RELATIVE TO AQUACULTURE HECTARES IN PRODUCTION

Export values for fresh on-board tonnage of aquaculture produce exported relative to hectares in production went from $378 million in 2015/16 to $401 million in 2016/17, a six percent increase over the previous year and an overall increase of 24.5 percent since 2014/15.

INCREASED PRODUCTIVITY FROM MĀORI AGRIBUSINESS

MPI supports individual Māori businesses and landowners to identify and access information and resources to grow their primary sector assets. MPI continues to support Māori agribusiness projects. Forty projects have been approved since 2015. These projects focus on improving the productivity of Māori freehold land blocks and include whole farm assessments, feasibility studies, business modelling, and initiatives aimed at bringing targeted crops into production.

For example, one trust is funded to strengthen its strategic direction and develop a five-year business plan, after a whole-of-farm assessment determined the current farm could improve its performance benchmarked against the regional average. Another trust is funded to identify optimal land-use options on small land blocks.

MPI'S OBLIGATIONS TO MĀORI ARE DELIVERED

MPI is committed to building productive relationships with Māori, as Treaty of Waitangi partners, and to meet obligations established through Treaty settlements or legislation.

In the past year, MPI worked closely with South Island iwi to review the customary fishing regulations, which are expected to be formalised in the coming year. MPI is also working with groups on the Chatham Islands and in the Whanganui region to develop regulations that respond to the unique customary interests of iwi in those areas. MPI developed new regulatory arrangements for the Waikato-Waipā river basin, after much work with local Māori throughout 2016/17.

MPI also worked with over 20 iwi during the year to develop new Treaty of Waitangi settlement-related redress in regards to agriculture, fisheries and biosecurity. The redress focuses on refining engagement and relationships and enabling input into policy formation and management decisions. In 2016/17, MPI also established working relationships with Māori on activities such as emergency response to biosecurity risks (myrtle rust), a scientific definition for mānuka honey, the Primary Sector Science Roadmap and Biosecurity 2025.

REDUCED GREENHOUSE GAS EMISSIONS PER UNIT OF PRODUCTION

Biological emissions from agriculture increased on an absolute basis by 16 percent between 1990 and 2005, but have remained relatively static since.

Since 1990, farmers have improved productivity through innovations in feed and nutrition, animal genetics, pasture management and animal health. Without these productivity improvements, absolute agricultural emissions would have increased by more than 40 percent to produce the same amount of product.

Furthermore, biological emissions per unit of agricultural product (emissions intensity) has declined over this time. As a result, New Zealand's agricultural products have lower emissions intensities than those from many other countries. For example, between 1990 and 2015, the emissions intensity of milk solids decreased by 29 percent (emissions per kilogram of milk solids), and the emissions intensity of beef decreased by 34 percent (emissions per kilogram of meat).

OUTCOME: Protect from biological risk

Keeping New Zealand's environment, economy and society safe from biological risk is a major priority for MPI. This protection occurs through MPI's leadership of New Zealand's biosecurity system. The system encompasses the monitoring and surveillance of risks offshore, implementing standards and inspections to manage those risks from passengers and cargo entering New Zealand, providing readiness and response programmes for pest incursions when they do occur and supporting the management of established pests.

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

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

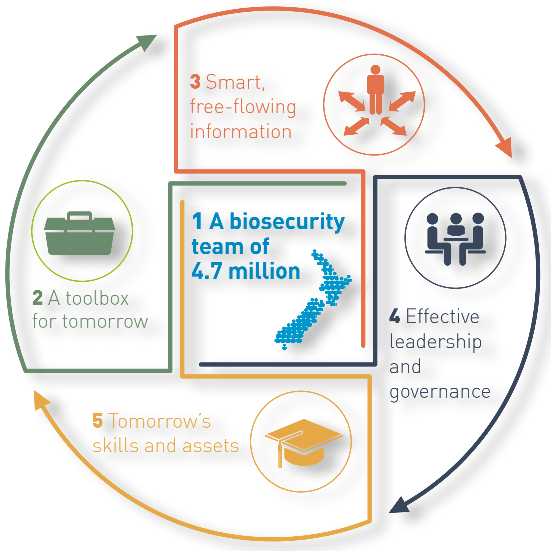
Launch of Biosecurity 2025

MPI works to protect New Zealand's environment, economy and society from the risks associated with products and people crossing the country's borders. By doing this, MPI protects New Zealand's natural advantage from pests, diseases and incursions that, if not managed appropriately, may affect New Zealand exporters' ability to freely trade internationally and their access to new and current markets.

As part of its leadership of New Zealand's biosecurity system, MPI launched the new *Biosecurity 2025 Direction Statement* at the end of 2016. Biosecurity 2025 has five strategic directions at its heart:

- a biosecurity team of 4.7 million;
- a toolbox for tomorrow;
- smart, free-flowing information;
- effective leadership and governance; and
- tomorrow's skills and assets.

These strategic areas are the highest-priority areas that MPI will be focusing on to strengthen New Zealand's biosecurity system. They will enable change while also providing assurance and support to exporters, importers, passengers and the general New Zealand public.



Go to www.mpi.govt.nz/protection-and-response/biosecurity for more information and to download the *Biosecurity 2025 Direction Statement*.

Close consultation with the New Zealand public was considered a crucial step in the development of Biosecurity 2025. A discussion document was made available, and consultation took place over a six-week period in late 2016. MPI ran a series of hui, public meetings and workshops, at which attendees provided ideas, raised issues and provided feedback.

The consultation process provided a platform for the public to engage on, and claim a stake in, the nation's biosecurity future. The public were invited to provide online or written submissions on questions in the discussion document. A theme respondents consistently raised was the importance of guardianship and protection of New Zealand's environmental resources. They also acknowledged the need for everyone to commit to being part of, and seeing their role in, a future direction for New Zealand's biosecurity system.

New Zealand's biosecurity framework is also supported by its strong food safety system. MPI oversees the production of safe and suitable food that meets international food standards. This covers the trade and audit requirements for all food produced in and exported from New Zealand, as well as those products imported for local sale.

As MPI's compliance, response, verification and quarantine functions cover both biosecurity and food safety systems, resources are readily available to address concerns if they arise. This flexibility enables MPI to take a broad approach to work in this area and contributes to creating long-term, sustainable growth for New Zealand.

Working together to support biosecurity efforts for New Zealand

To effectively manage biosecurity risk for New Zealand over 2016/17, MPI has continued to engage with a wide variety of central and local government agencies, private sector organisations, key stakeholder groups and the public to protect New Zealand from biosecurity threats. Examples of this work are documented below.

ACCREDITATION OF CRUISE LINES

MPI collaborated with cruise lines to introduce a trial accreditation programme in the summer of 2016/17 to more effectively manage the biosecurity risk associated with the increasing number of cruise line passengers coming to New Zealand. The scheme involves collecting background information about vessel stores to determine biosecurity risk, and provides assurances from cruise lines that vessels have strict systems for pest control and have biosecurity education campaigns.

Under the arrangement, accredited vessels receive a lower level of biosecurity scrutiny on the gangway from MPI officers. This has freed up staff to focus on higher-risk work, and has helped to quickly clear tourists, who have hugely increased in number coming through the border. It also improves the travel experience for disembarking passengers, as it means fewer delays for biosecurity checks. The success of the trial scheme means it may be expanded to cover more cruise vessels coming to New Zealand in coming years.

TRIALLING IMPROVEMENTS TO THE INTERNATIONAL MAIL STREAM

MPI worked with New Zealand Post and Australia Post to launch the Australia–New Zealand e-commerce international mail "green lane" project in early 2017. The project aims to test processes that allow for more seamless movement of low-risk goods through the international mail stream between Australia and New Zealand.

The trial is dependent on systems and process changes that provide pre-arrival data to border agencies, allow risk profiles and analytics to be run against the data, and identify and segregate mail items. It will allow for the collection of pre-arrival data, which border agencies can use to clear low-risk mail items before arrival and reduce the need for intervention. This will in turn be more cost-effective and give Australia Post and New Zealand Post more certainty over the availability of mail items for delivery.

Further trials and stakeholder meetings are scheduled, which will lead to a collaborative report due to be completed by the end of 2017. If the trial is successful, this design could be applied to other countries in the future.

WILDING CONIFERS

The National Wilding Conifer Control Programme was introduced in 2016 to prevent the spread of wilding conifers and systematically remove them from much of the land already taken over. Wildings compete with native plants and animals for sunlight and water and can severely alter natural landscapes.

The programme works to protect conservation land, iconic landscapes, tourist routes, high country farmland and sensitive water catchments from these invaders. It involves targeted aerial spraying of individual trees in remote areas where there is light infestation, and ground control in more heavily affected areas. Initial priority areas have been identified for action this year, including conservation land and farmland in the central North Island, Marlborough, Canterbury, Otago and Southland.

MPI in action – response

In the past year, MPI has responded to several high-priority threats to New Zealand's biosecurity, collaborating closely with key stakeholder groups. Examples include responses to pea weevil, velvetleaf, myrtle rust and *Bonamia ostreae* as described below.

MYRTLE RUST

Myrtle rust is a serious fungal disease that is prevalent in eastern Australia and Tasmania. It affects plants in the myrtle family, including some of New Zealand's iconic native plants such as pōhutukawa and mānuka. It may also affect commercially grown species. Myrtle rust spores are microscopic and can easily spread across large distances by wind.

In anticipation of myrtle rust spreading to New Zealand since the Australian outbreak began in 2010, a readiness programme was established. The disease was first detected in mainland New Zealand at a Northland nursery in early May 2017. MPI quickly responded and initiated a Restricted Place notice, to limit the movement of any plants and people at the site; and treated nursery stock with fungicide spray as a precaution.

MPI and the Department of Conservation have been collaborating closely with iwi, industry, scientists and local authorities to contain and control myrtle rust infections. Information has been prepared to give specific advice to those who are most likely to be affected by myrtle rust, such as nursery owners, orchardists, beekeepers and feijoa growers. Public advice has focused on the need for vigilance, and on the instructions not to touch the affected plant and to contact the MPI Pest-and-Disease Hotline (0800 80 99 66) to report any find and its location as accurately as possible.

BONAMIA OSTREAE

Bonamia ostreae is a naturally occurring parasite that can be fatal for flat oysters. It is difficult to contain and eradicate because it spreads easily through ocean currents and on vessels.

Testing for *Bonamia ostreae* in farmed and wild oysters has been carried out every six months in Marlborough, Otago, Chatham Islands and Southland since 2015 to detect early infections, so measures can be implemented to control the spread.

Additional testing was carried out in June 2017 in response to local community concerns. This year, *Bonamia ostreae* was detected in two oyster farms on Stewart Island, the first time it has been detected outside of the Marlborough Sounds and Nelson. As a result, MPI initiated an operation to remove flat oysters from Big Glory Bay in Stewart Island. The removal of oysters from the affected area was planned in collaboration with local iwi, oystermen, operators, farmers, councils and Environment Southland. These stakeholders have also been closely involved in planning all further stages to halt the parasite's spread.

MPI in action – readiness

MPI staff have participated in exercises to test readiness to deal with pest incursions over this year, with a particular focus on the brown marmorated stink bug (BMSB). BMSB feeds on a wide variety of valuable crops, such as grapes, kiwifruit, apples, citrus and stone fruit. Once a population is established, it can be hard to eradicate. BMSB has rapidly spread across the world and has been increasingly detected at the New Zealand border. Three confirmed post-border finds occurred during February 2017, all reported by members of the public. As a result of these finds, MPI stepped up a local response in each case, involving laboratory testing, site inspections and deploying surveillance traps. It found no evidence of an established population of BMSB in the area.

Additional work underway includes detector dog training, research on the effectiveness of lures, obtaining approval for chemical sprays and public awareness advertising and campaigns. MPI is also now investigating the potential use of parasitoid "samurai" wasps and is planning an application for this to the Environmental Protection Authority later in 2017.

Providing tools and facilities to support the biosecurity system

TRADE SINGLE WINDOW

The Trade Single Window e-commerce platform for trade, developed as a joint initiative by MPI and New Zealand Customs, was launched in April 2017. Its aim is to enable importers and exporters to meet border requirements for all goods and craft in one place.

NATIONAL BIOCONTAINMENT LABORATORY

Development of the National Biocontainment Laboratory, which will replace the current physical containment level three laboratory at the Wallaceville site, continues. The $87 million development underlines MPI's deep commitment to protecting the health of people, animals and the environment, responding to disease outbreaks and providing international assurances about New Zealand's animal disease status. The new facility will improve MPI's capability to manage a major disease outbreak (such as foot-and-mouth disease) and is essential infrastructure for diagnostics used to support exotic disease investigations, responses, surveillance and export health certification testing. It is due for completion in 2019.

SUPPORTING CONTROL ACTIVITIES

The Sustainable Farming Fund supported 12 projects investigating or trialling bio-controls for established pest insects and plants. One of these is Combating the Giant Willow Aphid (GWA). The GWA attacks willows, vital to the health of bees in spring and for reducing erosion on farms. Led by Scion, the project is testing a California-based parasitoid, which naturally controls the GWA in the United States of America. Tests are required to ensure it does not harm native aphids before a nationwide release can be undertaken.

Impacts

Intermediate outcomes

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

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

Progress indicators and results – biosecurity

MARKET ACCESS IS MAINTAINED AND OPPORTUNITIES ENHANCED, WITH TRADING PARTNERS HAVING CONFIDENCE IN NEW ZEALAND'S BIOSECURITY SYSTEM

No major responses occurred during the year that affected access to markets. Programmes of work undertaken with key trading partner officials secured their continued understanding, knowledge and acceptance of New Zealand's favourable animal and plant health status and the food safety system underpinning primary sector exports. The recent discoveries of myrtle rust in New Zealand were well publicised, but no overseas markets reacted by restricting imports of nursey stock or fruit possibly affected.

HEALTH OF BIOSECURITY SYSTEM IS IMPROVING

Regular monitoring by MPI and external stakeholders allows for the co-ordination of risk-based interventions across New Zealand's biosecurity system. This information is captured in the Emerging Risk System (ERS) tool, which provides a systematic intelligence-led approach – enabling early prioritisation and co-ordination of risk-based interventions for new and emerging biosecurity risks.

This year, MPI received 2,900 alerts on changes in pest distributions, hosts or impacts. Most did not present additional risk information but 351 alerts were entered into the ERS. Only three resulted in the need for urgent amendments of import health standards, another 32 were logged for consideration at the next scheduled review of a standard, and 15 situational awareness reports were provided to border staff.

The ERS has increased the level at which MPI is informed of new information on pests associated with commodities and, in turn, MPI's communication to all interested parties, including potentially affected industries. Feedback from external stakeholders has been particularly encouraging, and the information management system for the ERS is providing confidence across the biosecurity system that MPI is taking a pro-active and intelligence-led stance to monitoring and evaluation of offshore threats.

Other work to improve the health of the biosecurity system has included:

- improving capacity by increasing the number of Quarantine Officers;
- improving capability by enhancing competency frameworks across the passenger and cargo pathways;
- making it easier for passengers and importers to comply with biosecurity rules by improving information around what passengers and importers should do when entering the country;
- deployment of the cruise accreditation scheme;
- raising awareness around biofouling and working closely with the maritime industry to improve understanding ahead of the implementation of the Craft Risk Management System.

Work has also been done to improve response requirements with a systematic review of the five representative response models used to identify biosecurity response requirements being undertaken. This will help establish biosecurity benchmarks within MPI's all-hazards readiness framework. In addition there was greater engagement through MPI's response partnership programmes – with National Biosecurity Capability Network (NBCN) membership increasing from 193 to 210 organisations (comprising 55,000 individuals) and the number of Government Industry Agreement (GIA) signatories now at 15.

READINESS CAPACITY AND CAPABILITY ARE STRENGTHENED AND BETTER CO-ORDINATED

MPI has continued the development of the National Response Team, a multidisciplinary team sourced from organisations under the NBCN. This work has been delivered through the Biosecurity Response Services contract with AsureQuality, with MPI having substantial involvement in the design and delivery of the training programme.

MPI ran development sessions in operational management, logistics, tracing and permitting. MPI has also trained NBCN members and MPI staff in the operation of the air-curtain incinerator. A Response Leadership Development and Performance Board has been established to oversee the individual development of MPI staff for leading and managing responses. The three courses are New Zealand Government Co-ordinated Incident Management System (CIMS) – an e-learning module and a face-to-face session, Response Essentials (a half-day face-to-face session) and Simulation Kanna (a full-day interactive session). So far, 54 MPI staff from across New Zealand have participated in one or more of these opportunities.

GROUPS ACTIVELY ENGAGED WITH MPI ON PREPAREDNESS AND RESPONSIVENESS INCREASED

MPI continues to grow engagement by strengthening the NBCN and increasing the number of partnerships between MPI and industry under the Government Industry Agreement (GIA) Deed.

NBCN membership has increased from 193 to over 210 in June 2017, due to the recruitment of GIA and industry partners. Nearly 55,000 people are members of the network through their member organisations. Seven GIA partners or potential partners signed memoranda of understanding (MOUs), with MPI recently approving new MOUs that will be used to recruit another 14 industry partners. Recruiting continues into the NBCN based on analysing five response models (horticulture, animal, environmental, marine and forestry) to ensure the network has the right resources, and people to assist in those responses. Recruitment is also completed when MPI or AsureQuality identifies or deploys suitable organisations in actual responses. Training is provided by the NBCN to specific response roles to ensure the NBCN has the right expertise in various roles in responses – for example, operations managers, tracing, movement control, surveillance, organism management, logistics and others.

Government agencies already in the network are Maritime New Zealand and New Zealand Post, with MOUs drafted for new members such as the Ministry of Defence and New Zealand Transport Authority. NBCN members have been involved in four responses over the past 12 months.

COMPLETION OF EXERCISES TESTING READINESS FOR AN INCURSION

MPI staff participated in exercises that ranged from developmental workshops and table-top assessments to large all-of-government activities. Most exercises related directly to MPI readiness for biosecurity events (especially foot-and-mouth disease) and involved readiness, incursion, biosecurity response and communications staff. The activities included industry and international partners and other government agencies, and enhanced relationships with stakeholders and partners.

The major biosecurity exercise conducted by MPI in 2016/17 included a functional test of the foot-and-mouth disease operational plans for destruction, disposal and disinfection. Importing and storing of the foot-and-mouth disease vaccine testing was also conducted. Both will contribute to the major foot-and-mouth disease exercise planned for 2018. The 2016/17 exercises involved AsureQualilty, regional councils, industry partners, NBCN members and international agencies.

ADOPTION OF PREVIOUS RECOMMENDATIONS THAT LEAD TO FASTER, MORE EFFECTIVE RESPONSES

MPI implemented a pilot programme to improve the evaluation of response performance, so that findings can contribute to the continuous improvement of the Biosecurity Response System. This pilot programme has been deployed within the current myrtle rust response. Nearly all responses that were undertaken during the reporting period were debriefed, and findings have been used to make tactical fixes and as inputs to refining readiness products.

COMPLIANCE RATES WITH BIOSECURITY REQUIREMENTS

The total number of import consignments has continued to increase, with more consignments inspected in 2016/17 compared with 2015/16. Over the past year MPI has implemented a number of initiatives to reduce the amount of inspections on low-risk consignments entering the country. This has included more resource to focus on targeting higher risk consignments which has resulted in an increase in targeted inspected non-compliant consignments.

	2014/15	2015/16	2016/17
Total number of import consignments	407,835	422,448	453,397
– % change on previous year	3.7%	3.6%	7.3%
Consignments inspected	53,810	53,809	58,300
– % of consignments inspected	13.1%	12.7%	12.8%
Targeted inspected non-compliant consignments	13,149	13,074	15,217
– % of targeted inspected non-compliant consignments	24.4%	24.2%	26.1%

Ensuring food safety

Consumers need to be confident that food that is produced, processed and handled in New Zealand is safe and suitable to eat.

Consumers are increasingly interconnected, and acutely conscious of food safety, and have high expectations of assurances for both food safety and suitability. New markets also have growing expectations, seeking a greater level of prescription and government oversight in New Zealand's food safety system.

New Zealand's food industries are also expanding, as are the demands on the food safety system. As more companies seek to produce more value-added products, regulation becomes increasingly complex.

To meet these expectations, MPI works across the primary sector to protect consumers from foodborne disease, maintain and enhance New Zealand's reputation as a trusted supplier of safe and suitable food, provide assurances to consumers, respond to food-related incidents and develop food-related standards.

Over the past two years, MPI has significantly strengthened the food safety system through a combination of operational and legislative enhancements. The implementation of the Food Act 2014 is a highly visible example of the effectiveness of this approach. Over the past year, MPI is thinking about the future of food, the impact of e-commerce and the best means to support maximisation of the opportunity of the emerging consumer environment to produce and export safe, premium products.

Ensuring the safety and suitability of New Zealand's food

ENCOURAGING FOOD SAFETY THROUGH SOCIAL MEDIA

MPI is increasingly using social media platforms such as Twitter and Facebook to encourage safe food practices in New Zealanders' everyday lives. In particular, there have been information pushes on areas such as food safety in the home, on marae, and in recreational activities such as hunting. During the year, examples have included a focus on annual holiday events such as Easter, promoting Marae Kai Masters on Māori TV, and sending out updates on handling food safely during the 2017 hunting season.

MONITORING THE SAFETY OF NEW ZEALAND'S SHELLFISH

MPI continues to regularly test New Zealand recreational and commercial sites to monitor marine biotoxins that pose a risk to public health. In the past year, 20 recreational sites were sampled for toxic phytoplankton in seawater and nine sites were tested for toxins in shellfish.

As a result of its sampling efforts, MPI issued six warnings for paralytic shellfish toxin events and one for diarrheic shellfish toxins. These warnings included media releases in conjunction with local district health boards, social media alerts and signage at shellfish collection access points. MPI also closed three affected commercial shellfish growing areas. In the past year, there were no confirmed illnesses due to marine biotoxins from recreationally or commercially harvested shellfish and no commercial shellfish were recalled for biotoxins. These positive results confirm that marine biotoxin monitoring efforts have been effective.

NATIONAL ACTION PLAN FOR ANTIMICROBIAL RESISTANCE

Antimicrobial resistance is a serious and growing global threat to both public and animal health. Antimicrobial resistance in animals (pets and production animals) can have serious negative impacts on animal health, welfare and production.

MPI and the Ministry of Health have worked collaboratively on the development of the National Antimicrobial Resistance Action Plan for New Zealand to address antimicrobial resistance.

The action plan, to be presented at the 70th World Health Assembly in Geneva in August 2017, is based on five main objectives that align with international efforts and ensure New Zealand plays its part in the global response.

The plan focuses on surveillance and monitoring activities and regulatory oversight of the use of antimicrobials in animals and plants. It looks at ways to improve awareness and understanding of antimicrobial resistance and improve infection prevention and control.

ENHANCING CO-OPERATION BETWEEN THE FOOD SAFETY SYSTEMS OF CHINA AND NEW ZEALAND

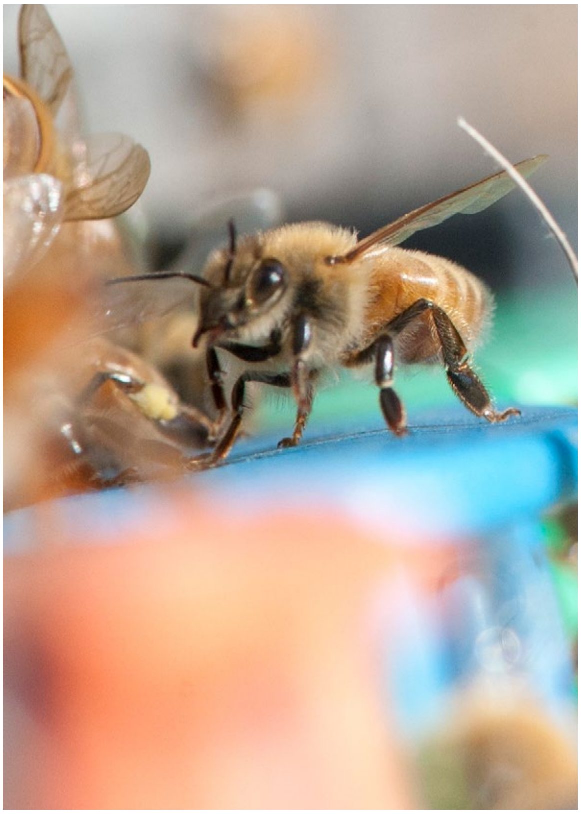
In September 2016, the Minister for Food Safety announced a two-year extension to a scholarship programme that boosts mutual understanding of the food safety systems of China and New Zealand. MPI and the China Food and Drug Administration (CFDA) developed this programme as the first initiative under the Food Safety Cooperation Agreement signed in 2013. A number of MPI and CFDA officials have participated. The scholarship covers best-practice regulation, risk management, food processing and design, and the development and implementation of food standards. It has an academic component led by Massey University, supported by applied learning through study tours and internships.

Support for producing and selling safe food products

IMPLEMENTING THE FOOD ACT 2014

MPI continues to implement the changes introduced by the Food Act 2014 by working with businesses to meet new legislative requirements. A customer-centric, service design approach has been taken to make it as easy as possible to implement the necessary changes. MPI has spoken to over 10,000 food businesses as well as councils, verifiers and others to identify problems that may be encountered in complying with the new law.

In March 2017, MPI released a redesigned food control plan template for use by restaurants, cafes, delicatessens, food retailers, community groups and others. The template is intended to aid compliance with the Food Act 2014, while making it easier to manage food safety. The new template is based on what they say will work better for them – in particular, less paperwork and simpler information. The revised plan was launched alongside a new digital tool, which helps to select the template pages that are needed when businesses draft their food control plans.



Authentication of mānuka honey

MPI has progressed work to develop a regulatory definition of New Zealand mānuka honey, and to strengthen traceability requirements for all honey exports. A mānuka honey definition is essential to provide confidence to trading partners about the authenticity of New Zealand honey, to maintain New Zealand's premium position in overseas markets and for the continued growth of the export honey industry.

MPI's mānuka honey science programme developed a robust and sophisticated scientific definition (including both chemical and DNA components) that can be used to authenticate whether or not a particular honey is New Zealand mānuka honey.

In April 2017, MPI began consulting on a draft General Export Requirements Notice (draft GREX). This consolidated and clarified existing export requirements, and proposed introducing additional traceability measures and implementing the definition for New Zealand mānuka honey.

After nine weeks of consultation, submissions on the draft GREX, including the proposed mānuka honey definition, closed on 13 June 2017. MPI has reviewed the 120 submissions received and is assessing the evidence and information provided.

Impacts

Intermediate outcomes

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

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

Progress indicators and results – food safety

RATES OF FOODBORNE DISEASE ARE MANAGED WITHIN AGREED LEVELS, THROUGH EFFECTIVE RISK MANAGEMENT OF PRIORITY PATHOGENS

MPI has a five-year performance target for foodborne campylobacteriosis. This is one of the most commonly notified potentially foodborne diseases in New Zealand. The five-year performance target is: the number of human cases of foodborne campylobacteriosis is reduced by 10 percent from 88.4 cases to 79.6 cases per 100,000 by the end of 2020. During 2016, the rate of foodborne campylobacteriosis was 80.0 (3,748) cases per 100,000, very similar to the 2015 result, which was 79.2 (3,638) cases. This rate was arrived at after all notified cases had been adjusted for the severe outbreak of water-borne campylobacteriosis that occurred in Havelock North during 2016.

