

Annual Report 2017-2018

Ministry for Primary Industries
Manatū Ahu Matua



Biosecurity New Zealand
Tiakitanga Pūtaiao Aotearoa



Fisheries New Zealand
Tini a Tangaroa



New Zealand Food Safety
Haumaru Kai Aotearoa



Te Uru Rākau
Forestry New Zealand





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Purpose

The Annual Report is a statutory accountability document, required by the Public Finance Act 1989 and presented by the responsible Minister to Parliament. Each year, the Director-General of the Ministry for Primary Industries (MPI) publishes an Annual Report to Parliament that assesses MPI's performance against objectives set at the beginning of the financial year. MPI's 2017/18 Annual Report contains:

- an assessment of MPI's operations;
- an assessment of MPI's progress in relation to its strategic intentions;
- information about MPI's management of its organisational health and capability; and
- required financial statements.

This report reflects the diversity of our activities that contribute to growing and protecting New Zealand, and contains key performance highlights that show how MPI operates.

Director-General's Foreword



This year has been one of change for MPI. This annual report is the first to report against our new strategy – introduced in June 2017 – which acknowledges the need for MPI to take a stronger role in sustainability and recognises that participation and support of New Zealanders is critical to the success of the primary sector.

In May 2018, MPI established four branded business units to support the government's agenda. These units – Biosecurity New Zealand, Fisheries New Zealand, New Zealand Food Safety and Te Uru Rākau (Forestry New Zealand) – will continue to sit within MPI, and utilise MPI's shared services. I believe this structure will help MPI deliver our ambitious programme for the primary sector, while continuing to strengthen the capabilities and expertise that we have been building since our formation in 2012.

Long-term environmental, technological, consumer and political trends signal the need for transformational change in the primary sector if it is to maintain its contribution to New Zealand's prosperity. This transformation potentially involves substantial shifts in operating models and care must be taken to minimise any threats and to position ourselves to capitalise on opportunities.

Over the past year, we have supported several significant biosecurity incursions. The *Mycoplasma bovis* outbreak response had a huge impact on affected farmers and MPI resources. Biosecurity New Zealand has been working extensively with industry to eradicate the disease from New Zealand.

MPI, together with stakeholders, has produced a series of work plans for the five Strategic Directions that are fundamental to Biosecurity 2025. MPI is now consolidating these plans into a single Implementation Plan which will launch in November.

Government agency policy development needs to be mindful of the particular needs of rural communities. With this in mind, we launched a refreshed Rural Proofing Guide for policy development and service delivery planning at the 50th Fielddays in June. It provides guidance on incorporating a rural lens in government policy formation and programme implementation.

We also understand how important it is to regional communities that the assets managed in iwi and hapū arrangements are healthy and productive. Our Māori Agribusiness: Pathway to Increased Productivity programme is dedicated to partnering with Māori as they look to improve productivity of primary sector assets in collective ownership. Along with the Ministry of Social Development and Ngāti Hau (Whanganui River) we have successfully established marae-based training in horticulture, agriculture and apiculture.

High animal welfare standards underpin trust in our products, and our international reputation. MPI began work on the new animal welfare regulations in 2017/18 and the revised regulations came into force on 1 October 2018. They provide more enforcement options and better protect animals from inhumane treatment.

Improving sustainability, reducing by-catch and maintaining the health of our marine environment are some of the drivers behind Fisheries New Zealand's digital system for tracking, monitoring and reporting commercial catches. All trawl vessels 28 metres and over began operating under the new requirements from 1 October 2017, representing over 70 percent of the commercial catch by volume. Issues around transitional provisions were resolved during 2017/18 and a phased implementation agreed.

You can read more about these and other achievements against our 2017/18 strategy in the body of this annual report.

It has been a challenging year and I am very proud of the dedication and the hard work of MPI's staff. The work they do is critical to achieving the outcomes that MPI is working towards on behalf of all New Zealanders. The achievements outlined in this report would not have been possible without their collective efforts, and the co-operation and contribution from our primary industry partners.

Martyn Dunne CNZM
Director-General

Who we are and
what we do



MPI employs over 2,800 staff based in more than 60 locations in New Zealand and overseas working in a range of environments – from airports and beaches to laboratories, abattoirs and fishing vessels. Our people conduct a wide range of operational, readiness and response, policy, regulatory, trade and industry development activities to support New Zealand's primary industries.

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

MPI's role – nature and scope of operations

Growing and protecting New Zealand

MPI's responsibilities traverse the whole chain of primary production – from the paddock, orchard, forest and ocean, through the processing, packaging and transportation system, all the way to market and the customer. Because of MPI's size, we can deploy staff across and between regulatory systems to respond to events quickly. In addition to our operational services, MPI provides policy advice to the Government on the systems for which we have oversight.

MPI is actively involved in the natural resources, economic and border sectors, and works collaboratively with other government agencies involved in order to make a collective impact. Our work in these areas is essential to achieving government and sector priorities as well as achieving MPI's purpose of growing and protecting New Zealand.

In late 2017, the Government decided to separate the existing Primary Industries and Food Safety portfolios into Biosecurity, Fisheries, Forestry, Agriculture, Food Safety, and Rural Communities portfolios. In 2018, four separately branded business units were established within MPI to better align to these new portfolios:

- Biosecurity New Zealand – Tiakitanga Pūtaiao Aotearoa;
- Fisheries New Zealand – Tini a Tangaroa;
- New Zealand Food Safety – Haumaru Kai Aotearoa; and
- Te Uru Rākau – Forestry New Zealand.

This new structure intends to achieve the Government's priorities and better position MPI to support the primary sector as it adapts to the challenges of climate change and changing public expectations by enabling:

- increased focus and performance;
- greater clarity and unity of purpose for staff working in portfolio areas;
- enhanced transparency of government policy and regulatory activities within portfolio areas; and

- improved opportunities for stakeholders, tangata whenua, and the wider public to engage with portfolio ministers and officials.

MPI remains the internationally recognised competent authority to carry out a number of functions for the primary sector, such as setting and reviewing regulations, verification, monitoring, issuing official assurances, and ensuring compliance. The new business units are supported by a number of integrated services including the provision of policy and regulatory advice, market access and trade services, as well as a range of corporate and support functions.

Other areas of MPI's business

MPI monitors the New Zealand Walking Access Commission, a Crown entity responsible for leading and supporting the negotiation, establishment, maintenance and improvement of walking access over public and private land.

MPI, in conjunction with the Treasury, has oversight of Crown Irrigation Investments Limited (CIIL), a Crown-owned company that was 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. CIIL has also provided grant funding to support regional-scale schemes in development. CIIL's activities are being wound down in line with the Government's change in priorities, and final work on its two remaining projects will conclude by end of 2018.

MPI's values

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



Overview

A year of change...

The 2017/18 year has been one of change for MPI, beginning with a new strategy. The new strategy retains the growth and protection outcomes from the previous strategy, but more heavily emphasises the importance of taking a stronger role in sustainability and the participation of New Zealanders in the success of the primary sector.

The Government has a focus on improving the wellbeing of New Zealanders and their families, building a productive, sustainable and inclusive economy, and providing new leadership by government. The Treasury has undertaken work to develop the Living Standards Framework to express the Government's approach. This framework encompasses natural, environmental, social and economic outcomes for current and future New Zealanders.

To support the delivery of the new Government's agenda, MPI established four new business units in May 2018, which sit under the umbrella of MPI. These are Biosecurity New Zealand, Fisheries New Zealand, New Zealand Food Safety and Te Uru Rākau (Forestry New Zealand).

These business units allow dedicated focus on key portfolios, while still retaining connection to and leveraging shared services within MPI such as policy, trade, legal, communications and human resources. By remaining as one Ministry, MPI can continue to strengthen the capabilities and expertise that we have built since our formation in 2012, and more efficiently deploy resources in response to emerging challenges. The four business units lift the visibility of the valuable work they do in biosecurity, fisheries, food safety, and forestry, and increase transparency for stakeholders and the public.

...and of challenge...

During 2017/18, Biosecurity New Zealand responded to several high-priority threats to New Zealand's biosecurity – *Bonamia ostreae*, brown marmorated stink bug (BMSB), myrtle rust, *Mycoplasma bovis*, pea weevil, salvinia at Papamoa and velvetleaf, to name a few. The response to *Mycoplasma bovis*, in particular, has been a significant challenge for all of MPI as staff have had to be redeployed to support the response, or to provide cover for staff who have been redeployed into the response. Nevertheless, Biosecurity New Zealand has been working extensively with industry on plans to eradicate the disease from New Zealand over a 10-year period. MPI also worked with a number of agencies on responses including the co-ordination of the joint-agency response, working with the Department of Conservation (DOC), to tackle the spread of kauri dieback disease.

This summer has been the busiest on record for MPI's border biosecurity officers. They screened about two million arriving passengers for risk goods between December 2017 and February 2018, and handed out nearly 4,000 infringement notices to passengers with undeclared goods that could harbour pests or diseases. MPI was well prepared for the seasonal rush, including employing more than 70 additional officers during 2017.

...and yet performance has been maintained

MPI's Statement of Service Performance measures set out a comprehensive suite about measures of the delivery of core functions (see pages 40 – 59). Despite the level of change and challenge MPI has dealt with throughout the year, we have maintained a high standard of performance in delivering our core functions.

Over the past year, MPI has made significant progress in major initiatives such as Biosecurity 2025 and the Kauri Dieback Programme, launched the Rural Proofing Guide, and completed a number of important legislative updates, especially in relation to animal welfare regulations. MPI has worked extensively with other government agencies, businesses, communities and tangata whenua to ensure that we deliver what we have set out to achieve.



GROWING AND PROTECTING NEW ZEALAND



OUR AMBITION

New Zealand is the most trusted source of high-value natural products in the world

OUR OUTCOMES



Sustainability

New Zealand's natural resources are sustainable, in the primary sector.



Protection

New Zealand is protected from biological risk and our products are safe for all consumers.



Growth

New Zealand's food and primary sector grows the value of its exports.



Participation

New Zealanders participate in the success of the primary industries.

FOCUS AREAS

SUSTAINABLE PERFORMANCE

Promoting an adaptive and environmentally responsible primary sector

INCREASING TRANSPARENCY

Building trust and confidence in decision making

BUILDING RESILIENCE

Preparing for new trends and disruptions

EASE OF BUSINESS

People and business focussed regulations and services

CAPTURING VALUE

Growing prosperity through insight and innovation

SUPPORTING LEADERSHIP

Enabling action in the primary and government sectors

ENGAGING COMMUNITIES

Encourage active, informed and involved communities

OUR VALUES

RESPECT

Value people, value our work

CONNECT

Work together, build partnerships

TRUST

Give responsibility, take responsibility

DELIVER

Act with purpose, achieve results



Delivering Performance: Our 2017/18 Outcomes







SUSTAINABILITY

New Zealand's natural resources are sustainable, in the primary sector.



PROTECTION

New Zealand is protected from biological risk and our products are safe for all consumers.

KEY ACHIEVEMENTS FOR 2017/18

Developed a **National Blue Cod Strategy**



Took a leading role in the **One Billion Trees** programme

National Environmental Standards for Plantation Forestry came into force

138 fish stocks managed at or above acceptable limits

All trawl vessels 28 metres and over began operating under **electronic catch and position reporting requirements**

A new pilot approach was trialled to support small scale Sustainable Farming Fund projects



Collaborated with over **60** organisations to produce work plans for **Biosecurity 2025**



Released easy-to-follow food safety guidance for approximately **16,000** food businesses

100% of high priority animal welfare complaints recorded and responded to within 24 hours

Over 4,300 individual food samples were tested under the **New Zealand Total Diet Study, which was released this year**

Screened over **2 million passengers** who arrived in New Zealand during the summer period for potentially risk goods



100% of high priority food safety complaints recorded and responded to within 24 hours of notification



GROWTH

New Zealand's food and primary sector grows the value of its exports.



PARTICIPATION

New Zealanders participate in the success of the primary industries.

KEY ACHIEVEMENTS FOR 2017/18

Provided tailored advice to more than **800** export businesses along with other initiatives to facilitate export processes

Gained market access to Australia for **pork and pork products** for the first time

Released the Interactive **World Map** tool and **Honey Exporter** tool to help New Zealand exporters

Finalised a scientific definition for exported **mānuka honey**



Gained market access to China for **avocados** for the first time

Established the **Primary Sector Council** to support the primary sector

Launched the **Rural Proofing Guide** to incorporate a rural lens in government policy and development

10 winners were awarded the MPI Postgraduate Science Scholarship at the inaugural New Zealand Biosecurity Awards

170 farmers were involved in the Extension 350 "farmer learning from farmer" extension programme

Established **four forestry scholarships** to encourage more Māori and women to work in the industry

Supported **16 Māori agribusiness projects** and delivered two **NZQA horticulture courses** to Māori students



Delivered the **"Clean, Cook, Chill"** campaign to educate the public about the risks of foodborne illness



OUTCOME: Sustainability

MPI plays a major role in promoting and regulating the sustainable use of natural resources, the management of the environmental impacts of primary sector activities and the protection and maintenance of the environmental ecosystems within which the primary sector operates. As the primary regulator of fisheries and forestry in New Zealand, it is in these areas that this activity is most visible.

Reducing primary sector contributions to climate change

Forestry plays an important role in moving New Zealand towards a low emissions economy by absorbing atmospheric carbon, and by providing renewable replacements for fossil hydrocarbons in our economy for example, wooden buildings, biofuel and cellulose. It provides an economically viable use for less productive land, helping landowners to diversify income streams, while protecting against erosion and reducing emissions from farming. Increased afforestation, with a focus on planting the right trees in the right places, is also expected to improve the quality of our waterways and biodiversity outcomes.

Improving environmental impacts of land and water use

Land management practices in the primary sector can have a large impact on water quality and climate

change. MPI helps the primary sector to transition to more sustainable forms of production through better resource use, land use and practices.

Managing the marine environment to provide for current and future generations

As an island nation, the ocean and our fisheries are a key part of our natural capital, and they support a wide range of social, cultural, and economic activities. Fisheries New Zealand works with other agencies, iwi, the commercial sector, environmental groups, and communities on marine management initiatives, including supporting the sustainable growth of the aquaculture sector. For tangata whenua, fisheries are of commercial and customary importance. Fisheries New Zealand works closely with Māori, who also hold significant commercial interests, to give effect to their customary rights and maintain the special relationship between tangata whenua and their customary food gathering areas.

MPI has delivered a number of achievements against the result areas of the Sustainability outcome over the past year. These achievements have contributed to progressing MPI's ambition for New Zealand's primary sector. Key progress indicators and achievements are outlined here.

Result area: Reducing primary sector contributions to climate change

The increase of greenhouse gas emissions is a major indicator of climate change. Human activities, including primary sector activities, are causing a significant increase in greenhouse gas emissions, which is leading to growing pressure on global water and food production systems, ecological habitats and biodiversity. Climate change is affecting land productivity and the marine environment. Increasing frequency of severe weather events is significantly impacting rural communities.

In our first nationally determined contribution under the Paris Agreement, New Zealand has adopted a target of reducing greenhouse gas emissions to 30 percent below 2005 levels by 2030.

Progress indicator

REDUCED GREENHOUSE GAS EMISSIONS PER UNIT OF PRODUCTION

Between 1990 and 2016, New Zealand's total agricultural greenhouse gas emissions increased by 12 percent. They peaked at 16 percent above 1990 levels on an absolute basis in 2005, following a leap in agricultural production in response to international demand. Farmers have improved productivity since then through innovations in feed and nutrition, animal genetics, pasture management and animal health. Without these productivity improvements, absolute emissions would have increased by more than 40 percent to produce the same amount of product.

In 2016, emissions were four percent lower than their 2005 peak. Between 1990 and 2016 the emissions intensity of milk solids (emissions per kilogram of milk solids) decreased by 28 percent, and the emissions intensity of beef (emissions per kilogram of meat) decreased by 31 percent. As a result, New Zealand's agricultural products have lower emissions intensities than those of many other countries.

MPI supports the primary sector to reduce the amount of agricultural greenhouse gases it produces. A number of research programmes funded by MPI are underway, such as the Sustainable Land Management and Climate Change Research Programme, the New Zealand Agricultural Greenhouse Gas Research Centre, and research programmes through the Global Research Alliance on Agricultural Greenhouse Gases. These programmes help MPI build capacity for challenges arising from climate change.

Te Uru Rākau is working to increase new forest plantings especially on land that was not previously forested, which has the benefit of increasing carbon sinks and protecting against erosion. This ensures that the primary sector is both responsive and resilient to a changing climate.

MPI provides policy advice to the Government, works with domestic and international agencies on climate change issues and informs farmers, growers, foresters,

fishers and processors about what is on the horizon for greenhouse gas emissions.

Achievements

ONE BILLION TREES

Te Uru Rākau was established in 2018, and will deliver the Government's One Billion Trees commitment, by working in partnership with community groups, government agencies, local government and landowners to plant both indigenous and exotic trees for timber production, biodiversity, improved waterways, erosion mitigation and increased carbon absorption.

A focus of One Billion Trees is to ensure the right trees are planted in the right place for the right purpose. Over 2017/18, Te Uru Rākau generated land mapping analysis to identify potential target areas for afforestation. The mapping will inform appropriate planting in priority areas in years to come. By June 2018, Crown Forestry had entered into three new commercial forestry rights arrangements, covering 3,600 hectares.

Te Uru Rākau has been partnering with iwi, communities, businesses, and councils to ensure forestry supports and enhances local and regional development. This includes developing safe work environments, and a stable and sustainable forestry workforce. Te Uru Rākau supports the forestry industry and regional communities to improve environmental outcomes, and supports Māori cultural and economic aspirations for their land. It has been working to increase the presence and reputation of New Zealand's forestry sector internationally.