Supporting the regulatory framework

MPI is one of seven government departments required to publish a regulatory stewardship strategy from 2016. The regulatory stewardship framework improves regulatory systems by increasing engagement between MPI and its stakeholders.

As part of good regulatory stewardship, MPI aims to have regulatory systems that are well designed, well understood, well operated and fit for purpose. The delivery of these systems helps MPI to understand and improve them, and in turn to enhance delivery. MPI supports systems delivery by being a cohesive and connected organisation, with customers at the centre and a focus on continuous improvement.

Several legislative updates have been completed or started during 2016/17, including the following.

Horticulture Export Authority Amendment Act 2016 – a discussion document on the review of fees and levies charged under this 2016 amendment was released in April 2017. The main areas highlighted for attention are the availability of new funding tools, additional functions created under the 2016 amendment and the expenditure shortfall as a result of the need to update export licence fees. Submissions on the review closed in May 2017, with recommendations to be released after Cabinet has approved the proposals.

Dairy Industry Restructuring Amendment Bill 2017 – this Bill seeks to amend the Dairy Industry Restructuring Act 2001, which supports the efficiency and contestability of New Zealand's dairy industry. During 2016, submissions were sought on changes to the Act and the Dairy Industry Restructuring (Raw Milk) Regulations 2012. After the consultation period, a new Bill was drafted and introduced to Parliament in March 2017, and it is now awaiting its first reading.

Animal welfare – several new regulations were introduced over the past year, including new rules for live animal exports. The Animal Welfare Amendment Act (No 2) 2015 Commencement Order 2016, which came into force in August 2016, enhances MPI's ability to require reports on the welfare of animals during their journey and for up to 30 days after their arrival in the importing country, and to take that information into account in future when considering export approvals.

Regulations to improve the treatment of bobby calves came into force in August 2016, and set tighter requirements for the age and fitness of calves before transportation for sale or slaughter. The regulatory regime also prescribes conditions of transportation, including a maximum time of 12 hours transportation time for bobby calves. As a result of these regulatory changes for the handling of bobby calves, and the education campaign around these changes, mortality rates for bobby calves have more than halved between the farm and processing.

Additional regulations came into force in 2017, including requirements for operators to have loading and unloading facilities when calves are transported for sale and slaughter and to provide appropriate shelter.

Food Safety Law Reform Bill – this omnibus Bill improves and enhances three Acts governing the food safety system: the Food Act 2014, Animal Products Act 1999 and Wine Act 2003. The changes improve alignment, operation and design of the legislation to better protect human health, and maintain and strengthen New Zealand's reputation as a supplier of safe and suitable food both domestically and internationally. The Bill has been through the Primary Production Select Committee and had its second reading at the end of June 2017.

Raw Milk for Sale to Consumers Regulations 2015 – these came fully into force in November 2016, to minimise the risks to public health of drinking raw (unpasteurised) milk, while enabling consumer choice. The regulations allow farmers who register with MPI to sell raw milk direct to consumers at the farm gate or by delivery to the consumer's residence. Cabinet will review the regulations' effectiveness in 2019.

Hemp as food – MPI has worked with the New Zealand and Australian food safety authorities to approve a standard that allows safe levels of low-tetrahydrocannabinol (THC) hemp to be used as a food. Low-THC hemp seed is nutritious and safe to eat, and it is estimated it will initially generate export revenue and create jobs. Regulations under the Food Act 2014, Misuse of Drugs Act 1975 and Medicines Act 1981 will need to be changed to give effect to the standard.

Infant formula manufacturing – new requirements applying to the manufacture, evaluation and verification of infant and toddler formula were published following a review of infant formula manufacturing standards in 2016/17. These new safety requirements come into effect on 1 November 2017.

Improving organisational capability

MPI has a range of capabilities to continue to deliver the services required to grow and protect New Zealand. These capabilities fall into the following general areas:

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

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

People and suppliers

HEALTH AND SAFETY

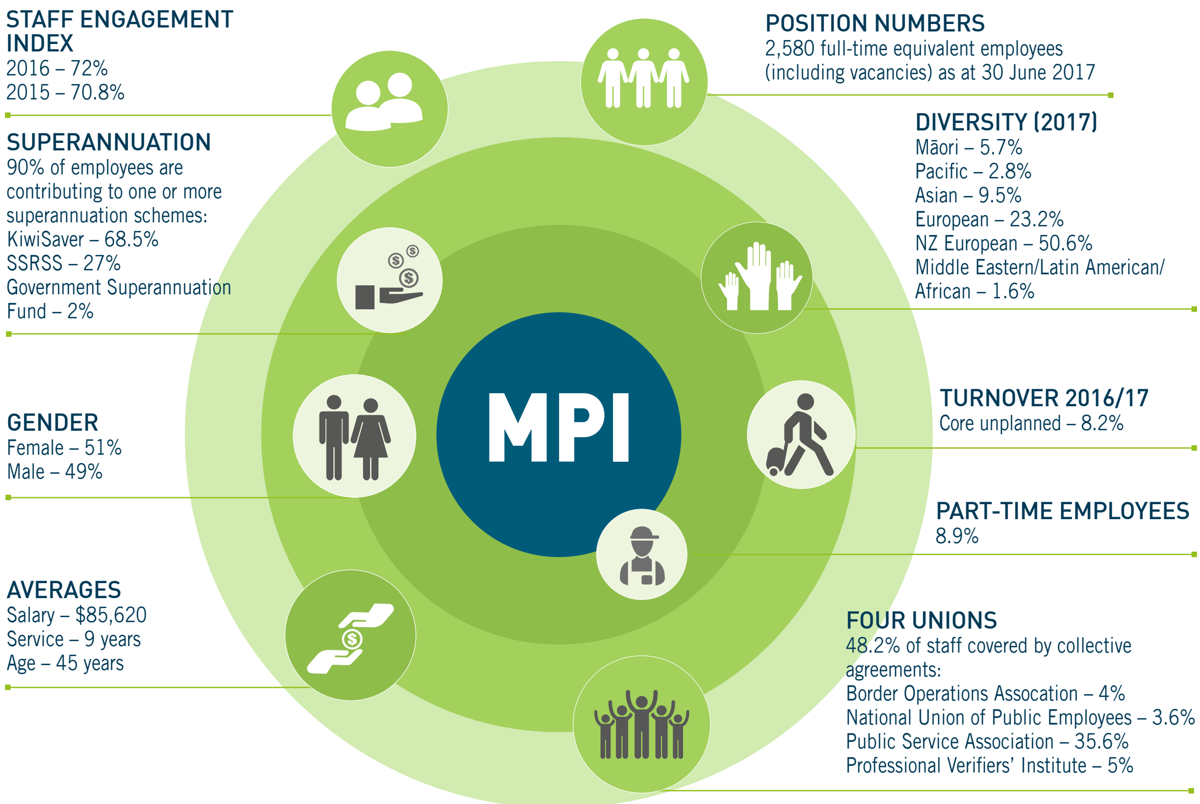
MPI has continued to ensure that its health and safety practices remain fit-for-purpose and that staff are aware of how to operate safely in the work environment. Over the past year, there was a focused improvement programme to ensure MPI practices are fit-for-purpose under the Health and Safety at Work Act 2015. Key initiatives include:

- introducing new training modules and pocket guides to ensure staff are aware of their responsibilities;
- making new health and safety risk registers operational at both the strategic (organisation) level and the branch level, as well as having regular discussions on the health and safety risks at senior leadership level;
- refreshing the governance of health and safety to ensure a clear line of communication from organisation governance through to the local health and safety committee and the worker; and
- providing new guidance for establishing health and safety in contracts with suppliers of services to MPI.

ENHANCING CAREER DEVELOPMENT

MPI refreshed its People Capability Strategy in 2016. The strategy maps out the next three-year journey for people capability development and focuses on ensuring MPI has a capable workforce, successful leaders, leverages diversity, and remains connected.

MPI established career pathways for all staff in 2015 and continued to develop these pathways during 2016/17. The five major career pathways are: Technical/Specialist; Professional Specialist; Leadership; Adviser/Analyst; and Operations. Each pathway identifies how staff can progress their careers within MPI. Training and development opportunities are in place to support the pathways, and the entire system is overseen by career development boards. MPI's Career and Capability programme won an award at the 2017 Institute of Public Administration New Zealand Public Sector Excellence Awards.



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

MPI's Graduate Programme has gone from strength to strength, with a fourth intake starting work in February 2017. The retention rate of the graduates (at almost 100 percent) remains strong.

With the support of the above initiatives, MPI has continued to maintain staff engagement, year on year above the state sector average.

EMPLOYER WORKING GROUP

MPI led the State Services Commission employer working group on the incorrect calculation and payment of workers under the Holidays Act 2003 that has affected several government departments and private sector firms. The working group has provided a common interpretation of issues and common legal opinion across agencies and has enabled a joined-up approach to communications with unions.

PAY REMEDIATION

MPI is taking a proactive approach by looking into the Holidays Act 2003 issues affecting many employers in New Zealand. Errors with how MPI has been paying employees for their leave have been confirmed, and MPI is working to rectify these errors and make remediation payments for any monies owing. The first payments to staff were made in June 2017 and will continue under a phased approach until all errors have been corrected and monies owing have been paid.

LEADERSHIP DEVELOPMENT

The launch of the Leadership Career Pathway in 2017 has enabled MPI to further identify and address development opportunities amongst the leadership cohort. Over the past few years, the focus has been on developing core leadership skills. The attention is now on addressing other management development needs across all levels of leaders. MPI continues to provide a robust assessment programme and offers eight different leadership programmes across the organisation.

DIVERSITY AND INCLUSION

The results of a recent external diversity and inclusiveness review show MPI is well advanced on its journey to becoming a diverse and inclusive organisation. MPI was assessed as having a largely positive and inclusive culture; more than half of the respondents rated MPI as a place where differences are fully embraced and valued. The next steps are to implement a diversity and inclusiveness network, which will guide this work across MPI.

Two main areas of attention over the next two years are to grow the number of Māori in MPI and increase the representation of women in leadership positions. This will ensure that MPI meets the State Sector priority areas for diversity and inclusion. MPI has completed a stocktake of current practice and tools, and work is underway to address the reporting and pay gaps priorities.

Another focus is on three priority areas agreed as part of the Better Public Services programme that relate to diversity and inclusiveness. MPI has completed the first priority and work is underway on the next two. These are:

1. **System profile:** All agencies will participate in a stocktake of current practice and tools by September 2017 and plan to adopt and report against common definitions and methodology for key diversity and inclusiveness metrics by December 2018.
2. **Reporting:** Each agency will report on its diversity and inclusiveness goals and measures in its 2017/18 Statement of Intent and four-year plan. It will report on these in its *Annual Report,* to be tabled in October 2017, which will describe what the agency has been doing to grow or embed a culture of diversity and inclusion so far.
3. **Pay gaps:** All chief executives can explain the drivers of their gender and ethnic pay gaps and their plans for addressing them.

SUPPLIER RELATIONSHIPS

Procurement practices within MPI are well regarded across government. This year has seen work on developing more sophisticated category management approaches to MPI's strategic procurement activities.

MPI is an active contributor to all-of-government procurement initiatives. Engagement continues with the Natural Resources Sector group, and MPI is a member of external advisory groups that advise the Ministry of Business, Innovation and Employment on best-practice procurement. All-of-government agreements are also used to achieve the best procurement outcomes, while acknowledging shared procurement approaches are not always possible due to the specialised nature of procurement.

The Supplier Management Framework was enhanced – providing guidance on a structured approach to managing important supplier relationships.

Systems and processes

RESEARCH, TECHNOLOGY AND INNOVATION

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

The practice looks to bring technological innovations into the way MPI does business and into its approach to problem solving. This will help drive a culture change to embed both the concept of technology innovation and the development of customer-centred design practices. The long-term benefits of this work will see shifts in how MPI designs its operating models, supported by a lift in staff capability and understanding. It is closely associated with MPI's work with other border sector agencies on progressing capability to speed the passage of goods and people across New Zealand's borders. This year, the practice progressed 10 concepts to prototype.

CONTINUOUS IMPROVEMENTS

MPI is working on improving its systems in order to identify opportunities to make it easier for staff to work together and with customers. For example, the New Zealand Arrivals mobile application was developed internally to enable visitors to understand New Zealand's biosecurity rules and find out which items they need to declare or dispose of in marked airport amnesty bins.

MPI is also working on improving its financial, human resources and information technology systems. This work has been brought together under a single programme focused on digital corporate systems and processes, and includes automating accounts payable and employee on-boarding functions, and enhancing other whole of MPI systems.

MPI has implemented Skype for Business, which enables telephone calls, content sharing and video conferencing capability through staff desktops.

COST RECOVERY

Cost recovery as a proportion of MPI's total revenue has grown significantly in recent years as a result of updates to charges in 2015/16 and the implementation of the new Traveller Border Clearance Levy from 1 January 2016. At the end of 2016/17, cost recoveries represent around 41 percent of MPI's overall revenue. Where services are cost recovered, in most cases this is done on a full cost recovery basis.

MPI is undertaking a first principles review of its cost recovery arrangements, to ensure MPI is taking a principled and transparent approach to cost recovery. The first substantive changes from this review are expected to be implemented from 1 July 2018.

PRIVACY AND SECURITY

MPI has improved physical security, with the ongoing implementation of a central access control system and security controls across MPI sites, in association with building changes. MPI has also implemented a common incident management system for capturing and recording all incidents and near misses in security, privacy and health and safety.

RISK AND INTELLIGENCE

The embedding of the Single Scalable Response Model has increased MPI's ability to respond quickly and has strengthened the control and co-ordination of operational response activity. A programme of work focused on readiness has also increased MPI's ability to manage and improve responses to threats to the food, biosecurity, primary production and trade systems. This programme includes developing a five-year readiness plan, developing response systems architecture, and ensuring readiness for a foot-and-mouth disease or food safety incident.

An advanced data analytics practice continues in close collaboration with the New Zealand Customs Service. This practice is designed to help with intelligence planning and co-ordination and to improve situational awareness, including by developing tactical and operational intelligence products. The practice adds value to information to provide insight into our operational activities.

Facilities and tools

For staff to do their job well, MPI ensures the premises and the tools and equipment they use are fit-for-purpose.

MPI continues to strengthen its information technology infrastructure while reducing costs. This work includes upgrading and refreshing servers, operating systems, applications, workstations and data centre technology. Through the introduction of a leasing model for selected assets across MPI this year (including information technology hardware), MPI can use its funds more efficiently, and reduce its risk of technology obsolescence.

MODERN WORKPLACE PROGRAMME

The Modern Workplace Programme has brought together three significant property improvement and co-location projects at MPI locations in Auckland, Wellington and Christchurch. A single programme enables a consistency of approach across the projects. The aspiration is to deliver workplaces that support the way MPI staff work well into the future.

The programme will deliver modern workplaces for staff in Christchurch and Auckland in the 2017/18 year and in Wellington in 2018/19.

IMPROVING MPI'S RESPONSE CAPABILITY

Work has continued on the National Biocontainment Laboratory. The $87 million development is due for completion in 2019.

During the year, MPI has continued to test its preparedness capability to maintain business operations during a natural disaster event. In addition, the Kaikōura earthquake in November 2016 required MPI to set up an incident management team within six hours. While buildings in Wellington and Kaikōura were affected, MPI maintained all services during this event. Lessons from the event were reviewed and MPI continues to improve its practices in this area.

Supporting All-of-Government and Better Public Services

MPI continues to play an active role in supporting the Government's strategic priority to deliver Better Public Services for New Zealand.

RESULT 9 – BETTER FOR BUSINESS

As part of the wider Better Public Services programme, Result 9 aims to create a more innovative, responsive and efficient public sector in the way that it works with business. MPI contributes to Result 9 through improving customer-facing services and by supporting the Result 9 programme initiatives.

Significant work this year has included business-facing innovations, such as the "Where Do I Fit" tool and a new food control plan template as part of the Food Act 2014 implementation programme. Other important activities have been rationalising MPI's websites, implementing the Exporter Regulatory Advice Service to provide a single point of contact of advice for food processors, and supporting the Accelerator "Take it for Granted" opportunity, which explored how to make it easier for businesses to identify what grants they are eligible to apply for.

The New Zealand Business Number initiative within MPI has continued to progress. The initiative aims to transform the way businesses provides information to government with the first stage to be completed in 2017/18.

TELECOMMUNICATIONS AS A SERVICE

As part of its network infrastructure maintenance, MPI is transitioning to the all-of-government service offering Telecommunications as a Service (TaaS). TaaS delivers a range of cross-government telecommunications and managed security services that transcend agency boundaries and allow MPI to easily connect, regardless of the service provider. TaaS services include site connectivity, personal connectivity and mobile managed security services.

This year, TaaS site and personal connectivity has been rolled out, and the managed security service will be rolled out by the end of 2018. In the long-term, TaaS site connectivity will allow MPI to access cross-government network capability. This will benefit MPI staff when working at different agency sites, because staff will have easier access to the network.

TaaS will make it easier for government agencies to collaborate securely to deliver more citizen-centric services. The standards being introduced will ensure the different TaaS services are compatible, making them easier to manage, more secure and reliable.

MPI WEBSITE

MPI has been active in refreshing its presence on the internet through a programme of refreshing the main website, mpi.govt.nz, and removing legacy websites. During the past 12 months, MPI has removed three legacy websites: archive.mpi.govt.nz, biosecurity.govt.nz and fish.govt.nz. By the end of 2017, the content of foodsafety.govt.nz and fs.fish.govt.nz is expected to be migrated to mpi.govt.nz.

Measuring
Our Performance

Statement of Performance: Vote Primary Industries and Food Safety

How MPI performed

Performance was assessed and monitored throughout 2016/17 via quarterly reporting against the multi-class appropriations MPI is responsible for.

Final year-end performance is recorded in the tables below and in the non-departmental appropriations, which are appended to this document.

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

Purpose

Obtaining the best return on the Crown's interest in forestry assets whilst seeking opportunities for the Crown to divest its interest in those assets.

What MPI wants to achieve

Effective management of the forestry assets and estate by Crown Forestry, with the view to divesting the Crown of those assets over time.

ADMINISTRATION AND MANAGEMENT OF CROWN FORESTRY ASSETS

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE*	VARIANCE INDICATOR
Percentage of costs and revenues are consistent with industry norms as assessed by annual independent review of a sample of forests	100%	100%	0%	✓
Number of hectares (ha) of the Crown forestry managed estate surrendered or sold	1,561	≥ 1,561	0%	✓
Percentage of forest management activities that comply with all statutory requirements, lease agreements and other contractual arrangements as assessed by annual independent review of a sample of forests	100%	100%	0%	✓

OPERATIONAL MANAGEMENT OF THE CROWN FOREST ESTATE

WHAT MPI DOES
This category is intended to achieve the effective administration of the Crown's forestry operations.
PERFORMANCE MEASURE
See non-departmental appropriations, which are appended to this document.

*Variance in this section was calculated using the following formula: (f-a/f) whereby f = standard and a = actual. The calculated result has been rounded to the nearest whole number. Positive variances reflect favourable results compared to the standard, while negative variances represent unfavourable results.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
1,266	Revenue Crown	1,161	1,288	1,070
129	Revenue other	22	116	116
1,395	Total revenue	1,183	1,404	1,186
1,277	Total expenses	1,115	1,404	1,186
118	Total surplus/(deficit)	68	–	–

Multi-Class Appropriation – Border and Domestic Biosecurity Risk Management

Purpose

Improve biosecurity risk management by providing operational support to prevent harmful organisms from crossing the borders and working to reduce the unwanted harm caused by organisms already established in New Zealand.

What MPI wants to achieve

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

BIOSECURITY INCURSION RESPONSE AND LONG TERM PEST MANAGEMENT

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Industry sign-up for Government Industry Agreement (GIA) deeds	5	5	0%	✓
Percentage of key stakeholders are satisfied with major biosecurity responses	65%	80%	–19%	✗

Comment

This was the second time MPI has run the biosecurity response stakeholder survey. Unlike the initial survey in 2016, where key stakeholder satisfaction was 85 percent, this year saw a 19 percent decrease in stakeholder satisfaction. This was likely due to a number of factors including a lower response rate for the 2017 survey (31 percent) compared to the 2016 survey (40 percent) and an organisational change process in the response area, which was completed at the end of April 2017.

BORDER BIOSECURITY MONITORING AND CLEARANCE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of international air passengers that comply with biosecurity requirements by the time they leave the airport	98.8%	98.5%	0.3%	✓
Percentage of international mail that complies with biosecurity requirements by the time it leaves the International Mail Centre	99%	99%	0%	✓

Percentage of import clearance processes completed within agreed timeframes	92%	80%	15%	✓
Number of identified and mitigated biosecurity risks resulting from targeted evaluations of imported goods	15,217	10,000–12,000	27%	✓
Percentage of cost-recovered external stakeholders who rate overall service as 4 out of 5 or higher	78%	80%	–3%	✗

Comment

The service level agreement specifying the agreed timeframes for import clearance processes was adjusted in October 2016, following discussions with industry, to better meet the requirements of both parties (MPI and industry). The amendment increased the timeframes for clearing goods without impacting negatively on the supply chain. With the new service level agreement in place, a significant increase in performance occurred for import clearance processes, with 92 percent of import clearance processes completed within agreed timeframes this year.

An increase occurred in the total number of inspections of imported goods during the year, which aligns with an increase in the volume of imported goods.

This year there has been a slight downward shift in satisfaction among cost-recovered external stakeholders, particularly around interactions to gain registration or approval for a transitional facility and to obtain clearance of goods for import.

BORDER BIOSECURITY SYSTEMS DEVELOPMENT AND MAINTENANCE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of OIE and IPPC standards that are acceptable to New Zealand	100%	90%	11%	✓
Percentage of certificates issued which meet biosecurity technical requirements of importing countries as specified by overseas competent authorities	99%	99%	0%	✓
Percentage of milestones met for the Sanitary and Phytosanitary Standards Market Access Programme, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	89%	75%	19%	✓

DOMESTIC BIOSECURITY SURVEILLANCE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
ISO 17025 accreditation maintained for all laboratory processing, testing and reporting	100%	100%	0%	✓
Percentage of incursion investigations reach an outcomes decision within specified timeframes	72%	80%	–10%	✗
With any suspected high risk or serious pest or disease notification, the investigation commences within 24 hours of notification	100%	100%	0%	✓
No export markets are closed due to the standard of MPI's active surveillance programmes	100%	100%	0%	✓
Specifically targeted pests or diseases are detected early enough to enable effective risk management interventions	100%	100%	0%	✓

Comment

Investigations range in complexity, which affects the time taken to reach an outcome decision. Factors such as obtaining samples, seasonal expression of symptoms, availability of diagnostic tools and time required to reach a diagnosis mean it is unavoidable that some investigations will take longer than the specified timeframes.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
	REVENUE CROWN			
33,189	Biosecurity incursion response and long-term pest management	39,274	34,245	38,551
37,246	Border biosecurity monitoring and clearance	12,342	18,190	9,178
13,390	Border biosecurity systems development and maintenance	14,159	13,700	16,058
36,856	Domestic biosecurity surveillance	36,014	38,137	34,678
120,680	Total revenue Crown	101,789	104,272	98,465
	REVENUE OTHER			
808	Biosecurity incursion response and long-term pest management	871	775	775
55,135	Border biosecurity monitoring and clearance	100,903	78,307	98,488
6,564	Border biosecurity systems development and maintenance	6,482	6,047	6,569
1,516	Domestic biosecurity surveillance	2,233	1,360	3,037
64,021	Total revenue other	110,489	86,489	108,869
184,701	Total revenue	212,278	190,761	207,334
	EXPENSES			
34,980	Biosecurity incursion response and long-term pest management	34,792	35,020	39,322
87,370	Border biosecurity monitoring and clearance	98,301	96,497	107,595
18,685	Border biosecurity systems development and maintenance	21,712	19,747	22,622
38,953	Domestic biosecurity surveillance	38,437	39,497	37,610
179,988	Total expenses	193,242	190,761	207,149
	SURPLUS/(DEFICIT)			
(983)	Biosecurity incursion response and long-term pest management	5,353	–	4
5,011	Border biosecurity monitoring and clearance	14,944	–	71
1,269	Border biosecurity systems development and maintenance	(1,071)	–	5
(581)	Domestic biosecurity surveillance	(190)	–	105
4,716	Total surplus/(deficit)	19,036	–	185

Financial comment

The increase of $16.388 million between the Main Estimates and Supplementary Estimates was mainly due to demand in funding for services to other public sector agencies and third parties.

Additionally, an expense transfer of $1.394 million was made from 2016/17 to 2017/18 for:

- delaying of the National Biocontainment Laboratory Project;
- delaying of research funding in contract negotiation with suppliers and availability of resources from the supplier;
- covering the delay in the information technology project; and
- covering the delay in negotiation of the property projects.

The $4.944 million higher than expected third-party revenue and lower expenditure of $13.907 million against Supplementary Estimates resulted in a $19.037 million operating surplus for this output multi-class appropriation (MCA).

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

Purpose

Provide both policy and operational advice and support to Ministers in discharging their policy and operational decision-making responsibilities with regards to food safety.

What MPI wants to achieve

The development, provision and implementation of policy advice relating to food safety matters.

DEVELOPMENT OF POLICY ADVICE

WHAT MPI DOES				
This category is intended to achieve the provision of policy advice to ensure that food safety systems are managed to enable an increase in real export earnings from the primary sector in a sustainable way.				
PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7	7%	✓
Total cost per output hour	$151.19	$158	–4%	✓
The Minister for Food Safety rates the quality of policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	7.5	8	–6.3%	✗

Comment

In previous years, MPI has undertaken parallel reviews by the New Zealand Institute of Economic Research (NZIER) and an internal/external panel to determine the result for the technical quality of policy advice. As both reviews have identified similar strengths and areas for improvement, MPI conducted only the review by the internal/external panel in 2017. The panel's scores have been translated to the NZIER scale to allow for consistency with previous years.

IMPLEMENTATION OF POLICY ADVICE

WHAT MPI DOES				
This category is intended to achieve the implementation of policy advice relating to food safety matters and ministerial servicing.				
PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of ministerial requests from the Minister for Food Safety completed to agreed standards	98%	95%	3%	✓
Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	97%	95%	2%	✓

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
	REVENUE CROWN			
4,371	Development of policy advice	4,811	4,179	4,889
4,042	Implementation of policy advice	3,545	6,894	4,559
8,413	Total revenue Crown	8,356	11,073	9,448
	REVENUE OTHER			
19	Development of policy advice	76	10	29
9	Implementation of policy advice	17	4	8
28	Total revenue other	93	14	37
8,441	Total revenue	8,449	11,087	9,485

	EXPENSES			
4,062	Development of policy advice	4,627	4,189	4,918
4,156	Implementation of policy advice	3,624	6,898	4,567
8,218	Total expenses	8,251	11,087	9,485
	SURPLUS/(DEFICIT)			
328	Development of policy advice	260	–	–
(105)	Implementation of policy advice	(62)	–	–
223	Total surplus/(deficit)	198	–	–

Financial comment

The decrease of $1.602 million between the Main Estimates and Supplementary Estimates was mainly due to the transfer of funding from 2015/16 to 2016/17 of $1.832 million to reflect changes in spending on activities delivered by MPI.

The $1.233 million underspend against Supplementary Estimates represents cost savings. These cost savings, along with $1.035 million lower than expected third-party revenue, resulted in a $198,000 operating surplus for this output class.

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

Purpose

Provide both policy and operational advice and support to ministers in discharging their policy and operational decision-making responsibilities with regard to primary industries.

What MPI wants to achieve

The development, provision and implementation of policy advice relating to agriculture, forestry (both indigenous and exotic), biosecurity, the NZ ETS and fisheries management.

AGRICULTURE AND FORESTRY POLICY ADVICE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7	7%	✓
Total cost per output hour	$151.19	$158	–4%	✓
The Minister for Primary Industries rates the quality of agriculture and forestry policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%	✓

BIOSECURITY POLICY ADVICE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7	7%	✓
Total cost per output hour	$151.19	$158	–4%	✓
The Minister for Primary Industries rates the quality of biosecurity policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%	✓

FISHERIES POLICY ADVICE

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7	7%	✓
Total cost per output hour	$151.19	$158	–4%	✓
The Minister for Primary Industries rates the quality of fisheries policy advice provided as 8 or better on a scale of 1 to 10 via discussion with MPI officials every six months	8	8	0%	✓

IMPLEMENTATION OF AGRICULTURE AND FORESTRY POLICY ADVICE

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	99%	95%	4%	✓
Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	94%	95%	–1%	✓

Comment

In previous years, MPI has undertaken parallel reviews by the NZIER and an internal/external panel to determine the result for the technical quality of policy advice. As both reviews have identified similar strengths and areas for improvement, MPI conducted only the review by the internal/external panel in 2017. The panel's scores have been translated to the NZIER scale to allow for consistency with previous years.

MPI's ability to meet timeframes, particularly for Official Information Act 1982 (OIA) requests, was affected by an 11 percent increase in the number of OIA requests under this output class, compared with 2015/16.

IMPLEMENTATION OF BIOSECURITY POLICY ADVICE

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	98%	95%	3%	✓
Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	99%	95%	4%	✓

IMPLEMENTATION OF THE EMISSIONS TRADING SCHEME AND INDIGENOUS FORESTRY

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of applicants that participate in the customer satisfaction survey who give the quality of NZ ETS service delivery a rating of at least 4 out of 5 (where 1 represents poor performance and 5 represents excellent performance)	56%	75%	–25%	✗
Percentage of draft sustainable forest management plans and sustainable forest management permit applications processed within 60 calendar days	0%*	100%	–100%	✗

Percentage of post-harvest inspections that comply with harvest limits and management prescriptions under approved Annual Logging Plans	80%	80%	0%	✓
Percentage of registered sawmills inspected that comply with Part 3A of the Forests Act 1949 and the Forestry (Indigenous Timber Milling) Regulations	91%	90%	1%	✓

* The 60-calendar day timeframe for processing plans and permits was included in error. The measure should instead state 90 calendar days, and this is the timeframe that teams have been working to meet during the 2016/17 reporting year. This is reflected in the result for the corrected measure – 100 percent of plans and permits were processed within 90 calendar days. This measure has been replaced for 2017/18.

Comment

This year, the NZ ETS survey was more targeted, focusing on those individuals who had submitted an NZ ETS application in the past 12 months. The survey suggested dissatisfaction with the complexity of NZ ETS legislation and delays in transaction processing. These delays are being addressed through additional recruitment, and a review is considering the complexity of the NZ ETS.

OPERATIONAL ADVICE ON SUSTAINABILITY AND MANAGEMENT CONTROLS IN FISHERIES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of planned fisheries research projects completed within the contracted timeframes	60%	80%	–25%	✗

Comment

In a number of instances, funded research projects extend across multiple years. This can impact on results where historical milestones are delayed. Work is being undertaken to improve contract management and address project lifecycle reporting issues.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
	REVENUE CROWN			
25,818	Agriculture and forestry policy advice	28,171	26,196	26,600
3,005	Biosecurity policy advice	3,127	2,941	3,024
3,586	Fisheries policy advice	5,924	3,505	5,836
28,533	Operational advice on sustainability and management	28,535	31,064	29,421
26,596	Implementation of agriculture and forestry policy advice	33,863	27,292	32,300
3,138	Implementation of biosecurity policy advice	3,878	3,142	3,732
10,006	Implementation of the NZ ETS and indigenous forestry	9,129	9,363	9,456
100,682	Total revenue Crown	112,627	103,503	110,369
	REVENUE OTHER			
747	Agriculture and forestry policy advice	423	1,120	1,132
19	Biosecurity policy advice	25	10	10
119	Fisheries policy advice	386	124	124
197	Operational advice on sustainability and management	178	200	200
154	Implementation of agriculture and forestry policy advice	690	63	216

16	Implementation of biosecurity policy advice	49	8	8
61	Implementation of the NZ ETS and indigenous forestry	17	43	43
1,313	Total revenue other	1,768	1,568	1,733
101,995	Total revenue	114,395	105,071	112,102
	EXPENSES			
26,790	Agriculture and forestry policy advice	26,675	27,316	27,722
2,866	Biosecurity policy advice	2,959	2,951	3,034
4,051	Fisheries policy advice	6,411	3,629	5,958
28,868	Operational advice on sustainability and management	28,628	31,264	29,618
25,757	Implementation of agriculture and forestry policy advice	31,120	27,355	32,512
3,175	Implementation of biosecurity policy advice	3,734	3,150	3,738
9,727	Implementation of the NZ ETS and indigenous forestry	9,237	9,406	9,492
101,234	Total expenses	108,764	105,071	112,074
	SURPLUS/(DEFICIT)			
(225)	Agriculture and forestry policy advice	1,919	–	10
158	Biosecurity policy advice	194	–	–
(346)	Fisheries policy advice	(101)	–	2
(138)	Operational advice on sustainability and management	85	–	3
993	Implementation of agriculture and forestry policy advice	3,433	–	4
(21)	Implementation of biosecurity policy advice	193	–	2
340	Implementation of the NZ ETS and indigenous forestry	(92)	–	7
761	Total surplus/(deficit)	5,631	–	28

Financial comment

The increase of $7.003 million between the Main Estimates and Supplementary Estimates was mainly due to $2.750 million for the Canterbury earthquake primary sector assistance package and revised overhead allocations between Departmental Output Expenses and Revenue Crown.

Additionally, an expense transfer of $515,000 was made from 2015/16 to 2016/17 for:

- covering the delay in the data centre migration project, updating the computer operating system and FarmsOnline programme;
- timing change of the strategic projects;
- extending timeframes for the Regional Growth Programme; and
- covering the delay in negotiation of property projects.

The $2.291 million higher than expected third-party revenue and lower expenditure of $3.311 million against Supplementary Estimates resulted in a $5.630 million operating surplus for this MCA.

Multi-Class Appropriation – Food Safety

Purpose

Protect consumers from foodborne disease and maintain and enhance New Zealand’s reputation as a trusted supplier of safe and suitable food.

What MPI wants to achieve

Provide assurances, standards, information and response activities that protect consumers from foodborne diseases, as well as maintaining and enhancing New Zealand’s reputation as a trusted supplier of safe and suitable food.

ASSURANCE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of access to overseas markets maintained after overseas audits	100%	100%	0%	✓
Five or fewer export certificates per financial year are rejected due to a verification error	5	5 or fewer	0	✓
Stakeholder satisfaction with MPI's verification services is increasing	71%	80%	–9%	✗

Comment

Stakeholder satisfaction with MPI's verification services of 71 percent represents an improvement over the 68 percent result for 2015/16. Several actions are in place to support achievement of the target progressively over the next three years. These actions include a programme of work that has a continued focus on regulatory customer centricity and implementation of a pilot to test the operator ownership model, a model that gives companies greater control of their processes while MPI focuses on regulatory compliance.

INFORMATION

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Food safety information is provided in line with programmes	Achieved	Achieved	N/A	✓

Comment

Over 115,000 food safety information items, including brochures, posters and guides were distributed during 2016/17. An online campaign carried out over summer used the "Cook, Clean, Chill and don't get ill" tagline and generated more than 5,000 visits to food safety tips for consumers on the MPI website.

RESPONSE

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of complex investigations completed within legislative requirements	100%	100%	0%	✓
Percentage of non-complex investigations completed within 6 months	78%	95%	–18%	✗
Percentage of food recalls completed and closed within 60 days	100%	100%	0%	✓
Percentage of Priority 1 complaints are recorded and responded to within 24 hours of notification to MPI	100%	100%	0%	✓

Comment

A number of serious and complex cases impacted on MPI's ability to complete non-complex investigations within the specified timeframe. Implementation of training, prioritisation and monitoring during the year has helped in improving results.

STANDARDS

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of milestones met for the Sanitary and Phytosanitary Standards Market Access Programme, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	89%	75%	19%	✓
Percentage of certificates issued which meet food safety technical requirements of importing countries as specified by overseas competent authorities	99%	99%	0%	✓
Percentage of Codex standards that are acceptable to New Zealand	95%	90%	6%	✓

JOINT FOOD STANDARDS SETTING TREATY

WHAT MPI DOES
This category is intended to achieve the development of joint food standards between New Zealand and Australia.
PERFORMANCE MEASURE
Exemption applies – see Note 1.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
	REVENUE CROWN			
11,692	Assurance	7,882	12,819	9,912
1,055	Information	1,250	1,053	1,902
4,957	Response	5,237	5,630	5,322
6,668	Standards	11,579	6,534	11,541
24,372	Total revenue Crown	25,948	26,036	28,677
	REVENUE OTHER			
59,579	Assurance	53,561	60,774	62,632
4	Information	1	2	2
25	Response	4	360	360
10,012	Standards	10,098	12,032	12,627
69,620	Total revenue other	63,664	73,168	75,621
93,992	Total revenue	89,612	99,204	104,298
	EXPENSES			
68,151	Assurance	69,941	73,593	72,467
1,101	Information	1,820	1,055	1,904
5,008	Response	5,554	5,990	5,677
17,381	Standards	18,409	18,566	24,154
91,641	Total expenses	95,724	99,204	104,202
	SURPLUS/(DEFICIT)			
3,120	Assurance	(8,498)	–	77
(43)	Information	(569)	–	–
(26)	Response	(313)	–	5
(701)	Standards	3,268	–	14
2,350	Total surplus/(deficit)	(6,112)	–	96

Financial comment

The increase of $4.998 million between the Main Estimates and Supplementary Estimates was mainly due to revised overhead allocations between departmental output expenses and revenue Crown and from an increase in demand and funding for services to other public sector agencies and third parties. This was offset by the carry forward funding of $940,000 from 2015/16 to 2016/17.

Additionally, an expense transfer of $1.23 million was made from 2015/16 to 2016/17 for:

- delaying of research funding in contract negotiation with suppliers and availability of resources from the supplier;
- covering the delay in the data centre migration project, updating the computer operating system and FarmsOnline programme;
- timing of the strategic projects;
- covering the delay in negotiation of property projects; and
- rescheduling of co-operation programmes for the implementation of free trade agreements and related co-operation.

The $14.686 million lower than expected third-party revenue and lower expenditure of $8.479 million against Supplementary Estimates resulted in a $6.111 million operating deficit for this MCA.

Multi-Class Appropriation – Grants and Programmes

Purpose

The administration of schemes, grants, programmes and assistance which are designed to achieve the outcome of innovation and sustainable resource management within the primary sector.

What MPI wants to achieve

Effective administration of the grants, programmes and funds overseen by MPI and supporting the delivery of operational activities related to adverse climatic events, hill country erosion, and community economic and environmental programmes.

ADMINISTRATION OF GRANTS AND PROGRAMMES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of funding applications processed within timelines	99.6%	100%	–0.4%	✗

Comment

Of the 247 applications processed, 246 were within delivery standards. The result represents a significant year-end improvement over the previous year's result of 83 percent.

ADVERSE EARTHQUAKE EVENTS

WHAT MPI DOES
This category is intended to achieve the effective management and administration of earthquake assistance funds in the aftermath of major earthquake events.
PERFORMANCE MEASURE
Exemption applies – see Note 1.

ADVERSE CLIMATIC EVENTS

WHAT MPI DOES
This category is intended to achieve the effective management and administration of recovery assistance funds in the aftermath of climatic events.
PERFORMANCE MEASURE
Exemption applies – see Note 1.

HILL COUNTRY EROSION FUND

WHAT MPI DOES
This category is intended to achieve the effective management and administration of projects and regional activities developed to protect erosion-prone hill country.
PERFORMANCE MEASURE
Exemption applies – see Note 1.

SUSTAINABLE FARMING FUND

WHAT MPI DOES
This category is intended to achieve the effective management of grants to support community programmes aimed at improving economic and environmental benefits to land-based primary industries and the aquaculture sector.
PERFORMANCE MEASURE
See non-departmental appropriations, which are appended to this document.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
6,236	Revenue Crown	10,754	7,670	11,257
101	Revenue other	12	49	49
6,337	Total revenue	10,766	7,719	11,306
6,314	Total expenses	9,622	7,719	11,304
24	Total surplus/(deficit)	1,144	–	2

Financial comment

The increase of $3.585 million between the Main Estimates and Supplementary Estimates was mainly due to revised overhead allocations between Departmental Output Expenses and Revenue Crown. This was offset by the carry forward funding of $1.271 million from 2015/16 to 2016/17.

The $540,000 lower than expected third-party revenue and lower expenditure of $1.682 million against Supplementary Estimates resulted in a $1.142 million operating surplus for this MCA.

Multi-Class Appropriation – Sustainable Economic Development and Trade

Purpose

Efficiently manage New Zealand's primary production and natural resources in a sustainable manner.

What MPI wants to achieve

Effective management of animal welfare, aquaculture and fisheries programmes to support sustainable economic development.

ANIMAL WELFARE EDUCATION AND ENFORCEMENT

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of Priority 1 (Grade 1 – significant/acute) complaints are recorded and responded to within 24 hours	98%	100%	–2%	✘
Percentage of agreed animal welfare education initiatives progressed as per the "Safeguarding our Animals, Safeguarding our Reputation" programme	100%	100%	0%	✓

Percentage of complex investigations completed within legislative requirements	100%	100%	0%	✓
Percentage of non-complex investigations completed within six months	94%	98%	–4%	✗

Comment

Of the 55 Priority 1 complaints received, 54 were responded to within 24 hours. One incident categorised as Grade 1 was found to be Grade 2. This incident was resolved appropriately and within the timeframe allowed for a Grade 2 response.

Technical issues associated with the introduction of a new database for capturing animal welfare complaints in March 2017 impacted on closing files on non-complex investigations. These technical issues have now been resolved.

AQUACULTURE

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of project milestones for the annual aquaculture plan met	85%	90%	–5%	✗

Comment

Due to redirection and a reset of the aquaculture work programme in late 2016, following Business Growth Agenda ministerial decisions, the current milestones were not fully met. However, performance results show significant improvements from the 2015/16 year.

FISHERIES ENFORCEMENT AND MONITORING

WHAT MPI DOES

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of commercial operators inspected who are found to be voluntarily compliant	90%	90%	0%	✓
Percentage of recreational fishers inspected who are found to be voluntarily compliant	94.7%	95%	–0.3%	✗
Percentage of serious offenders who do not reoffend within the next year	99%	95%	4%	✓
Percentage of complex investigations completed within legislative requirements	100%	100%	0%	✓
Percentage of non-complex investigations completed within six months	94%	95%	–1%	✗
Percentage of the Crown's obligations to Māori is delivered	85%	100%	–15%	✗

Comment

The 2016/17 result for voluntary compliance of recreational fishers represents a slight improvement compared to last year. MPI promotes voluntary compliance by providing information on fish sizes and bag limits through its website, a downloadable app, and through educational advice to fishers by the Fishery Officer network. This contributes to recreational fishers understanding their role in ensuring New Zealand maintains sustainable fishing stocks.

When considering the percentage of serious offenders who do not reoffend within the next year, this refers to the 12-month period following the offence taking place.

During 2016/17 over 4,000 non-complex fisheries investigations were undertaken by MPI, 258 of which were closed or completed outside of the timeframe. This result represents a 2 percent increase in performance compared to last year. Improving case file management will be a focus for MPI in the coming year.

Three of the 20 Strategic Obligations to Māori (SOFM) performance measures were not achieved. These relate to kaitiaki training evaluations and consultation with Māori. MPI facilitated discussion with three of five iwi forums before consultation on stocks proposed for the 2016 October sustainability round. In addition to sustainability round papers, a consultation paper for the sea lion threat management plan was made available online; however, non-commercial Māori interests were not contacted directly due to an administrative error. Work to review SOFM is progressing and improvements are being explored as part of this process.

FISHERIES MANAGEMENT

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

PERFORMANCE MEASURE	ACTUAL 2016/17	STANDARD 2016/17	VARIANCE	VARIANCE INDICATOR
Percentage of ministerial requests from the Minister for Primary Industries completed to agreed standards	98%	95%	3%	✓
Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	92%	95%	–3%	✗

Comment

MPI's ability to meet timeframes, particularly for OIA requests, was affected by a 125 percent increase in the number of OIA requests under this output class compared with 2015/16.

MPI also published video footage in support of the independent review of the decision not to prosecute fisheries offences. The publication of video footage responded to 8,422 pro forma OIA requests, which have not been included in MPI's OIA statistics.

FISHERIES QUOTA SHARES AND ANNUAL CATCH ENTITLEMENT (ACE) ADMINISTRATION COSTS

WHAT MPI DOES
This category is intended to achieve the effective administration and management of work relating to the sale of Crown Quota Shares and ACE.
PERFORMANCE MEASURE
Exemption applies – see Note 1.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES JUNE 2017 $000	SUPP ESTIMATES JUNE 2017 $000
	REVENUE CROWN			
8,431	Animal welfare education and enforcement	9,652	8,539	11,161
4,649	Aquaculture	5,519	4,126	5,900
35,946	Fisheries enforcement and monitoring	35,778	35,755	36,702
9,591	Fisheries management	12,071	9,435	10,607
58,617	Total revenue Crown	63,020	57,855	64,370
	REVENUE OTHER			
46	Animal welfare education and enforcement	25	19	19
20	Aquaculture	15	16	16
1,800	Fisheries enforcement and monitoring	2,293	1,935	2,152
662	Fisheries management	245	883	883
2,528	Total revenue other	2,578	2,853	3,070
61,145	Total revenue	65,598	60,708	67,440
	EXPENSES			
8,396	Animal welfare education and enforcement	10,468	8,558	11,174
4,150	Aquaculture	5,449	4,142	5,916
35,489	Fisheries enforcement and monitoring	37,780	37,690	38,823
10,894	Fisheries management	11,517	10,318	11,486
58,929	Total expenses	65,214	60,708	67,399
	SURPLUS/(DEFICIT)			
81	Animal welfare education and enforcement	(791)	–	6
519	Aquaculture	85	–	–

2,257	Fisheries enforcement and monitoring	291	–	31
(641)	Fisheries management	799	–	4
2,216	Total surplus/(deficit)	384	–	41

Financial comment

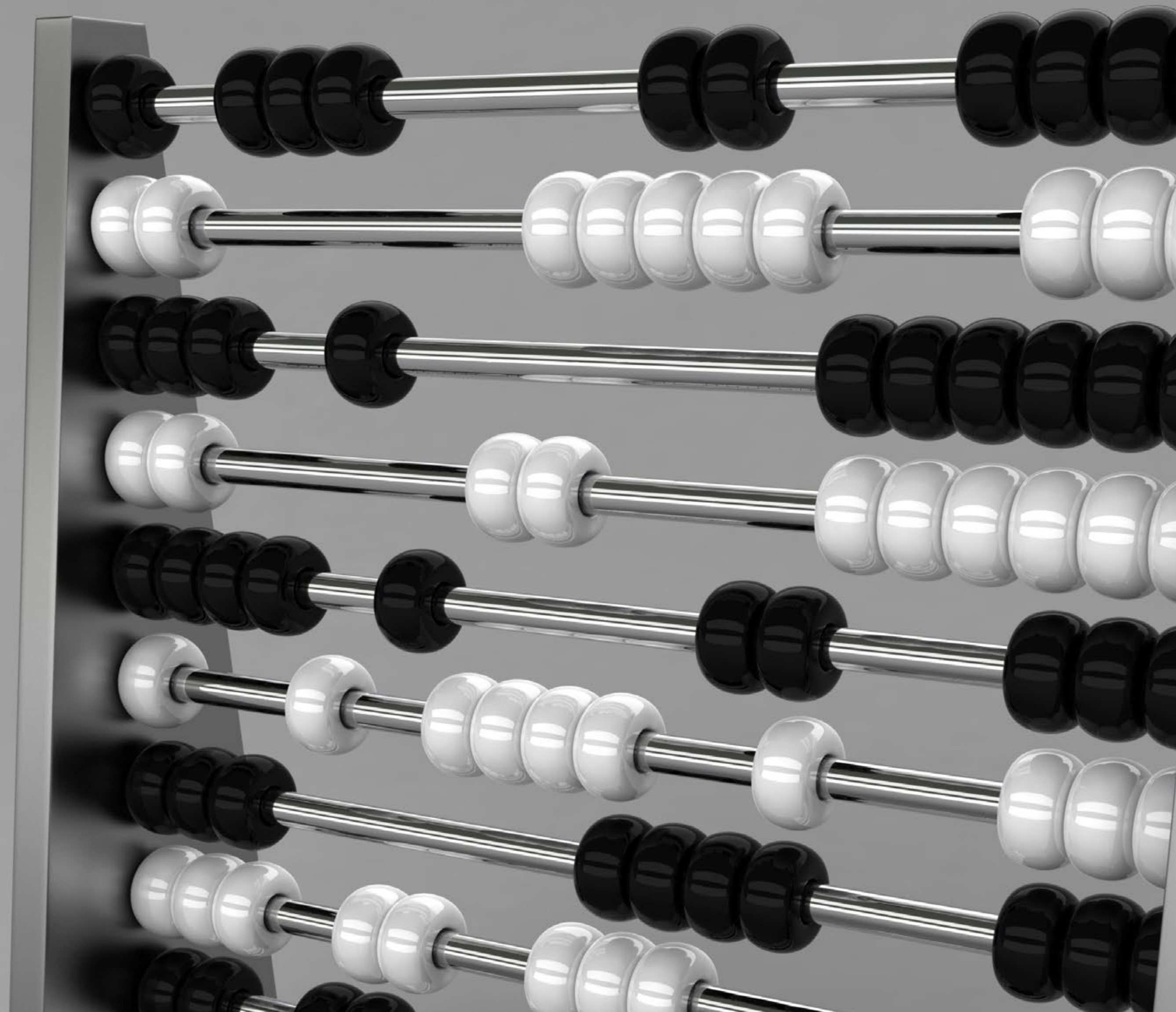
The increase of $6.691 million between the Main Estimates and Supplementary Estimates was mainly due to revised overhead allocations between Departmental Output Expenses and Revenue Crown.

Additionally, an expense transfer of $645,000 was made from 2015/16 to 2016/17 for:

- covering the delay in the data centre migration project, updating the computer operating system and FarmsOnline programme;
- covering the delay in negotiation of property projects;
- covering the extended expression of interest for Ōpōtiki Harbour Feasibility Study;
- covering the delay in development of the Aquaculture National Direction; and
- covering the change in timing of the Aquaculture Planning Fund delivery due to a delay in council applications.

The $2.186 million underspend against Supplementary Estimates represents cost savings that, when offset by $1.844 million lower than expected third-party revenue, resulted in a $342,000 operating surplus for this output class.

NOTES ON EXEMPTIONS	
Note 1	This appropriation is exempt from end-of-year performance reporting under s15D(2)(b)(iii) of the Public Finance Act 1989 because the amount of this annual appropriation is less than $5 million.



Financial **Statements**

Statement of Responsibility

I am responsible, as Chief Executive of the Ministry for Primary Industries (MPI), for:

- the preparation of MPI's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by MPI is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by MPI, whether or not that information is included in the annual report.

In my opinion:

- the financial statements fairly reflect the financial position of MPI as at 30 June 2017 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of MPI as at 30 June 2017 and its operations for the year ending on that date.

Martyn Dunne CNZM
Director-General
29 September 2017

Independent Auditor's Report

TO THE READERS OF THE MINISTRY FOR PRIMARY INDUSTRIES' ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

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

- the financial statements of the Ministry on pages 58 to 111, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity, statement of cash flows, and statement of trust monies for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Ministry for the year ended 30 June 2017 on pages 8 to 52; and
- the statements of expenses and capital expenditure of the Ministry for the year ended 30 June 2017 on pages 66 to 68; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 91 to 111 that comprise:
  - the schedules of assets; liabilities; contingent liabilities and assets and commitments as at 30 June 2017;
  - the schedules of revenue; capital receipts; expenses and capital expenditure for the year ended 30 June 2017;
  - the statements of expenditure and capital expenditure for the year ended 30 June 2017;
  - the statement of trust monies for the year ended 30 June 2017; and
  - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Ministry on pages 58 to 111:
  - present fairly, in all material respects:
    - » its financial position as at 30 June 2017; and
    - » its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Ministry on pages 8 to 52:
  - presents fairly, in all material respects, for the year ended 30 June 2017:
    - » what has been achieved with the appropriation; and
    - » the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Ministry on pages 66 to 68 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 91 to 111 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets; liabilities; contingent liabilities and assets and commitments as at 30 June 2017;
  - revenue; capital receipts; expenses and capital expenditure for the year ended 30 June 2017;
  - the statements of expenditure and capital expenditure for the year ended 30 June 2017; and
  - the statement of trust monies for the year ended 30 June 2017.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Director-General and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Director-General

The Director-General is responsible on behalf of the Ministry for preparing:

- financial statements that present fairly the Ministry's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the Ministry, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Ministry on behalf of the Crown.

The Director-General is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Director-General is responsible on behalf of the Department for assessing the Ministry's ability to continue as a going concern. The Director-General is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Ministry, or there is no realistic alternative but to do so.

The Director-General's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Ministry's information on strategic intentions.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director-General.
- We evaluate the appropriateness of the reported performance information within the Ministry's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Director-General and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that

may cast significant doubt on the Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Director-General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Director-General is responsible for the other information. The other information comprises the information included on pages 1 to 6 and 113 to 132, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Ministry in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have performed a review of the Ministry's Emission Trading Scheme processes, provided advice on the lease accounting treatment of the proposed agreements and performed a peer review of the economic impact of a proposed salmon farm relocation, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Ministry.