NATIONAL ENVIRONMENTAL STANDARDS FOR PLANTATION FORESTRY

The National Environmental Standards for Plantation Forestry (NES-PF) were made under the Resource Management Act 1991, and came into force on 1 May 2018. These regulations are designed to increase efficiency for plantation forestry management, provide certainty for those managing plantation forests, and maintain or improve environmental outcomes. In addition to developing guidance to help territorial authorities and the forestry industry to implement the regulatory standards in their day-to-day operations, Te Uru Rākau held more than 30 workshops around New Zealand to provide an overview of the standards. A second series of workshops, held in May 2018, focused on specific NES-PF scenarios, to provide foresters with practical examples of how the NES-PF should be applied. The workshops were well received by councils and foresters.

EMISSIONS TRADING SCHEME REVIEW AND FOLLOW UP AMENDMENTS TO THE CLIMATE CHANGE RESPONSE ACT 2002

Following the 2015/16 review of the New Zealand Emissions Trading Scheme (ETS), MPI has been leading work on changes to the forestry sector



regulations to address deficiencies, simplify processes and reduce risk. MPI is also working with the Ministry for the Environment (MfE) to develop advice on other potential improvements to the ETS, which may result in amendments to the Climate Change Response Act 2002.

In 2017, we saw a surge in applications to register post-1989 forests in the ETS. Te Uru Rākau completed the assessment of applications to register 76,000 hectares of land in the ETS resulting in the registration of 59,000 hectares of post-1989 forest before the end of 2017. Post-1989 forestry participants were then required to submit Mandatory Emissions Returns covering carbon stock changes in their forests that occurred over the last five years. Te Uru Rākau has processed the vast majority of these returns and allocated over \$360 million worth of carbon units to forest owners.

PARTNERING WITH NORTHLAND IWI TO GROW COMMERCIAL FORESTRY

Te Uru Rākau has worked closely with Māori to increase tree planting. For example, talks have started with Ngāti Rēhia to reach an agreement that will see the Crown partner with hapū to establish a commercial pine forest on hapū land. This investment would mean Ngāti Rēhia could receive income from an annual rental, benefit from New Zealand Units (carbon credits) that will be generated over the lifetime of the forest, and a share in the profits at harvest time.

Ngāti Rēhia and Scion, with support from Te Uru Rākau, will explore the possibility of a kauri sanctuary, free from kauri dieback, on 45 hectares of sheltered Ngāti Rēhia land through the Provincial Growth Fund, which is administered by the Ministry of Business, Innovation and Employment (MBIE). This project provides an opportunity to research the suitability of establishing kauri in a contained plantation environment, while offering locals training and education opportunities.

A commercial forestry joint venture was also agreed with Ngāti Hine Forestry Trust to establish 3,600 hectares of pine forest. In addition to the pine plantation, another project will see up to 500 hectares of mānuka trees planted.

These investments will lift the skills of the forestry workforce, raise levels of employment and wages, and increase the benefits Māori derive from their assets. Diversifying land use will bring long term resilience to regional communities.

Result area: Improving environmental impacts of land and water use

The primary sector relies on access to – and the long-term use of – natural resources, which are under increasing pressure. Land and water are the fundamental resources for agriculture and horticulture, and their use and health are inextricably linked to the way land is managed.

Progress indicator

MAINTAINING OR IMPROVING WATER QUALITY

In 2016/17, 71 percent of New Zealand's lakes and rivers were swimmable. Improvements in water quality to meet the swimmability standard (the average risk of *Campylobacter* infection based on *E. coli* indicator) are expected in 2017/18. However, with councils yet to report their final targets, it is too early to say what the level of improvements might be. Results will be available by the end of 2018.

MPI has been partnering with MfE in developing and overseeing the freshwater management system. Freshwater is critical to the economy and all New Zealanders, and it is vital we use it in ways that provide the best environmental, economic, social and cultural outcomes. MPI continues to partner with MfE to reach its target of 80 percent of our rivers and lakes being swimmable by 2030.

The agricultural and horticultural sectors are supportive of the Government's intention to maintain swimmable rivers and improve the ecological health of our waterways. The Good Farming Practice: Action Plan for Water Quality 2018 supports all farmers and growers to implement good practice principles that will reduce their impact on our freshwater. The Action Plan was jointly developed by primary sector groups, regional councils, MfE and MPI, and was launched in June 2018. The purpose of the Action Plan is to speed up the uptake of good farming practices for improving water quality, to measure and demonstrate this uptake, to assess the impact and benefit of those farming practices, and to communicate progress to the wider public.

A governance group and a taskforce were created to manage and oversee the response to the targets. In March 2018 the taskforce published a report outlining the work underway to improve water quality. The report provided information to support each regional council to set draft targets for swimmability, as required by the National Policy Statement for Freshwater Management.

LAND MANAGEMENT

The intensification of farming has put pressure on the land and associated water supplies, resulting in a decline in freshwater quality and availability. MPI is undertaking work to support changes in farming practice that better reflect the suitability of the land in an effort to reduce the impact on the broader environment and ecosystem.

In order to help us track and measure progress of our strategy, we have identified a set of indicators that we will refine over the coming year and use to report our progress over the next four years. These will be applied in our next annual report.

Achievement in this result area

SUSTAINABLE FARMING FUND

Since 2000, the Sustainable Farming Fund (SFF) has operated to support grassroots applied research and

extension projects as part of sustainable land management activities.

This year, MPI trialled a new pilot approach to support SFF projects valued at less than \$100,000, with correspondingly shorter timeframes. These small scale SFF projects called SFF Tere, represented an investment of around \$271,000 and were four of the 28 approved SFF projects announced during 2017/18. MPI also streamlined the application process for SFF Tere projects to make it easier to apply, and quicker to get decisions, while meeting the current application criteria for economic, social and environmental sustainability outcomes.

MPI is also developing Sustainable Food and Fibre Futures (SFFF) – a new future-focused programme that takes the best of the SFF and the Primary Growth Partnership (PGP). The SFFF aims to provide a single gateway for farmers and growers to apply for investment in a greater range of projects that deliver economic, environmental and social benefits that flow through to all New Zealanders.

IMPROVING THE WHAKAKĪ CATCHMENT AREA

In 2017, MPI in partnership with the local community, Wairoa District Council and Hawke's Bay District Council, started an initiative to tackle Wairoa's severe erosion and water quality issues which were impacting on the long-term economic, social and environmental sustainability of the area, in particular on Whakakī Lake. Previous efforts to address issues had variable success. In a more integrated approach, MPI partnered with the local community on a co-design process. The process helped the community understand their collective aspirations for the catchment and explore opportunities for its future that built on work already done. The results have allowed the community to decide for itself where funding should be focused, and has enabled a more co-ordinated approach to ensure funding decisions support other cross-agency initiatives in the region.

In the past year, funding has been provided to help plant mānuka trees on land adjacent to Whakakī Lake to support a reticulating wetland, and to complete cultural and economic impact assessments of the catchment area.

Result area: Managing the marine environment to provide for current and future generations

Fisheries New Zealand: Tini a Tangaroa was established to ensure that fisheries resources are managed to provide the greatest overall benefit to New Zealanders, with a focus on the sustainability of New Zealand's wild fish stocks, aquaculture, and the wider aquatic environment, now and for future generations.

New Zealand's fisheries management system provides for the sustainable use of our fisheries resources. The system has served New Zealand well

for over 30 years; however, it needs updating to ensure it is fit for the future. This includes taking account of new data and technology, and the changing expectations of society and consumers. Fisheries New Zealand is working to achieve this through various work programmes, including the Fisheries Change programme.

Progress indicator

AN INCREASE IN THE NUMBER OF FISH STOCKS THAT ARE MANAGED WITHIN ACCEPTABLE LIMITS

This year we have seen a small improvement in the number of fish stocks at or above acceptable levels. In 2017/18, 138 fish stocks were assessed as being at or above acceptable levels (up from 133 in 2016/17) which is 83.6 percent of scientifically evaluated stocks.

We have also seen a reduction in the number of fish stocks below the hard limit (the biomass below which a stock is deemed to be collapsed). The number of fish stocks that are below this level decreased from 11 in 2016/17 to 10 in 2017/18. Fisheries on these 10 fish stocks have either been closed or had substantial reductions in catch limits. Two of the species are highly migratory (Southern bluefin tuna and Pacific bluefin tuna), and are managed by international organisations.

Achievements

Working with stakeholders to improve sustainability

MPI values stakeholder contribution and participation in fisheries management. MPI makes decisions that aim to ensure the sustainability and health of our marine environment, for the benefit of all New Zealanders. MPI is committed to working with stakeholders on ways to maintain and foster resilience in the fisheries management system so we are prepared to respond to future challenges.

FISHERIES CHANGE PROGRAMME

The Fisheries Change programme aims to ensure the sustainable economic, social and cultural value of New Zealand's fisheries. The programme will ensure that Fisheries New Zealand has accurate, verified and timely information about commercial fishing activity to inform our management decisions; and that Fisheries New Zealand has the right policy settings to ensure the value that all New Zealanders get from our fisheries is sustainable. Consultation on proposed amendments to regulations to support digital monitoring (electronic reporting and geospatial position reporting) and innovative trawl technologies was undertaken in May and June 2018.

DIGITAL MONITORING OF COMMERCIAL FISHING

Fisheries New Zealand is rolling out a new digital system for tracking, monitoring and reporting of



commercial fishing. All trawl vessels 28 metres and over (representing over 70 percent of commercial catch by volume) began operating under the electronic catch and position reporting requirements from 1 October 2017. During 2017/18, Fisheries New Zealand has developed a phased implementation approach to progress further rollout. Further rollout was deferred to the end of 2019 in order to allow time for more consultation with the industry and other stakeholders, and development of the technology that fishers will need for electronic catch and position reporting.

KAIKŌURA EARTHQUAKE FISHERIES RECOVERY UPDATE

After the 2016 Kaikōura earthquake, MPI commissioned a research programme to better understand and monitor the impacts of the earthquake on the marine environment. MPI, along with Te Korowai, and the Kaikōura Marine Guardians, hosted an event in Kaikōura in June 2018 for researchers to present their findings to the local community. Many local people attended the event, asked questions, and engaged with the researchers. This event was also watched by many more through a live stream on Facebook.

This research has given MPI a good baseline with which to measure how recovery of the marine environment is progressing, and where we need to focus our attention in the future. Continued monitoring will inform future marine management options, guiding when and how the current closure of shellfish and seaweed fisheries may be lifted.

NATIONAL BLUE COD STRATEGY

Blue cod are an iconic New Zealand finfish treasured by tangata whenua and are one of our most important recreational and commercial species. Given its importance, Fisheries New Zealand is developing a National Blue Cod Strategy to improve the way we manage the fishery. The strategy is intended to drive a more consistent regulatory approach and better address key issues of concern to tangata whenua and stakeholders, such as localised depletion near popular fishing spots.

To ensure broad engagement in the development of the strategy, Fisheries New Zealand facilitated meetings with blue cod experts, and sought tangata whenua, public and stakeholder input through a range of channels. We held 18 public information sessions, which 450 people attended, and received 2,297 responses to online surveys. The strategy is being finalised later in 2018.

Government collaboration in sustainable fisheries management

In the past year, MPI has been working closely with both New Zealand and Pacific government departments to manage and improve the sustainability of our fisheries.

PROPOSAL FOR THE NATIONAL ENVIRONMENTAL STANDARDS FOR MARINE AQUACULTURE

MPI consulted on a proposed National Environmental Standard (NES) for Marine Aquaculture from June to August 2017. This NES is needed to increase certainty

and industry confidence in the management of marine farms. It aims to focus marine farmers on sustainability, save tens of millions of dollars in consent renewal fees, and ensure a more consistent approach to regulation of the industry.

MPI has been working closely with MfE, DOC, and the Aquaculture Reference Group (including members of the aquaculture industry, regional councils, Te Ohu Kaimoana (The Māori Fisheries Trust), and the Environmental Defence Society) to address issues identified through consultation and to refine the NES proposal. A final policy recommendation is expected to be provided to Cabinet by late 2018.

PACIFIC MEMORANDUM OF UNDERSTANDING WITH MINISTRY OF FOREIGN AFFAIRS AND TRADE

MPI's Pacific Memorandum of Understanding (MoU) with the Ministry of Foreign Affairs and Trade (MFAT) is currently in its eighth year, with the aim of supporting Pacific Island countries to maximise developmental and economic benefits through the sustainable management and utilisation of their fisheries resources. The MoU includes development support for Pacific Island fisheries governance, management, monitoring, control and surveillance, and has provided capacity development support in 12 countries and territories across the Pacific to date.

Over the last year, the MoU helped many Pacific Island countries to improve their fisheries governance systems, including increasing the capacity of fisheries managers to improve management approaches and processes, and providing significant assistance to reforming Tokelau's Fisheries Management Authority. The MoU has also helped deliver key monitoring, control and surveillance training activities to Pacific Island countries, for both coastal and offshore fisheries, to address operational issues such as recently adopted region-wide port state measure requirements; combating illegal, unregulated and unreported fishing; and providing support to multilateral High Seas and Pacific Exclusive Economic Zone fisheries patrols.

NEW ZEALAND SEA LION THREAT MANAGEMENT PLAN

In July 2017, MPI and DOC released the *New Zealand sea lion/Rāpoka Threat Management Plan 2017–2022* in response to a decline in sea lion pup numbers in the main breeding colony on the Auckland Islands. The plan consists of a five-year programme of research, management actions and monitoring to stabilise and grow the sea lion population. MPI and DOC worked with tangata whenua, communities, and environmental and fishing industry groups in the development of the plan, which promotes the recovery and long term viability of sea lions.

Research has begun on disease, changes in food resources, spatial overlap of sea lions foraging with fisheries, and monitoring of sea lion pup counts at the four main breeding colonies. Practical mitigation measures are being designed to prevent sea lion pups drowning in holes at the breeding sites.

HECTOR'S AND MĀUI DOLPHIN THREAT MANAGEMENT PLAN

MPI and DOC have been working closely together for many years to ensure the effective management of threats to Hector's and Māui dolphins. These native dolphins are among the smallest dolphins in the world and only produce calves every two to three years. Due to their threatened status and vulnerability to human impacts, it is very important to monitor progress and continually assess the effectiveness of the measures in place.

During 2017/18, a key focus was to bring together the latest information to assess the risks to the dolphins from fishing and other activities that could pose a threat. This risk assessment, which has included a workshop involving international experts, will be an important input into a review of the Hector's and Māui dolphin Threat Management Plan in 2018/19. A key aspect of the review will be to ensure opportunities for input and involvement of tangata whenua and others who have an interest in this issue. Forums have already been established to support the review and there will be a number of other activities to support input and engagement.

CROSS-AGENCY EFFORT TO REDUCE THE HARM OF FISHING ACTIVITIES

There are many protected species that live in New Zealand's marine environment that can be affected by fisheries that operate in the same waters. It is important to continue to monitor the effectiveness of mitigation measures in place and assess the risk to different species. For example, MPI and DOC, together with other stakeholders, work together to mitigate the risk posed to seabirds by fishing operations. More species of seabirds breed in New Zealand than anywhere else in the world, including a particularly high diversity of albatrosses.

During 2017/18, the focus was on beginning a review of the existing National Plan of Action – Seabirds, which was last published in 2013, and which detailed how MPI is trying to reduce the incidental catch of seabirds in our fisheries. As part of the review there will be opportunities for input and involvement of tangata whenua and those with an interest in this issue.

Managing sustainable fisheries by targeting non-compliance

Compliance with fisheries rules and regulations underpins the successful management of sustainable fisheries. In the past year, MPI has joined forces with other government agencies to ensure rules and regulations made to sustain our fisheries are being followed. We have also ensured that non-compliance has been dealt with effectively.

JOINT FISHERIES PATROL

A joint fisheries patrol conducted by the New Zealand Defence Force (NZDF) and MPI took place during February 2018. Three fishery officers joined the Royal New Zealand Navy's inshore patrol vessel HMNZS Hawea and a Seasprite SH-2G(I) helicopter to patrol about 2,050 kilometres from the Coromandel up to Cape Rēinga and down to Taranaki, including an area that is normally less accessible to patrol vessels. The combined NZDF and MPI patrol inspected 15 recreational and commercial vessels during the operation. A number of alleged offences were detected and acted upon by MPI.

MULTI-AGENCY FISHERIES OPERATION

Each year MPI leads multi-agency fisheries patrols to support sustainable fisheries. The patrols reinforce public messaging about the importance of fisheries regulations and rules and the seriousness of non-compliance, which can attract significant penalties.



In March 2018, a multi-agency fisheries compliance operation along the North Island's east coast uncovered a range of offending, including non-reporting of commercial crayfish. This MPI-led operation involved resources and personnel from the New Zealand Police and the National Maritime Coordination Centre and focused on at sea inspections of recreational and commercial vessels within the coastal waters of New Zealand's Exclusive Economic Zone.

Eight fishery officers and six staff from New Zealand Police were involved in the patrol from Auckland to Whanganui and back, covering 2,000 nautical miles and totalling 15 days at sea. This included some isolated and remote areas that are usually difficult to reach by normal patrol methods. The patrol also covered six marine reserves in the area. More than 150 commercial and recreational vessels were inspected during the patrol, and approximately 300 people, including divers, were spoken to by fisheries officers.

DETECTION OF PĀUA POACHING RING RESULTING IN CUSTODIAL SENTENCING

During the year, two custodial sentences were handed down by the Wellington District Court. These resulted from an MPI investigation targeting black-market pāua activity in the Wellington region after information was received suggesting that a number of individuals were involved in the illegal harvesting and sale, or the subsequent purchase of pāua.

MPI is committed to ensuring that daily recreational take allocations are adhered to, and used for personal

consumption only. Black market poaching activity impacts on legitimate recreational and customary fishers because it limits New Zealand's ability to manage its fish stocks appropriately.

SIGNIFICANT COMMERCIAL PROSECUTION GOES TO TRIAL

Given the economic, cultural, environmental and social importance of New Zealand fisheries, enforcement action enables MPI to actively ensure that fishing resources are being used sustainably.

As the regulator responsible for managing commercial, customary and recreational fisheries, MPI, supported by the Wellington Crown Solicitor, participated in a seven-month trial this year in the Wellington District Court.