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements, statement of service performance and schedules of non-departmental activities This audit report relates to the financial statements, statement of service performance and schedules of non-departmental activities of the Ministry for the year ended 30 June 2017 included on the Ministry for Primary Industries' website. The Ministry for Primary Industries' Chief Executive is responsible for the maintenance and integrity of the Ministry's website.

We have not been engaged to report on the integrity of the Ministry's website. We accept no responsibility for any changes that may have occurred to the financial statements, statement of service performance and schedules of non-departmental activities since they were initially presented on the website. The audit report refers only to the financial statements, statement of service performance and schedules of non-departmental activities named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, statement of service performance and schedules of non-departmental activities. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, statement of service performance and schedules of non-departmental activities as well as the related audit report dated 29 September 2017 to confirm the information included in the audited financial statements, statement of service performance and schedules of non-departmental activities presented on this website.

Overview of Departmental Financial Results

For the year ended 30 June 2017

ACTUALS 2016 $000		ACTUALS 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000
458,050	Revenue – in total	502,858	475,954
320,267	Revenue Crown	323,656	311,697
137,783	Revenue Other	179,202	164,257
451,265	Expenditure – in total	484,902	475,954
234,857	Personnel costs	260,368	236,835
197,633	Other operating expenses	205,591	219,405
6,785	Operating surplus/(deficit)	17,956	–
2,692	Repayment of surplus (current liability)	10,252	–
17,083	Working capital	50,825	(17,750)
74,816	Non-current assets	94,315	139,027
11,681	Non-current liabilities	10,962	9,675
80,218	Equity	134,178	111,602

Significant movements between 2015/16 and 2016/17

Revenue other

The $41.419 million increase in third-party revenue is due to increased volumes for:

- $37.7 million increase in Border Clearance Levy – Air;
- $2.0 million increase in Border Clearance Levy – Cruise;
- $1.3 million increase in Biosecurity Systems Entry Levy;
- offset by $7.0 million decrease in Verification Services – under-recovery in addition to $2.8 million credits in 2016/17 issued to Meat Industry to reduce the surplus in the memo account for Establishments; and
- favourable variances also recorded for higher volume of certificates issued for wine exports, honey, Agriculture Compounds Veterinary Medicines (ACVM) fees and increased import certificates and documentation fees being issued than originally planned.

Personnel costs

MPI employs 2,580 full-time equivalent staff. Most are employed in New Zealand, but MPI has a small offshore presence as well. The $25.511 million increase in personnel costs is due to:

- a provision for pay remediation for Holidays Act 2003 compliance;
- an average 2 percent increase to permanent staff salaries;
- personnel expenditure (previously these were recognised as contract expenditure); and
- increased volumes for activities such as verification, which has resulted in additional allowances and overtime of $2.7 million being required to meet demand.

Non-current assets

The $19.499 million increase in non-current assets is mainly due to revaluation gains from land and building.

Working capital

The $33.742 million increase in working capital is mainly due to an increase in current assets of $64.183 million offset by an increase in current liabilities of $30.441 million.

- Current assets includes debtors and receivables of $61.404 million comprising of debtor Crown of $34.000 million and other third-party external debtors of $27.403 million.
- Current liabilities includes creditors and other payables of $50.534 million.

Equity

The $53.960 million increase in equity is due to:

- a capital injection from Crown of $38.194 million, mainly for the National Biocontainment Laboratory Project; and
- current year surplus and the payments due to the Crown.

Significant variances between 2016/17 actual results and the Estimates of Appropriations

Revenue other

Revenue other is $14.945 million higher than budgeted. The higher revenue mainly came from additional Border Levies and Monitoring and Clearance from IBM for the Joint Border data team of $15.7 million. This was due to higher than forecast number of travellers and lower than expected impact from traveller exemptions.

Personnel costs

Personnel costs were higher than budgeted by $23.533 million. This was due to leave pay remediation and additional resources required for border biosecurity and intelligence activities at the border, OnFarm verification programmes and to facilitate the implementation of the Food Act 2014.

Other operating expenses

Other operating expenses are $13.814 million lower than budgeted. This was due to changes in timing for projects impacted by external factors, and carry forward of funding (in-principle expense transfers) to 2017/18 that were not included in the Estimates of Appropriation.

Current assets

Current assets are above budget by $97.199 million. The primary drivers for this are:

- cash and bank balance of $77.377 million, over budget by $56.102 million due to foreign exchange holdings of $13.344 million and capital injections of $38.194 million; and
- debtors and other receivables of $61.404 million, over budget by $40.379 million.

Non-current assets

Non-current assets are $44.712 million lower than budgeted. This is primarily due to the change in the expenditure and timing profile of the National Biocontainment Laboratory Project and Pastoral House project.

Current liabilities

Current liabilities are $28.624 million higher than budgeted. The primary drivers are:

- annual leave of $29.4 million, over budget by $10.90 million; and
- provision for repayment of surplus of $17.06 million.

Equity

Equity was $22.576 million higher than budgeted as a result of the timing of the National Biocontainment Laboratory Project, Pastoral House refurbishment project and revaluation gain on land and non-residential buildings.

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

ACTUALS 2016 $000	REVENUE	NOTE	ACTUALS 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
320,267	Revenue Crown		323,656	311,697	338,826
137,783	Revenue other	2	179,202	164,257	197,354
458,050	Total revenue		502,858	475,954	536,180
	EXPENDITURE				
234,857	Personnel costs	3	260,368	236,835	268,405
14,287	Depreciation and amortisation expense	8, 9	12,861	15,498	12,984
4,115	Capital charge	4	5,245	4,116	4,536
373	Restructuring costs	12	837	100	300
197,633	Other operating expenses	5	205,591	219,405	244,170
451,265	Total expenditure		484,902	475,954	530,395
6,785	Net surplus/(deficit)		17,956	–	5,785
	OTHER COMPREHENSIVE REVENUE AND EXPENSE				
–	Gain on property revaluations		5,370	–	–
–	Total other comprehensive revenue and expense		5,370	–	–
6,785	Total comprehensive revenue and expense		23,326	–	5,785

The accompanying notes form part of these financial statements.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Financial Position

As at 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
	ASSETS				
	CURRENT ASSETS				
24,609	Cash and cash equivalents		77,377	21,275	27,023
50,244	Debtors and other receivables	6	61,404	21,025	58,590
2,579	Prepayments		2,153	2,000	3,500
4,484	Inventories	7	5,165	4,600	5,000
81,916	Total current assets		146,099	48,900	94,113
	NON-CURRENT ASSETS				
43,262	Property, plant and equipment	8	66,551	101,842	145,385
31,554	Intangible assets	9	27,764	37,185	28,669
74,816	Total non-current assets		94,315	139,027	174,054
156,732	Total assets		240,414	187,927	268,167
	LIABILITIES				
	CURRENT LIABILITIES				
36,763	Creditors and other payables	10	50,534	40,950	38,920
2,692	Repayment of surplus	11	10,252	–	983
1,655	Provisions	12	1,704	1,500	1,500
21,537	Employee entitlements	13	32,282	24,200	21,500
2,186	Derivative financial instruments	17	502	–	–
64,833	Total current liabilities		95,274	66,650	62,903
	NON–CURRENT LIABILITIES				
725	Provisions	12	725	–	–
10,567	Employee entitlements	13	10,219	9,675	9,675
389	Derivative financial instruments	17	18	–	–
11,681	Total non-current liabilities		10,962	9,675	9,675
76,514	Total liabilities		106,236	76,325	72,578
80,218	Net assets		134,178	111,602	195,589
	EQUITY				
73,906	Crown capital and retained earnings	14	116,460	110,909	194,896
5,619	Memorandum accounts (net position)	14	11,655	–	–
693	Property revaluation reserves	14	6,063	693	693
80,218	Total equity		134,178	111,602	195,589

The accompanying notes form part of these financial statements.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Changes in Equity

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
48,093	Balance at 1 July		80,218	79,532	120,071
6,785	Total comprehensive revenue and expense		23,326	–	5,785
	OWNER TRANSACTIONS				
25,267	Capital injections	14	38,194	32,070	70,716
(4,422)	Capital withdrawals	14	–	–	–
7,187	Retention of prior year surplus	14	2,692	–	–
(2,692)	Return of operating surplus to the Crown	11	(10,252)	–	(983)
80,218	Balance at 30 June		134,178	111,602	195,589

The accompanying notes form part of these financial statements.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Cash Flows

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
	CASH FLOWS FROM OPERATING ACTIVITIES				
324,210	Receipts from Crown		314,655	328,697	343,826
127,600	Receipts from revenue other		179,158	164,182	197,279
(232,606)	Payments to employees		(250,809)	(237,485)	(269,755)
(197,334)	Payments to suppliers		(206,032)	(218,450)	(240,683)
(4,115)	Payments for capital charge		(5,245)	(5,366)	(5,759)
(899)	Goods and services tax (net)		6,343	–	–
16,856	Net cash from operating activities	15	38,070	31,578	24,908
	CASH FLOWS FROM INVESTING ACTIVITIES				
367	Receipts from sale of property, plant and equipment		(86)	600	2,284
(18,710)	Purchase of property, plant and equipment		(21,279)	(46,128)	(78,245)
(7,670)	Purchase of intangible assets		(2,131)	(11,592)	(321)
(26,013)	Net cash from investing activities		(23,496)	(57,120)	(76,282)
	CASH FLOWS FROM FINANCING ACTIVITIES				
–	Loss on Foreign Exchange		–	–	(4,364)
25,267	Capital injections from the Crown		38,194	32,070	70,716
(7,469)	Repayment of surplus to the Crown		–	(7,000)	(6,341)
(4,422)	Repayment of capital to the Crown		–	–	–
13,376	Net cash from financing activities		38,194	25,070	60,011
4,219	Net increase (decrease) in cash		52,768	(472)	8,637
20,390	Cash at the beginning of the year		24,609	21,747	18,386
24,609	Cash at the end of the year		77,377	21,275	27,023

The accompanying notes form part of these financial statements.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Commitments

As at 30 June 2017

Capital commitments

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

Non-cancellable operating lease commitments

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

The total minimum future sublease payments expected to be received under non-cancellable subleases at the balance date is $282,000 (2016: $495,000).

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

ACTUAL 2016 $000		ACTUAL 2017 $000
	CAPITAL COMMITMENTS	
69,250	Buildings	77,464
–	Motor vehicles	469
69,250	Total capital commitments	77,933
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:	
8,085	Not later than one year	7,766
13,625	Later than one year and not later than five years	22,255
3,819	Later than five years	12,400
25,529	Total non-cancellable operating lease commitments	42,421
94,779	Total commitments	120,354

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

Statement of Contingent Liabilities and Contingent Assets

As at 30 June 2017

Unquantifiable contingent liabilities – Legal proceedings and disputes

KIWIFRUIT VINE DISEASE PSA-V

Approximately 210 growers have filed a claim against MPI alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. The plaintiffs have not quantified their losses, but have publicly claimed it is in the vicinity of $380 million, citing total industry losses of $885 million. MPI is defending the claim and currently it remains unquantifiable.

SEAFOOD COST RECOVERY

A seafood company has alleged that MPI has been negligent by not providing them with all information regarding applicable fisheries regulations. They are seeking to recover costs, which have not been fully quantified. MPI has denied negligence on its part.

BIOSECURITY ACT COMPENSATION

MPI's activities regarding fruit fly, pea weevil, *bonamia ostraea* and myrtle rust may result in compensation being sought. This can arise where the Ministry's activities result in losses as a result of damage or destruction of a person's property, or restrictions on the movement of a person's goods. These amounts are unquantified.

Quantifiable contingent liabilities – Legal proceedings and disputes

CHINA MEAT COMPENSATION

A meat company and an associate company have made a claim for compensation of $688,853 plus GST for having its shared premises left off an approved "relationship matrix" list of exporters to China, so losing the ability to export to China for approximately one year, while MPI negotiated inclusion of those premises and others (2016: $688,853).

KIWIFRUIT VINE DISEASE PSA-V

In the same case as the unquantified liability, a second plaintiff, a post-harvest operator, has also filed a claim against MPI alleging it is liable for damages they suffered from the kiwifruit vine disease, Psa-V. This plaintiff filed a notice of particulars of loss in September 2016, which quantifies its loss as $92.7 million. MPI is defending the claim (2016: nil).

ACCIDENT COMPENSATION CORPORATION (ACC) APPEAL

ACC decided not to provide coverage for an injury to a Ministry employee. The employee disputed this decision, which was then dismissed at the hearing. The employee subsequently lodged an appeal against the decision. The appeal is expected to be heard in October and will be managed by ACC. MPI will be liable for the costs if the finding is in favour of the employee. The cost is estimated to be $25,000 (2016: nil).

BIOSECURITY ACT COMPENSATION

Under the same section of the Biosecurity Act 1993, MPI has a quantified contingent liability of $595,000 for pea weevil and myrtle rust. This relates to those claims that have been received but not yet assessed by MPI (2016: nil).

Contingent assets

MPI has no contingent assets as at 30 June 2017 (2016: nil).

The accompanying notes form part of these financial statements.

Statement of Departmental Unappropriated Expenditure and Capital Expenditure

For the year ended 30 June 2017

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

There was no unappropriated expenditure for the year to 30 June 2017 (2016: nil).

The accompanying notes form part of these financial statements.

Statement of Departmental Expenses and Capital Expenditure against Appropriations

For the year ended 30 June 2017

EXPENDITURE AFTER REMEASUREMENTS 2016 $000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2017 $000	REMEASUREMENTS 2017 $000	EXPENDITURE AFTER REMEASUREMENTS 2017 $000	APPROPRIATION VOTED[1] 2017 $000	FORECAST[2] 2018 $000
	VOTE PRIMARY INDUSTRIES AND FOOD SAFETY					
	ADMINISTRATION AND MANAGEMENT OF CROWN FORESTRY ASSETS AND OPERATIONS MCA					
1,277	Administration and management of crown forestry assets	1,095	(1)	1,094	1,186	1,303
	BORDER AND DOMESTIC BIOSECURITY RISK MANAGEMENT MCA					
34,980	Biosecurity incursion response and long-term pest management	34,816	(14)	34,802	39,322	31,120
87,378	Border biosecurity monitoring and clearance	98,761	(88)	98,673	107,595	124,794
18,685	Border biosecurity systems development and maintenance	21,260	(17)	21,243	22,622	19,096
38,953	Domestic biosecurity surveillance	37,741	(23)	37,718	37,610	42,206
179,996		192,578	(142)	192,437	207,149	217,216
	DEVELOPMENT AND IMPLEMENTATION OF FOOD SAFETY POLICY ADVICE MCA					
4,062	Development of policy advice	4,503	(5)	4,498	4,918	4,516
4,156	Implementation of policy advice	3,539	(3)	3,536	4,567	5,867
8,218		8,042	(8)	8,035	9,485	10,383
	DEVELOPMENT AND IMPLEMENTATION OF PRIMARY INDUSTRIES POLICY ADVICE MCA					
26,790	Agriculture and forestry policy advice	26,138	(19)	26,119	27,722	22,842
2,866	Biosecurity policy advice	2,899	(2)	2,897	3,034	2,576
4,051	Fisheries policy advice	6,292	(5)	6,287	5,958	5,824
25,757	Implementation of agriculture and forestry policy advice	30,667	(22)	30,645	32,512	29,793
3,175	Implementation of biosecurity policy advice	3,607	(4)	3,603	3,738	2,197

[1] The 2017 Appropriation Voted figures are those submitted to Treasury for the 2017 Budget Economic Fiscal Update.
[2] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

EXPENDITURE AFTER REMEASUREMENTS 2016 $000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2017 $000	REMEASUREMENTS 2017 $000	EXPENDITURE AFTER REMEASUREMENTS 2017 $000	APPROPRIATION VOTED[1] 2017 $000	FORECAST[2] 2018 $000
9,727	Implementation of the NZ ETS and indigenous forestry	9,065	(6)	9,059	9,492	9,301
28,868	Operational advice on sustainability and management controls in fisheries	28,441	(7)	28,434	29,618	36,952
–	MCA 7 Trade and Market Access Primary Industries	–	–	–	–	14,927
101,234		107,109	(65)	107,044	112,074	124,412
	FOOD SAFETY MCA					
68,151	Assurance	73,207	(70)	73,137	72,467	79,113
1,101	Information	1,763	(2)	1,761	1,904	3,609
5,008	Response	5,750	(5)	5,745	5,677	6,006
17,381	Standards	20,684	(12)	20,672	24,154	14,772
–	MCA 8 Trade & Market Access Food Safety	–	–	–	–	7,977
91,641		101,404	(89)	101,315	104,202	111,477
	GRANTS AND PROGRAMMES MCA					
6,314	Administration grants and programme	9,416	(8)	9,408	11,304	7,336
	SUSTAINABLE ECONOMIC DEVELOPMENT AND TRADE MCA					
8,396	Animal welfare education and enforcement	10,268	(8)	10,260	11,174	7,917
4,150	Aquaculture	5,379	(3)	5,376	5,916	3,679
35,489	Fisheries enforcement and monitoring	36,860	(36)	36,824	38,823	40,246
10,894	Fisheries management	11,294	(8)	11,286	11,486	11,228
58,929		63,801	(55)	63,745	67,399	63,070
447,609	Total multi-category expenses	483,446	(368)	483,078	512,799	535,197
24,055	Capital expenditure Permanent Legislative Authority	24,055	–	24,055	48,989	78,566
471,664	Total multi-category expenses and capital expenditure	507,501	(368)	507,133	561,788	613,763

[1] The 2017 Appropriation Voted figures are those submitted to Treasury for the 2017 Budget Economic Fiscal Update.
[2] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Trust Monies

For the year ended 30 June 2017

Meat Levies Trust Account

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

ACTUAL 2016 $000		ACTUAL 2017 $000
–	Balance at 1 July	4
68,615	Contributions	57,774
(68,620)	Distributions	(57,724)
9	Revenue	10
4	Balance at 30 June	64

National Animal Identification Tracing Trust

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

ACTUAL 2016 $000		ACTUAL 2017 $000
1	Balance at 1 July	4
2,624	Contributions	2,426
(2,621)	Distributions	(2,417)
4	Balance at 30 June	13

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Note 1: Statement of accounting policies for the year ended 30 June 2017

Reporting entity

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

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

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

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

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

The financial statements of MPI are for the year ended 30 June 2017. They were authorised for issue by the Director-General of the Ministry on 29 September 2017.

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

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

These financial statements comply with PBE accounting standards.

PRESENTATION CURRENCY AND ROUNDING

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

STANDARDS ISSUED AND NOT YET EFFECTIVE AND NOT EARLY ADOPTED

Standards and amendments issued but not yet effective that have not been early adopted and that are relevant to MPI are as follows.

FINANCIAL INSTRUMENTS

In January 2017, the External Reporting Board (XRB) issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses;
- revised hedge accounting requirements to better reflect the management of risks.

MPI will adopt the new accounting standard PBE IFRS 9 for the Financial Statements in 2018/19. This is in accordance with the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. MPI has not yet assessed the effects of the new standard.

IMPAIRMENT OF REVALUED ASSETS

In April 2017, the XRB issued Impairment of Revalued Assets, which now clearly scopes in revalued property, plant and equipment into the impairment accounting standards. Previously, only property, plant and equipment measured at cost were scoped into the impairment accounting standards. Under the amendment, a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of MPI adopting this amendment, effective from 1 January 2019, will be guided by the Treasury's decision on when the Financial Statements of Government will adopt the amendment.

Revenue

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

REVENUE CROWN

Revenue from the Crown is measured based on MPI's funding entitlement for the reporting period and is recognised once entitlement is established. 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, MPI can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue Crown has been determined to be equivalent to the funding entitlement.

REVENUE – DEPARTMENT

MPI derives revenue through the provision of goods and services to other Departments or Ministries. This revenue is recognised at the fair value of the consideration received or receivable when earned.

REVENUE – OTHER

Third-party funded services

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

Statutory levies

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

Application fees

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

Rental income

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

CAPITAL CHARGE

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

LEASES

Operating leases

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

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the spot exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Cash and cash equivalents

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

MPI is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Debtors and other receivables

Debtors and other receivables are recognised initially at fair value and subsequently at amortised cost, less any provision for impairment. Due to their short-term nature, debtors and other receivables are not discounted.

Impairment is established when:

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

Inventories

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

Derivative financial instruments

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

Non-current assets held for sale

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

Property, plant and equipment

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

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

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

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

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

ADDITIONS

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

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

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

DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to retained earnings.

SUBSEQUENT COSTS

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

DEPRECIATION AND USEFUL LIVES OF MAJOR CLASSES OF ASSETS

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

Buildings (including components)	8 to 40 years (2.5–12.5%)
Office furniture and equipment	3 to 12 years (8–33%)
Motor vehicles	up to 10 years (10%)
Vessels	4 to 25 years (4–25%)

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

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

REVALUATION

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

ACCOUNTING FOR REVALUATIONS

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

Intangible assets

CAPITALISATION THRESHOLD

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

SOFTWARE ACQUISITION AND DEVELOPMENT

Acquired computer software licences 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 MPI are recognised as an intangible asset. Direct costs include the costs of materials and services, employee costs and any directly attributable overheads. Expenditure incurred on research of internally generated software is expensed when it is incurred.

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

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

AMORTISATION

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

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

Acquired computer software	3 to 7 years (14–33%)
Developed computer software	3 to 12 years (8–33%)

Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

Creditors and other payables

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

Employee entitlements

SHORT-TERM EMPLOYEE ENTITLEMENTS

Employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

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

LONG-TERM EMPLOYEE ENTITLEMENTS

Employee entitlements that are due to be settled beyond 12 months of balance date in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on:

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

PRESENTATION OF EMPLOYEE ENTITLEMENTS

Salaries and wages accrued, sick leave, annual leave, vested long-service leave, and non-vested long-service leave and retiring leave expected to be settled within 12 months of the balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

DEFINED CONTRIBUTION SCHEMES

Obligations for contributions to the State Sector

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

PROVISIONS

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

RESTRUCTURING

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

ACCIDENT COMPENSATION CORPORATION (ACC) PARTNERSHIP PROGRAMME

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

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

MAKE-GOOD PROVISION

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

Equity

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

MEMORANDUM ACCOUNTS

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

PROPERTY REVALUATION RESERVES

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

Commitments

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

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

Contingent liabilities and assets

Contingent liabilities and assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget and forecast figures

BASIS OF THE BUDGET AND FORECAST FIGURES

The 2017 Estimates of Appropriations figures are for the year ended 30 June 2017 and were published in the 2015/16 annual report. They are consistent with MPI's best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 30 June 2017.

The 2018 forecast figures are for the year ending 30 June 2018, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 30 June 2017.

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

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

The 30 June 2018 forecast figures were prepared in accordance with PBE FRS 42 Prospective Financial Statements and comply with PBE FRS 42.

The forecast financial statements were authorised for issue by the Director-General of the Ministry for Primary Industries on 11 April 2017. The Director-General is responsible for them, including the appropriateness of the assumptions underlying them and all other required disclosures.

While MPI regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2018 will not be published.

SIGNIFICANT ASSUMPTIONS USED IN PREPARING THE FORECAST FINANCIALS

The forecast figures contained in these financial statements reflect MPI's purpose and activities and are based on a number of assumptions on what may occur during the 2017/18 financial year. They were compiled on the basis of existing government policies and Ministerial expectations at the time the main estimates were finalised.

The main assumptions, which were adopted as at 11 April 2017, were are as follows:

- MPI's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities;
- personnel costs were based on 2,580 full-time equivalent staff, which takes into account staff turnover;
- operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are MPI'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 revalued; and
- estimated year-end information for 2016/17 was used as the opening position for the 2017/18 forecasts.

Factors that could lead to material differences between the forecast financial statements and the 2017/18 actual financial statements include changes in activities required by the Government, demand for third-party funded activities, year-end revaluations, and technical adjustments.

There are no significant accounting adjustments to actual balances as at 30 June 2017 that would have a material impact on the forecast financial statements.

Statement of cost accounting policies

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Fair value of land and buildings

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

Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which MPI will receive benefits from the software, but not exceeding the license term. For internally generated software developed by MPI, the life is based on historical experience with similar systems as well as anticipation of future events, which may impact their useful life, such as changes in technology.

Retirement and long-service leave

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

Note 2: Revenue other

ACTUAL 2016 $000		ACTUAL 2017 $000
43,684	Verification services (food safety)	36,686
26,782	Biosecurity systems entry levy	28,107
41,844	Miscellaneous statutory fees and charges	43,939
15,832	Border clearance levy	55,608
359	Rental income from sub-leased accommodation	3,286
43	Net gain on sale of property, plant and equipment	(83)
9,239	Other goods and services	11,659
137,783	Total revenue other	179,202

Note 3: Personnel costs

ACTUAL 2016 $000		ACTUAL 2017 $000
219,858	Salaries and wages	252,807
6,824	Employer superannuation contributions to defined contribution plans	7,177
(2,623)	Increase/(decrease) in employee entitlements and Holiday Act provision	(10,397)
10,798	Other personnel costs	10,781
234,857	Total personnel costs	260,368

Note 4: Capital charge

MPI pays a capital charge to the Crown on its equity as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2017 was 7 percent from 1 July 2016 to 31 December 2016 and then 6 percent from 1 January 2017 (2016: 8%).

Note 5: Other operating expenses

ACTUAL 2016 $000		ACTUAL 2017 $000
	Fees paid to auditor Ernst and Young	
389	– audit of financial statements	354
61	– other services	65
9,559	Operating lease payments	13,849
1,064	Advertising and publicity	1,540
20,540	Fisheries and marine-related research contracts	20,188
8,243	Other research contracts	9,355
75,417	Other contracts for services	74,379
13,368	Travel	14,450
4,957	Property costs	5,462
10,217	Information technology	12,891
69	Net foreign exchange losses	2
2,772	Net loss on foreign exchange derivatives	727
74	Inventory consumed	–
2,691	Inventory impaired (Impairment reversed)	(245)
112	Debt impairment	(62)
388	Property, plant and equipment impairment and written-off	157
28,132	Consultancy	30,680
19,580	Other operating expenses	21,799
197,633	Total other operating expenses	205,591

The fees to the auditor for other services were mainly for the Ernst & Young Executive Programme.

Note 6: Debtors and other receivables

ACTUAL 2016 $000		ACTUAL 2017 $000
10,803	Debtors	12,453
(240)	Less provision for impairment	(148)
10,563	Net debtors	12,305
25,000	Debtor Crown	34,001
10,840	Biosecurity systems entry levy receivable	8,956
3,841	Accrued revenue	6,142
50,244	Total debtors and other receivables	61,404

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

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

	2016			2017		
	GROSS $000	IMPAIRMENT $000	NET $000	GROSS $000	IMPAIRMENT $000	NET $000
Current	7,274	–	7,274	7,183	–	7,183
Greater than 30 days	2,244	–	2,244	3,681	–	3,681
Greater than 60 days	526	–	526	723	–	723
Greater than 90 days	759	(240)	519	866	(148)	718
Total	10,803	(240)	10,563	12,453	(148)	12,305

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

The provision for impairment is:

ACTUAL 2016 $000		ACTUAL 2017 $000
136	Individual impairment	–
104	Collective impairment	148
240	Total provision for impairment	148

Movements in the provision for impairment of debts are:

ACTUAL 2016 $000		ACTUAL 2017 $000
312	Balance at 1 July	240
70	Additional provisions made (Note 5)	153
–	Unused amounts reversed during the year	(214)
(142)	Receivables written off during the year	(31)
240	Balance at 30 June	148

Note 7: Inventories

ACTUAL 2016 $000		ACTUAL 2017 $000
	Held for distribution inventories	
4,426	Foot-and-mouth vaccine	4,426
58	Other	739
4,484	Total inventories	5,165

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

No inventories are pledged as security for liabilities (2016: nil).

Note 8: Property, plant and equipment

	LAND $000	BUILDINGS $000	LEASEHOLD IMPROVEMENTS $000	OFFICE FURNITURE AND EQUIPMENT AND ARTWORK $000	MOTOR VEHICLES AND VESSELS $000	TOTAL $000
COST OR VALUATION						
Balance at 1 July 2015	1,944	15,418	17,411	23,738	13,766	72,277
Additions through purchase	–	6,984	3,928	3,432	2,064	16,408
Write-offs and disposals	–	–	–	(1,495)	(881)	(2,376)
Balance at 30 June 2016	1,944	22,402	21,339	25,675	14,949	86,309
Balance at 1 July 2016	1,944	22,402	21,339	25,675	14,949	86,309
Additions through purchase	–	15,942	3,696	4,163	1,212	25,013
Write-offs and disposals	–	(597)	(1,929)	(1,494)	(681)	(4,701)
Revaluation	179	3	–	–	–	182
Balance at 30 June 2017	2,123	37,750	23,106	28,344	15,480	106,803
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES						
Balance at 1 July 2015	–	4,812	11,038	16,400	4,834	37,084
Depreciation expense	–	1,289	2,222	3,111	1,005	7,627
Write-offs and disposals	–	–	–	(1,494)	(558)	(2,052)
Impairment losses	–	–	388	–	–	388
Balance 30 June 2016	–	6,101	13,648	18,017	5,281	43,047
Balance at 1 July 2016	–	6,101	13,648	18,017	5,281	43,047
Depreciation expense	–	1,134	2,029	2,622	1,155	6,940
Write-offs and disposals	–	(597)	(1,931)	(1,749)	(427)	(4,704)
Impairment losses	–	–	157	–	–	157
Reversal of depreciation on revaluation	–	(4,033)	–	–	–	(4,033)
Reversal of impairment on revaluation	–	(1,155)	–	–		(1,155)
Balance 30 June 2017	–	1,450	13,903	18,890	6,009	40,252
CARRYING AMOUNTS						
At 1 July 2015	1,944	10,606	6,373	7,338	8,932	35,193
At 30 June and 1 July 2016	1,944	16,301	7,691	7,658	9,668	43,262
At 30 June 2017	2,123	36,300	9,203	9,454	9,471	66,551

The most recent valuation of land and buildings was performed by independently registered valuers:

- CW Nyberg of Darroch Limited for the Wallaceville Office, $8.606 million. The effective date for the valuation is 3 April 2017.
- P Schellekens of CBRE Limited for Chatham Island (Warf Rd and Waitangi-Tuku Rd), $440,000. The effective date for the valuation is 22 May 2017.
- MW Lauchlan of Duke & Cooke Limited for the Nelson Office, $1.810 million. The effective date for the valuation is 30 June 2017.
- CW Nyberg of Darroch Limited for the valuation of land, $2.041 million. The effective date for the valuation is 3 April 2017.

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 for land where there is a designation against the land or the use of the land is restricted. Restrictions on MPI's ability to sell land would normally not impair the value of the land because MPI has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

BUILDINGS

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

- the replacement asset is based on the replacement with modern equivalent assets with adjustments where appropriate for optimisation due to over-design or surplus capacity;
- the replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information;
- for earthquake-prone buildings that are expected to be strengthened, the estimated earthquake-strengthening costs have been deducted from the depreciated replacement cost in estimating fair value;
- the estimated remaining useful life; and
- straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

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

WORK IN PROGRESS

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

Buildings in the course of construction for 2017 total $15.991 million (2016: $6.694 million). No other asset classes have assets in the course of construction.

Note 9: Intangible assets

	ACQUIRED SOFTWARE $000	INTERNALLY GENERATED SOFTWARE $000	TOTAL $000
COST			
Balance at 1 July 2015	13,362	58,907	72,269
Additions	3,875	3,795	7,670
Balance at 30 June 2016	17,237	62,702	79,939
Balance at 1 July 2016	17,237	62,702	79,939
Additions	332	3,041	3,373
Write-offs and disposals	–	(1,242)	(1,242)
Balance at 30 June 2017	17,569	64,501	82,070
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2015	10,619	31,106	41,725
Amortisation expense	1,082	5,578	6,660
Balance at 30 June 2016	11,701	36,684	48,385
Balance at 1 July 2016	11,701	36,684	48,385
Amortisation expense	1,615	4,306	5,921
Balance at 30 June 2017	13,316	40,990	54,306
CARRYING AMOUNTS			
At 1 July 2015	2,743	27,801	30,544
At 30 June and 1 July 2016	5,536	26,018	31,554
At 30 June 2017	4,253	23,511	27,764

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

WORK IN PROGRESS

Work in progress for the year ended 30 June 2017 has been tested for material impairment and is included in the above figures at cost, less impairment, and is not amortised.

The total amount of intangible assets in the course of construction is $3.189 million (2016: $3.952 million).

Note 10: Creditors and other payables

ACTUAL 2016 $000		ACTUAL 2017 $000
3,705	Creditors	5,257
5,521	Unearned revenue	7,553
24,488	Accrued expenses	28,333
3,049	GST payable to Inland Revenue Department	9,391
36,763	Total creditors and other payables	50,534

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

Note 11: Return of operating surplus

ACTUAL 2016 $000		ACTUAL 2017 $000
6,785	Net surplus/(deficit)	17,956
2,772	Adjust for unrealised losses/(gains) on forward foreign exchange contracts recognised in the surplus/(deficit)	(1,886)
(6,865)	Adjust for (surpluses)/deficits for services subject to memorandum accounts	(5,818)
2,692	Total return of operating surplus	10,252

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

Note 12: Provisions

ACTUAL 2016 $000		ACTUAL 2017 $000
60	Restructuring	403
1,425	Compensation under the Biosecurity Act 1993	1,186
67	ACC Partnership Programme	67
725	Lease make-good	725
100	Pet cat and dog import overcharging	45
3	Other provisions	3
2,380	Total provisions	2,429

Note 12a: Provision for restructuring

ACTUAL 2016 $000		ACTUAL 2017 $000
293	Opening balance 1 July	60
497	Additional provisions made	403
(606)	Amounts used	(60)
(124)	Unused amounts reversed	–
60	Closing balance	403

MPI's estimate for the provision of severance is for 6 employees (2016: 1).

During the financial year severance of $497,000 was paid to 8 employees (2016: 8).

Note 12b: Provision for Compensation under the Biosecurity Act 1993

ACTUAL 2016 $000		ACTUAL 2017 $000
807	Opening balance 1 July	1,425
700	Additional provisions made during the year	–
(82)	Charged against the provision during the year	(351)
–	Unused amounts reversed	112
1,425	Closing balance	1,186

This provision provides for compensation payable under section 162A of the Biosecurity Act 1993, as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods. The provision represents MPI's best estimate of the cost of settling current compensation claims. The compensation payments are expected to be settled by 30 June 2018.

Note 12c: Provision for ACC Partnership Programme claims

ACTUAL 2016 $000		ACTUAL 2017 $000
267	Opening balance 1 July	67
–	Additional provisions made during the year	–
(88)	Charged against the provision during the year	–
(112)	Unused amounts reversed during year	–
67	Closing balance	67

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

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

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

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

Note 12d: Lease make-good provision

ACTUAL 2016 $000		ACTUAL 2017 $000
920	Opening balance 1 July	725
(195)	Unused amounts reversed during year	–
725	Closing balance	725

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

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

ACTUAL 2016 $000		ACTUAL 2017 $000
207	Opening balance 1 July	100
(83)	Charged against the provision during the year	(34)
(24)	Unused amounts reversed during year	(21)
100	Closing balance	45

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

Note 13: Employee entitlements

ACTUAL 2016 $000		ACTUAL 2017 $000
	CURRENT EMPLOYEE ENTITLEMENTS REPRESENTED BY:	
863	Salaries and wages	1,734
16,079	Annual leave	25,749
542	Sick leave	542
1,535	Long-service leave	1,533
2,518	Retiring leave	2,724
21,537	Total current employee entitlements	32,282
	NON-CURRENT EMPLOYEE ENTITLEMENTS REPRESENTED BY:	
2,165	Long-service leave	2,328
8,402	Retiring leave	7,891
10,567	Total non-current employee entitlements	10,219
32,104	Total employee entitlements	42,501

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

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

The discount rates used were: 1 year 1.97%; 2 year 2.36%; and 3 year-plus 3.92% (2016: 2.12%, 1.95%, 3.13%). A salary inflation factor of 3.1 percent (2016: 3.0%) has been used and is based on a 2.0 percent medium term inflation assumption. The discount rates and salary inflation factor were provided by Treasury.

If the discount rates were to differ by 1 percent higher from that used, with all other factors held constant, the carrying amount of the liability would be an estimated $665,000 lower. If the discount rates were to differ by 1 percent lower from that used, with all other factors held constant, the carrying amount of the liability would be an estimated $745,000 higher.

If the salary inflation factor were to differ by 1 percent higher from that used, with all other factors held constant, the carrying amount of the liability would be an estimated $802,000 higher. If the salary inflation factor were to differ by 1 percent lower from that used, with all other factors held constant, the carrying amount of the liability would be an estimated $728,000 lower.

Note 14: Equity

ACTUAL 2016 $000		ACTUAL 2017 $000
	CROWN CAPITAL AND RETAINED EARNINGS	
49,145	Balance at 1 July	73,906
25,267	Capital injections from the Crown	38,194
	Repayment of capital to the Crown for:	
(4,422)	– Part repayment of capital injection in 2015/16 for Joint Border Management Systems	–
(499)	Write-off irrecoverable memorandum account operating deficits	(218)
6,785	Net surplus/(deficit)	17,956
(6,865)	Transfer of memorandum accounts net surplus/(deficit)	(5,818)
7,187	Retention of prior year surplus	2,692
(2,692)	Return of operating surplus to the Crown	(10,252)
73,906	Balance at 30 June	116,460
	MEMORANDUM ACCOUNTS	
(1,745)	Balance at 1 July	5,619
6,865	Net memorandum account surpluses/(deficits)	5,818
499	Write-off irrecoverable operating deficits	218
5,619	Balance at 30 June	11,655
	REVALUATION RESERVE – LAND	
505	Balance at 1 July	505
–	Revaluation gains	179
505	Balance at 30 June	684
	REVALUATION RESERVE – RESIDENTIAL BUILDINGS	
69	Balance at 1 July	69
–	Revaluation gains	5,191
69	Balance at 30 June	5,260
	REVALUATION RESERVE – ARTWORKS	
119	Balance at 1 July	119
119	Balance at 30 June	119
80,218	Total equity	134,178

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

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000
6,785	Net surplus/(deficit)		17,956
	Add/(less) non-cash items classified as investing or financing activities		
6,660	Amortisation, impairment and write-off of intangible assets		5,921
8,016	Depreciation, impairment and write-off of property, plant and equipment		7,097
14,675	Total non-cash items		13,018
	Add/(less) items classified as investing or financing activities		
(43)	Net (gain)/loss on sale of property, plant and equipment	2	83
2,575	Adjust for unrealised (gains)/losses on forward foreign exchange contracts recognised in the surplus/(deficit)		(2,055)
2,532	Total investing or financing activities		(1,972)
	Add/(less) movements in working capital items		
74	(Increase)/decrease in inventories		(681)
(7,555)	(Increase)/decrease in debtors and other receivables		(11,160)
545	(Increase)/decrease in prepayments		426
(2,701)	Increase/(decrease) in creditors and other payables		10,037
2,623	Increase/(decrease) in employee entitlements		10,397
(122)	Increase/(decrease) in provisions		49
(7,136)	Total net movement in working capital items		9,068
16,856	Net cash from operating activities		38,070

Note 16: Related parties

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

Related party transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Key management personnel compensation

ACTUAL 2016 $000		ACTUAL 2017 $000
2,557	Leadership team, including the Director-General remuneration	2,789
7	Full-time equivalent staff numbers	7

Key management personnel of MPI comprise the Minister for Primary Industries, the Minister for Food Safety, the Director-General and six Deputy Directors-General. The figures for 2016/17 exclude the Deputy Director-General China relations who is on secondment to the Ministry of Foreign Affairs and Trade.

The above key management personnel compensation disclosure excludes the Minister for Primary Industries and the Minister for Food Safety. The Ministers' remuneration and other benefits are not received only for their role as a member of key management personnel of MPI. The Ministers' remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by MPI.

MPI's key personnel remuneration includes benefits for long service and retiring leave. See Note 13 for assumptions.

Related party transactions involving key management personnel (or their close family members)

There are no related party disclosures required under PBE standards. All transactions undertaken are conducted on an arm's length basis.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Note 17: Financial instrument risks

Note 17a: Financial instrument categories

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

ACTUAL 2016 $000		ACTUAL 2017 $000
	LOANS AND RECEIVABLES	
24,609	Cash and cash equivalents	77,377
50,244	Debtors and other receivables (Note 6)	61,404
74,853	Total loans and receivables	138,781
	FINANCIAL LIABILITIES MEASURE AT AMORTISED COST	
28,193	Creditors and other payables (excluding unearned revenue and GST payable) (Note 10)	33,590
	FAIR VALUE THROUGH SURPLUS AND DEFICIT – HELD FOR TRADING	
2,575	Foreign exchange derivatives	520

Note 17b: Financial instrument risks

MPI's activities expose it to a variety of financial instrument risks, including currency risk, credit risk and liquidity risk. MPI has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow for any transactions that are speculative in nature to be entered into. Any financial instruments held are carried at approximate fair value.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from future purchases and recognised liabilities, which are denominated in a foreign currency.

MPI purchases goods and services internationally and is exposed to currency risk arising from various exposures, primarily with respect to the Euro, British Pound, US and Australian dollars. MPI's Foreign Exchange Management Policy requires MPI to manage currency risk arising from future transactions and recognised liabilities by entering into foreign spot or exchange forward contracts when the total transaction exposure to an individual currency exceeds NZ$100,000. MPI's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury's Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure. As at 30 June 2017, MPI's exposure to interest rate risk, and its sensitivity to that risk, is not considered material.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates. MPI has no exposure to interest rate risk because it has no interest-bearing financial instruments.

CREDIT RISK

Credit risk is the risk that a third party will default on its obligation to MPI, causing MPI to incur a loss. In the normal course of its business, credit risk arises from debtors and deposits with banks.

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

MPI's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (Note 6), and derivative financial instrument assets (Note 17). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

LIQUIDITY RISK

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

In meeting its liquidity requirements, MPI closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. MPI maintains a target level of available cash to meet liquidity requirements.

CONTRACTUAL MATURITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

The table below analyses MPI's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Creditors and other payables are equivalent to their carrying amount and are due within 12 months.

	LIABILITY CARRYING AMOUNT $000	ASSET CARRYING AMOUNT $000	CONTRACTUAL CASHFLOWS $000	LESS THAN 6 MONTHS $000	6–12 MONTHS $000	1–3 YEARS $000
2017						
Gross settled forward foreign exchange contracts:	520	–	–	–	–	–
– outflow	–	–	2,952	1,133	1,718	101
– inflow	–	–	2,396	927	1,388	81
2016						
Gross settled forward foreign exchange contracts:	2,575	–	–	–	–	
– outflow	–	–	18,384	4,653	10,779	2,952
– inflow	–	–	13,173	2,714	6,710	3,749

Note 17c: Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (Level 1) – financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (Level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable. The method and inputs used are as disclosed in Note 1: Derivative Financial Instruments.
- Valuation techniques with significant non-observable inputs (Level 3) – financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	TOTAL $000	QUOTED MARKET PRICE LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	SIGNIFICANT NON-OBSERVABLE INPUTS LEVEL 3 $000
30 June 2017				
FINANCIAL LIABILITIES				
Foreign exchange derivatives	520	–	520	–
30 June 2016				
FINANCIAL LIABILITIES				
Foreign exchange derivatives	2,575	–	2,575	–

There were no transfers between the different levels of the fair value hierarchy.

Note 18: Capital management

MPI's capital is its equity, which comprises Crown capital and retained earnings, memorandum accounts (net position) and property revaluation reserves. Equity is represented by net assets.

MPI manages its revenues, expenses, assets, liabilities, and general financial dealings prudently and in a manner that promotes the current and future interests of the New Zealand public. MPI's equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the Government budget processes and with Treasury instructions, and the Public Finance Act 1989.

The object of managing MPI's equity is to ensure MPI effectively achieves its goals and objectives for which it has been established, while remaining a going concern.

Note 19: Memorandum accounts

These accounts summarise financial information relating to the accumulated surpluses and deficits incurred in the provision of statutory information and performance of accountability reviews by MPI to third parties on a full cost recovery basis.

The accounts enable MPI to take a long-run perspective to fee setting and cost recovery.

These transactions are included as part of MPI's operating income and expenses in the surplus/deficit; however, these transactions are excluded from the calculation of MPI's return of operating surplus (refer Note 11). The cumulative balance of the surplus/(deficit) of the memorandum accounts is recognised as a component of equity (refer Note 14).

The balance of each memorandum account is expected to trend toward zero over a reasonable period of time, with interim deficits being met either from cash from MPI's statement of financial position or by seeking approval for a capital injection from the Crown. Capital injections will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

ACTUAL 2016 $000		ACTUAL 2017 $000
(641)	Border biosecurity clearance fees account	1,925
952	Phytosanitary exports account	912
2,142	Verification of the food regulatory programme account	(2,499)
869	Approvals, accreditations and registrations	1,763
800	Standards setting for the food industry account	665
530	Wine standards management – Wine Act 2003	1,285
(156)	Food standards and assurance – Food Act 2014	(142)
1,123	Border biosecurity traveller clearance levy	7,746
5,619	Total memorandum account balances	11,655

Note 19a: Border biosecurity clearance fees account

ACTUAL 2016 $000		ACTUAL 2017 $000
(4,166)	Opening balance 1 July	(641)
39,810	Revenue	42,073
(36,285)	Expenses	(39,507)
(641)	Closing balance	1,925

This account covers:

- levies imposed on all importations of goods for which a document is lodged with the New Zealand Customs Service under regulation 26(2) of the Customs and Excise Regulations 1996; and
- all other fees collected under the Biosecurity Costs Regulations 2006, including inspection of risk goods, offshore inspection of ships, and approval and audit of transitional containment facilities and facility operators.

Note 19b: Phytosanitary exports account

ACTUAL 2016 $000		ACTUAL 2017 $000
1,173	Opening balance 1 July	952
2,277	Revenue	2,328
(2,498)	Expenses	(2,368)
952	Closing balance	912

This account covers fees for certification of plant and forestry exports.

Note 19c: Verification of the Food Regulatory Programme account

ACTUAL 2016 $000		ACTUAL 2017 $000
(1,556)	Opening balance 1 July	2,142
45,129	Revenue	37,362
(41,930)	Expenses	(42,221)
499	Write-off irrecoverable operating deficits	218
2,142	Closing balance	(2,499)

This account covers verification and certification activities undertaken by MPI in accordance with section 7 of the Animal Products (Fees, Charges and Levies) Regulations 2007.

Note 19d: Approvals, accreditations and registrations

ACTUAL 2016 $000		ACTUAL 2017 $000
601	Opening balance 1 July	869
4,366	Revenue	5,163
(4,098)	Expenses	(4,269)
869	Closing balance	1,763

This account covers the provision of approval and registration services to regulated parties under the Agricultural Compounds and Veterinary Medicines Act 1997 and the Animal Products Act 1999.

Note 19e: Standards setting for the food industry account

ACTUAL 2016 $000		ACTUAL 2017 $000
2,203	Opening balance 1 July	800
17,976	Revenue	18,621
(19,379)	Expenses	(18,756)
800	Closing balance	665

This account covers MPI's standards setting activities and fees for certification and reconciliation services under the Animal Products (Dairy Industry Fees and Charges) Regulations 2007.

Note 19f: Wine standards management – Wine Act 2003

ACTUAL 2016 $000		ACTUAL 2017 $000
–	Opening balance 1 July	530
2,188	Revenue	2,623
(1,658)	Expenses	(1,868)
530	Closing balance	1,285

This account covers certification, assurance, standards setting, market access, systems implementation and monitoring services provided under the Wine Act 2003.

Note 19g: Food standards and assurance – Food Act 2014

ACTUAL 2016 $000		ACTUAL 2017 $000
–	Opening balance 1 July	(156)
169	Revenue	731
(325)	Expenses	(717)
(156)	Closing balance	(142)

This account covers services provided by MPI under the Food Act 2014.

Note 19h: Border Biosecurity Traveller Clearance Levy

ACTUAL 2016 $000		ACTUAL 2017 $000
–	Opening balance 1 July	1,123
15,838	Revenue	55,662
10,651	Revenue from the Crown for exempt travellers	2,049
(25,366)	Expenses	(51,088)
1,123	Closing balance	7,746

This account covers fees and costs associated with the biosecurity clearance costs of travellers coming into New Zealand.

ACTION TAKEN TO ADDRESS SURPLUSES AND DEFICITS

A first principles review of cost recovery is underway. This review will include analysis of the memorandum accounts to ensure they are functioning well and that they support appropriate cost recovery for services delivered going forward.

Note 20: Events after balance date

On 14 August 2017, the Minister of Finance, the Minister for Primary Industries, and the Minister for Food Safety agreed to allow MPI to retain part of its operating surplus. The whole operating surplus is typically repaid to the Treasury but for the 2016/17 year joint Ministers approved $9.0 million to be retained as MPI progresses several large infrastructure projects, including the National Biocontainment Laboratory at Wallaceville and the co-location of its Auckland sites.

Non-Departmental Statements and Schedules

Introduction/Overview

The following non-departmental statements and schedules record the revenue, expenses, capital receipts, assets, liabilities, commitments and trust accounts the Ministry for Primary Industries manages on behalf of the Crown.

MPI administered $217.483 million of expenses, $19.000 million capital expenditure, $137.276 million of income, $1.686 million of capital receipts, $331.730 million of assets and $36.858 million of liabilities on behalf of the Crown for the year ending 30 June 2017. Further details of MPI's management of these Crown assets and liabilities are provided in the Managing our Performance section of this report.

The financial information reported in these statements and schedules is consolidated into the Crown financial statements, and therefore readers of these statements and schedules should also refer to the Crown financial statements for the year ended 30 June 2017.

Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations

For the year ended 30 June 2017

ACTUAL 2016 $000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2017 $000	REMEASUREMENTS 2017 $000	EXPENDITURE AFTER REMEASUREMENTS 2017 $000	APPROPRIATION VOTED[1] 2017 $000	FORECAST[2] 2018 $000
	VOTE PRIMARY INDUSTRIES AND FOOD SAFETY					
	APPROPRIATIONS FOR OUTPUT EXPENSES					
	Administration and Management of Crown Forestry Assets and Operations MCA					
65,577	Operational Management of the Crown Forestry Estate	60,924	–	60,924	70,277	72,077
1,765	Climate Change Research	1,297	–	1,297	1,294	3,105
–	Control of Bovine TB	26,000	–	26,000	26,000	26,000
30,000	Control of TB Vectors	–	–	–	–	–
–	Management of Crown Forestry Assets	–	–	–	–	–
1,789	Support for Walking Access	1,789	–	1,789	1,789	1,789
	Food Safety Science and Research	250		250	700	700
99,131	Total output expenses	90,260	–	90,260	100,060	103,671
	APPROPRIATIONS FOR BENEFITS OR RELATED EXPENSES					
1,460	Rural Veterinarians Bonding Scheme	1,429	–	1,429	1,650	1,650
1,460	Total benefits or related expenses	1,429	–	1,429	1,650	1,650
	APPROPRIATIONS FOR OTHER EXPENSES					
51,845	Aquaculture Settlements	9,616	–	9,616	9,703	21,800
	Food Safety MCA					
2,090	Joint Food Standards Setting Treaty	2,132	–	2,132	2,100	2,100
	Grants and Programmes MCA					
2,250	Adverse Climatic Events	1,081	–	1,081	1,192	526
2,093	Hill Country Erosion Fund	2,036	–	2,036	2,146	2,200
8,817	Sustainable Farming Fund	8,936	–	8,936	8,920	9,865
–	Adverse Earthquake Events	3,733		3,733	4,300	200

[1] The 2017 Appropriation Voted figures are those submitted to Treasury for the 2017 Budget Economic Fiscal Update.
[2] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

ACTUAL 2016 $000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2017 $000	REMEASUREMENTS 2017 $000	EXPENDITURE AFTER REMEASUREMENTS 2017 $000	APPROPRIATION VOTED[1] 2017 $000	FORECAST[2] 2018 $000
439	Provision for Fisheries debt write-downs	(872)	–	(872)	1,000	1,000
1,310	Response to the Kiwifruit disease *Pseudomonas Syringae* pv. *Actinidiae*	499	–	499	500	–
2,894	Subscriptions to International Organisations	2,983	–	2,983	3,208	3,208
	Sustainable Economic Development and Trade MCA					
–	Fisheries Quota Shares and ACE Administration Costs	–	–	–	24	24
71,738	Total other expenses	30,144	–	30,144	33,093	40,923
172,329	Total annual appropriation expenditure	121,833	–	121,833	134,803	146,244

[1] The 2017 Appropriation Voted figures are those submitted to Treasury for the 2017 Budget Economic Fiscal Update.
[2] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Statement of Non-Departmental Expenditure and Capital Expenditure against Appropriations continued

For the year ended 30 June 2017

ACTUAL 2016 $000		ACTUAL 2017 $000
	VOTE PRIMARY INDUSTRIES AND FOOD SAFETY	
	APPROPRIATIONS FOR OUTPUT EXPENSES	
	Afforestation Grants Scheme	
19,500	Original appropriation – over five years from 1 July 2016 to 30 June 2021	19,500
–	Actual expenses	2,328
–	Estimated expenses for 2018	3,900
19,500	Appropriation remaining	13,272
	East Coast Afforestation Grants	
18,460	Original appropriation – over four years from 1 July 2013 to 30 June 2017	18,460
4,495	Cumulative adjustments	4,495
22,955	Adjusted appropriation	22,955
5,933	Actual expenses to 30 June 2016	5,933
	Actual expenses for 2017	478
16,482	Estimated expenses for prior year, and 2018	–
540	Appropriation remaining	16,544
	Forestry and Other Economic Development and Erosion Control	
–	Original appropriation – over four years from 1 July 2017 to 30 June 2021	18,460
–	Estimated expenses for 2018	4,615
–	Appropriation remaining	13,845
	Global Research Alliance on Agricultural Greenhouse Gases	
26,960	Original appropriation – over four years from 1 July 2016 to 30 June 2020	26,960
–	Cumulative adjustments	7,148
–	Adjusted appropriation	34,108
–	Actual expenses for 2017	4,235
10,000	Estimated expenses for prior year, and 2018	11,005
16,960	Appropriation remaining	18,868
	Primary Growth Partnership	
352,380	Original appropriation – over five years from 1 July 2012 to 30 June 2017	352,380
(91,295)	Cumulative adjustments	(111,187)
261,085	Adjusted appropriation	241,193
175,288	Actual expenses to 30 June 2016	175,288
–	Actual expenses for 2017	47,027
76,863	Estimated expenses for prior year, and 2018	–
8,934	Appropriation remaining	18,878
	Primary Growth Partnership	
–	Original appropriation – over five years from 1 July 2017 to 30 June 2022	244,312
–	Estimated expenses for 2018	50,300
–	Appropriation remaining	194,012

ACTUAL 2016 $000		ACTUAL 2017 $000
	Water Storage and Irrigation Investment Proposals	
25,000	Original appropriation – over five years from 1 July 2016 to 30 June 2021	25,000
	Cumulative adjustments	34,037
	Adjusted appropriation	59,037
	Actual expenses for 2017	12,950
–	Estimated expenses for 2018	25,472
25,000	Appropriation remaining	20,615
	APPROPRIATIONS FOR CAPITAL EXPENDITURE	
	Crown Irrigation Investments Limited	
40,000	Original appropriation – over four years from 1 July 2014 to 30 June 2018	40,000
71,850	Cumulative adjustments	71,850
111,850	Adjusted appropriation	111,850
9,250	Actual expenses to 30 June 2016	9,250
–	Actual expenses for 2017	19,000
101,600	Estimated expenses for prior year, and 2018	73,600
1,000	Appropriation remaining	10,000
	Crown Irrigation Investments Limited	
–	Original appropriation – over four years from 1 July 2017 to 30 June 2021	63,000
–	Estimated expenses for 2018	63,000
	Appropriation remaining	–
190,471	Total multi-year appropriation expenditure	86,018
190,471	Total Vote Primary Industries and Food Safety	86,018
–	Total expenditure for 2017	188,851
–	Total capital expenditure for 2017	19,000

The accompanying notes form part of these financial statements.