This case focused on the fishing and export activities of a group of businesses involved in the Hawke's Bay seafood industry. Three associated companies, along with the company directors, factory manager and several fishing vessel skippers were charged with multiple offences under the Fisheries Act 1996. The charges related to landings of catches of bluenose (a fish species currently below the management target level and therefore subject to catch reductions) within New Zealand and their corresponding export to Australia between November 2012 and July 2014. During this period the company was found to have failed to report significant amounts of bluenose caught within the New Zealand Exclusive Economic Zone. The defendants pled guilty in relation to 130 charges in December 2017.





OUTCOME: Protection



PROTECTION

New Zealand's prosperity depends on protecting our unique environment and way of life, and New Zealand's reputation for integrity. To make a difference in this outcome area MPI must provide assurances of, and act to increase, the safety and suitability of New Zealand food, improve animal welfare practice, and minimise the impacts of pests and diseases. Our result areas reflect this focus.

Increasing the safety and suitability of New Zealand's food

New Zealand has a world-leading food safety system based on international best-practice science, risk assessment and management. New Zealand Food Safety leads the food safety system in order to protect consumers from foodborne disease, and to maintain and enhance New Zealand's reputation as a trusted supplier of safe and suitable food. It works to maintain the integrity of our system by ensuring the right regulatory requirements are in place to support businesses to make safe and suitable food for New Zealand and its export markets, as well as ensure the authenticity, wholesomeness and truth in labelling of those foods. New Zealand Food Safety monitors and audits compliance with those requirements, verifies compliance to provide assurance to export markets on behalf of MPI (which is the internationally recognised competent authority), and enforces compliance where necessary.

Improving animal welfare practice in New Zealand production systems

MPI is responsible for New Zealand's animal welfare system, which establishes the obligations that owners and people in charge of animals must meet in caring for animals. This system encompasses all animals, from livestock and companion animals to wild animals. MPI develops policy on the humane treatment of animals, and is responsible for the

regulation and enforcement of animal welfare standards. MPI also protects New Zealand's reputation as a safe and humane food producer.

The Associate Minister of Agriculture released a Framework for Action on Animal Welfare in New Zealand in June 2018. This includes a Capacity Building outcome that aims to ensure that people in charge of animals believe animal welfare matters, and have the skills and capacity to meet animal welfare standards.

MPI ensures that all stakeholders, including primary producers, are aware of the animal welfare standards they should be meeting. MPI will make more animal welfare information that it collects available to the public and will encourage others to do the same.

Minimising the impacts of pests and diseases

Biosecurity is critical to New Zealand being the most trusted source of high-value natural products in the world. Delivering this is a large part of the reason for the creation of the Biosecurity New Zealand business unit within MPI.

As trade and tourism increase and diversify, and global supply chains become more complex, New Zealand is being exposed to an ever-greater biosecurity risk. The success of the primary sector, and the successful delivery of MPI's strategy, rests on the protection of New Zealand from the introduction of foreign pests and diseases. The Government has identified the need for MPI to focus on improving biosecurity, particularly through addressing biosecurity legislation, establishing a sustainable funding model for future biosecurity responses, and implementing Biosecurity 2025.

MPI has delivered a number of achievements against the result areas of the Protection outcome over the past year. These achievements have contributed to progressing MPI's ambition for New Zealand's primary sector. Key progress indicators and achievements are outlined here.



Result area: Increasing the safety and suitability of New Zealand's food

We need to continually improve our food safety system, and promote related research and innovation, to protect consumer health. As more companies seek to produce more value-added products, regulation becomes increasingly complex. New Zealand's markets also have growing expectations, seeking a greater level of prescription and government oversight in food standards and safety.

Progress indicator

RATES OF FOODBORNE DISEASE ARE MANAGED WITHIN AGREED LEVELS

MPI has a five-year performance target for foodborne *Campylobacteriosis*. This is one of the most commonly notified foodborne diseases in New Zealand. The five-year performance target is to reduce the number of human cases of foodborne *Campylobacteriosis* by 10 percent from 88.4 cases in 2014 to 79.6 cases per 100,000 by the end of 2020. We have already met this target; the latest record in 2017 showed 78.7 cases per 100,000.

Achievements

Comprehensive improvement in food safety

MPI plays a key role in ensuring that New Zealand's food system produces food that is safe, and the health and wellbeing of consumers is protected. To achieve this, we provide manufacturers and importers with guidance on food labelling, we provide consumers with guidance on how to avoid getting sick from bacteria and viruses in food, and we advise people about nutrients, chemicals and food. It is vital that we ensure practices to maintain safe and suitable food are upheld across all types and sizes of food businesses, and right across the supply chain, whether it is growing, harvesting, importing, processing, transporting, storing, exporting or selling food products.

FOOD SAFETY CULTURE RESEARCH

New Zealand Food Safety, along with the Food Safety Assurance and Advisory Council, completed research in 2017 into food safety practices in the New Zealand food industry. The research found that most food business owners, managers and staff have an inherent sense of pride in what they are doing and are motivated to build and maintain a good reputation. But there is still work to do to ensure that all food businesses:

- have specific food safety goals and key performance indicators;
- develop a more inclusive and shared sense of responsibility for food safety across the whole organisation supply chain; and
- reward their employees for taking part in the day-to-day improvement of their food safety practices.

These research results will feed into an New Zealand Food Safety work programme focused on developing more effective food safety tools for businesses and identifying resources food businesses need to support the development of a strong food safety culture.

THE NEW ZEALAND TOTAL DIET STUDY

In May 2018, MPI published the *2016 New Zealand Total Diet Study*, the culmination of two years of work. The study, which is carried out on average every five years, is a national survey of a range of common foods consumed in a typical diet. It is used to assess our overall exposure to chemicals such as agricultural compounds, environmental contaminants, and nutrients, and to identify any potential food safety risks. It is also used to monitor trends and changes in levels over time.

We tested over 4,300 individual food samples for a total of 301 agricultural chemicals and 10 contaminants and nutrients. Overall we found that the New Zealand food supply continues to be safe in terms of exposure to chemicals, and generally there are sufficient levels of nutrients for health. The study also found that for the first time in two decades, our dietary intake of iodine is sufficient for good health. We also found that New Zealanders are still consuming higher than needed levels of sodium in their diet. However, consumers are getting the right levels of selenium and zinc, both of which are essential in supporting a healthy metabolism.

Overall the results from the 2016 New Zealand Total Diet Study are very reassuring, and show that generally the New Zealand diet is safe and wholesome. The comprehensive report is published on the MPI website at: <https://www.mpi.govt.nz/food-safety/food-monitoring-and-surveillance/new-zealand-total-diet-study/>

NEW FOOD SAFETY GUIDANCE

In December 2017, MPI released easy-to-follow food safety guidance documents to help approximately 16,000 food businesses across New Zealand manage their food safety risks. The new easy-to-follow guidance covers businesses with medium to low-risk food safety issues. Different types of businesses have different guidance depending on the risk profile of the food they handle. This easy-to-follow guidance makes it easy for food businesses to apply and helps them keep their food safe for consumers which in turn will reduce the number of New Zealanders getting sick from food-related bugs.

Increasing awareness of food safety

Both food businesses and consumers directly affect the safety of foods through their food handling and preparation practices, so we all play a role in the overall national food safety system. During 2017/18, MPI has invested in educating and informing food businesses and the public about food safety as an important means of reducing foodborne illness.

OPTIMISING OPERATOR OWNERSHIP

This year, MPI successfully completed an Optimising Operator Ownership pilot programme (also known as Triple O) at the largest lamb processing plant in New Zealand – the Alliance Group's Lorneville red meat processing plant in Southland. The aim of this pilot was for MPI to:

- better understand the commercial impact of the MPI verifier decisions;
- support the large red meat industry operator by taking a step-back and allowing the operator to take full ownership of their regulatory compliance process (as required by the Animal Products Act, 1999);
- give the operator an opportunity to manage their own internal verification and compliance process; and
- use a performance dashboard developed during the pilot to show whether processing departments are in control of their regulatory compliance requirements. This was based on MPI verification of Alliance's:
 - internal verification system;
 - compliance monitoring system; and
 - process control system.

The Triple O way of working has improved food safety compliance at the plant and has provided greater opportunity for innovation. It has required behavioural changes where MPI verifiers have moved from a “tell” to an “ask” communication style while still ensuring Alliance is in regulatory compliance. MPI verifiers rely more on process control measures provided by the operator. The newly created dashboard measures provide the MPI verifiers with real time information that confirms Alliance is in control of their regulatory requirements which means final compliance decisions are now being made by Alliance staff.

The pilot means that MPI verifiers have reduced their time in meat processing departments, and Alliance supervising staff have become more motivated because they make the final compliance decisions. The pilot has also created a collaborative working environment for MPI and Alliance staff.

FOOD VERIFIERS ACADEMY

MPI developed a Food Verifiers Academy in late 2017 as an online knowledge hub for verifiers and evaluators working under the Food Act 2014. It is located on MPI's in-house online training platform but is also accessible to those working for local councils and outside agencies. It supports professional development, collaboration, sharing of expertise, and the building of a stronger professional network. The Academy gives verifiers and

evaluators on-demand access to practical tools. It is also useful for managers looking to recruit, manage performance, or provide learning and development for their verifiers. Through the use of this knowledge hub, MPI expects to see greater collaboration across the profession, promotion and advancement of standards of practice, and greater professionalisation of the verification role.

SUPPORTED SMALL BUSINESS ROADSHOWS

MPI along with other government agencies, was involved in a series of small business road shows. *Taking Care of Business* was a series of 12 events held across New Zealand between May and August 2018. The roadshows were an opportunity for small-business owners to hear from representatives of government agencies about what they do and how they can help businesses.

MPI developed a number of activities to support the roadshows. An introductory video demonstrated the Food Safety Toolkit and videos, tools and resources available to help businesses ensure food and produce is safe, suitable and ready for market. We provided helpful material such as a “Where Do I Fit?” leaflet to all delegates in their welcome packs as well as information on services that MPI provides to exporters, how to access the Sustainable Farming Fund, and a New Zealand Food Safety fridge magnet with our 0800 phone number to support queries from attendees.

Result area: Improving animal welfare practice in New Zealand production systems

New Zealand needs to have high animal welfare standards. MPI's role is to set and champion animal welfare standards, and to act rapidly and appropriately when standards are breached. MPI works alongside other organisations to educate and provide information to make it easy for people to comply.

Progress indicator

Having transparent and humane animal welfare practices is important to New Zealand's reputation. We need to identify opportunities to proactively address existing and potential issues, and to promote creative responses to animal welfare challenges. In order to help us track and measure progress of our strategy, we have identified a set of indicators that we will refine over the coming year and use to report our progress over the next four years. These will be applied in our next annual report.

Achievements

ANIMAL WELFARE REGULATIONS

MPI publicly consulted on 91 regulatory proposals in 2016 that covered a range of species and activities and received over 1,400 submissions in response. Consultation included a range of public workshops throughout New Zealand. The proposals are being



progressed in three tranches. The first tranche, related to the management of bobby calves and the export of livestock, came into effect in 2016/17.

The second tranche is now completed and relates to stock transport, farm husbandry, companion and working animals, pigs, layer hens, and the way animals are accounted for in research, testing and teaching. These new regulations will allow for better enforcement of low to medium animal welfare offending. The majority of these regulations came into force on 1 October 2018 and MPI is working with affected stakeholders to ensure people are aware of their obligations under the new regulations.

The remaining regulatory proposals consulted on during 2016 will be considered in a third tranche of work during 2018/19. The third tranche of proposals, which relate to significant surgical procedures, is expected to be completed by early 2020.

WELFARE OF BOBBY CALVES

Improving bobby calf welfare continues to be a focus for MPI, working together with industry groups along the supply chain.

New regulations introduced in 2016 contributed to a decrease in mortality rates over time, down to a record low of 0.06 percent in 2017 (approximately 1,100 calves of 1.77 million processed).

MPI also commissioned a scientific study to identify factors contributing to calf mortality, and to identify better calf welfare indicators. The first part of the study was published this year. It identified underlying animal health issues that can be improved through on-farm practices, and showed that the stage in the calving season, transport duration and slaughter schedule all affected calf mortality rates. The results informed the development of calf regulations, and will also be used for initiatives to further improve calf welfare.

ANIMAL WELFARE COMPLIANCE

In order for animal welfare regulations to work effectively, it is important to improve awareness and use of the codes of welfare, as well as address non-compliance issues. We all have responsibilities toward animals in our care and those affected by our activities. MPI supports and educates people to meet their responsibilities. When MPI receives animal welfare complaints they are followed up, assessed, and if necessary, further action is taken. In 2017/18, several animal welfare investigations resulted in court sentences. Two examples are highlighted here.

- A Southland dairy company was fined nearly \$60,000 and its two managers sentenced to community service

by the Invercargill District Court over eight charges under the Animal Welfare Act. The company failed to maintain lanes to cow sheds on two properties, which led to 193 dairy cows being put down and another 761 requiring treatment due to severe lameness. The two managers were also fined \$10,000 each.

- A Golden Bay farmer was sentenced in the Nelson District Court following prosecution action taken by MPI. The farmer was sentenced to six months' community detention, and 180 hours' community work, and was banned from owning animals for five years for ill-treating animals on his farm.

ANIMAL WELFARE ON LIFESTYLE BLOCKS

On 18 May 2018, MPI published a report on why and how MPI should engage with lifestyle block owners on animal welfare issues. The report recommended that MPI take a lead role, with support from the SPCA and veterinarians, to proactively communicate with lifestyle block owners to ensure they are well informed and able to meet their compliance requirements. A working group of organisations and individuals across the lifestyle sector has been established to inform and educate the lifestyle community, using various forms of communication. Work is currently underway to raise awareness of new animal welfare regulations.

Result area: Minimising the impacts of pests and diseases

Biosecurity New Zealand needs to constantly rethink and refit its biosecurity programme to meet emerging challenges. Maintaining a resilient biosecurity system into the future will require a strong focus on driving change within the system, including encouraging industry and communities to take more responsibility for managing biosecurity risks. Biosecurity New Zealand will also need to use new scientific and technological approaches in order to drive innovation in biosecurity.

Progress indicator

NON-COMPLIANCE RATES WITH BIOSECURITY REQUIREMENTS ARE MAINTAINED

There has been a slight increase in the total number of import consignments in the last financial year from the previous year, with a concurrent increase in the number of biosecurity related inspections. The number of times an import consignment has not met compliance requirements has remained steady at about 25 percent of all targeted inspections over the past few years.

	2015/16	2016/17	2017/18
Total number of import consignments	422,448	453,397	458,727
– % change on previous year	3.6%	7.3%	1.2%
Consignments inspected	53,809	58,300	59,935
– % of consignments inspected	12.7%	12.8%	13.1%
Targeted inspected non-compliant consignments	13,074	15,217	15,010
– % of targeted inspected non-compliant consignments	24.2%	26.1%	25.0%

Biosecurity New Zealand continues to work with importers on this complex issue, using a combination of education and enforcement to promote compliance.

Achievements

EXTENSIVE STAKEHOLDER COLLABORATION FOR BIOSECURITY 2025

After launching the Biosecurity 2025 Direction Statement in 2016, Biosecurity New Zealand has been working with biosecurity leaders and experts from over 60 organisations to produce work plans for the five Strategic Directions.

The work plans include major transformation programmes to improve how all system participants collaborate. They also take advantage of some key opportunities to future-proof New Zealand's biosecurity system and make it more resilient. MPI is now developing an implementation plan to be launched in November 2018.

Meanwhile, the following Biosecurity 2025 projects are already underway, with MPI taking the lead or providing funds.

- The Biosecurity Communication Network, led by MPI, is actively collaborating and developing a system-wide approach to integrate, amplify and promote Biosecurity 2025. It is made up of over 340 communication professionals from the primary sector, iwi, the tourism sector, non-governmental organisations, Māori organisations, business organisations, universities, research organisations, government agencies, regional councils, and marine and communication agencies.
- A series of regional projects supported by Biosecurity 2025 are underway. These include an iwi-led community-driven partnership between Tauranga Moana iwi, Tauranga City Council, and industry, to protect iconic Mauao (Mount Maunganui) from biosecurity risks. The Mauao initiative is building biosecurity knowledge, engagement and surveillance skills at the grassroots level.

RESPONSE TO KAURI DIEBACK

Kauri dieback is caused by a microscopic soil-borne organism, *Phytophthora agathidicida* (PA) which is killing kauri trees. This year, Biosecurity New Zealand introduced several new initiatives that will deliver stronger protection for kauri now, and into the future.

Biosecurity New Zealand provides overall co-ordination for a joint agency response with Kauri Dieback Programme partners - DOC, Northland Regional Council, Auckland Council, Waikato Regional Council, Bay of Plenty Regional Council, Te Roroa and the Tangata Whenua Rōpū - to manage the spread of kauri dieback disease.

The Accelerating Protection for Kauri project commenced in March 2018. This project will deliver a refreshed programme strategy and a National Pest Management Plan (NPMP) for kauri dieback – the strongest form of regulation we can put in place. During 2018, Biosecurity New Zealand is co-ordinating three rounds of

consultation to gather collective ideas and feedback to inform the development of the NPMP. An independent panel of experts is supporting the project.

A new Kauri Dieback Strategic Science Advisory Group, administered by Biosecurity New Zealand, was also established in March 2018. The group's primary purpose is to provide independent high level strategic science advice and develop a prioritised research plan incorporating both long-term and operational science needs for the management of kauri dieback. The group includes New Zealand and international experts from science organisations, tangata whenua and government agencies.

Other highlights in 2017/18 include:

- completing a comprehensive aerial surveillance programme covering three million hectares of kauri lands;
- completing three science research projects, with another three new research projects starting (this is in addition to eight ongoing research projects);
- completing field trials which showed that phosphite can successfully heal trunk lesions of infected juvenile kauri while not a cure, this could help reduce the impact of the disease;
- progress made on biological control research which has identified three products that are more effective against PA in laboratory trials; and
- starting a Cultural Health Indicator Monitoring Programme, contracting mana whenua as our monitors.

Taking advantage of new technologies

MPI wants to utilise innovative technology to improve biosecurity operations. MPI's Research, Technology and Innovation project has been established to bring prototypes of emerging technologies to life as well as use emerging technologies to transform our operating models. Two notable examples that aimed to facilitate biosecurity operations at the border are included here.

AVATAR BORDER ASSISTANT

In February 2018, MPI's first ever avatar border assistant called Vai (which stands for Virtual Assistant Interface) was trialled for three months in the biosecurity

arrivals area at Auckland International Airport. Vai was part of an experiment using artificial intelligence, funded through the Westpac Innovation as a Service scheme.

Vai answered simple biosecurity questions such as what items need to be declared, and assisted with directions around the airport. Vai had around 40 conversations with travellers at Auckland International Airport daily, and also gained recognition widely in New Zealand and



overseas. MPI has analysed the data captured following the successful trial and is planning to progress it further.

HOLOGRAPHY AT THE BORDER

Hologram technology was trialled for nine months from August 2017 at Auckland International Airport to see if holographic technology with story-telling would increase the number of biosecurity risk item disposals. Although no significant increase in biosecurity risk item disposals was recorded, the approach was positively received by travellers and was well regarded as an example of MPI experimenting with innovation in border biosecurity.

Mitigating future risk

In order to mitigate future biosecurity risk in a rapidly changing environment, MPI has been developing capability in early warning systems that help detect early signs of biosecurity threats. MPI has also updated a number of the major biosecurity standards.

NEW BIOFOULING REQUIREMENTS

Biofouling is the growth of marine organisms on the underside of a vessel, and can introduce exotic marine pests to New Zealand.

To reduce the risks presented by biofouling we implemented the Craft Risk Management Standard for Biofouling (CRMS) in May 2018, following a four year lead-in period. The CRMS is the world's first nationwide biofouling regulation across all vessel types. This will protect our unique marine environment and our aquaculture industry by ensuring all international vessels arrive in New Zealand with a clean hull.

DEVELOPING NEW IMPORT HEALTH STANDARDS

During the year, we have issued new import health standards (IHSs) and reviewed and updated current standards to ensure they are fit-for-purpose. IHSs are documents issued under the Biosecurity Act 1993 which specify the requirements that must be met before risk goods can be imported into New Zealand.

MPI worked with the pig industry and overseas trading partners to develop new risk measures to manage all identified biological risks from the import of pig semen into New Zealand. These risk measures were consulted upon and MPI issued an updated IHS for Pig Semen in December 2017. This new IHS replaced the existing generic IHS for Pig Semen (2013) and the country-specific IHS for Pig Semen from Canada or the United States of America (2011). The updated IHS is significant because it allows pig producers to continue to import pig semen and improve their genetic stock while offering a higher level of protection to New Zealand. The IHS also potentially opens up trade with any country that can meet the IHS requirements.

The risk analysis found that the African swine fever (ASF) virus was not a risk in imported pig semen. Despite this, the IHS does include measures for ASF in imported pig semen, which must come from ASF-free countries or from ASF-free pig semen collection centres.

BIOSECURITY INTELLIGENCE UNIT

In 2018, Biosecurity New Zealand established a Biosecurity Intelligence Unit to collect, analyse and develop biosecurity-related information and insights that will enable us to deliver targeted advice to improve operational effectiveness, and contribute to policy and regulatory development. This will help ensure Biosecurity New Zealand is prepared for future biosecurity challenges. The unit will build links with the scientific community to create a virtual international biosecurity network, which will give early warning of threats. It will also ensure that the full value of the information is unlocked through advanced analytics, tools and technologies that will generate valuable intelligence support to decision-makers across MPI.

Working with stakeholders on biosecurity threats

In the past year, Biosecurity New Zealand has responded to several high-priority threats to New Zealand's biosecurity. We collaborated closely with key stakeholder groups, co-ordinating recovery and long-term management activities. In addition to responses, the high numbers of visitors to New Zealand and the increasing volume of cargo entering our ports has meant a busy summer for our frontline staff. Some of our significant work in these areas in 2017/18, is described below.

MYCOPLASMA BOVIS

In May 2018 the Government, Beef+Lamb New Zealand and DairyNZ announced a joint effort to eradicate the cattle disease *Mycoplasma bovis*. The phased eradication programme is estimated to take up to 10 years and to cost \$886 million, with one-third of the funding to come from DairyNZ and Beef+Lamb New Zealand under a Government Industry Agreement.

The decision was taken collectively by Government and farming sector bodies after months of intense modelling and analysis to understand the likely impacts of the disease, the potential spread and the costs and benefits of eradication versus other actions. Although the disease is widespread internationally, New Zealand has a chance to eradicate the bacterium, which can cause untreatable disease in cattle with severe animal welfare implications. *Mycoplasma bovis* does not cause disease in people, and is not a food-safety risk.

The disease was first identified in July 2017 and over the last 12 months MPI has learned that the disease was likely to have first arrived in late 2015 or early 2016. The disease has been confirmed on over 70 properties and many of these were infected before we knew the disease was here. The disease can be asymptomatic in animals and there is no reliable test that can identify the disease at an individual animal level. Therefore, MPI is using a combination of testing, tracing and modelling to try to find all the infected animals. Most of the infected properties are in Canterbury and Southland, but nearly every region of New Zealand has at least one infected property.

Once a herd has been infected, the only way to eradicate the disease is to remove all the animals in the herd. This is distressing for the farmers who lose both income and assets that may have taken years to build up. MPI and the partnering industry bodies are organising for welfare and recovery support for each farmer in this situation. Over \$20 million in compensation has been paid as at early September 2018. In addition, a wider cohort of farmers are affected when their animals are put under surveillance or are killed for testing. Case managers are now in place for these farmers, and support can be arranged for those that need it.

MYRTLE RUST

In 2017/18, MPI and DOC, with the help of local iwi, the nursery industry and local authorities ran a year long operation to attempt to contain and control myrtle rust and determine the extent of its spread. However, the windborne nature of the disease and the abundance of suitable plants that can be infected with myrtle rust in the New Zealand environment mean that the disease has spread rapidly across New Zealand. MPI is now working collaboratively with partners and key stakeholders to develop and implement a New Zealand Myrtle Rust Strategy and Implementation Plan to effectively manage the disease over the long-term.

In addition, MPI has commissioned a \$4.5 million research programme to better understand myrtle rust. The programme will run until June 2019 and is made up of more than 20 specific projects involving MPI, Scion Research, Manaaki-Whenua Landcare Research, Plants & Food Research, AgResearch,ASUREQuality, Biosecurity Research Ltd, Will Allen & Associates, Massey University, New Zealand Plant Producers Incorporated, New South Wales Department of Primary Industries, Kew Gardens, Wellington Gardens and Australian myrtle rust researchers.

Research has already been completed by MPI, Lincoln University, New Zealand Institute of Economic Research, National Institute of Water and Atmospheric Research (NIWA), Plant & Food Research and the Food and Environment Research Agency (in the UK).

WILDING CONIFERS

Since 2016, MPI has been leading the National Wilding Conifer Control Programme, working closely with DOC and Land Information New Zealand, with active involvement from other central and local government agencies, to manage the spread of wilding conifers. They are also known as wilding pines, and are an invasive tree and pest species in New Zealand's high-country areas. The programme has made good progress in its second year, with significantly reduced visibility of wilding conifers across tracts of New Zealand's iconic tussock, and mountain landscapes. This year, the existing www.wildingconifers.org.nz website was

redeveloped and is now a gateway for all matters related to wilding conifers, including programme details.

BORDER INTERCEPTIONS

Our border biosecurity officers had their busiest summer on record. They screened about two million arriving passengers for risk goods between December 2017 and February 2018, a five percent increase on last summer. MPI was well prepared for the seasonal rush, having employed more than 70 additional officers during 2017. Nearly 4,000 infringement notices were handed out to passengers with undeclared goods that could harbour pests or diseases. Most of these were for undeclared fresh produce, which can carry destructive fruit fly species. Ten fruit fly interceptions were made during the summer.

This year, there were more than 180 interceptions and over 2,000 individual BMSBs detected at the border – most were detected through cargo checks and dead on arrival. BMSBs attack grapes, kiwifruit, apples, citrus and stone fruit, corn and many other crops. We also increased the scrutiny of cargo arriving from countries where the pest is established, with the number of consignments targeted for inspection increasing more than 100 percent. There was a spike in BMSB detections on imported vehicles and machinery from Japan, which resulted in four carriers being turned away from New Zealand this season.

PSA-V APPEAL

In November 2014, a group of kiwifruit growers who were affected by the bacterial kiwifruit vine disease Psa-V brought a class action against the Crown.

The High Court found MPI officials owed a legal duty of care to growers with property rights in vines physically damaged by Psa, to take reasonable skill and care in undertaking functions and responsibilities in relation to biosecurity in New Zealand, including pre-border and border clearance processes. The Court found this duty was breached at the import-permitting stage and that this breach caused the Psa incursion.

The High Court's decision is under appeal by the Crown. New Zealand enjoys a high level of freedom from the world's most damaging pests and diseases because of the diligent actions of MPI officers, importers and others. We consider the High Court finding could potentially have a significant impact on our biosecurity decision-making and operations. MPI takes its biosecurity responsibilities seriously and we have confidence in our current system and its robustness. While the decision is being appealed, it must still be applied in the interim. The impact of this for importers and others is that some decisions could be delayed.





OUTCOME: Growth

A growing global population and Asia's emerging middle class are driving an increase in demand for food. However tariff and non-tariff barriers, and changing consumer trends as well as economic, political and production factors can significantly affect exporters' access to overseas markets. As the global trading environment becomes more complex and supply chains become more sophisticated, there is also an increased threat of counterfeiting or fraud which could have an impact on our primary sector and New Zealand's reputation as a trusted regulator and producer of safe food.

Increasing returns through market differentiation

MPI has influence over export opportunities available to New Zealand's primary industries and their ability to maximise those opportunities. MPI negotiates access to overseas markets for New Zealand's primary products, and acts as the competent authority that overseas regulators look to for assurances associated with our primary sector exports. MPI is involved in the negotiation of multilateral trade rules, contributes to the development and implementation of bilateral free trade agreements, and leads New Zealand's contribution to the establishment of international standards for primary sector goods. We help safeguard New Zealand's trade reputation by maintaining the confidence of our trading partners.

Increasing consumer trust in New Zealand products

Consumers increasingly want assurances about safety, sustainability, traceability, authenticity, and provenance of their purchases. MPI manages the regulation and certification systems for the primary sector that underpin this trust. Sound management of these systems gives overseas markets confidence in the safety of our exports, and assures overseas regulators that New Zealand is meeting its market access requirements.

Increasing primary sector innovation

Without a strong focus on innovation, we would be unable to meet changing consumer expectations and would miss opportunities to grow our primary sector. MPI encourages proactive sector leadership and adopts a joined-up approach to support sector innovation. Through the PGP, MPI invests in long-term innovation programmes in partnership with industry to increase the market access of the primary industries.

MPI has delivered a number of achievements against the result areas of the Growth outcome over the past year. These achievements have contributed to progressing MPI's strategy for supporting New Zealand's primary sector. Key progress indicators and achievements are outlined here.



Result area: Increasing returns through market differentiation

Consumer trends and economic, political and production changes can significantly affect exporters' access to offshore markets and the competition they face within them. MPI looks to improve market access conditions and relationships in new and developing markets while continuing to broaden and strengthen our relationships with existing priority markets.

Progress indicators

PRIMARY INDUSTRY EXPORTS TO FREE TRADE AGREEMENT PARTNERS (EXCLUDING CHINA)

New Zealand agreed on closer economic relations with Australia in 1983. Since 2006, New Zealand has entered into new Free Trade Agreements (FTAs) with Hong Kong, South Korea, Chile, Chinese Taipei, China (presented in a separate graph) and ASEAN countries (Indonesia, Thailand, Singapore, Vietnam, Malaysia, Philippines, Myanmar, Cambodia, Laos and Brunei Darussalam). Since these FTAs came into force, New Zealand's exports to these countries have grown significantly. While the increased value of dairy exports was the main contributor to growth in the year ending 31 March 2018 (particularly to Australia and ASEAN member countries), horticultural products, processed foods, wine, wood products and meat

exports have also grown substantially.

PRIMARY INDUSTRY EXPORTS TO CHINA

Since signing an FTA with China in 2008, primary sector exports to China have increased from 7 percent to 26 percent of total primary sector exports in the year ending 31 March 2018. Primary sector exports to China in 2018 show increased diversity, particularly with respect to value-added consumer or food service products, and have now exceeded the previous peak in 2014. The growth in dairy product exports in 2018 is supported by an increase in beef and lamb exports. Beef consumption in China continues to outstrip supply. At the same time, New Zealand's sheep meat revenue is rising substantially as greater volumes of higher-value products are exported to China, and high prices are underpinned by limited supplies from Australia and New Zealand.

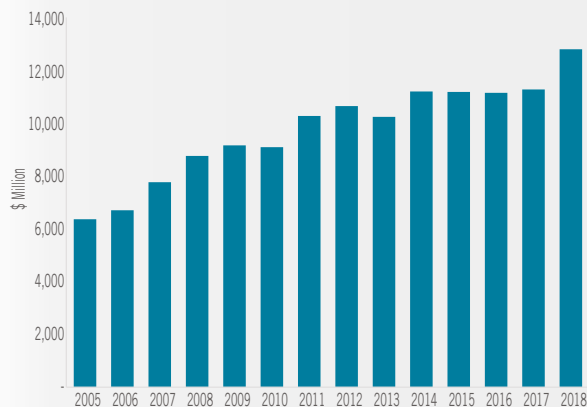
BUSINESSES ENTERING NEW MARKETS

Every year Statistics New Zealand conducts the Business Operations Survey, which provides an estimate of businesses entering new markets. In 2017, the proportion of primary industry companies reporting entry to new markets increased for the agriculture, fishing and forestry sectors, but decreased for food manufacturing and wood processing. The reason why some industries

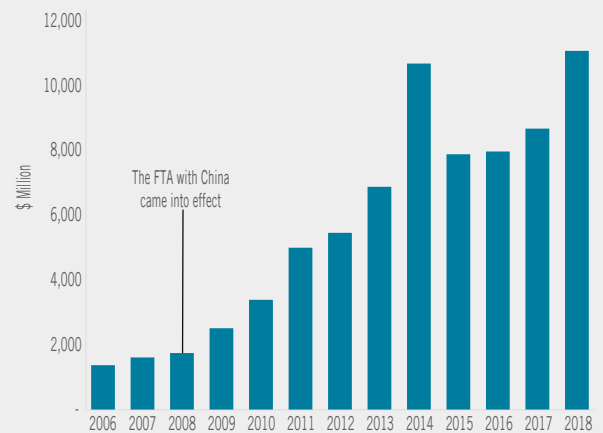


GROWTH

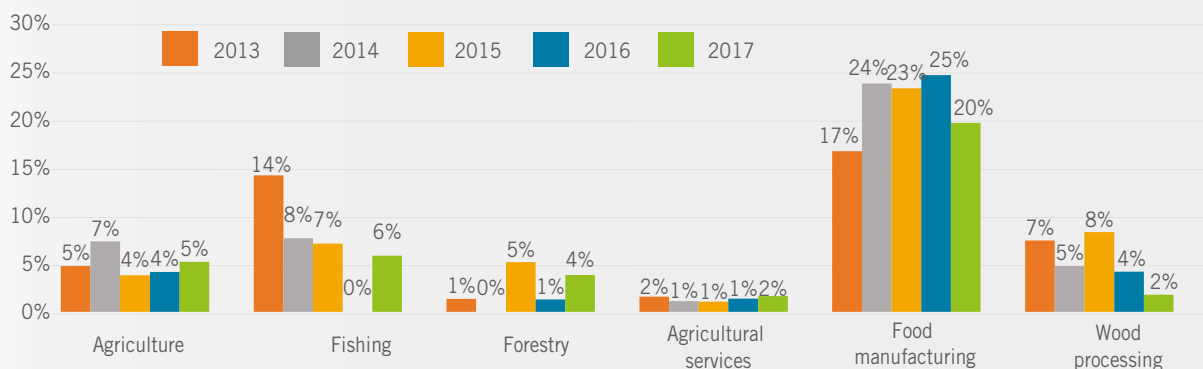
Primary industry exports to FTA partners (excluding China)



Primary industry exports to China



Proportion of businesses entering new export markets



Source: Statistics New Zealand and MPI

have not expanded into new markets, or had no incentive to do so, could be a continued strong demand in their existing markets. For example, the majority of New Zealand's log exports have gone to China, instead of new markets, to meet China's rapidly increasing demand over the last decade.

Achievements

Maintaining and enhancing market access in a challenging global environment

New Zealand's primary industries are focused on export markets and rely on New Zealand maintaining and growing access to those markets. In 2017/18, MPI supported work to reduce and eliminate tariffs and other barriers to trade in goods.

CONCLUSION OF THE COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR THE TRANS-PACIFIC PARTNERSHIP

The Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) was signed by New Zealand and 10 other trading partners in March 2018, representing a major opportunity for the pursuit of New Zealand's primary sector growth strategy. MPI worked with the MFAT and others throughout the negotiations, supporting the interests of New Zealand's primary industries.

The CPTPP will improve New Zealand market access for primary sector exports to a range of important and developing markets, especially in countries with which we do not currently have a FTA – Japan, Canada, Mexico and Peru. In most markets and sectors, tariffs will be completely eliminated once the CPTPP is fully implemented. The CPTPP will also help address non-tariff barriers to trade in goods, by putting in place a framework in which the application of trade rules can be discussed, so we can seek less onerous regulatory regimes. This will potentially improve market access for a wider range of goods, lower compliance costs, and reduce the time exporters spend waiting for goods to clear the port of entry. In addition, the CPTPP means that our exporters are not disadvantaged in important markets, like Japan, where competitors such as Australia, Chile and the European Union, have already agreed preferential trade agreements.