The 2017 adjusted appropriation figures are those submitted to Treasury for the 2017 Budget Economic and Fiscal Update.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Statement of Non-Departmental Unappropriated Expenditure and Capital Expenditure

For the year ended 30 June 2017

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

There was no unappropriated non-departmental expenditure for the year ended 30 June 2017 (2016: nil).

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Schedule of Non-Departmental Revenue

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
95,583	Sale of forest produce		89,696	80,726	96,589
31,360	Fines, penalties and levies	2	42,275	35,000	36,900
693	Sale of Crown quota and Annual Catch Entitlement (ACE)		1,374	100	100
3,482	Deemed value for over-fishing		2,723	5,000	5,000
431	Forestry encouragement loan interest	3	346	346	255
509	Gain on remeasurement of forestry encouragement loans	3	465	425	405
18,681	Gain on revaluation of forests measured at fair value	5	–	–	–
96	Gain on sale of Crown forestry assets		–	–	–
59	NZ ETS Fees		107	150	150
59	Forestry land rental		18	445	568
181	Miscellaneous revenue		272	50	50
151,134	Total non-departmental revenue		137,276	122,242	140,017

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Schedule of Non-Departmental Capital Receipts

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
1,686	Forestry encouragement loan repayments	3	1,686	1,686	1,686
482	Proceeds from sale of Crown forestry assets		–	–	–
2,168	Total non-departmental capital receipts		1,686	1,686	1,686

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Schedule of Non-Departmental Expenses

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
70,528	Grants		81,457	116,571	99,178
150,116	Operating		99,359	123,100	121,297
1,460	Benefits		1,429	1,650	1,650
5,761	Research and development		5,531	13,509	16,599
1,789	New Zealand Walking Access Commission funding	8	1,789	1,789	1,789
198	Depreciation and impairment of property, plant and equipment	7	159	269	162
439	Impairment of receivables		(872)	1,000	1,000
–	Loss on revaluation of forests measured at fair value	5	4,326	–	–
2,435	Loss on impairment of forests measured at cost	5	–	–	–
26,068	GST input expenses		24,305	32,834	32,207
258,794	Total non-departmental expenses		217,483	290,722	273,882

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Schedule of Non-Departmental Capital Expenditure

For the year ended 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
2,000	Investment in Crown Irrigation Investments Ltd	9	19,000	101,600	136,600
2,000	Total non-departmental expenses		19,000	101,600	136,600

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Schedule of Non-Departmental Assets

As at 30 June 2017

ACTUAL 2016 $000		NOTE	ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
22,809	Cash and cash equivalents		70,649	10,174	37,306
25,364	Debtors and other receivables	6	25,828	23,814	25,475
1,814	Prepayments		1,652	1,631	2,000
550	Non-current assets held for sale	4	550	–	–
1,686	Forestry encouragement loans	3	1,686	1,686	2,000
52,223	Total current assets		100,365	37,305	66,781
	NON-CURRENT ASSETS				
22	Debtors and other receivables	6	22	–	–
3,325	Forestry encouragement loans	3	2,451	2,327	1,686
176,374	Forests	5	172,048	161,064	176,375
15,408	Property, plant and equipment	7	19,294	15,069	15,084
	Crown equity investment in Crown entities				
1,150	New Zealand Walking Access Commission	8	1,150	1,150	1,150
17,400	Crown Irrigation Investments Limited	9	36,400	120,000	183,000
213,680	Total non-current assets		231,365	299,610	377,295
265,903	Total non-departmental assets		331,730	336,915	444,076

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Schedule of Non-Departmental Liabilities

As at 30 June 2017

ACTUAL 2016 $000		ACTUAL 2017 $000	ESTIMATES OF APPROPRIATIONS 2017 $000	FORECAST[1] 2018 $000
	CURRENT LIABILITIES			
18,567	Creditors and other payables	24,528	22,476	18,775
12,441	Over- and under-recovered costs from fishing industry	7,803	9,211	12,500
4,078	Provisions	3,286	4,023	4,078
	NON-CURRENT LIABILITIES			
1,454	Provisions	1,240	1,288	1,454
36,540	Total non-departmental liabilities	36,857	36,998	36,807

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

[1] The statement of accounting policies provides explanations for these figures, which are not subject to audit.

Schedule of Non-Departmental Contingent Liabilities and Contingent Assets

As at 30 June 2017

Contingent liabilities

MPI, on behalf of the Crown, has two unquantifiable contingent liabilities with respect to Central Otago irrigation schemes and historical scampi quota decisions.

Contingent assets

MPI, on behalf of the Crown, has no contingent assets (2016: nil).

Schedule of Non-Departmental Commitments

As at 30 June 2017

MPI, on behalf of the Crown, has entered into non-cancellable land leases for forestry. The lease agreements commit the Crown to expenditure over the remaining term of the leases and have expiry dates ranging from 2017 to 2082. The commitments shown are MPI's best estimate of the minimum expenditure over the remaining term of the leases.

ACTUAL 2016 $000		ACTUAL 2017 $000
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
53,783	Not later than one year	60,418
201,702	Later than one year and not later than five years	212,460
211,331	Later than five years	262,411
466,816	Total non-departmental operating lease commitments	535,289

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Statement of Trust Monies

For the year ended 30 June 2017

Declared Overfishing Trust Account

Funds held in relation to the deemed value of fish taken in excess of quota under the quota management system.

ACTUAL 2016 $000		ACTUAL 2017 $000
4,222	Balance at 1 July	7,327
4,695	Contributions	2,804
(1,743)	Distributions	(3,675)
153	Revenue	188
7,327	Balance at 30 June	6,644

Forfeit Property Trust Account

Proceeds received from the sale of seized forfeited property that is disposed of in accordance with Ministerial or Court direction.

ACTUAL 2016 $000		ACTUAL 2017 $000
2,278	Balance at 1 July	1,254
40	Contributions	92
(1,108)	Distributions	(39)
44	Revenue	24
1,254	Balance at 30 June	1,331

Seized Timber Trust Account

The Forest Trust Account holds proceeds from the sale of timber seized under the provisions of Part IIIA of the Forests Act 1949.

ACTUAL 2016 $000		ACTUAL 2017 $000
11	Balance at 1 July	11
–	Distributions	(11)
11	Balance at 30 June	–

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and results of its operations for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2017.

Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2017

Note 1: Statement of accounting policies

REPORTING ENTITY

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

These non-departmental balances are consolidated into the Financial Statements of the Government, for the year ended 30 June 2017. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government.

BASIS OF PREPARATION

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, and in accordance with relevant Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice (for Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities (PBEs).

FUNCTIONAL AND PRESENTATION CURRENCY

The non-departmental statements and schedules are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of MPI is New Zealand dollars.

Significant Accounting Policies

BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017. They are consistent with the financial information in the Main Estimates.

FORECAST FIGURES

The 2018 forecast figures for the year ended 30 June 2018 are those submitted to Treasury for purposes of consolidation into the 2017 Budget Economic and Fiscal Update (2017 BEFU out-year 1 figures).

The forecast financial statements and schedules have been prepared as required by the Public Finance Act 1989 to communicate forecast information for accountability purposes. Transparency is improved by providing further context of this year's results by providing next year's forecast for comparison.

The forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements and schedules. They comply with the recognition and measurement requirements of PBE accounting standards.

The forecast financial statements and schedules were authorised for issue by the Director-General of the Ministry for Primary Industries on 11 April 2017. The Director-General is responsible for them, including the appropriateness of the assumptions underlying them and all other required disclosures.

While MPI regularly updates its forecasts, updated forecast financial statements and schedules for the year ending 30 June 2018 (2017/18 financial year) will not be published.

The forecast has been compiled on the basis of existing government policies and Ministerial expectations.

The main assumptions are as follows:

- MPI's non-departmental activities conducted on behalf of the Crown will remain substantially the same as the previous year.
- Estimated year-end information for 2016/17 is used as the opening position for the 2017/18 forecasts.

Factors that could lead to material differences between the forecast information presented and the 2017/18 actual financial results include changes in activities required by the Government, year-end revaluations, and technical adjustments.

The only significant post-BEFU accounting adjustment that materially impacts the forecast financial statements and schedules was for the 30 June 2017 revaluation of Crown forests land and buildings that resulted in a gain of $4.030 million.

Revenue

FINES AND PENALTIES

Revenue from fines and penalties are recognised when the infringement notice is issued.

FORESTRY ENCOURAGEMENT LOAN INTEREST

Interest income is recognised using the effective interest method.

SALES OF FOREST PRODUCE

Revenue from the sale of forest produce is recognised at the point of sale – for example, delivered to mill or port, on truck or on skid (heavy vehicle used in logging operations for pulling trees out of the forest).

COST RECOVERY LEVIES

Cost recovery levies recover the costs of fisheries-related conservation services and fisheries services:

- provided to manage the harvesting or farming of fisheries resources; or
- provided to avoid, remedy, or mitigate a risk to, or an adverse effect on, the aquatic environment or the biological diversity of the aquatic environment.

The cost of fisheries services provided by MPI during the period 1 July 2016 to 30 June 2017 is primarily recovered from the commercial fishing sector over the period 1 October 2016 to 30 September 2017. Such revenue is reported in the financial period to which the revenue relates.

DEEMED VALUE CHARGES

Revenue from deemed value charges is recognised three months after the end of the fishing year on completion of review processes.

Grant expenditure

Where grants are discretionary until payment, the expense is recognised when payment is made. Otherwise the expense is recognised when specified criteria have been fulfilled.

Goods and services tax

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for debtors and creditors, which are inclusive of GST. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the government financial statements.

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs.

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that MPI will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Forestry encouragement loans

Forestry encouragement loans issued at below-market interest rates are initially recognised at fair value, which is determined as the present value of their expected future cash flows, discounted using an interest rate for loans of a similar term and credit risk. They are subsequently measured at amortised cost using the effective interest method to reflect actual and revised estimated cash flows. The difference between the face value and present value of the expected future cash flows of the loans on initial recognition and for subsequent carrying value changes are recognised in the schedule of non-departmental expenditure or income.

Non-current assets held for sale

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

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

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Property, plant and equipment

Property, plant and equipment consists of land, buildings, roads, bridges, fencing, motor vehicles, plant and equipment. Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Individual assets, or group of assets, are capitalised if their cost is greater than $5,000. The value of an individual asset that is less than $5,000 and is part of a group of similar assets is capitalised.

ADDITIONS

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Crown and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in the schedule of non-departmental income or expenses.

When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves in respect of those assets are transferred to general funds.

SUBSEQUENT COSTS

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

DEPRECIATION

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

Buildings	5 to 45 years (2–20%)
Roads	20 to 25 years (4–5%)
Bridges and fencing	5 to 25 years (4–20%)
Motor vehicles	5 to 10 years (10–20%)
Plant and equipment	3 to 5 years (20–33%)

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

REVALUATION

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

ACCOUNTING FOR REVALUATIONS

The Crown accounts for revaluations of property, plant and equipment on a class of asset basis. The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is expensed. Any subsequent increase on revaluation that off-sets a previous decrease in value expensed will be recognised first as income up to the amount previously expensed, and then credited to the asset revaluation reserve for that class of asset.

Forests

Forests are independently revalued annually at their fair value less estimated costs to sell for one growth cycle. Fair value is determined based on the present value of future cash flows discounted at a current market-determined rate. Where market-determined prices or values are not available, forestry assets are measured at cost less any accumulated depreciation and impairment losses.

Gains or losses arising on initial recognition of forests valued at fair value less estimated point of sale costs and from a change to fair value less estimated point of sale costs are recognised in the schedule of non-departmental income or expenses.

The costs to maintain the forests are included in the schedule of non-departmental expenses.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Onerous contracts

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

Provisions

Provisions are recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities and assets

Contingent liabilities and assets are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Non-cancellable operating lease commitments

Future expenses and liabilities to be incurred on non-cancellable operating lease contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Critical accounting estimates and assumptions

In preparing these financial statements MPI, on behalf of the Crown, has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- forest valuations (see Note 5);
- onerous contract provisions (see Note 12b); and
- non-cancellable operating lease commitments (see Statement of Commitments).

Note 2: Fines, penalties and levies

ACTUAL 2016 $000		ACTUAL 2017 $000
	COST RECOVERY LEVIES FROM FISHING INDUSTRY	
25,381	– Fisheries services	36,167
1,759	– Conservation services	1,675
2,784	Biosecurity Act 1993 fines	3,852
518	Forfeitures for fisheries offences	10
618	Dairy industry levy	403
301	Fisheries Act 1996 infringement notices	163
–	Animal welfare infringement	5
31,360	Total fines, penalties and levies income	42,275

Note 3: Forestry encouragement loans

ACTUAL 2016 $000		ACTUAL 2017 $000
5,759	Balance at 1 July	5,012
431	Interest	346
(1,686)	Repayments	(1,686)
509	Unwind present value adjustments	465
5,012	Balance at 30 June	4,137
1,686	Current asset portion	1,686
3,325	Non-current asset portion	2,451

Loans advanced to local authorities between 1981 and 1986 at interest rates ranging from 4.5 percent to 7.0 percent under the Forestry Encouragement Loan Regulations (1967) to encourage afforestation. Loans become repayable when either 30 or 40 years has passed from the first loan advance or when clear felling in the loan forest commences.

Forestry encouragement loans were initially recorded at fair value based on the projected future cash flows discounted using market rates for loans of similar terms and credit risk. To ascertain comparable market rates at the time the loans were advanced, MPI used variable first mortgage housing rates sourced from the Reserve Bank historical series. Interest rates used to calculate fair value ranged from 15.38 percent to 17.28 percent. The loans have subsequently been re-measured at amortised cost using the effective interest method to reflect actual and revised estimated cash flows.

The face value of forestry encouragement loans outstanding is $5.178 million (2016: $6.519 million) as at 30 June 2017: comprising three loans (2016: 4) held by one local authority (2016: 1). All outstanding loans are projected to be repaid by 31 December 2020.

The Crown holds no collateral over forestry encouragement loans.

Note 4: Non-current forestry assets held for sale

Non-current forestry assets held for sale consist of the Crown's interest in forests and associated property, plant and equipment that are subject to Treaty of Waitangi settlements or other Treaty of Waitangi obligations.

The accumulated property revaluation reserve recognised in equity for these assets at 30 June 2017 is $225,000 (2016: $203,000).

Note 5: Forests

ACTUAL 2016 $000		ACTUAL 2017 $000
	FORESTS MEASURED AT FAIR VALUE	
158,079	Opening balance 1 July	176,374
43,457	Changes in fair value	22,160
(24,777)	Decrease due to harvesting	(26,376)
(385)	Decrease due to disposals	(110)
176,374	Balance at 30 June	172,048
	FOREST MEASURED AT COST LESS IMPAIRMENT	
7,211	Opening cost 1 July	7,211
–	Decreases due to harvesting	–
7,211	Closing cost 30 June	7,211
(4,776)	Opening accumulated impairment 1 July	(7,211)
(2,435)	Impairment	–
(7,211)	Closing accumulated impairment 30 June	(7,211)
–	Balance 30 June	–
176,374	Total carrying value of forests	172,048

MPI manages the Crown's interest in forests established on Crown-owned land, leased Māori land and freehold land (under forestry rights). At 30 June 2017 the net stocked area of trees was 14,294 hectares (2016: 15,855 hectares).

During the year ending 30 June 2017:

- 512 hectares (2016: 1,380 hectares) of silvicultural tending and establishment were completed;
- 738,413 cubic metres of logs (2015: 834,454 cubic metres) were produced from harvesting operations;
- no forests were purchased (2016: nil); and
- 1,561 hectares of Crown Forestry managed estate were surrendered or sold (2016: 3,633).

FORESTS MEASURED AT FAIR VALUE

The valuations at 30 June 2016 and 30 June 2017 were carried out by Alan Bell and Associates, registered forestry consultants specialising in forest valuation. The following valuation assumptions (unchanged from 2016) have been adopted in determining the fair value of forestry assets:

- a discount rate of 6.5 percent has been used for forests greater than 1,000 hectares and 7 percent for forests less than 1,000 hectares in discounting the present value of expected post-tax cash flows;
- the prevailing company tax rate applied to pre-tax cash flows was 28 percent;
- notional land rental costs have been included for freehold land and actual rents for leased land and forestry rights;
- the forest has been valued on a going concern basis and only includes the value of the existing crop on a single rotation basis;
- no allowance for inflation has been provided except in calculating the cost-of-bush taxation effect;
- costs are current average costs; and
- log prices are based on a start point of current prices (adjusted March quarter 2017) then moving on a straight-line basis to trend prices (12 quarter unadjusted average prices) after five years and then remaining constant at trend prices.

FORESTS MEASURED AT COST LESS IMPAIRMENT

On 1 January 2009, (2008/09 year) MPI purchased 5,300 hectares of special purpose species (SPS) forest from Timberlands West Coast Limited (TWC). The SPS forest consists of a forestry right on Ngāi Tahu land and was planted between 1993 and 2007 under an agreement between TWC and the Crown.

For the valuation year ending June 2016 Crown Forestry undertook a fair value estimate of the crop value based on a silvicultural inventory completed during the year. With 10 years remaining on the initial lease term, this type of valuation is appropriate and reasonable. The resultant value, as a result of the poor form and considerably slower growth of the trees, was nil under the majority of the scenarios run. The forest was subsequently valued at nil, and a provision impairment recognised to cover rates, rent and overheads until the end of the term of the forest right.

Nothing has changed in the last 12 months to alter this decision.

LAND PRICE REVALUATION

Land and assets owned by the Crown were revalued as at June 2017 – a process repeated every five years. Valuers were selected from a tender process with valuations completed by Morice Ltd (five forests), Vietch Morison Valuers (one forest) and Colliers International (one forest and one irrigation reservoir). Valuers were instructed to provide a report detailing the fair value at 30 June 2017 in compliance with PBE IPSAS 17 Property, Plant and Equipment.

FINANCIAL RISK MANAGEMENT STRATEGIES

The Crown is exposed to financial risks arising from changes to international log prices and currency fluctuations. Log prices were stable all year to the end of June. A combination of a favourable exchange rate, rising freight rates and lowering fuel costs maintained log prices into China, which set the benchmark in other export markets and the domestic market. On top of this, increased prices for pruned logs on the export market saw a corresponding increase in pruned log prices to domestic sawmills. MPI experienced strong demand for log sales over the 2016/17 year in both the domestic and export sectors. Pulp prices remained flat in the central North Island. MPI's marketing strategy is based on a spread of domestic and export sales, and a spread of customers within both of these markets.

Note 6: Debtors and other receivables

ACTUAL 2016 $000		ACTUAL 2017 $000
20,988	Debtors and other receivables – fine, penalties and levies	19,458
5,764	Debtors and other receivables – Crown forestry operations and miscellaneous revenues	6,550
(1,366)	Less provision for impairment	(158)
25,386	Total debtors and other receivables	25,850

The carrying value of debtors and receivables approximate their fair value.

The ageing profile of debtors and other receivables at year end is detailed below:

	2016			2017		
	GROSS $000	IMPAIRMENT $000	NET $000	GROSS $000	IMPAIRMENT $000	NET $000
Not past due	26,424	–	26,424	25,643	–	25,643
Greater than 30 days	7	–	7	–	–	–
Greater than 60 days	25	–	25	–	–	–
Greater than 90days	297	(1,366)	(1,069)	365	(158)	207
Total	26,752	(1,366)	25,386	26,008	(158)	25,850

The provision for impairment has been calculated based on expected losses for the Crown's pool of debtors. Expected losses have been determined based on a review of individual debtors.

At 30 June 2017, MPI has identified one debtor (2016: 61) totalling $28,000 that are insolvent (2016: $446,000).

Movement in the provision for impairment of receivables is as follows:

ACTUAL 2016 $000		ACTUAL 2017 $000
5,784	Balance at 1 July	1,366
439	Additional provisions made	(886)
(4,857)	Receivables written off	(322)
1,366	Balance at 30 June	158

Note 7: Property, plant and equipment

	LAND $000	BUILDINGS $000	ROADS, FENCES AND EQUIPMENT $000	MOTOR VEHICLES $000	TOTAL $000
COST OR VALUATION					
Balance 1 July 2015	14,322	140	5,910	402	20,774
Disposals	–	–	(12)	–	(12)
Balance 30 June 2016	14,322	140	5,898	402	20,762
Balance 1 July 2016	14,322	140	5,898	402	20,762
Additions	–	–	–	–	–
Revaluations	3,945	85	–	–	4,030
Balance 30 June 2017	18,267	225	5,898	402	24,792
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2015	–	9	4,838	321	5,168
Depreciation expense	–	3	183	12	198
Eliminate on disposal	–	–	(12)	–	(12)
Transfer to held for sale	–	–	–	–	–
Balance 30 June 2016	–	12	5,009	333	5,354
Balance at 1 July 2016	–	12	5,009	333	5,354
Depreciation expense	–	3	143	13	159
Reversal of accumulated depreciation on revaluation	–	(15)	–	–	(15)
Balance 30 June 2017	–	–	5,152	346	5,498
CARRYING AMOUNTS					
At 1 July 2015	14,322	131	1,072	81	15,606
At 30 June and 1 July 2016	14,322	128	889	69	15,408
At 30 June 2017	18,267	225	746	56	19,294

Land and buildings have been valued at fair value as at June 2017 by independent registered valuers Mark Morice of Morice Ltd, Avon McLachlan of Veitch Morison Valuers Ltd, Blue Hancock and John Dunckley of Colliers International.

Note 8: New Zealand Walking Access Commission

New Zealand Walking Access Commission is a Crown entity established under the Walking Access Act 2008 to provide leadership and co-ordination of walking access, the negotiation and funding of new access over private land and the creation of a code of responsible conduct in respect of walking access.

Note 9: Crown Irrigation Investments Limited

Crown Irrigation Investments Limited is a Crown-owned company incorporated under the Companies Act 1993 on 1 July 2013 to facilitate the Crown's investments in regional water storage and off-farm irrigation infrastructure schemes. The shares in the company are owned by the Minister for Primary Industries and the Minister of Finance. The company is also listed in Schedule 2 of the Crown Entities Act 2004.

Note 10: Creditors and other payables

ACTUAL 2016 $000		ACTUAL 2017 $000
–	Accounts payable	–
3,104	GST payable	2,470
7,204	Grants payable	14,076
–	Creditor property, plant and equipment	–
8,259	Other accrued expenses	7,982
18,567	Total creditors and other payables	24,528

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

Note 11: Over- and under-recovered costs from fishing industry

Section 265 of the Fisheries Act 1996 creates a mandatory obligation on the Minister for Primary Industries to have regard to over- and under-recovery of costs of any conservation service or fisheries service in a previous financial year when recommending a cost recovery levy order for a current/future year.

This liability reflects the balance of the net over- and under-recovery of cost recovery levies for the period 1 October 1995 to 30 June 2017 to be applied against future cost recovery levy orders.

Note 12: Provisions

ACTUAL 2016 $000		ACTUAL 2017 $000
	CURRENT	
1,518	Rural veterinarians bonding scheme	1,243
2,560	Commercial aquaculture claims settlement	2,043
4,078	Total current provisions	3,286
	NON-CURRENT PROVISIONS	
325	Rural veterinarians bonding scheme	767
1,129	Onerous contracts	473
1,454	Total non-current provisions	1,240
5,532	Total provisions	4,526

Note 12a: Rural Veterinarians Bonding Scheme

ACTUAL 2016 $000		ACTUAL 2017 $000
1,708	Opening balance	1,843
2,785	Additional provisions made	1,429

(2,650)	Amounts used	(1,262)
1,843	Closing balance	2,010

The rural veterinarians bonding scheme provides payments to veterinary professionals agreeing to work in understaffed rural areas. Payments are for a maximum of $11,000 per annum for five years and are made after the third, fourth and fifth year. The scheme commenced on 1 January 2009 and this provision represents MPI's liability at balance date for the 108 (2016: 135) veterinarians currently in the scheme.

Note 12b: Onerous contracts

ACTUAL 2016 $000		ACTUAL 2017 $000
1,043	Opening balance	1,129
–	Additional provisions made for South Westland	473
–	Reversal of Tokararangi Onerous Contract	(1,129)
86	Increase/(decrease) for passage in time and change in discount rate	––
1,129	Closing balance	473

The remaining provision relates to a non-cancellable contract for the lease of land for forestry purposes on the west coast of the South Island. Based on current market conditions the unavoidable costs of meeting the contract exceed the economic benefits to be received from it. The provision has been measured at the present value of the net cash outflows expected to be incurred in respect of the contract. A market-determined discount rate of 8.5 percent (2016: 8.5%) has been used that reflects the time value of money and the risks specific to the obligation. The contract expires in 2030.