NEW OR IMPROVED MARKET ACCESS

In March 2018, New Zealand achieved a milestone when it gained access for pork and pork products into Australia for the first time. MPI played an important role in a series of negotiations and engaged closely with Australian counterparts to make this happen. Uncooked pork meat will require further processing once it arrives into Australia.

A new arrangement was signed to simplify New Zealand's meat product exports to Egypt. Under this arrangement, Egyptian authorities will no longer have to visit each individual meat premises in New Zealand that wishes to export to Egypt. This is the

first time Egypt has agreed to this type of arrangement with any country, and it is a clear demonstration of the strength of New Zealand's meat regulatory programme and our good relationship with Egyptian authorities. In the year to 30 June 2018, we exported approximately \$50 million worth of meat products to Egypt.

Protocols for new or improved market access for other products were also signed with China, Vietnam, the Philippines, Chinese Taipei, Indonesia and the United States, with many more in progress.

Strategic engagement with China

New Zealand continues to have a strong and growing trade relationship with China. In the past year, MPI has driven a number of trade and market access related activities that have contributed to the successful maintenance of New Zealand's trade relationship with China.

THE AGRICULTURAL GROWTH PARTNERSHIP

The Agricultural Growth Partnership (AGP) between MPI and China's Ministry of Agriculture and Rural Affairs is a public-private partnership group that aims to utilise New Zealand expertise to develop and deliver primary sector co-operation activities and build business networks. Over the past year, the AGP has developed a range of co-operation projects in the areas of dairy farmer training, milk quality research, horticulture, fisheries, and animal health and epidemiology, where New Zealand's expertise matches China's strategic interests.

The first China-New Zealand Horticulture Dialogue meeting was held in Beijing in November 2017, attracting particular interest in New Zealand apples and kiwifruit, and in the structure of New Zealand's horticulture sectors. In March 2018, a New Zealand delegation travelled to Beijing for expert exchanges on dairy farmer training. Officials from China participated in an animal health course at Massey University in late 2017, and more officials have enrolled in a similar course for late 2018.

EXPORTS TO CHINA

In the last year, MPI made significant progress to secure new and improved market access to China while also maintaining existing access for New Zealand primary products. Progress was made in the following areas:

- a protocol granting access for avocados;
- upgraded protocols that improve access for beef and sheep/goat meat exports;
- a revised protocol granting access for day-old chicks and hatching eggs; and
- an arrangement for bovine blood products intended for use in biological or pharmaceutical applications.

Making exporting easier for businesses

During the year, MPI worked directly with exporters to advise, educate and enable them to better understand and navigate the regulatory export environment.

EXPORT REGULATORY ADVICE

Through our Export Regulatory Advice Service, we provided tailored advice to more than 800 export businesses, identified pain points for primary sector exporters, published honey and bee products export chain guidance, and tested new tools to help exporters with regulatory information.

INNOVATIVE TOOLS

During the year, we released two new tools to help businesses with export opportunities:

- The Interactive World Map tool has helped processed food exporters find overseas markets requirements including:
 - Overseas Market Access Requirements for animal product ingredients;
 - Importing Country Phytosanitary Requirements for plant product ingredients; and
 - “For your information (FYI) documents” to let exporters know quickly about unofficial information that could affect exports relating to market access conditions that apply only to New Zealand.
- The Honey Exporter tool is a guide to make it easier for beekeepers, operators and exporters to understand MPI’s requirements when exporting New Zealand honey and bee products.

OFFSHORE FOOTPRINT

Two new overseas positions in London and HaNoi were added to the locations where MPI stations staff to assist with trade priorities. These postings, in addition to the nine posts already in existence, position MPI well to respond to emerging challenges and opportunities in these markets.

DIVERSIFYING COMMERCIAL FORESTRY OPPORTUNITIES

In 2018, Te Uru Rākau partnered with MBIE, as well as industry and community representatives to establish a Tōtara Industry Pilot. The pilot will investigate the potential for a commercial tōtara industry in Northland, and identify opportunities and barriers to bringing a high-value timber product to market.

Result area: Increasing consumer trust in New Zealand products

High levels of trust in New Zealand products translate into consumer confidence in the systems that MPI operates, and a willingness to pay a premium for the assurances that matter to them. Consumers increasingly want assurances about the safety, sustainability, traceability, authenticity and provenance of their purchase. Strengthening product tracing through the supply chain, developing government-to-consumer assurances, and enhancing the understanding of consumer trends and expectations are key to providing consumers and trading partners with confidence in the safety and quality of New Zealand-made products.

Progress indicator

Consumers are increasingly placing less trust in science and government, so we need to better understand consumer expectations in order to be able to build trust. In order to help us track and measure progress of our strategy, we have identified a set of indicators that we will refine over the coming year and use to report our progress over the next four years. These will be applied in our next annual report.

Achievements

MĀNUKA HONEY DEFINITION CAME INTO FORCE

During the year, MPI finalised a scientific definition for exported mānuka honey so our overseas markets can be confident that the mānuka honey they buy is authentic. Since 5 February 2018, all exported mānuka honey must meet the scientific definition for mānuka honey to prove that it is genuine. This will increase consumer confidence in the authenticity of New Zealand mānuka honey and allow us to maintain a trusted relationship with regulators and trading partners.

Developing the scientific definition for mānuka honey involved a comprehensive three-year science programme and extensive public consultation to ensure the final definition was correct. The final scientific definition for mānuka honey is made up of a combination of four chemical markers from nectar and one DNA marker from mānuka pollen. These markers will allow industry to separate mānuka honey from other types of honey and identify honey as either monofloral or multifloral mānuka honey. MPI is currently seeking feedback about whether to apply the same scientific definition to New Zealand mānuka honey sold on the domestic market.



GROWTH

NATIONAL ORGANIC STANDARD FOR FOOD AND PRIMARY PRODUCTS

There is currently no specific regulatory regime for organic primary products in New Zealand. MPI undertook consultation during May and June 2018 to determine if New Zealand would benefit from new regulation for organic products. A discussion paper proposed changes to the way organic products are regulated and set out options for what a new regime for organic products could look like.

DAIRY INDUSTRY RESTRUCTURING ACT 2001

MPI began a comprehensive review of the Dairy Industry Restructuring Act in May 2018. The main focus of the review is the regulatory settings that govern the structure and conduct of New Zealand's dairy industry, and their impact on the sustainability, profitability and inclusiveness of the industry as a whole. MPI will release a formal consultation document in late 2018, with a view to progressing any resulting legislative change in 2019.

Result area: Increasing primary sector innovation

Innovation will have a major impact on how successful the primary sector is now and in the future, as the sector adapts to new and emerging pressures. Innovation across the value chain opens up market opportunities. MPI supports innovation across the whole primary sector, including in research, production, transport and marketing. Innovation may mean new products, new uses of existing products, or completely different approaches and business models.

Progress indicators

PRIMARY SECTOR BUSINESSES DEVELOPING NEW PRODUCTS AND PROCESSES

Successful businesses ensure their operations, products and services remain relevant to customer demands and test new ideas for products and processes. MPI supports innovation by funding a number of investment programmes and facilitating information sharing, as innovation can improve sustainability outcomes, and customer-centric innovation can add value.

Data from the New Zealand Business Operations Survey shows that there has been a notable increase in the development of new products and processes in the agriculture, fishing and agricultural services sectors.

The total amount of investment provided (as at 30 June 2018) to each major primary sector to develop new technologies or innovations are displayed below.

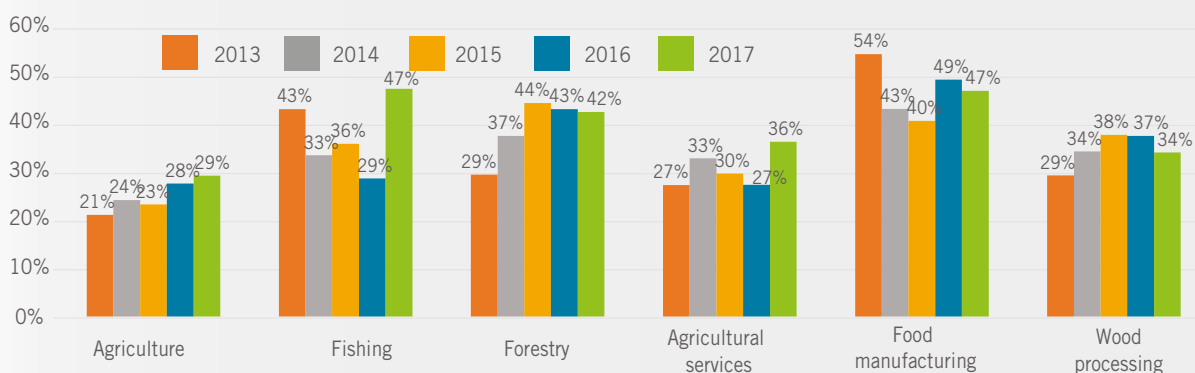
Achievements

MPI-SUPPORTED PROGRAMMES REALISE SECTOR PRODUCTIVITY AND VALUE

MPI supports the primary sector to develop new technologies or innovations that improve productivity and/or value. Through the PGP programme, MPI has been investing in the primary sector to help realise these developments. A number of selected PGP programmes that are driving productivity or value improvement as at 30 June 2018 are detailed below, for more investment and progress details of PGP programmes see pages 126–129 in the Minister's Reports on Non-departmental Appropriations:

- **Transforming the Dairy Value Chain** was completed in 2018. It has developed a range of pre- and post-farm gate developments, including a riparian planting guide for every dairying region and a \$240 million mozzarella plant at Clandeboye.
- **Lighter Wines** has been designed to position New Zealand as number one in the world for high quality, lower alcohol and lower calorie "lighter" wines. The research focuses on natural production using

Percentage of primary industry businesses developing new products and processes

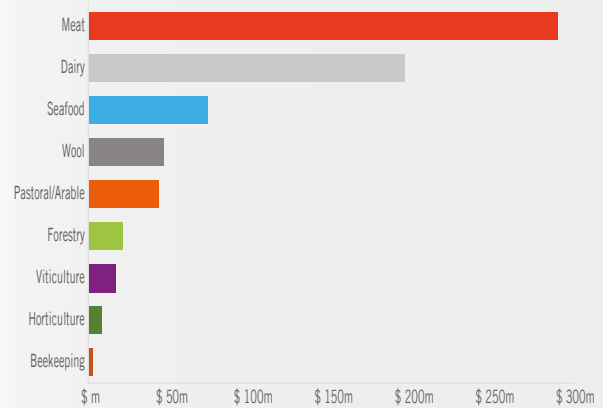


Source: Statistics New Zealand and MPI

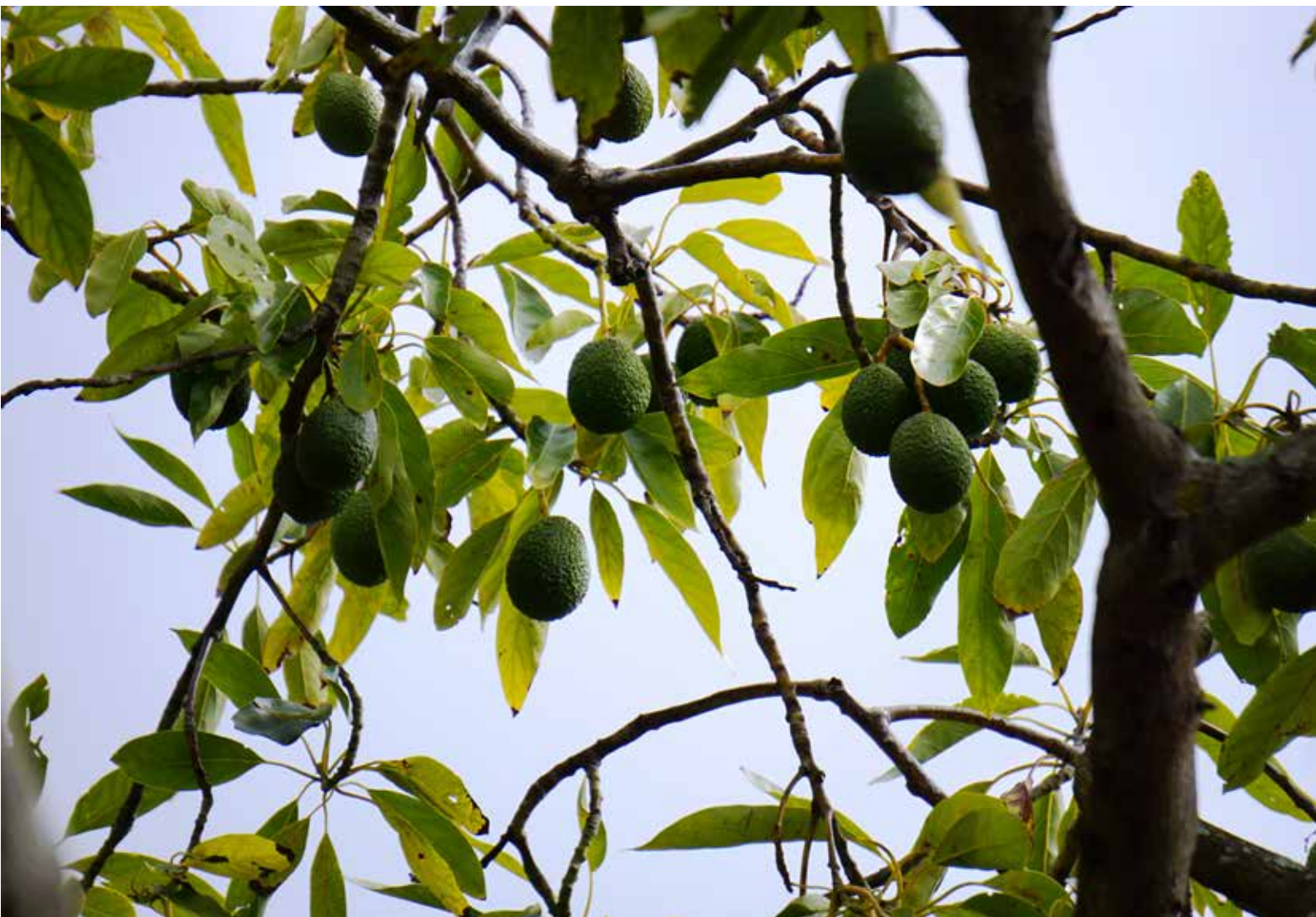
sustainable viticulture and winery techniques, giving wineries a point of difference to existing processing methods and other products on the market.

- **New Zealand Avocados Go Global** seeks to overcome two key challenges of avocado exporting: irregular fruit bearing and over-reliance on the Australian market. Over 70 percent of orchards have improved practices over the past two years as a result of information developed by the programme.
- **Passion2Profit** 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. Premiums of approximately \$3,000 per tonne for frozen product are being achieved. Twenty-six Advance Parties (an advance party is a well-supported group of motivated deer farmers who work together to lift profit) are now in operation with over 260 farmers involved, and a number of information resources and decision support tools have been developed and distributed to farmers.

Total investment committed to PGP programmes



GROWTH





OUTCOME: Participation

In many cases, the public is in the best position to manage the practical risks to biosecurity, animal welfare and food safety, and support the sustainable growth of the primary sector. MPI seeks to engage more broadly and openly with stakeholders and the public, and to ensure that engagement is focused on building a strong future for the sector and all New Zealanders.

Increasing public trust in the primary sector systems

Public engagement with trust in primary sector systems, as well as MPI as an entity, is at the core of our ambition and strategy. We have therefore been seeking to connect more broadly and openly with stakeholders and the public, and focus on building a strong future vision for the primary sector that is shared by all New Zealanders.

New Zealanders benefit from the primary sector's improving contribution to intergenerational wellbeing

As well as playing an active role in protecting the primary sector, New Zealanders should also enjoy the benefits of its success. Participation in the success of the primary sector supports the wellbeing for all New Zealanders. The sector needs a steady supply of skilled workers to continue to provide the world with our products. Increased participation will

also unlock sustainable growth potential in the regions and help more New Zealanders to have a share in our country's prosperity. An important element of the Participation outcome is engaging tangata whenua. Growing and protecting Māori primary sector assets contributes directly to the development of New Zealand's regional economies. Assisting Māori to make the most of their natural resources and assets will lead economic growth for the nation

Encouraging everyone to actively assist with growing and protecting New Zealand

Increased public participation is necessary for the ongoing delivery of primary sector outputs. MPI's challenge is to build a culture where everyone plays a part in growing and protecting New Zealand, for the wellbeing of all. This ambitious target is partly to reinforce for MPI the scale and variety of stakeholders we have, and that we need to improve our ability to engage, communicate and work with them all to realise our goals.

MPI has delivered a number of achievements against the result areas of the Participation outcome over the past year. These achievements have contributed to progressing MPI's ambition for New Zealand's primary sector. Key progress indicators and achievements are outlined here.



Result area: Increasing public trust in the primary sector systems

Trust is at the core of MPI's ambition and strategy. When the public has trust in the systems that MPI leads, regulates, and administers, this gives us the social licence we need to operate both domestically and internationally. MPI has been focusing on a range of initiatives in order to increase trust in our systems. These include the accessibility of our data, how proactively we release information to the public, how we engage the public and industry in developing regulations and addressing issues, how transparent we are with our decision making processes, and how open we are with our plans.

Progress indicator

Increasing public trust means that the public has confidence that New Zealand has world-leading expertise, effective systems, uses data and evidence in decision-making and acts decisively when necessary. In order to help us track and measure progress of our strategy, we have identified a set of indicators that we will refine over the coming year and use to report our progress after the next four years. These will be applied in our next annual report.

Achievements

SUPPORTING SECTOR LEADERSHIP

A Primary Sector Council was established to provide independent strategic advice to the Government on issues confronting the primary sector, and to develop a sector-wide vision and facilitate the development of plans for each of the sectors, including agriculture. New Zealand's primary industries are currently facing challenges, such as changing consumer expectations and disruption from new technologies that are creating an uncertain future for traditional primary producers. The Council will support the primary sectors to navigate these challenges and maximise future opportunities.

DAIRY DECLARATION OF ROTTERDAM

MPI supports the New Zealand primary sector to engage in collective global efforts to promote the efficient use of natural resources and combat climate change. MPI, Dairy NZ and the Dairy Companies Association of New Zealand endorsed the Dairy Declaration of Rotterdam in September 2017, marking New Zealand's commitment towards global sustainable dairy development. This signals both a commitment towards feeding the world with safe and sustainable products and enhancing sustainability. The signatories are the International Dairy Federation and the United Nations Food and Agricultural Organization, which signed the Declaration during the World Dairy Summit in 2016. The Declaration highlights a number of areas where the dairy sector can support the United Nations 2030 Agenda for Sustainable Development Goals. This includes collaborative efforts to find innovative solutions

and build the capacity to develop sustainable food systems and resilient agricultural practices.

Result area: New Zealanders benefit from the primary sector's improving contribution to intergenerational wellbeing

Intergenerational wellbeing of all New Zealanders is a priority for the Government. A growing and prosperous primary sector contributes to the intergenerational wellbeing of New Zealanders. Delivering MPI's strategy will help future-proof the sector, build customer commitment and public trust and, importantly, provide the social licence to operate.

Progress indicator

Recognition of the contribution to a growing and prosperous primary sector makes to intergenerational wellbeing is important to develop the trust, confidence and support needed from New Zealanders to achieve our strategy. In order to help us track and measure progress of our strategy, we have identified a set of indicators that we will refine over the coming year and use to report our progress over the next four years.

Achievements

CROSS-AGENCY INITIATIVES TO GROW SKILLS AND CAPABILITY IN THE PRIMARY SECTOR

Investing in the development of skills and capability in the primary sector grows opportunities for people to actively engage in and build careers in the sector. MPI supports skills and capability development in the primary sector through grants and programmes such as the PGP, the SFF, and as part of regional economic development work. The PGP and SFF deliver initiatives aimed at upskilling and lifting the technological capability of those within the primary industries. Examples include the Ka Matau Ka Ora SFF project which develops Māori agribusiness skills within the kiwifruit industry, and the Future Forages SFF project, which develops forages management skills within the dryland hill country sheep and beef industry.

Extension 350 is an innovative farmer-led and farmer-focused mentoring and extension programme aimed at raising the on-farm performance, profitability and environmental sustainability of 350 Northland pastoral farms. It is funded by MPI, Northland Regional Council, DairyNZ and Beef+Lamb New Zealand. There were over 170 farmers involved in the programme at the end of the 2017/18 financial year. The number of farmers is expected to reach 350 within five years. Improving profitability allows farmers the flexibility to make decisions that support longer-term goals for on-farm improvements, including debt repayment, managing succession planning, improving livelihoods, and improving the environmental and economic impact in the area. Studies and industry benchmarking show there is potential in the Northland pastoral sector and



improvements will benefit many, as Northland has relatively high numbers of people employed in dairy, sheep and beef farming, compared to the rest of New Zealand.

We also work with other agencies to support skills and capability development. For example, as part of the Northland College Pine Planting Project, we helped with the design of the training programme and a successful funding application to MBIE's He Poutama Rangatahi fund. This project aims to provide young people with skills to create a sustainable career in the forestry industry, through a combination of practical work experience and theoretical training.

In July 2017, we provided guidance to schools across New Zealand to support teachers to use MPI's Situation and Outlook for Primary Industries (SOPI) publication in the classroom. The guidance includes learning activities for mathematics, science, social studies and technology using the SOPI as a source of current and relevant data and information.

INCREASING CAPABILITY IN THE FORESTRY SECTOR

Te Uru Rākau established four forestry scholarships in June 2018, to develop skills in the forestry industry and encourage more Māori and women to work in the industry. The scholarships are open to eligible students enrolling in either a:

- Bachelor of Forestry Science – Tohu Mātauranga Paetahi: Pūtaiao Uru Rākau, or
- Bachelor of Engineering (Hons) in Forest Engineering – Tohu Mātauranga Paetahi (Hōnoretanga): Pūkhatanga Uru Rākau.

NEW ZEALAND BIOSECURITY AWARDS

The winners of the inaugural New Zealand Biosecurity Awards were announced in August 2017. This MPI initiative aims to recognise and celebrate people across New Zealand who make important contributions to New Zealand's biosecurity – in our communities, businesses, iwi and hapū, government, and in our backyards. It is also an opportunity to encourage work being done by New Zealanders to protect our lifestyles, livelihoods and our unique environment. Six individuals/organisations were recognised in the following categories: Community Award, Industry Award, Government Award, Māori Award, Supreme Award and the Minister's Biosecurity Award; and five entrants were certified as "Highly Commended".

PRIMARY INDUSTRY SCIENCE SCHOLARSHIPS

The 10 winners of the MPI Postgraduate Science Scholarship were announced at National Fieldays in June 2018. The scholarship offers master's and doctoral students funding to support their primary industry research in New Zealand. The aim of the scholarships is to help meet the science and technology needs within the primary industries. This scholarship scheme is an investment in the future of our primary industries.

Result area: Encouraging everyone to actively assist with growing and protecting New Zealand

MPI's next challenge is to build a culture where everyone plays a part in growing and protecting New Zealand, for the wellbeing of all. For MPI, it is about better understanding the huge number and variety of stakeholders, and improving our ability to engage, communicate and work with them, and to understand their perspectives in order to achieve positive outcomes for all New Zealanders.

Progress indicator

INCREASING PERCENTAGE OF TARGET GROUPS ENGAGED WITH MPI PREPAREDNESS AND RESPONSIVENESS PROGRAMMES

Strategic Direction 1 of Biosecurity 2025 aims to make every New Zealander a biosecurity risk manager and to get every business to manage their own biosecurity risk. In November 2016, MPI developed an engagement plan seeking to shift how New Zealanders think about biosecurity, how it connects to their everyday lives, and how they can get involved. Targets and measures have been identified to help articulate what success of the engagement programme would look like. To provide baselines for the targets as set out in Strategic Direction 1, we completed research in March 2018 to help us better understand how the New Zealand public and businesses saw biosecurity in their lives and work. As a result, 19 success criteria have been identified which will be used to measure our success as we start to implement the plan. MPI expects to see the first results of these targets in 2020.

Achievements

"CLEAN, COOK, CHILL" CAMPAIGN

MPI ran a consumer education programme – "Clean, Cook, Chill" – during the 2017/18 summer season when the risks of foodborne illness from *Campylobacter* is highest. *Campylobacter* bacteria is a pathogen that can easily spread around the kitchen from raw meat to surfaces and other foods. Every year around 100,000 cases of food poisoning happen in the home, with *Campylobacter* being the most common cause.

The Clean, Cook, Chill campaign provided information on correct food handling and cooking practice to consumers in an easy to understand and accessible way with information on our website and social media channels, and radio and digital advertisements reminding the public of the three Cs: clean, cook and chill. MPI has further work planned around consumer education and awareness of safe poultry handling and cooking.

Developing the regions

In late 2017, the Government committed to invest \$1 billion a year, over three years in regional economic development through the launch of the Provincial Growth Fund (PGF). The priorities of the PGF are to enhance economic development opportunities, create sustainable jobs, enable Māori to reach their full potential, boost social inclusion and participation, build resilient communities, and help meet New Zealand's climate change targets. To administer the PGF, the Provincial Development Unit has been set up by MBIE as an across government response. MPI is managing its transition to work as part of the Provincial Development Unit by developing new systems and processes. Our priority remains supporting our regions in the development of primary sector initiatives.

PROVINCIAL GROWTH FUND

MPI is a key participant in regional economic development, and has an important role in delivering on the PGF's priorities in the primary industries. The PGF will help MPI lift the social and economic wellbeing of regional communities through the development of primary industries – agriculture, forestry, fisheries and horticulture.

Opportunities to use the PGF to invest in capability development and innovation align well with existing MPI programmes. MPI is the key agency for primary sector related applications, and supports all levels of primary sector opportunities through the funding tiers of the PGF, with a number of funded projects supporting the One Billion Trees programme. Projects established to support exotic and indigenous forestry activity include:

- the Manawatū-Whanganui Tree Planting Project;
- the Whakakī Lower Catchment Pilot Project in Hawke's Bay;
- the Ngāti Hine Forestry Trust Mānuka Planting Training Programme in Northland;
- the Business Guide to Tree Planting on Taranaki Hill Country;
- the Minginui Nursery in the Bay of Plenty;
- the Tōtara Industry Pilot; and
- the Mangatoa Station Forestry and Ecological Restoration Project in Northland.

These programmes increase forestry employment and career opportunities, as well as engage communities in efforts to protect and enhance the environment. The Ngāti Hine Forestry Trust mānuka project, for example, will see 40 trained staff plant over 500 hectares of

mānuka forest in the Far North. This will not only improve local environmental outcomes, but also support the growing mānuka honey industry, diversifying income opportunities for local communities.

RURAL PROOFING GUIDE

MPI launched a refreshed *Rural Proofing Guide for policy development and service delivery planning* at the opening of the Health Hub at the 50th Fieldays at Mystery Creek in June 2018. It provides updated guidance on incorporating a rural lens in government policy formation and programme implementation. The purpose of this is to take into account the rural community's low population density, isolation, and reliance on the primary sector for employment when developing policy. This will support rural communities to reach their full potential, particularly in the areas of connection infrastructure, access to services, and the ease and cost of doing business and compliance.

MĀORI AGRIBUSINESS: PATHWAY TO INCREASED PRODUCTIVITY PROGRAMME

During 2017/18, MPI has supported 16 projects through MPI's Māori Agribusiness: Pathway to Increased Productivity programme. This programme is dedicated to partnering with Māori to sustainably increase the productivity of their primary sector assets such as agriculture, horticulture, forestry or seafood that are in collective ownership. It has a specific focus on tangible on the ground projects that lead to increasing productivity by providing access to information and expertise that support informed decision-making.

MĀORI SKILLS AND EMPLOYMENT

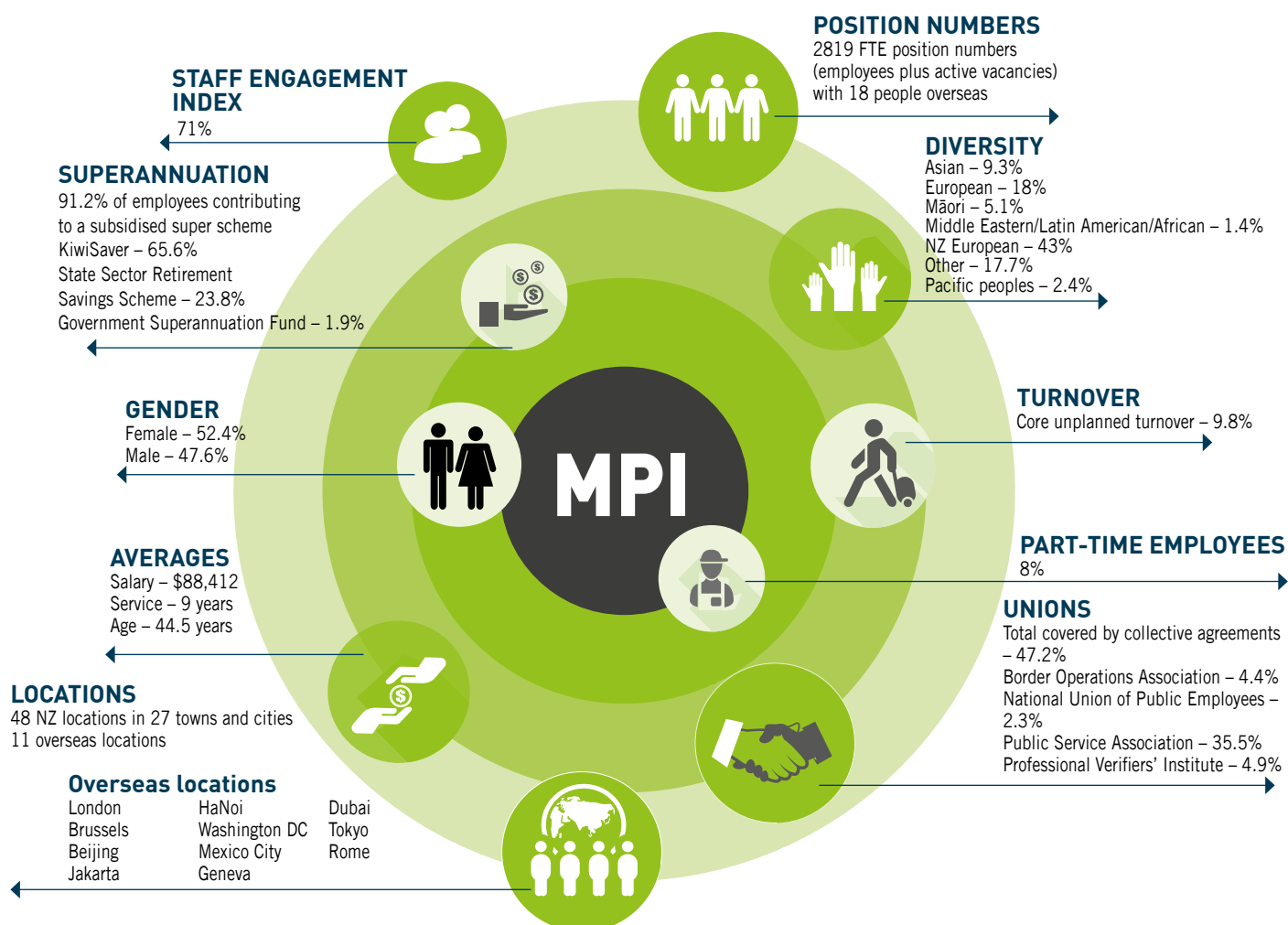
MPI has partnered with the Ministry of Social Development and Ngāti Hau to establish marae-based training along the Whanganui River. This delivers training to small classes of students who will receive formal New Zealand Qualifications Authority qualifications in horticulture, agriculture and apiculture. The first course began in October 2017 and finished in early 2018 with 10 graduates. A subsequent Horticulture Level 3 course began in April 2018 with 10 students. A Horticulture Level 4 course will begin later in 2018, and more courses are planned for 2018/19.



Improving Organisational Capability

MPI has over 2,800 staff based in more than 60 locations in New Zealand and overseas. Our people work in a range of environments, from airports and beaches to laboratories, abattoirs and fishing vessels.

As at 30 June 2018



MPI needs a range of capabilities to ensure it continues to deliver the services required to grow and protect New Zealand. These capabilities fall into the following general areas:

- **People and partners** – MPI has the right capability in its people and partners such as 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 with a focus on the customer.

- **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 achievements are outlined on the next page.

People and partners

Health and safety

MPI's health, safety and wellbeing approach has continued to be in line with all-of-government direction. MPI has undertaken health and safety assessments and audits including the Accident Compensation Corporation's (ACC) Accredited Employer Programme, Senior Leadership Team health and safety site visits, and SafePlus assessments. MPI has improved its approach to managing higher risk contracts, and applies risk management methodology to help with management of critical risks to the health and/or safety of staff, contractors or other third parties for whom MPI is legally responsible.

Enhancing career development

MPI continues to invest in people capability through a range of learning and development programmes that focus on four areas – a capable workforce; successful leaders; leveraged diversity; and being connected.

MPI's engagement approach is focused on providing staff with meaningful career pathways. Our Waharoa ki te Manatū Ahu Matua is a one-week induction programme which is highly regarded by staff and is aimed to get new employees off on the right foot, with an engaging and educative experience.

Learning is in place to support career pathways, which are overseen by career development boards. MPI has a new Capability Framework, which is aligned to the State Services Leadership Success Profile, and our own career pathways work. Staff are recruited into roles, developed and progressed using these new capabilities as guidance.

MPI's Graduate Programme is in its fifth year, and we are currently recruiting for our sixth intake. We were delighted to win the award for Best Graduate Development Programme 2017, as part of the Graduate Industry Awards.

MPI continues to have strong staff engagement, year-on-year, with the August 2017 Engagement Survey achieving an Engagement Index of 71 (up from 66 in 2013), still sitting above the state sector average (below 70 in 2016). MPI is currently reviewing how we measure engagement.

Leadership development

With the launch of the Leadership Career Pathway in 2017, MPI has further identified and addressed capability gaps amongst the leadership cohort. Recently, the focus has been on developing core leadership skills. In 2017/18, attention turned to developing the managerial capability of leaders. MPI introduced a new Management Foundations programme, which provides foundational skills, particularly in HR and Finance.

MPI now has a robust leadership assessment programme and offers eight leadership programmes for

various levels of leadership.

Response readiness

MPI's 4-stage Response Readiness Capability and Capacity Building programme commenced in 2014. It aims to ensure that MPI responses are effective and safe and use the Co-ordinated Incident Management System to ensure a consistent approach.

In the face of increasing numbers, complexity and duration of responses in the 2017/18 year, a review of mental health and wellbeing support for those participating in response activities was undertaken. As a result, we are putting appropriate resources in place to support response staff working on responses.

In 2018, a three month Response Governance development programme for 45 senior MPI leaders and Government Industry Agreement (GIA) partners was piloted, and the participants' experience will be fully evaluated. This programme will give GIA partners the ability to build knowledge, capability and capacity so they can participate in biosecurity responses in partnership.

Response capability

MPI has developed the first stage of a Digital Response Management System, which provides the capability to manage response based information and activities in a controlled and measured way and reduce operational risks. This system will continue to be developed and expanded, driven by response priorities, allowing MPI to better manage responses that are growing in size, complexity and cost.

Border mobility

Biosecurity New Zealand has been working on the Border Mobility Clearance electronic application to facilitate quick clearance of cargo items. The application enables a quarantine officer to process inspection results and charges, and clear goods from certain lines electronically at the time of inspection. Before the work started in late 2017, the entire process was completely manual. Towards the end of 2017/18, up to 58 percent (or 54,570 items) of all goods clearances would be completed on site through the use of Border Mobility Clearance. This has reduced double handling of clearances data, and is expected to speed up the process for staff working in transitional facilities, importers and trade.