Note 12c: Commercial Aquaculture Claims Settlement

ACTUAL 2016 $000		ACTUAL 2017 $000
3,701	Opening balance	2,560
(1,141)	Amounts used	(517)
2,560	Closing balance	2,043

The Māori Commercial Aquaculture Claims Act 2004 provides a full and final settlement of Māori contemporary claims to commercial aquaculture space created since 21 September 1992. The Act establishes the Crown's obligation to provide iwi with the equivalent of 20 percent of the aquaculture space created between 21 September 1992 and 31 December 2004 ("pre-commencement space") plus an additional obligation to provide 20 percent of all new space created. If the pre-commencement settlement cannot be achieved through a transfer of "space", then it must be resolved through a financial transfer to iwi.

Note 13: Explanations of major variances

Explanations for major variances from MPI's non-departmental estimated figures in the Main Estimates are as follows.

NON-DEPARTMENTAL REVENUE

The positive revenue variance in 2016/17 is attributable to the sale of forest produce revenue. This is due to increased log prices which has resulted in increased revenue ($89.696 million) higher than budget ($80.727 million). The log price increase is driven by growth in the China log export markets. In addition, favourable freight costs and increased demand from domestic log processors.

NON-DEPARTMENTAL EXPENSES

Operating expenses were $23.741 million lower than budget primarily due to timing of aquaculture settlements. The Crown's ability to meet these and remaining obligations is dependent on negotiations with iwi. While negotiations continue, an expense transfer was sought to carry forward underspent budget from 2016/17 to 2017/18. In addition, significant savings in expenditure were realised in comparison to what was budgeted for Crown Forestry. This was due to a change in point of sale for export logs from the Crown's largest operations in the central North Island.

Expenditure on grants were $35 million lower than budget primarily due to changes in timing for projects impacted by external factors.

NON-DEPARTMENTAL CAPITAL EXPENDITURE

Capital investment by Crown Irrigation Investments Limited (CIIL) in regional storage and off-farm irrigation infrastructure was lower than forecast. The variance to budget is due to the timing of CIIL's calls on capital in relation to its investment in Central Plains Water Limited Stage Two. As the expenditure is against a multi-year appropriation, the underspend in 2016/17 is still available in 2017/18. Further information on CIIL can be found in its annual report.

Other **Information**

Legislation

Administered by MPI as at 30 June 2017

MPI administers 51 statutes and nearly 360 sets of regulations.

Public Acts

- Agricultural and Pastoral Societies Act 1908
- Agricultural Compounds and Veterinary Medicines Act 1997
- Airports (Cost Recovery for Processing of International Travellers) Act 2014
- Animal Control Products Limited Act 1991
- Animal Products (Ancillary and Transitional Provisions) Act 1999
- Animal Products Act 1999
- Animal Welfare Act 1999
- Aquaculture Reform (Repeals and Transitional Provisions) Act 2004
- Biosecurity Act 1993
- Commodity Levies Act 1990
- Dairy Industry Restructuring Act 2001
- Driftnet Prohibition Act 1991
- Fisheries Act 1983
- Fisheries Act 1996
- Fisheries (Quota Operations Validation) Act 1997
- Food Act 2014
- Forestry Encouragement Act 1962
- Forestry Rights Registration Act 1983
- Forests Act 1949
- Forests (West Coast Accord) Act 2000
- Hop Industry Restructuring Act 2003
- Irrigation Schemes Act 1990
- Kaikōura (Te Tai o Marokura) Marine Management Act 2014
- Kiwifruit Industry Restructuring Act 1999
- Māori Commercial Aquaculture Claims Settlement Act 2004
- Māori Fisheries Act 2004
- Marine Farming Act 1971 (this Act is repealed except for some transitional provisions)
- Meat Board Act 2004
- Ministries of Agriculture and Forestry (Restructuring) Act 1995, 1997, 1998
- National Animal Identification and Tracing Act 2012
- New Zealand Horticulture Export Authority Act 1987
- Plants Act 1970
- Pork Industry Board Act 1997
- Primary Products Marketing Act 1953
- Public Works Act 1981 (Part 19)
- Royal New Zealand Institute of Horticulture Act 1953
- Taratahi Agricultural Training Centre (Wairarapa) Act 1969
- Treaty of Waitangi (Fisheries Claims) Settlement Act 1992
- Veterinarians Act 2005
- Walking Access Act 2008
- Wine Act 2003
- Wool Industry Restructuring Act 2003

Private Acts

- Auckland Agricultural Pastoral and Industrial Shows Board Act 1972
- Canterbury Agricultural and Pastoral Association Empowering Act 1982
- Clevedon Agricultural and Pastoral Association Empowering Act 1994
- Kumeu District Agricultural and Horticultural Society Act 1991
- Marlborough Agricultural and Pastoral Association Empowering Act 1974
- Telford Farm Training Institute Act 1963
- Tokoroa Agricultural and Pastoral Association Empowering Act 1968
- United Wheatgrowers Act 1936
- Waikato Show Trust Act 1965

Grants Approved

1 July 2016 to 30 June 2017

MPI administers several grant programmes, as outlined below, to help land managers and rural communities manage New Zealand's natural resources in a sustainable manner.

ADVERSE CLIMATIC EVENTS

This grant programme covers natural disasters, adverse climatic events and biosecurity incursions that affect rural communities. It includes floods, storms, droughts, snowstorms, frosts, tsunamis, volcanic eruptions, earthquakes and hailstorms. The Government's role in adverse events is to help citizens in times of adversity, where government involvement is justified by benefit to the wider community.

Government responds to situations beyond the capacity of the wider community to cope, but not to individual requests for assistance. After an adverse event, the Government has a role in restoring public infrastructure and protecting the health and safety of its citizens. The Government may also help primary producers that acutely feel the effect of an adverse event.

AFFORESTATION GRANTS SCHEME

The Afforestation Grants Scheme has funding available for five years up to 2020. The Afforestation Grants Scheme is a contestable fund designed to encourage more planting of trees in small forests and on farms.

IRRIGATION ACCELERATION FUND

The Irrigation Acceleration Fund primarily supports rural water harvesting, storage and distribution infrastructure. Funding is available in three distinct components that target the delivery of rural water infrastructure proposals:

- **Strategic water management studies** – to help with the development of regional approaches to integrated water management, particularly the potential of rural irrigation-related infrastructure.
- **Community-scale water management and infrastructure development** – to help new, smaller-scale community scheme developments, as well as capital upgrades of existing community scheme infrastructure. Proposals must be consistent with agreed regional strategies and environmental limits.
- **Regional-scale water management and infrastructure development** – to support regional schemes as well as capital upgrades of existing large-scale scheme infrastructure. Proposals must be consistent with agreed regional strategies and environmental limits.

EROSION CONTROL FUNDING PROGRAMME

The Erosion Control Funding Programme (formerly known as the East Coast Forestry Project) was established in 1992 to deal with the wide-scale erosion problem in the Gisborne district. MPI provides funding to landholders and community groups in the district to address erosion through the treatment of highly erodible land and other supporting activities.

PRIMARY GROWTH PARTNERSHIP

The Primary Growth Partnership is a government–industry partnership that invests in significant programmes of research and innovation to boost the economic growth and sustainability of New Zealand's primary and food sectors, including forestry.

SUSTAINABLE FARMING FUND

The purpose of the Sustainable Farming Fund is to support the economic, environmental and social performance of New Zealand's productive land-based sectors. It does this by funding projects that are:

- based on solving problems or taking up opportunities related to increasing sustainable productivity resource use; and
- defined and driven by a farmer, grower or forester.

SUSTAINABLE LAND MANAGEMENT HILL COUNTRY EROSION PROGRAMME

The Sustainable Land Management Hill Country Erosion Programme, through regional initiatives, provides targeted government support to communities that need to protect erosion-prone hill country. It recognises that, wherever possible, farmers seek to retain the maximum practical production from their land.

SUSTAINABLE LAND MANAGEMENT CLIMATE CHANGE RESEARCH PROGRAMME

This programme helps the agriculture and forestry sectors with the challenges arising from climate change. Each year, MPI approves a number of priority topics that address one of the following research themes:

- impacts of climate change and adaptation;
- mitigation of agricultural and forestry greenhouse gas emissions; and
- cross-cutting issues, including economic analysis, lifecycle analysis, farm catchment systems analysis and social impact.

RURAL VETERINARIAN BONDING SCHEME

To deal with a shortage of veterinarians in rural areas, a voluntary bonding scheme provides veterinarians a taxable payment of $11,000 for every year they work in an eligible area, up to a maximum of five years.

Minister's reports **on Non-Departmental Appropriations**

Afforestation Grant Scheme

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Afforestation Grant Scheme (M87).

The objective of the Afforestation Grant Scheme (AGS) is to encourage and support new forest planting, with applications prioritised, if necessary, according to their contribution to environmental outcomes. The expected result is to have 15,000 hectares of new forest planted by 2021. Secondary benefits include helping to reduce soil erosion, improving land use productivity and storing carbon.

The main features of the AGS are:

- grant applications must be for forests of between 5 hectares and 300 hectares;
- planting must be on land that is not already forest land;
- the grant rate is $1,300 per hectare; and
- grantees are prohibited from receiving carbon credits from the Crown for the first 10 years.

A total allocation of $19.5 million is available for grants.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to grants to private landowners for afforestation purposes.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The objective of the AGS is to achieve and encourage new planting of an expected 15,000 hectares of new forest by 2021.

DESCRIPTION OF ACTIVITIES

In the AGS 2016/17 funding round, MPI assessed 121 applications as eligible, a total of 5,819 hectares. By the end of the contracting phase, 81 applications were contracted to plant 2,900 hectares in winter 2016. In winter 2016, 1,788 hectares were successfully planted. MPI agreed to defer planting of 680 hectares to winter 2017 because some grantees were unable to plant due to circumstances outside of their control. For example, one applicant was unable to secure enough seedlings after their supplying nursery suffered seedling bed failures. Three applications, totalling 432 hectares, were withdrawn from the scheme by grantees; as an example, one applicant withdrew because they had a preference to join the NZ ETS rather than claim the AGS funding, and the trees were still planted.

The second funding round held in 2016 saw 81 applications contracted to plant 4,800 hectares. This planting began in winter 2017, and claims are expected between September 2017 and June 2018.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Total area afforested since initial implementation of the scheme	2,500 hectares	1,768 hectares

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2016 $000	ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
–	2,328	3,900	3,900

ADDITIONAL COMMENTS

The performance standard for 2016/17 was not met due to MPI's agreement to defer 680 hectares for planting in winter 2017. It is expected the total area planted under 2016/17 grant contracts will increase to 2,468 hectares.

The 2016/17 funding round was the first year of the AGS, and uptake was not as high as anticipated. Contracted hectares for the second round, however, increased by 60 percent, together with a much higher standard in the quality of applications received since the first round. These factors will mean progress towards the target of the AGS (15,000 hectares between 2015 and 2021) is on track.

Climate Change Research

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Climate Change Research.

The Sustainable Land Management and Climate Change (SLMACC) research programme aims to address the knowledge base on climate change for the agriculture and forestry sectors. It consists of several separate elements that focus on:

- effects of and adaptation to climate change;
- reducing emissions in agriculture and forestry and creating carbon sinks; and
- capitalising on business opportunities arising from climate change.

Research priorities are established for the fund each year using a strategic research framework and SLMACC internal and external subject matter experts. The priorities focus on areas where gaps in knowledge exist and/or there is potential for advances in responding to climate change by the agriculture and forestry sectors.

The knowledge generated by this fund is used to inform primary sector stakeholders, develop policies and generate further research. This knowledge is also transferred to land users and their advisers through the SLMACC technology transfer programme and other means. SLMACC research funding is for projects with a length of one, two or three years and that meet the quality criteria of the fund. The 2017/18 funding round involved seven priority climate change topics, with MPI approving eight projects totalling $3.35 million over three years. The projects were spread across three themes, with topics relating to: horticulture (1), forestry (4), livestock (1) and integrating extension and land management networks relating to climate change (1).

Work completed using SLMACC funding in 2016/17 included development of a plain language factsheet by the National Institute of Water and Atmospheric Research (NIWA) to help farmers plan for, and adapt to manage, the effects of climate change on their business. This factsheet was informed by an extensive analysis of climate data and modelling by NIWA, which was also funded by SLMACC. The full technical report is publicly available and is being used by councils to ensure a consistent approach to managing the effects of climate change in their respective areas.

Another SLMACC project completed provided nationwide robust carbon sequestration values for three of the most promising Eucalyptus species in New Zealand *(Eucalyptus fastigata, E. regnans and E. globoidea)* that also account for the spatial variation of productivity. These values will help the NZ ETS by providing robust information on the potential of different forest species to offset emissions.

Non-departmental outputs purchased by the Crown under this appropriation relate to research projects undertaken by research providers. These providers include universities, Crown research institutes and private sector research providers.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to obtaining science, research, technology, capacity and capability in climate change research related to the primary land-based sectors.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The SLMACC research fund's objective is to increase knowledge of agricultural emissions and forestry sinks, mitigation practices and technologies, and business opportunities. The research generated includes basic, strategic and applied knowledge that can support further research and policy development, and/or be used directly by farmers or their advisers.

Investments in SLMACC research aim to generate knowledge that can be used to:

- understand the effects of climate change;
- enhance and support adaptation to climate change;
- reduce agricultural greenhouse gases;
- encourage the establishment of forest sinks in indigenous and planted forests;
- manage deforestation;
- capitalise on new business opportunities arising from the world's response to climate change;
- address cross-cutting issues, including economic analysis; lifecycle analysis; farm, catchment and systems analysis; and social impacts; and
- policy research to address targeted policy questions.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Percentage of funded research projects completed within contracted timeframes	80%	100% All projects were completed within their contracted timeframes.

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
1,765	Actual expenses incurred compared to that appropriated in estimates (funded by the Crown)	1,297	1,720	1,494

DESCRIPTION OF ACTIVITIES

This other expense covers payments for:

- research activities;
- scientific report and paper writing;
- technology transfer and extension;
- project management; and
- financial management.

Control of Bovine TB

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Control of Bovine TB.

The Control of Bovine TB appropriation provides for the Crown's contribution to the implementation of the National Bovine Tuberculosis Pest Management Plan (the Plan).

TBfree New Zealand is appointed under the Biosecurity (National Bovine Tuberculosis Pest Management Plan) Order 1998 as the management agency for the Plan. The Plan's two main components are disease control, which is fully industry funded, and vector control, which is funded by the Crown, local government, some rural land occupiers and industry.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to the Crown's contribution to the implementation of the Plan.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The Plan's objective is to control the spread of bovine tuberculosis from vectors to farm animals through the implementation of large- and small-scale control operations against all bovine tuberculosis vectors, including possums and ferrets.

DESCRIPTION OF ACTIVITIES

This output covers the Crown's contribution to implementation of the Plan. The Plan was reviewed, starting in December 2014, and the revised plan came into effect on 1 July 2016.

The Plan's updated primary objective is the eradication of *Mycobacterium bovis* (which causes bovine tuberculosis) from New Zealand by the end of the term of the Plan. This objective has two major milestones: freedom from bovine tuberculosis in cattle and deer by 30 June 2026, and freedom from bovine tuberculosis in possums by 30 June 2040.

The Plan's secondary objective, to be achieved while accomplishing the primary objective, is to keep the national annual bovine tuberculosis infected herd period prevalence at the lowest possible level, and at no greater than 0.2 percent, throughout the term of the Plan.

The Crown funding is managed through a funding agreement with TBfree New Zealand. The Crown funding under this output is based on the Crown's assessed obligations, due to the presence of wildlife vectors on Crown land (called TB vectors), plus a proportional contribution to common costs of delivering the Plan. The funding contributes to vector control measures and monitoring of the Crown estate, adjoining land and private land for this purpose.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Number of cumulative hectares (within ±5%) where eradication has been achieved reclassified as vector free from vector risk	1.2 million hectares	1.786 million hectares
Annual period prevalence of infected cattle and deer herds as a percentage of herds	0.3%	0.12%

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
30,000	Actual expenses incurred compared to that appropriated in estimates (funded by the Crown)	26,000	26,000	26,000

ADDITIONAL COMMENTS

The entire appropriation for 2016/17 was spent.

East Coast Afforestation Grants

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense East Coast Afforestation Grants.

The Erosion Control Funding Programme (ECFP) funds three primary types of erosion treatments through land treatment grants:

- forestry planting;
- pole planting (willows or poplars); and
- indigenous reversion.

An ECFP land treatment grant can be used to control erosion on the worst eroding or erosion-prone land in the East Coast district (MPI refers to this type of land as target land). ECFP land treatments provide grants for establishing an effective tree cover through planting or encouraging natural reversion to native bush.

Grant rates are calculated on the treatment type. Grant rates for pole treatments are calculated on actual and reasonable costs, and rates for reversion and forestry are on a per hectare basis. Forestry and reversion treatments within the catchments of high-priority gullies are also entitled to an additional $500 per hectare over and above the standard rate for these treatment types.

The ECFP supports:

- the Crown to meet its commitments in the Deed of Settlement and subsequent Relationship Accord agreed in April 2014 with Ngāti Porou regarding the 100-year Restoring the Waiapu Catchment programme; and
- implementation of the Gisborne District Council's Sustainable Hill Country programme as part of the Combined Regional Land and District Plan.

In 2009, the Gisborne District Council implemented District Plan rule Land Overlay 3A (LO3A), which requires landowners with LO3A land to either have effective tree cover or certified land plans by 2011 and effective tree cover by 2021. The rule is conditional on the availability of ECFP funding so will lapse, should the ECFP or an alternative funding source not be available.

EROSION IN THE GISBORNE DISTRICT

The Gisborne district has a severe erosion problem; 26 percent of the district's land is susceptible to severe erosion, compared with only 8 percent of all land in New Zealand. Severe erosion includes large-scale gully erosion, earthflow erosion and deep-seated slumps.

Severe erosion causes long-term damage to the productivity of rural land. It threatens communities and rural businesses, including farms and orchards, and roads and bridges. It lowers water quality by contributing large amounts of sediment to river systems, and it harms the natural and cultural values of the land and coastal environment.

The Gisborne district is susceptible to regular high-intensity weather events that cause soil erosion and downstream flooding. These weather events are likely to get heavier and/or more frequent. For a mid-range global greenhouse gas emission scenario, a 1-in-100-year event could become a 1-in-50-year event by the end of this century.

SCHEME IMPROVEMENTS

Options to increase uptake were developed in 2016, following consultation with key stakeholders in the region.

Subsequent operational changes were implemented for the land treatment grants in late 2016 and included:

- broadening the eligible land categories to include a wider range of Land Use Capability classes (VIe, VIIe, and VIIIe and Overlay 3A land); and
- changing the grant payment structure to enable upfront payments, reducing the financial burden on grantees when establishing new treatments.

In February 2017, Cabinet approved an expansion of the ECFP's scope, namely community projects, to realign the fund back to its original intent, which included:

- controlling soil erosion through large-scale commercial forestry and other sustainable afforestation in the Gisborne/Tairāwhiti region;
- providing employment and regional development; and

- recognising environmental needs on individual properties.

MPI has subsequently established the option for ECFP community projects. This broadens the support available for erosion control activities in the region to include other activities across the erosion and forestry value chain, including initiatives that may have other environmental, social and economic outcomes. Applications for funding were opened in early 2017.

These changes are intended to lead to increased uptake of the fund and enable more opportunities for erosion control in the district.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to applications for grant funding of erosion treatments that were approved and administered under the Forestry (East Coast) Grants Regulations 2000 as well as applications approved since 1 July 2014 and administered by way of grant agreements.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The ECFP's primary objectives are to encourage the establishment of erosion control treatments on the worst eroding or erosion-prone land and to support broader initiatives to address erosion in the Gisborne district.

By treating erosion, long-term productivity will improve through retaining productive land, reducing the effect of sediment entering waterways and reducing the damage to infrastructure caused by extreme weather events. Erosion treatments help with reducing flood peaks, reduce the likely effects of climate change, improve water quality by reducing nutrient leaching and improve indigenous biodiversity. Broader community-level projects will also lead to improved economic and social outcomes for the district, such as economic growth, employment opportunities and skills development.

DESCRIPTION OF ACTIVITIES

In the 2016/17 funding round for ECFP land treatments, 39 applications were assessed for funding eligibility with 37 approved for planting in subsequent years.

In 2016/17, 272 hectares of erosion treatments were established, with maintenance also carried out on projects undertaken in previous years. All erosion treatment milestones funded through the ECFP underwent a site inspection before payment, to determine if work was completed to an acceptable standard and in accordance with the approved grant conditions. The actual planted area established was mapped using a geographic information system, and grant money was paid, based on the land planted and in accordance with the agreed grant rate.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Number of hectares approved for planting and treatment	1,000 hectares	1,439 hectares
Total area afforested since initial implementation of the scheme	42,000 hectares	41,523 hectares

ADDITIONAL COMMENTS

One performance measure was met, and one was not. It should be noted, however, that the area of newly established treatments may increase as grantees request inspections and claim funding for work undertaken during 2016/17.

The ECFP is in the mature phase of the programme uptake. Most willing participants have joined the scheme in previous years. MPI has now prioritised the very worst eroding land and is working with landowners who have several unique challenges. This includes the recruitment of an additional 1.5 full-time equivalent (FTE) (total of 2.5 FTE) to support the community outreach and participation of the ECFP across the Gisborne region.

Ongoing monitoring processes through MPI's information systems are in place to ensure reporting accuracy.

Most of the worst erosion-prone land is in the north of the district in the Waiapu catchment and adjacent catchments. The owners of these blocks present unique challenges (for example, small blocks, low income generated from the land, multiple-owned land with limited governance structures in place). MPI is working alongside landowners in partnership with Gisborne District Council and Te Rūnanganui o Ngāti Porou to get these difficult blocks treated through the ECFP. An increased focus on building relationships with landowners will continue into 2017/18, and it is expected this will enable further uptake of the ECFP.

SERVICE PERFORMANCE – FINANCIAL

The East Coast Afforestation Grants expenditure was covered by a multi-year appropriation over four years from 1 July 2013 to 30 June 2017. Multi-year appropriations give departments flexibility to manage expenses over several years up to a maximum of five years. They are used for activities where total costs are well defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	$000
Original appropriation	18,460
Adjustments for 2013/14	4,495
Adjustments for 2014/15	–
Adjustments for 2015/16	–
Adjusted appropriation	22,955
Actual expenses for 2013/14	(3,357)
Actual expenses for 2014/15	(1,264)
Actual expenses for 2015/16	(1,312)
Actual expenses for 2016/17	(478)
Appropriation remaining	16,544

ADDITIONAL COMMENTS

The unexpended balance of this multi-year appropriation will be transferred to the new Forestry and Other Economic Development, and Erosion Control multi-year appropriation that starts 1 July 2017 and ends 30 June 2021.

Global Research Alliance on Agricultural Greenhouse Gases

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Global Research Alliance on Agricultural Greenhouse Gases.

The Global Research Alliance (the Alliance) was established in 2009 and now has 48 member countries and 14 partners, international organisations whose goals align with the Alliance (for example, the Food and Agriculture Organization of the United Nations, World Bank, World Farmers' Organisation and international and regional agricultural research institutes). The Alliance is focused on research, development and extension of technologies and practices that will help deliver ways to grow more food (and more climate-resilient food systems) without increasing greenhouse gas emissions.

The Alliance brings together interested countries and organisations to drive greater effort and investment. The chair for 2016/17 is Mexico, with Japan as the vice chair. Japan will take over the chair at the Global Research Alliance Council meeting in August 2017. New Zealand was the Council chair from 2011/12 and interim vice chair for the last half of 2014.

The Alliance's work focuses on the following four research groups (with countries that co-ordinate each group identified):

- Croplands Research Group (United States, Brazil and Spain);
- Livestock Research Group (New Zealand and the Netherlands);
- Paddy Rice Research Group (Japan and Uruguay); and
- Integrated Research Group (Australia, Canada and France).

The groups have developed work plans covering collaborative activities designed to share methodologies and techniques, build capacity amongst scientists and other practitioners, and move towards break-through solutions in addressing greenhouse gas emissions.

New Zealand played a leading role in the Alliance's establishment and continues to be a major contributing country, including hosting the Alliance Secretariat and Special Representative, co-chairing its Livestock Research Group (LRG), providing scientific representation in almost all of the other groups, and being an active member of its Council.

New Zealand has contributed $65 million until 2020 to support the work of the Alliance. This appropriation comprises $45 million allocated in 2011 and a further $20 million announced in 2015. The initial multi-year appropriation ended 30 June 2016 but will continue to be managed in a second multi-year appropriation until 30 June 2020. The budget is administered by MPI. It is used primarily to invest in international and domestic research and capability-building opportunities, and for extension activities that arise through the Alliance, particularly the LRG. A small amount is used to meet the administrative and operational costs to New Zealand participating in the Alliance, including hosting its Secretariat, and to support Alliance activities.

MPI contracts with the New Zealand Agricultural Greenhouse Gas Research Centre to provide services to support New Zealand's Alliance work programme, including:

- co-chairing the Alliance's LRG;
- leading New Zealand's scientific input into the Alliance and contributing to the Alliance's overall development;
- providing a programme of capability-building activities, including fellowship and award schemes, and training for developing-country scientists; and
- negotiating and administering select research contracts on MPI's behalf.

A major feature of the Alliance appropriation is the New Zealand Fund for Global Partnerships in Livestock Emissions Research (GPLER). This contestable international fund was launched in 2011 in support of the Alliance's aims, and invests in research on mitigating greenhouse gas emissions from pastoral livestock systems.

Four funding rounds have been held, with the fourth currently in the process of contracting successful research projects. Four projects were funded from Round 1, totalling $6.82 million; three projects were funded from Round 2, totalling $2.36 million; three projects were funded from Round 3, totalling $3.2 million; and eight projects were funded from Round 4, totalling $8.67 million. All projects are due for completion by 30 June 2020.

All applications to the GPLER were assessed by an international technical assessment panel chaired by the Government's Chief Science Advisor, Professor Sir Peter Gluckman. Final projects are approved by MPI's Director-General.

Research funded under the GPLER must be significantly beyond business as usual, resulting in innovative, cost-effective, sustainable solutions that can be readily adopted by New Zealand farmers (and those in other countries with similar livestock emissions) or that will benefit New Zealand in other ways. MPI administers this fund, which aims to build on and complement New Zealand's main research strengths and existing investments in this area.

Other ways the Alliance appropriation is invested in research include supporting priority projects of the Alliance's LRG (run as open tender processes), bilateral or multi-country research calls, capability-building projects, training and engagement workshops, extension activities and other related activities.

The Alliance Council recently adopted its first strategic plan for 2016–20. Priority actions include the development of flagship projects, which aim to raise the visibility of research across the Alliance and encourage greater investment from member countries and partner organisations. To support the flagships, the Alliance Council is developing mechanisms of joint programming that will align research programmes and resourcing across members, and will establish a Global Research Alliance Fellowship Fund to build scientific capability among developing-country members.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to the Global Research Alliance on Agricultural Greenhouse Gases.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The Alliance's primary objective is to find new and more efficient ways of co-ordinating and increasing international investment and research into reducing agricultural greenhouse gas emissions. Specifically, the Alliance seeks to:

- deepen and broaden existing networks of agriculture mitigation research and build new ones;
- enhance science capacities;
- increase international investment;
- improve understanding and measurement of agricultural emissions; and
- improve access to, and the application of, mitigation technologies and best practices.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The knowledge generated by the Alliance and its dissemination is intended to deliver on several objectives, including:

- reducing global greenhouse gas emissions from a significant source;
- developing and demonstrating mitigation technologies that can be applied to agricultural production around the world;
- better understanding optimal patterns of production and trade for agriculture; and
- increasing mitigation research into areas of interest to New Zealand.

DESCRIPTION OF ACTIVITIES

The following activities are included in the Alliance's work:

- research activities;
- demonstration and extension activities and resources;
- project management; and
- financial management.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Percentage of Alliance projects funded with the New Zealand budget completed to contracted quality standards	95%	100%

SERVICE PERFORMANCE – FINANCIAL

Alliance expenditure is covered by a multi-year appropriation over four years, from 1 July 2016 to 30 June 2020, at which point it returns to being managed as an annual appropriation. Multi-year appropriations give departments flexibility to manage expenses over several years up to a maximum of five years. They are used for activities where total costs are well defined but timing of expenditure between the years is uncertain.

DESCRIPTION	2016/17	2017/18	2018/19	2019/20	TOTAL
New multi-year appropriation Global Research Alliance: Approved United Nations Climate Change Conference	10,000	7,170	7,000	2,790	26,960
Cost pressures and initiatives to be addressed through reinvestment	(846)	(774)	(774)	(1,384)	(3,778)
Carry forward of underspend from multi-year appropriation finished in 2015/16	10,926	–	–	–	10,926
Forecast spend profile for multi-year appropriation – Global Research Alliance	(13,479)	4,609	2,979	5,891	–
Indicative spending profile	6,601	11,005	9,205	7,297	34,108
Actual expenses for 2016/17	(4,234)	–	–	–	(4,234)
Carry forward of underspend within the multi-year appropriation 2017–20	(2,367)	2,367	–	–	–
Appropriation remaining	–	13,372	9,205	7,297	29,874

Operational Management of the Crown Forest Estate

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Operational Management of the Crown Forest Estate. MPI administers the Crown's interest in forestry leases on Māori land, residual Crown forests and other forestry assets.

As at 30 June 2017, MPI manages the Crown's interest in:

- 16 forests with a total planted area of 14,294 hectares;
- six afforestation leases where Crown forest land has been leased to other parties for forestry purposes; and
- a portfolio of three forestry encouragement loans held by City Forests Ltd (wholly owned by Dunedin City Council).

Outstanding loans were valued at $5.1 million. These loans were established under the Forestry Encouragement Act 1962 and the Forestry Encouragement Loans Regulations 1967.

Non-departmental outputs purchased by the Crown under this appropriation relate to the day-to-day operational management of the Crown forest estate, which is contracted to five forest management companies. Business and strategic planning, and audit and administration functions related to these forest assets are carried out by MPI staff and funded by departmental appropriations.

Statement of service performance

SCOPE OF APPROPRIATION

This category is limited to the purchase of forestry operations, management services, and research and related forest asset expenditure, including expenditure related to asset divestment.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

Crown Forestry's primary objective is the effective and efficient management (that is, establishment, silviculture and harvesting) of the Crown's forests.

DESCRIPTION OF ACTIVITIES

This output expense covers payments and revenue for forest and asset management of Crown forests established on both Crown-owned and leased Māori land, and leases of Crown-owned land to other parties for forestry purposes. Payments were made for:

- pruning and thinning;
- fertilising;
- protection from fire and disease;
- harvesting of forest produce and replanting of harvested areas;
- technical support;
- local authority rates;
- land rents; and
- stumpage.

Revenue is earned from sales of forest produce and from land rental.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Manage contracts to supply planned cubic metres (m^3) of logs within ±10%	784,400 m^3	738,413 m^3
Stumpage (net profit) per cubic metre of logs (within ±10%)	$54	$64
Management fee (per net stocked hectare) exclusive of harvesting and reinvestment fees	$25	$25

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
65,575	Expenditure (funded by Crown)	60,923	62,787	70,277
95,738	Crown revenue (sale of forest produce)	89,696	80,726	92,864

ADDITIONAL COMMENTS

Volume of logs harvested and sold is slightly down on estimates, owing to a slower than forecast start to operations within an East Coast forest, which affected production in other operations.

The positive revenue variance is attributable to significantly increased log prices, which resulted in revenue from the sale of forestry produce being much higher than budgeted. The log price increase is driven by a combination of ongoing strength and stability in the China log export markets and favourable freight costs, as well as strong demand from domestic log processors on the back of increased building and construction activity and good export returns for processed forest produce.

Expenditure is significantly below expectations because of the slow start to East Coast operations, favourable export log freight costs and point-of-sale changes for export log business with a lower volume sold on a cost and freight (freight cost included) basis than originally forecast.

Because of better sales revenue and lower costs, the stumpage (net profit) per cubic metre is substantially up on forecast. This is in line with expectations and performance across the wider forestry sector.

Primary Growth Partnership

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Primary Growth Partnership.

The Primary Growth Partnership (PGP) is a government–industry initiative that makes joint investment at a 40:60 ratio with private sector partners into significant programmes of research and innovation to boost the economic growth and sustainability of New Zealand's primary production, forestry and food sectors.

PGP programmes are primarily business-led and market-driven innovation programmes that work across the primary industry value chain. The PGP is about boosting productivity and profitability, and delivering long-term economic growth and sustainability across the primary sector, from producer to consumer.

MPI can contribute up to 40 percent of the total funding for new PGP programmes. Programmes approved before December 2015 were eligible for up to 50 percent of Crown funding.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to primary production, food and forestry sector investment in education and skills development, research and development, product development, commercialisation, market development, and technology transfer, in partnership with relevant industry groups, including research related to greenhouse gases via the New Zealand Agricultural Greenhouse Gas Research Centre.

The industries included within the scope of the PGP are:

- pastoral (including wool) and arable production;
- horticulture (including viticulture);
- seafood (including aquaculture);
- forestry and wood products; and
- food processing (including nutraceuticals and bioactives).

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The PGP will boost productivity by supporting greater levels of business-led investment in innovation and by delivering long-term economic growth and sustainability across the primary sector, from producer to consumer.

To receive funding, a PGP programme must comprise a suite of complementary and mutually supporting projects that demonstrate:

- a path to market;
- additionality;
- economic benefits;
- spill-over benefits; and
- sustainability benefits.

Summary of selected Primary Growth Partnership programmes as at 30 June 2017

PGP programmes are delivering clear and tangible benefits. Some examples are detailed below.

Seed and Nutritional Technology Development

The Seed and Nutritional Technology Development programme programme has developed a perennial ryegrass with an AR-X endophyte that has improved bioactivity. This elite selection has outperformed more than 100 other entries across eight locations in New Zealand. Pest resistance trials show better grass grub tolerance and Argentine stem weevil and root aphid resistance of perennial ryegrass plants containing AR501. The animal safety trials have shown strong animal performance without any adverse effects on animal health.

The programme has demonstrated improved water-use efficiency (+38%), aphid tolerance (+32%), clubroot resistance (100%), lower glucosinolate levels (–80%), excellent seed yield potential and improved agronomic performance (+14% dry matter yield) of its new hybrid brassica, compared with Goliath rape seed across a range of regional sites. Furthermore, a cattle-grazing trial resulted in around 30 percent higher live-weight gain per hectare without any increase in brassica-associated liver disease. Initial on-farm studies have also shown strong improvements in lamb finishing systems, with more than $2000 per hectare profitability gains compared with forage rape and grass pasture.

The **Omega Lamb PGP programme** launched its premium Te Mana Lamb™ brand in market trials into the restaurant trade in New Zealand and Hong Kong. Te Mana Lamb™ is promoted as one of the world's healthiest and tastiest red meats. Te Mana Lamb™ is produced from lambs that are bred and finished on chicory to produce meat high in natural omega 3 oils.

Through the **FarmIQ programme**, an eating quality system for beef, 'Beef EQ' has been launched with premium payments to supplying farmers. Turnover for the Silver Fern Farms Beef EQ value-added range is now $90 million (from zero before the programme) with a variety of retail and food service products in significant international markets. The most recent addition has been the German retail range of lamb, venison and beef in Germany's largest retail chain, Edeka.

As part of the **High-Performance Mānuka Plantations programme**, around 400 hectares of trial mānuka plantations have been established across 14 sites in both the North and South Islands. Over three seasons, some mānuka trial cultivars have consistently produced nectar with twice the level of dihydroxyacetone (DHA) compared with general mānuka growing in the same district.

Within the **Red Meat Profit Partnership** (RMPP) programme, National Certificate of Educational Achievement (NCEA) assessment material and resources have been created and approved by the New Zealand Qualifications Authority and well received by key schools. These aim to introduce secondary school students (both rural and urban) to the idea of a career in the primary sector through tailored resources for various subjects. To date, over 70 secondary schools are using the resources alongside new NCEA qualifications.

In October 2016, the RMPP programme launched the New Zealand Farm Assurance Programme (NZFAP). This is a foundation upon which the red meat industry can deliver an authentic and independently verified best-practice animal raising and production assurance standard to international consumers. It will also reduce farmer costs and duplication of information.

The NZFAP was trialled with 34 beef, sheep and deer farmers across the country with positive results, including 98 percent of the trial group believing a quality assurance programme would add value to their business. The ultimate goal is that the NZFAP will become a single standard across the whole red meat industry, involving all sheep, beef and deer farmers. The national rollout began mid-2017 with many farmers being accredited during the next three years.

The **Steepland Harvesting programme** developed the ClimbMAX harvester, a new ground-based harvesting machine that can fell and bunch logs on steep slopes and remove the need for a chainsaw operator. The ClimbMAX machine has shown an increase in the volume of logs cut and bunched ready for extraction of 65 tonnes per unit per day (a 26 percent increase in productivity) and a net cost saving of around $3.50 per tonne (10 percent) over conventional harvesting methods (a direct cost saving to the New Zealand forestry industry of $8 million per annum within five years). Worker safety is also improved by removing the need for manual labour on the ground on steep slopes. Eight ClimbMAX machines have now been sold offshore – seven in Canada and one in the United States of America.

The **New Zealand Sheep Industry Transformation Project** has successfully developed a genomic breeding value (gBV) for predicting resistance to footrot in fine-wool sheep. This productivity improvement will create fewer affected sheep and allow merino sheep to be raised on a wider range of land types. This development, known as the FeetFirst project, is a world first and creates a great platform from which the New Zealand fine-wool sheep industry can create a footrot-resistant future.

Demand is increasing worldwide for quality seafood, and New Zealand's greenshell mussel industry is optimising its potential for growth. The **SPATnz PGP programme**, a partnership between MPI and Sanford, has successfully progressed the selective breeding of baby mussels (spat) on a large scale. This reduces the risk posed by industry's reliance on wild spat and ensures a reliable and consistent year-round supply.

The first spat reared in the Nelson hatchery have already grown into harvest-size mussels and have performed well in the farming process. The hatchery spat grew faster and produced more consistently sized mussels than wild-caught spat. Further work will focus on increasing hatchery spat settlement and retention rates on marine farms.

Importantly, the benefits of the PGP itself extend beyond individual programmes. The PGP is enabling important information and capability sharing across the primary industries – recognising that the sum of the benefits of PGP programmes working together is greater than if each programme worked in isolation. For example, the PGP Pasture Extension Group meets twice a year, or as required, to enable PGP partners to share the extension learnings being generated from PGP programmes relating to pastoral farming. It is an informal network and has supported knowledge transfer, discussion of extension methodologies, and sharing of outcomes between the PGP programmes. The meetings are also a forum to discuss links and opportunities for sharing with other extension activities across MPI – for example, regional action plan projects.

DESCRIPTION OF ACTIVITIES

PGP programmes are innovation programmes run over several years. At the beginning of the year, 1 July 2016, 19 programmes were underway with industry partners. One new programme started during the year: Sheep – Horizon Three. The Whai Hua programme was completed 31 December 2016, and three programmes (FarmIQ, New Zealand Sheep Industry Transformation Project and Steepland Harvesting) ended on 30 June 2017.

The following is a list of the current programmes for the PGP.

1. **Transforming the Dairy Value Chain** (partnering with DairyNZ and Fonterra) aims to create new products, increase productivity on farm, reduce farm environment footprints and improve agricultural education.
2. **High Performance Mānuka Plantations** (partnering with Mānuka Research Partnership (NZ) Ltd and Comvita) aims to increase the reliability of supply and the proportion of medical grade mānuka honey.
3. **Clearview Innovations** (partnering with Ballance AgriNutrients) aims to improve on-farm productivity and nutrient efficiency, and reduce farms' environmental footprints.
4. **Precision Seafood Harvesting** (partnering with Aotearoa Fisheries, Sanford and Sealord Group) aims to develop new wild catch harvest technology.
5. **SPATnz** (partnering with Sanford) aims to domesticate the greenshell mussel.
6. **Foodplus** (partnering with ANZCO Foods) aims to generate more value from the red meat carcass by developing new and innovative uses for parts of the animal.
7. **Seed and Nutritional Technology Development** (partnering with PGG Wrightson Seeds and Grasslanz Technology) aims to develop technologies to improve pasture establishment, reduce the impact of pests and diseases, overcome animal health disorders, and reduce greenhouse gas emissions and losses from drought stress.
8. **Marbled Grass-fed Beef** (partnering with Firstlight Foods Ltd and Brownrigg Agriculture Group Ltd) aims to develop an integrated value chain for high-value marbled beef that is internationally recognised for its superior eating qualities.
9. **Red Meat Profit Partnership** (partnering with Alliance Group, ANZ Bank, ANZCO Foods, Beef + Lamb New Zealand, Blue Sky Meats, Greenlea Premier Meats, Progressive Meats, Rabobank, and Silver Fern Farms) aims to drive sustainable, long-term profits for New Zealand's red meat sector by supporting farmers in the adoption of best practice behind the farm gate and between the farm and processor.
10. **New Zealand Avocados Go Global** (partnering with Avocado Industry Council) seeks to increase the productivity and capability within the avocado industry to deliver significant additional returns for New Zealand.
11. **Lifestyle Wines** (partnering with New Zealand Winegrowers and 15 contributing wineries) is designed to position New Zealand as number one in the world for high-quality lower-alcohol and lower-calorie wines.
12. **Pioneering to Precision** (partnering with Ravensdown Fertiliser Co-op Ltd) seeks to improve fertiliser practice on hill country farms through remote sensing of the nutrient status of the farms and precision application of fertiliser.
13. **Passion2Profit** (partnering with Deer Industry NZ) aims to grow and capture the full value available to New Zealand by collaboratively positioning farm-raised venison in new markets as a premium non-seasonal meat and by better aligning supply with demand.
14. **Omega Lamb** (partnering with Alliance Group and Headwaters NZ) aims to reach existing and emerging markets with a new class of premium lamb products with improved health qualities.
15. **W3 – Wool Unleashed** (partnering with The New Zealand Merino Company) aims to deliver premiums for New Zealand's strong wool sector. Premiums will come from applying a customer-led approach to wool production and processing to develop products that align with customer preferences.
16. **Sheep – Horizon Three** (partnering with Spring Sheep Dairy) aims to build a high-value and sustainable New Zealand sheep dairy industry by building a fit-for-purpose New Zealand sheep milk farming system and create high-margin products to meet demand in the target markets.

The following PGP programmes were completed during 2016/17.

17. **Whai Hua** (partnering with Wairarapa Moana ki Pouakani Incorporation, Miraka Ltd and Kanematsu New Zealand Ltd) aimed to develop immune-enhancing dairy milk products targeting health-conscious consumers in Asian and New Zealand markets.

18. **Steepland Harvesting** (partnering with Future Forest Research) looked at more effective methods for harvesting trees on New Zealand's steep country.
19. **New Zealand Sheep Industry Transformation** (partnering with The New Zealand Merino Company) involved targeted scientific research into breeding, phenotyping and feed inputs.
20. **FarmIQ** (partnering with Silver Fern Farms) aimed to create a demand-driven integrated value chain for red meat.

Six business cases are currently under development, having been approved through the first application stage. It is anticipated some of these will become new programmes during the 2017/18 financial year.

MONITORING OF PRIMARY GROWTH PARTNERSHIP PROGRAMMES

Individual PGP programmes are monitored in the following ways.

- **Quarterly progress reports** – funding agreements require co-investors to submit quarterly progress reports, which are reviewed by the Investment Advisory Panel and MPI. Summaries are published on the MPI website.
- **Annual business plan update** – funding agreements require each programme's business plan to be reviewed and updated annually to ensure the programme is operating effectively, meeting its objectives and tracking towards outcomes.
- **Invoicing** – co-investors submit invoices for payment by MPI at least quarterly. These invoices are checked against the agreed budgets and work plans or milestones for the same period.
- **Financial management audit** – financial management is audited through programme audits (as well as each participating organisation's existing auditing and other reporting requirements), which are published on the MPI website.
- **Progress review** – programmes are required to have at least one external review carried out during the contract term to assess progress towards outcomes, programme governance and other matters selected on a case-by-case basis. Progress review report summaries are published on the MPI website.
- **PGP annual meeting** – the annual meeting is attended by the Minister for Primary Industries, Investment Advisory Panel members, programme partners and MPI. This provides an opportunity to discuss the progress of programmes, highlight significant achievements, and share learnings and ways of operating.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Percentage of quarterly reports reviewed and signed off by Programme Steering Group	90%	100%
Percentage of annual business plans approved in accordance with specific Primary Growth Partnership (PGP) agreements	90%	53% Seven annual plans were approved after the target date. In most cases, this was because the Programme Steering Group requested more detail on commercialisation activity or improved key performance indicator reporting, or to align with a key programme decision point. Four programmes finished during the year, and a new annual plan was not required.
The annual meeting is held in accordance with Investment Advisory Panel Terms of Reference	Achieved	The PGP annual meeting was held on 1 November 2016, followed by a "Food and Fibre Future" PGP conference and PGP expo.
Percentage of quarterly reports reviewed and signed off by the chair of the New Zealand Agricultural Greenhouse Gas Research Centre Steering Group	100%	100%

SERVICE PERFORMANCE – FINANCIAL

The PGP fund expenditure was covered by a multi-year appropriation over five years from 1 July 2012 to 30 June 2017. Multi-year appropriations give departments flexibility to manage expenses over several years up to a maximum of five years. They are used for activities where total costs are well defined but timing of expenditure between the years is uncertain.

APPROPRIATION, ADJUSTMENTS AND USE	$000
Original appropriation	352,380
Adjustments for 2012/13	1,371
Adjustments for 2013/14	(27,000)
Adjustments for 2014/15	(50,695)
Adjustments for 2015/16	(14,971)
Adjustments for 2016/17	(19,892)
Adjusted appropriation	241,193
Actual expenses for 2012/13	(36,729)
Actual expenses for 2013/14	(41,995)
Actual expenses for 2014/15	(50,867)
Actual expenses for 2015/16	(45,697)
Actual expenses for 2016/17	(47,027)
Appropriation remaining	18,878

ADDITIONAL COMMENTS

The decrease in appropriation by $19.892 million to $241.193 million is due to the reprioritisation of funding within Vote Primary Industries and Food Safety, primarily to contribute towards incursion responses and management. The unexpended balance of this multi-year appropriation will be transferred to the new PGP multi-year appropriation that starts 1 July 2017 and ends 30 June 2022.

Sustainable Farming Fund

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Sustainable Farming Fund.

The Sustainable Farming Fund (SFF) invests in projects that deliver economic, environmental and social benefits to New Zealand's land-based primary industries and aquaculture sector. These projects include:

- applied research and development;
- field trials and demonstration projects;
- information, knowledge and technology transfer;
- identifying barriers to, and options for, improved land use and management;
- improving decision support; and
- adding value and exploring market opportunities.

More than 100 SFF projects are underway at any one time. SFF projects are led by farmers, growers, foresters and marine farmers, often with the support of industry organisations, agribusiness, researchers or consultants.

MPI administers the SFF and makes grant payments of around $7 million per year. The fund is consistently significantly oversubscribed.

The maximum SFF grant available is $600,000 (that is, $200,000 over three years), excluding GST. The SFF may fund up to 80 percent of the project value; however, most successful SFF projects are able to leverage a high proportion of other partnership funding or in-kind support to complement the SFF grant.

SFF grant applications undergo a contestable process whereby applications are assessed and approved by an independent panel representing the primary industries and rural communities.

Non-departmental outputs purchased by the Crown under this appropriation relate to projects that are part-funded by MPI SFF grants.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to community-driven projects aimed at improving economic and environmental performance in farming.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The SFF seeks to make a measurable difference to sustainability by partnering with farmers, growers, foresters, marine farmers, industry good bodies and Crown research institutes on innovative projects and by creating links between individuals, sector groups and MPI.

SFF funding supports community-driven projects aimed at improving the sustainability of the agriculture, horticulture, forestry, aquaculture, and related sectors, and the improved management of New Zealand's natural resources. Specifically SFF funding:

- provides opportunities for the adoption of new and improved practices;
- overcomes production and resource management problems;
- supports and engages rural industries and interest groups;
- improves environmental performance; and
- facilitates market opportunities.

DESCRIPTION OF ACTIVITIES

This other expense covers grant payments for:

- applied research activities;
- demonstration and extension activities and resources;
- information sharing and technology transfer activities;
- project management; and
- financial management.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Percentage of project milestones met	85%	88%

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
8,817	Actual expenses incurred compared with that appropriated in estimates (funded by the Crown)	8,936	9,000	9,440

ADDITIONAL COMMENTS

The increase in appropriation to $9.440 million is due to a reprioritisation of funding from the PGP to maintain SFF funding at a consistent level.

In 2017, the SFF celebrated the funding of its 1000th project, a significant milestone in the fund's 17-year existence. As part of the celebrations, a commemorative booklet, *1000 Projects and Counting,* was launched at the National Fieldays in June. The booklet showcases 33 projects from across the life of the fund, and their respective successes. The booklet is available at www.mpi.govt.nz/sff.

Water Storage and Irrigation Investment Proposals

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Water Storage and Irrigation Investment Proposals. This appropriation is given effect through the Irrigation Acceleration Fund (IAF) within MPI and through Crown Irrigation Investments Limited (CIIL).

From 1 July 2016, grant funding for regional-scale irrigation schemes was successfully transitioned from MPI to CIIL. CIIL manages government funding for regional irrigation schemes, and MPI continues to manage government funding for community irrigation schemes and strategic water management studies.

These are operational changes only, and the amount of government funding available through the IAF supporting irrigation remains the same. MPI also remains the first point of contact for all new schemes.

The rationale for the change was to increase the effectiveness of government intervention in irrigation infrastructure by leveraging CIIL's commercial capability earlier in the development phases of schemes, enabling viable schemes to be well prepared for private investment, which should drive earlier construction of schemes.

Grant funding for rural water infrastructure proposals is available for three distinct components:

- **Regional rural water infrastructure** – to help the development of regionally significant water harvesting, storage and distribution proposals. Proposals must be consistent with agreed regional approaches to the sustainable use and management of water.
- **Strategic water management studies** – to help the development of regional approaches to integrated water management, particularly the potential of irrigation-related rural water infrastructure to contribute to the sustainable use and management of water for future generations.
- **Community irrigation schemes** – to help both capital upgrades of existing community scheme infrastructure and new smaller-scale community scheme developments. Proposals must be consistent with agreed regional strategies.

The IAF and CIIL provide grant funding to agreed programmes based on a sliding scale up to a maximum of 50 percent. As far as practicable, the IAF and CIIL adopt a multi-year development and programme-based approach, subject to achievement of milestones and the critical assessment of continuing project viability at identified stop–go decision points.

The 2016 Budget allocated $25 million over five years to support the development of irrigation infrastructure proposals to the investment-ready prospectus stage. This appropriation was split between CIIL and the IAF on a 90:10 ratio. In addition to this amount, CIIL was allocated $26 million in the 2017 Budget to increase the amount of grant funding available for the feasibility investigation of regional-scale schemes.

Non-departmental outputs purchased by the Crown under this appropriation relate to grants provided to proponents of irrigation and rural water infrastructure schemes for the development of investment-ready proposals.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to proposals for water management studies and trials and irrigation schemes to an investment-ready stage.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The objective of water storage and irrigation investment proposals is to facilitate the development of modern water management infrastructure that provides reliable water for both economic and environmental uses. Prospective schemes need to demonstrate that they are established on a strong commercial footing and able to attract investment while being consistent with agreed regional approaches to the sustainable use and management of water.

A reliable source of water, managed responsibly, gives farmers and communities more certainty, a wider range of land-use options and the potential to improve river flows. This is particularly important during dry times or where over allocation of groundwater has occurred. By collecting water when it is plentiful due to rainfall events or snow melt, the trillions of litres of fresh water available in New Zealand can be better managed. Water can be stored, used to recharge aquifers and diverted and flows managed to ensure supply for farms that need water to grow grass, crops, vines, seeds, fruits and vegetables. All of this can be achieved while providing rivers with sustained flows, including when nature does not provide them.

DESCRIPTION OF ACTIVITIES

This other expense covers grant payments for:

- technical work programmes required in the development of scheme proposals and water studies and trials; and
- community consultation and engagement.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2016/17	PERFORMANCE STANDARD 2016/17	PERFORMANCE RESULTS
Total potential new irrigated area enabled by Irrigation Acceleration Fund-supported projects that are commissioned, in construction or in development	222,000 hectares	212,817 hectares comprising: • 54,300 hectares in operation (water flowing); • 41,800 hectares in construction (compared with 17,000 hectares 12 months ago); and • 116,717 hectares in development.

SERVICE PERFORMANCE – FINANCIAL

The IAF expenditure is covered by a multi-year appropriation over five years from 1 July 2016 to 30 June 2021. Multi-year appropriations give departments flexibility to manage expenses over several years up to a maximum of five years. They are used for activities where total costs are well defined but the timing of expenditure between the years is uncertain.

ACTUAL JUNE 2016 $000		ACTUAL JUNE 2017 $000	MAIN ESTIMATES 2017 $000	SUPP ESTIMATES 2017 $000
6,958	Actual expenses incurred, compared with that appropriated in estimates (funded by the Crown)	12,950	5,000	14,565

APPROPRIATION, ADJUSTMENTS AND USE	$000
Original appropriation	25,000
Adjustments for 2016/17 appropriation	34,037
Adjusted appropriation	59,037
Actual expenses for 2016/17	(12,950)
Appropriation remaining	46,087

ADDITIONAL COMMENTS

The multi-year appropriation has increased by $34.037 million in 2016/17 to $59.037 million due to $26.662 million for grant funding to support regional irrigation scheme development and the transfer of $7.375 million from the multi-year appropriation that finished in 2015/16.

The total hectares, compared with last year, are lower because as schemes get closer to being construction-ready, their feasibility studies reveal a more accurate estimate of the scale and demand for the size of the area to be irrigated.

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