Digital culture and capability

In 2017, MPI introduced a new digital learning service to support transformation of digital culture and capability at MPI. In April 2018, a two-year programme commenced, starting at senior level with a personalised programme of coaching to build digital capability in core productivity tools and lead a digital-first culture.

Diversity and inclusiveness

MPI has established a Diversity & Inclusiveness (D&I) Programme, with four key focus areas:

- growing the representation of Māori in MPI;
- supporting women in, and into, leadership roles;
- closing the gender pay gap; and
- supporting an inclusive workplace.

A recent external D&I review shows that MPI is on its way to becoming a diverse and inclusive organisation, having a largely inclusive culture that fully embraces and values differences.

MPI has a range of programmes that lay the foundations for meeting our D&I objectives, examples include, unconscious bias training; supporting flexible work arrangements; promoting and supporting employee network groups; and an Emotional Agility programme (which won the Silver Award for Best Blended Learning Model at the LearnX Impact Awards 2018).

Modern ways of working

At MPI, we have started the journey to create work environments that give staff more choice about how and where they work, and take into account that not everyone works in the same way or needs the same type of work setting. There are three critical pillars that enable us to work in modern ways: workspaces, technology and people. This year, we have upgraded or new workplace premises for Christchurch, Auckland and Wellington staff, along with enabling modern ways of working across the organisation.

On 15 November 2017, the refurbishment at MPI's Christchurch hub was finished, providing staff with improved office spaces and facilities. On 28 March 2018, MPI's Auckland Centre was officially opened at The Landing Business Park near Auckland International Airport. It unites three Auckland offices into one main hub, along with our National Detector Dog Centre. This new purpose-built facility offers a choice of various work settings with modern furniture, layouts and facilities. Included in the facility are two buildings for the National Detector Dog Centre, to be used for accommodating, training and breeding detector dogs. Included in the kennel sector building are simulated passenger halls along with a simulated mail centre, so detector dogs are better equipped to screen incoming international

passengers, mail and cargo passing through Auckland International Airport.

The refurbishment of Charles Fergusson Tower in Wellington is due to be completed in December 2018. Staff based in Pastoral House are expected to move into the building in early 2019.

Systems and processes

Security and privacy

MPI has continued to improve the physical security of staff, through the implementation of a central access control system and associated security controls to seven MPI sites. In 2017/18, eight Privacy Impact Assessments were completed, which looked at privacy risks and mitigations associated with MPI projects and activities. This included one for the Digital Monitoring project, which was released to the fishing industry and published on the MPI website.

MPI has also implemented a new framework and tool set to detect and respond to information security events and incidents more quickly, in order to protect MPI's core information assets and technology from known threats and vulnerabilities.

Learning management system

MPI's online learning management system – Tiritiri – hosted over 310 courses and supported over 3,600 internal users (including contractors and honorary fishery officers) and 1,000 external users in 2017/18. Over the past year there has been significant growth in the number of learning modules offered to external audiences, including veterinarians, food safety verifiers, meat industry staff, transitional facilities operators and response workers.

Employee induction

MPI has significantly improved processes to welcome new employees to our organisation. Some of the notable improvements include new on-boarding guidance and re-designed welcome emails. MPI is now focusing on improving the experience for those who are moving on from or within our organisation.





Measuring
Our Performance

Statement of Performance: Vote Primary Industries and Food Safety

How MPI performed

Performance was assessed and monitored throughout 2017/18 via quarterly reporting against the multi-class appropriations (MCAs) MPI is responsible for.

Final year-end performance is recorded in the tables below and in the Minister's Reports on Non-Departmental Appropriations, which are appended to this document.


KEY

 Biosecurity

 Fisheries

 MPI – other

 Forestry

 Food Safety

Variance calculation note

As we are measuring against the standard and not 100%, the "Variance %" in this section is calculated as the difference between the actual and the standard as a percentage of the standard.

Non-Departmental Other Expense – Compensation and Ex-Gratia Payments following a Biosecurity Event

Purpose



This appropriation is limited to the expenses incurred as a result of compensation and ex-gratia payments arising from biosecurity events.

What MPI wants to achieve

Financing the expenditure incurred by MPI as a result of compensation and ex-gratia payments arising from Biosecurity events.

WHAT MPI DOES

This category is intended to finance the expenditure incurred by MPI as a result of compensation and ex-gratia payments arising from biosecurity events.

	PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	All claims are acknowledged within 3 working days of receipt	N/A	92%	90%	2%	

Comment

This was a new measure introduced in the Supplementary Estimates of Appropriations in 2017/18 and therefore only six months of data was available.

MCA – 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
■	Number of hectares of the Crown forestry managed estate surrendered or sold	1,561ha	2,166ha	≥2,034ha	6%	✓
■	Percentage of forest management activities comply with all statutory requirements, lease agreements and other contractual arrangements as assessed by annual independent review of a sample of forests	100%	100%	100%	0%	✓
■	Percentage of costs and revenues are consistent with industry norms as assessed by annual independent review of a sample of forests	100%	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	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
■	Manage contracts to supply planned cubic metres (m ³) of logs within +/- 10%	738,413	808,675	790,000	2%	✓
■	Management fee (per net stocked hectare) exclusive of harvesting and re-investment fees (\$)	25	26	25	4%	✓

How much did it cost?

Revenue and output expenses

	ACTUAL JUNE 2017 \$000	ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
1,161 Revenue Crown		1,081	1,187	1,133
22 Revenue other		3	116	116
1,183 Total revenue		1,084	1,303	1,249
1,115 Total expenses		1,047	1,303	1,249
68 Total surplus/[deficit]		37	-	-

Financial comment

There are no significant movements to the Main Estimates.

MCA – 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Industry sign-up for Government Industry Agreement (GIA) deeds	5	4	5	20%	✗
	Percentage of key stakeholders are satisfied with major biosecurity responses	65%	50%	80%	36%	✗






Comment

This is the third time that MPI has run the biosecurity response stakeholder survey, and the 2017/18 year saw a 36 percent decrease against the standard in stakeholder satisfaction. This was likely due to a number of factors, including major biosecurity responses in 2017/18 such as myrtle rust and *Mycoplasma bovis*.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of international air passengers that comply with biosecurity requirements by the time they leave the airport	98.8%	99%	98.5%	0.5%	✓
	Percentage of international mail that complies with biosecurity requirements by the time it leaves the International Mail Centre	99%	99.88%	99%	1%	✓
	Percentage of import clearance processes completed within agreed timeframes	92%	68%	80%	15%	✗
	Number of identified and mitigated biosecurity risks resulting from targeted evaluations of imported goods	15,217	14,820	10,000-12,000	24%	✓
	Percentage of cost recovered external stakeholders rate overall service as 4 or higher	78%	69%	80%	14%	✗

Comment

Average import clearance processing times decreased overall. However, this result was adversely impacted by a high volume of applications following a significant number of detections of BMSB, and the impacts of staff on-boarding, training and seasonal leave.



The increased level of BMSB alerts also contributed to a 14 percent decrease against standard in the rating received from cost recovered external stakeholders, with performance also down from the 2016/17 result of 78 percent.

Emerging recommendations from this year's survey continue to be compiled to address issues raised, with attention focused on both the volume and level of communication, and changes being enacted to address risks related to the BMSB targeted season.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of OIE (World Organisation for Animal Health) and IPPC (International Plant Protection Convention) standards that are acceptable to New Zealand	100%	95%	90%	6%	✓
	Percentage of certificates issued which meet biosecurity technical requirements of importing countries as specified by overseas competent authorities	99%	99.8%	99%	0.8%	✓

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	ISO 17025 accreditation maintained for all laboratory processing, testing, and reporting	100%	100%	100%	0%	✓
	Percentage of incursion investigations reach an outcomes decision within specified timeframes	72%	71%	80%	-10%	✗
	With any suspected high risk or serious pest or disease notification, the investigation commences within 24 hours of notification	100%	100%	100%	0%	✓
	No export markets are closed due to the standard of MPI's active surveillance programmes	0	0	0	0	✓
	Specifically targeted pests or diseases are detected early enough to enable effective risk management interventions	100%	100%	100%	0%	✓

Comment

A large number of MPI's specialist incursion investigation resources and related capacity was prioritised in 2017/18 towards large responses, in particular *Mycoplasma bovis*. This has been a response of unprecedented resource demands, on a scale previously unseen. Some investigations took longer than expected to reach outcomes, while lower risk investigations took longer to be concluded, and experienced delays when updating databases due to higher priority work taking precedence. Furthermore, there were challenges with complexities around obtaining samples and observing symptoms, as well as challenges around the nature of seasonal expression, the availability of diagnostic tools and the time it takes to reach diagnosis.

Work in this area is varied and depends on each individual situation, but improvements to standard operating procedures, processes and guidance are consistently being made, ensuring that any new learnings are being applied regularly. MPI is also in the process of transitioning to a new information management system, and further resource needs have been identified and requested for short-to-medium term benefit.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
REVENUE CROWN				
39,274	Biosecurity incursion response and long-term pest management	86,453	30,353	79,021
12,342	Border biosecurity monitoring and clearance	11,472	18,459	8,441
14,159	Border biosecurity systems development and maintenance	11,592	12,940	11,242
36,014	Domestic biosecurity surveillance	41,619	41,051	44,884
101,789	Total revenue Crown	151,136	102,803	143,588
REVENUE OTHER				
871	Biosecurity incursion response and long-term pest management	874	775	12,049
100,903	Border biosecurity monitoring and clearance	106,686	106,579	111,348
6,482	Border biosecurity systems development and maintenance	6,425	6,172	6,727
2,233	Domestic biosecurity surveillance	1,688	1,360	2,055
110,489	Total revenue other	115,673	114,886	132,179
212,278	Total revenue	266,809	217,689	275,767
EXPENSES				
34,792	Biosecurity incursion response and long-term pest management	96,427	31,120	91,062
98,301	Border biosecurity monitoring and clearance	117,738	124,794	119,545
21,712	Border biosecurity systems development and maintenance	18,611	19,096	17,953
38,437	Domestic biosecurity surveillance	45,338	42,206	46,734
193,242	Total expenses	278,114	217,216	275,294
SURPLUS/(DEFICIT)				
5,353	Biosecurity incursion response and long-term pest management	(9,100)	8	8
14,944	Border biosecurity monitoring and clearance	419	244	244
(1,071)	Border biosecurity systems development and maintenance	(593)	16	16
(190)	Domestic biosecurity surveillance	(2,031)	205	205
19,036	Total surplus/deficit	(11,305)	473	473

Financial comment

The increase of \$58.078 million between the Main Estimates and the Supplementary Estimates expenses was mainly due to:

- \$54.500 million funding for operational expenditure relating to myrtle rust, *Bonamia ostreae*, and *Mycoplasma bovis* responses;
- \$4.971 million in funding brought forward from 2018/19 to reduce the spread of wilding conifer sooner;
- \$4.520 million of funding transferred from 2016/17 to 2017/18 to manage response activities, compensation, and litigation costs associated with kiwifruit vine disease *Psa*;
- \$5.703 million of funding transferred from 2016/17 to 2017/18 for a variety of programmes including the Wellington accommodation project and Modern Workplace Programme due to unforeseen circumstances including the 2016 Kaikōura earthquake, these programmes were delayed in negotiation of the property projects;
- \$1.193 million in rent revenue from other government agencies affected by the 2016 Kaikōura earthquake using the temporary offices that MPI had planned to occupy.

The increase in Supplementary Estimates was offset due to:

- \$7 million transferred to 2018/19 as a result of timing impacts affecting all-of government property moves following the November 2016 Kaikōura earthquake;
- \$6.121 million transferred to 2018/19 to align with milestones for myrtle rust research and operational activities.

The \$8.958 million lower than expected total revenue and higher total expenditure of \$2.820 million against Supplementary Estimates resulted in a \$11.304 million operating deficit for this output MCA.

MCA – 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 regard 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7.8	7	11%	✓
	Total cost per output hour	\$151.19	\$163.52	\$158	3%	✗
	The Minister for Food Safety rates the quality of policy advice provided as 8 or better on a scale of 1 to 10 via a discussion with MPI officials	7.5	6	8	25%	✗

Comment



The major reason for the increase in the total cost per output hour for policy advice is due to increases in direct costs and outsourced costs including labour. These were marginally offset by an increase in the policy advice output hours.

The survey to obtain the rating of the quality of policy advice covers the period from October 2017 to June 2018. The Primary Industries portfolio was disestablished after Election 2017 and replaced with separate portfolios for agriculture, forestry, fisheries, biosecurity, and food safety.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of ministerial requests from the Minister for Food Safety completed to agreed standards	98%	97%	95%	2%	✓
	Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	97%	83%	95%	13%	✗

Comment

Requests for more complex information from MPI increased rapidly during 2017/18, which significantly impacted timeliness and required greater consultation. There were also higher peaks of demand throughout the year. With additional resources and improved processes implemented throughout the 2017/18 financial year, MPI's ability to meet timeframes has improved and is well set up to meet this standard in the next financial year.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
	REVENUE CROWN			
4,811	Development of policy advice	4,269	4,506	4,558
3,545	Implementation of policy advice	2,218	5,865	2,582
8,356	Total revenue Crown	6,487	10,371	7,140
	REVENUE OTHER			
76	Development of policy advice	115	10	135
17	Implementation of policy advice	18	4	4
93	Total revenue other	133	14	139
8,449	Total revenue	6,620	10,385	7,279
	EXPENSES			
4,627	Development of policy advice	4,289	4,516	4,693
3,624	Implementation of policy advice	2,625	5,867	2,584
8,251	Total expenses	6,914	10,383	7,277
	SURPLUS/(DEFICIT)			
260	Development of policy advice	94	–	–
–62	Implementation of policy advice	(390)	2	2
198	Total surplus/(deficit)	(296)	2	2

Financial comment

The decrease of \$3.106 million between the Main Estimates and the Supplementary Estimates expenses was due to a transfer of funding of \$3.100 million to reflect changes in spending on activities delivered by MPI.

The \$0.660 million lower than expected total revenue mainly came from lower staff secondment revenue from other departments, while the lower expenditure of \$0.361 million against Supplementary Estimates was due to lower staff cost. That resulted in a \$0.296 million operating deficit for this output MCA.

MCA – 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 regards 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 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7.8	7	11%	✓
	Total cost per output hour	\$151.19	\$163.52	\$158	3%	✗
	The Minister of Agriculture and the Minister of Forestry rate the quality of agriculture and forestry policy advice provided as 8 or better on a scale of 1 to 10 via a discussion with MPI officials	8	7.5	8	6%	✗




Comment

The major reason for the increase in the total cost per output hour for policy advice is due to increases in direct costs and outsourced costs including labour. These were marginally offset by an increase in the policy advice output hours. The survey to obtain the rating of the quality of policy advice covers the period from October 2017 to June 2018. The rating has been calculated by taking an average of each of the ratings provided by both Ministers.

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 lead by other agencies.

	PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7.8	7	11%	✓
	Total cost per output hour	\$151.19	\$163.52	\$158	3%	✗
	The Minister for Biosecurity rates the quality of biosecurity policy advice provided as 8 or better on a scale of 1 to 10 via a discussion with MPI officials	8	6	8	-25%	✗




Comment

The major reason for the increase in the total cost per output hour for policy advice is due to increases in direct costs and outsourced costs including labour. These were marginally offset by an increase in the policy advice output hours. The survey to obtain the rating of the quality of policy advice covers the period from October 2017 to June 2018.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Technical quality assessment of MPI policy advice on a scale of 1 to 10	7.5	7.8	7	11%	✓
	Total cost per output hour	\$151.19	\$163.52	\$158	3%	✗
	The Minister of Fisheries rates the quality of fisheries policy advice provided as 8 or better on a scale of 1 to 10 via a discussion with MPI officials	8	8.5	8	6%	✓



Comment

The major reason for the increase in the total cost per output hour for policy advice is due to increases in direct costs and outsourced costs including labour. These were marginally offset by an increase in the policy advice output hours. The survey to obtain the rating of the quality of policy advice covers the period from October 2017 to June 2018.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of ministerial requests from the Minister of Agriculture and Minister of Forestry completed to agreed standards	99%	97%	95%	2%	✓
	Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	94%	90%	95%	5%	✗



Comment

Requests for more complex information from MPI increased rapidly during 2017/18, which significantly impacted timeliness and required greater consultation. There were also higher peaks of demand throughout the year. With additional resources and improved processes implemented throughout the 2017/18 financial year, MPI's ability to meet timeframes has improved and is well set up to meet this standard in the next financial year.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of ministerial requests from the Minister for Biosecurity completed to agreed standards	98%	95%	95%	0%	✓
	Percentage of OIA, Privacy Act and Ombudsmen requests delivered within statutory timeframes	99%	85%	95%	11%	✗



Comment

Requests for more complex information from MPI increased rapidly during 2017/18, which significantly impacted timeliness and required greater consultation. There were also higher peaks of demand throughout the year. With additional resources and improved processes implemented throughout the 2017/18 financial year, MPI's ability to meet timeframes has improved and is well set up to meet this standard in the next financial year.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of emissions returns for post-1989 forest land registered in the ETS are verified for accuracy of the units being claimed	N/A	100%	100%	0%	✓
	Percentage of pre-approval inspections are undertaken to verify the information submitted in annual logging plans	N/A	100%	100%	0%	✓

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	ACTUAL 2016/18	STANDARD 2016/18	VARIANCE	STANDARD MET
	Percentage of planned fisheries research projects completed within the contracted timeframes	60%	63%	80%	-21%	✗


Comment

Performance improved from 50 percent in the first quarter of 2017/18 to 63 percent by year-end as business improvement processes were put in place. A total of 113 projects were completed for the year. A large backlog of historical projects were cleared that had not been closed off in the previous year for various reasons. With continued business improvement support, MPI expects performance to continue to improve in this area.

TRADE AND MARKET ACCESS PRIMARY INDUSTRIES

WHAT MPI DOES

This category is intended to achieve the development and implementation of government interventions and arrangements that influence and facilitate trade in primary products.

	PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2016/18	STANDARD 2016/18	VARIANCE	STANDARD MET
	Percentage of priority items progressed for the Sanitary and Phytosanitary Standards Market Access Programmes, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	89%	97%	75%	29%	✓

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
REVENUE CROWN				
28,171	Agriculture and forestry policy advice	27,509	21,738	26,483
3,127	Biosecurity policy advice	4,335	2,566	4,239
5,924	Fisheries policy advice	9,966	5,702	10,750
28,535	Operational advice on sustainability and management controls of fisheries	33,557	36,757	31,909
33,863	Implementation of agriculture and forestry policy advice	25,118	29,593	25,289
3,878	Implementation of biosecurity policy advice	3,066	2,192	2,249
9,129	Implementation of the Emissions Trading Scheme and indigenous forestry	7,996	9,269	9,436
0	Trade and market access primary industries	14,416	14,927	14,163
112,627	Total revenue Crown	125,963	122,744	124,518
REVENUE OTHER				
423	Agriculture and forestry policy advice	418	1,120	1,151
25	Biosecurity policy advice	27	10	10
386	Fisheries policy advice	285	124	247
178	Operational advice on sustainability and management controls in fisheries	196	200	200
690	Implementation of agriculture and forestry policy advice	1,033	207	1,771
49	Implementation of biosecurity policy advice	14	8	8
17	Implementation of the Emissions Trading Scheme and indigenous forestry	197	43	43
0	Trade and market access primary industries	58	0	0
1,768	Total revenue other	2,228	1,712	3,430
114,395	Total revenue	128,191	124,456	127,948
EXPENSES				
26,675	Agriculture and forestry policy advice	25,919	22,842	27,618
2,959	Biosecurity policy advice	4,022	2,576	4,249
6,411	Fisheries policy advice	9,389	5,824	10,995
28,628	Operational advice on sustainability and management controls in fisheries	32,059	36,952	32,104
31,120	Implementation of agriculture and forestry policy advice	25,333	29,793	27,053
3,734	Implementation of biosecurity policy advice	2,931	2,197	2,254
9,237	Implementation of the Emissions Trading Scheme and indigenous forestry	7,609	9,301	9,468
0	Trade and market access primary industries	14,096	14,927	14,163
108,764	Total expenses	121,358	124,412	127,904
SURPLUS/DEFICIT				
1,919	Agriculture and forestry policy advice	2,008	16	16
194	Biosecurity policy advice	340	–	–
(101)	Fisheries policy advice	862	2	2
85	Operational advice on sustainability and management controls in fisheries	1,693	5	5
3,433	Implementation of agriculture and forestry policy advice	818	7	7

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
193	Implementation of biosecurity policy advice	149	3	3
(92)	Implementation of the Emissions Trading Scheme and indigenous forestry	584	11	11
0	Trade and market access primary industries	320	–	–
5,631	Total surplus/[deficit]	6,774	44	44

Financial comment

The increase of \$3.492 million between the Main Estimates and the Supplementary Estimates expenses was mainly due to:

- \$2.463 million in funding transferred from 2016/17 to 2017/18 for a number of programmes as a result of unforeseen circumstance impacting timing such as capacity to undertake emergency management work for animal welfare, availability of international trading partners and the impact of the response required for the 2016 Kaikōura earthquake;
- \$1.200 million as part of MPI's budget bid for the modernisation of the fisheries system;
- \$795,000 in funding transferred from 2016/17 to 2017/18 as a result of the impact of the 2016 Kaikōura earthquake affecting the timeline of Wellington renovations; and
- \$614,000 in third party revenue for MPI staff seconded to other government agencies.

The increase has been offset by:

- \$500,000 due to the ending of Ministry for the Environment's contribution towards the Environmental Economics Unit;
- \$390,000 transfer of funds from 2017/18 to 2018/19 to reflect the implementation of the Future of Our Fisheries work programme which has resulted in extended project timelines; and
- \$350,000 transfer to 2018/19 to reflect timing impacts affecting project work around the establishment of support services for animal welfare in emergencies.

The \$0.183 million higher than expected total revenue and lower total expenditure of \$6.547 million against Supplementary Estimates resulted in a \$6.774 million operating surplus for this output MCA.

MCA – Food Safety

Purpose

Protect consumers from food borne 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 food borne 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
 Percentage of access to overseas markets maintained after overseas audits	100%	100%	100%	0%	✓
 Five or fewer export certificates per financial year are rejected due to a verification error	5	3	5 or fewer	40%	✓
 Percentage of applicants that participate in the customer satisfaction survey rate overall VS service as 4 or higher	71%	69%	80%	14%	✗


Comment

MPI continues to work through the survey results to determine and address factors influencing the decrease in stakeholder satisfaction from last year. MPI has continued a process that began in 2016 to continually improve relationships with its regulatory customers, and facilitate ease of business. A "Triple O" (Optimising Operator Ownership) initiative pilot was successfully completed in 2017/18. This is now being rolled out to five further red meat processing establishments in 2018/19. There are plans to also roll this out further across industry in the future. MPI has also undertaken work to improve telephone and online contact with customers.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
 Food safety information is provided in line with programmes	Achieved	Achieved	Achieved	0%	✓

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
 Percentage of complex investigations completed within legislative requirements	100%	100%	100%	0%	✓
 Percentage of non-complex investigations completed within 6 months	78%	94%	95%	1%	✗
 Percentage of food recalls completed and closed within 60 days	100%	99%	100%	0%	✗
 Percentage of Priority 1 complaints are recorded and responded to within 24 hours of notification to MPI	100%	100%	100%	0%	✓


Comment

While the standard for timeliness of non-complex investigations was not met, it was only missed by 1 percent. This represents a significant improvement on the 2016/17 result of 78 percent. Working with resourcing constraints throughout the year, efforts were made to ensure that all high priority investigations were followed up and completed.

Due to an error in calculating the reminder dates, one food recall was closed in 63 working days and missed the 60 day deadline.


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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of certificates issued which meet food safety technical requirements of importing countries as specified by overseas competent authorities	99%	100%	99%	1%	✓

TRADE AND MARKET ACCESS FOOD SAFETY**WHAT MPI DOES**

This category is intended to achieve the development and implementation of activities, frameworks and arrangements that influence and facilitate the food-related safety aspects of trade in primary products.

	PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of priority items progressed for the Sanitary and Phytosanitary Standards Market Access Programmes, as agreed with key meat, dairy, seafood and horticulture sector stakeholders	89%	97%	75%	29%	✓

FOOD SAFETY SCIENCE AND RESEARCH**WHAT MPI DOES**

This category is intended to achieve the promotion, co-ordination and delivery of food safety science and research.

PERFORMANCE MEASURE

Exemption applies – see Note 1.

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 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
REVENUE CROWN				
7,882	Assurance	5,711	14,342	5,879
1,250	Information	2,672	3,607	3,699
5,237	Response	6,111	5,654	5,729
11,579	Standards	11,155	2,560	12,790
0	Trade & market access food safety	3,844	7,977	4,757
25,948	Total revenue Crown	29,493	34,140	32,854
REVENUE OTHER				
53,561	Assurance	60,022	65,105	58,210
1	Information	112	2	2
4	Response	18	360	360
10,098	Standards	7,743	12,257	10,191
0	Trade & market access food safety	2,316		2,268
63,664	Total revenue other	70,211	77,724	71,031
89,612	Total revenue	99,704	111,864	103,885
EXPENSES				
69,941	Assurance	65,775	79,113	63,755
1,820	Information	2,682	3,609	3,701
5,554	Response	6,135	6,006	6,081
18,409	Standards	17,489	14,772	22,936
0	Trade & market access food safety	5,914	7,977	7,025
95,724	Total expenses	97,995	111,477	103,498
SURPLUS/(DEFICIT)				
(8,498)	Assurance	(42)	334	334
(569)	Information	102	–	–
(313)	Response	(6)	8	8
3,268	Standards	1,409	45	45
0	Trade & market access food safety	246	–	–
(6,112)	Total surplus/(deficit)	1,709	387	387

Financial comment

The increase of \$7.979 million between the Main Estimates and the Supplementary Estimates expenses was mainly due to:

- an \$8.000 million increase to reflect structure changes and ICT infrastructure changes;
- The \$6.498 million lower than expected total revenue and lower expenditure of \$5.503 million against Supplementary Estimates resulted in a \$1.463 million operating deficit for this output MCA.

MCA – Grants and Programmes

Purpose

The administration of schemes, grants, programmes and assistance 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.

ADMINISTRATION OF GRANTS AND PROGRAMMES

WHAT MPI DOES

This category is intended to achieve the effective administration of the Ministry's Grants and Programmes activities.

PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
 Percentage of funding applications processed within timeframes	99.6%	100%	100%	0%	✓

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.

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.

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 the Minister's Reports on Non-Departmental Appropriations, which are appended to this document (see pages 122 – 138).

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
10,754	Revenue Crown	15,170	7,290	13,751
12	Revenue other	181	49	89
10,766	Total revenue	15,351	7,339	13,840
9,622	Total expenses	14,019	7,336	13,837
1,144	Total surplus/(deficit)	1,332	3	3

Financial comment

The increase of \$6.501 million between the Main Estimates and the Supplementary Estimates was mainly due to \$6.340 million to reflect changes in the spending on the activities delivered by MPI.

The \$1.512 million higher than expected third-party revenue and higher expenditure of \$182,000 against Supplementary Estimates resulted in \$1.332 million operating surplus for this output MCA.

MCA – Growth and Development of the Forestry Sector

Purpose



To support the growth and development of the forestry sector.

What MPI wants to achieve

This appropriation is intended to support the growth and development of the forestry sector, and allow planting of forestry stock in 2018/19.

WHAT MPI DOES

This category is intended limited to the management of the Crown's interest in forests and forestry-related assets.

PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
 Number of hectares contracted under commercial forest leases or forest joint ventures as part of the One billion Trees programme	N/A	3,635	4,000	9%	

Comment

The “Number of hectares contracted under commercial forest leases or forest joint ventures as part of the One Billion Trees programme” measure was newly introduced in the Supplementary Estimates of Appropriations in 2017/18 and therefore only six months of data was available. The standard was not met because there was some land under the negotiated agreement with Ngāti Hine Forestry Trust that was agreed but not included in the year-end result, due to the land not yet being available post-harvest.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
0	Revenue Crown	435	–	400
0	Revenue other	1	–	0
0	Total revenue	436	–	400
0	Total expenses	394	–	400
0	Total surplus/(deficit)	42	–	–

Financial comment

This is a newly established MCA. There are no significant movements to the Main Estimates.

MCA – 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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of Priority 1 (Grade 1 – significant/acute) complaints are recorded and responded to within 24 hours	98%	100%	100%	0%	✓
	Percentage of agreed animal welfare education initiatives progressed as per the "Safeguarding our Animals, Safeguarding our Reputation" programme	100%	100%	100%	0%	✓
	Percentage of complex investigations completed within legislative requirements	100%	97%	100%	-3%	✗
	Percentage of non-complex investigations completed within 6 months	94%	99%	98%	1%	✓


Comment

One complex investigation was not closed due to the resignation of a key staff member and a delay in the completion of the work as a result. Whilst this matter failed to be closed out in time to satisfy the standard set by MPI, it still fell within the legislative timeframe set by the Criminal Procedure Act 2011 for filing charges in the matter.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of project milestones for the annual aquaculture plan met	85%	61%	90%	32%	✗





Comment





This measure was not achieved due to timeframe changes related to the potential relocation of up to six existing salmon farms in Marlborough, in addition to allowing time for the incoming government to set the future direction of these projects. For 2018/19, the project milestones have been re-phased to reflect re-planning.

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	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of commercial operators inspected who are found to be voluntarily compliant	90%	88%	90%	2%	✗
	Percentage of recreational fishers inspected are found to be voluntarily compliant	94.7%	95%	95%	0%	✓
	Percentage of serious offenders do not reoffend within the next year	99%	98%	95%	3%	✓
	Percentage of complex investigations completed within legislative requirements	100%	100%	100%	0%	✓

	Percentage of non-complex investigations completed within six months.	94%	91%	95%	4%	
	Percentage of the Crown's obligations to Māori is delivered	85%	100%	100%	0%	

Comment

As a result of operating under a recently adopted intelligence-led and risk-based methodology, MPI's Fisheries Compliance targeted high-risk entities and carried out 2,005 commercial inspections this year, of which 1,762 (88 percent) were compliant. Fisheries officers increased inspections on deepwater (hoki), surface longline (tuna), and cray fisheries, which are all considered high-risk entities under the new methodology.





The intensified scrutiny revealed minor breaches and greater levels of offending, subsequently escalating the overall non-compliance rate, demonstrating the effectiveness of the new approach to investigations even though the standard was not met.

A concentrated effort to update historical fisheries investigations data early in 2017/18 produced poorer results initially. Performance improved over the remainder of the year, and a number of process and system reviews undertaken during the year have been implemented to streamline future reporting and monitoring. A portion of the residual open files remained due to processes of time management not being followed.

Having failed to meet the standard for three consecutive previous years, the percentage of the Crown's obligations to Māori met the standard for the first time in 2017/18. This was achieved through a combination of improvements to consultation processes, creation of guidance, evaluation of training, and information capture.

FISHERIES MANAGEMENT**WHAT MPI DOES**

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

	PERFORMANCE MEASURE	ACTUAL 2016/17	ACTUAL 2017/18	STANDARD 2017/18	VARIANCE	STANDARD MET
	Percentage of ministerial requests from the Minister of Fisheries completed to agreed standards	98%	96%	95%	1%	
	Percentage of ministerial requests from the Minister of Fisheries completed to agreed standards	92%	81%	95%	15%	

Comment

Requests for more complex information from MPI increased rapidly during 2017/18, which significantly impacted timeliness and required greater consultation. There were also higher peaks of demand throughout the year. With additional resources and improved processes implemented throughout the 2017/18 financial year, MPI's ability to meet timeframes has improved and is well set up to meet this standard in the next financial year.

FISHERIES QUOTA SHARES AND 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 Annual Catch Entitlement.

PERFORMANCE MEASURE

Exemption applies – see Note 1.

How much did it cost?

Revenue and output expenses

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES JUNE 2018 \$000	SUPP ESTIMATES JUNE 2018 \$000
REVENUE CROWN				
9,652	Animal welfare education and enforcement	7,665	7,908	8,085
5,519	Aquaculture	4,284	3,663	3,785
35,778	Fisheries enforcement and monitoring	34,860	38,369	37,267
12,071	Fisheries management	12,626	10,351	12,464
63,020	Total revenue Crown	59,435	60,291	61,601
REVENUE OTHER				
25	Animal welfare education and enforcement	77	19	63
15	Aquaculture	26	16	16
2,293	Fisheries enforcement and monitoring	2,557	1,935	1,935
245	Fisheries management	224	883	883
2,578	Total revenue other	2,884	2,853	2,897
65,598	Total revenue	62,320	63,144	64,498
EXPENSES				
10,468	Animal welfare education and enforcement	7,610	7,917	8,138
5,449	Aquaculture	3,988	3,679	3,801
37,780	Fisheries enforcement and monitoring	39,378	40,246	39,144
11,517	Fisheries management	12,316	11,228	13,341
65,214	Total expenses	63,292	63,070	64,424
SURPLUS/(DEFICIT)				
(791)	Animal welfare education and enforcement	132	10	10
85	Aquaculture	321	–	–
291	Fisheries enforcement and monitoring	(1,961)	58	58
799	Fisheries management	535	6	6
384	Total surplus/(deficit)	(973)	74	74

Financial comment

The increase of \$1.354 million between the Main Estimates and the Supplementary Estimates expenses was mainly due to:

- \$1.445 million to reflect changes in the spending on the activities delivered by MPI.

This had been offset by a

- \$610,000 transfer to 2018/19 as a result of timing impacts to implement MPI's Future of Our Fisheries programme.

The \$2.179 million lower than expected total revenue and lower expenditure of \$1.132million against Supplementary Estimates resulted in a \$972,000 operating deficit for this output MCA.

Notes on exemptions

Note 1

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

Financial Statements



Statement of Responsibility

I am responsible, as Chief Executive of 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 PFA, 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 2018 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 2018 and its operations for the year ending on that date.



Martyn Dunne CNZM
Director-General
28 September 2018

Independent Auditor's Report



TO THE READERS OF THE MINISTRY FOR PRIMARY INDUSTRIES' ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of the Ministry for Primary Industries (the Ministry). The Auditor-General has appointed me, Stuart Mutch, 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 65 to 98, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, 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 2018 on pages 10 to 59; and
- the statements of expenses and capital expenditure against appropriations of the Ministry for the year ended 30 June 2018 on pages 74 to 75;
- the statement of unappropriated expenditure and capital expenditure of the Ministry for the year ended 30 June 2018 on page 73; and
- the schedules of non-departmental activities which are managed by the Ministry on behalf of the Crown on pages 99 to 118 that comprise:
 - the schedules of assets; liabilities; contingent liabilities and contingent assets and commitments as at 30 June 2018;
 - the schedules of revenue, capital receipts ; expenses and capital expenditure for the year ended 30 June 2018;
 - the statement of unappropriated expenditure and capital expenditure for the year ended 30 June 2018;
 - the statements of expenditure and capital expenditure for the year ended 30 June 2018;
 - the statement of trust monies for the year ended 30 June 2018; 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 65 to 98:
 - present fairly, in all material respects:
 - » its financial position as at 30 June 2018; 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 10 to 59
 - presents fairly, in all material respects, for the year ended 30 June 2018:
 - » 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 statement of expenses and capital expenditure and statement of unappropriated expenditure and capital expenditure of the Ministry on pages 73 to 74 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 99 to 118 present fairly, in all material respects, in accordance with the Treasury Instructions:
 - the assets; liabilities; contingent liabilities and contingent assets and commitments as at 30 June 2018;
 - revenue; capital receipts; expenses and capital expenditure for the year ended 30 June 2018;
 - the statement of unappropriated expenditure and capital expenditure for the year ended 30 June 2018;
 - the statement of expenditure and capital expenditure against appropriations for the year ended 30 June 2018; and
 - the statement of trust monies for the year ended 30 June 2018.

Our audit was completed on 28 September 2018. 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;
- statement of expenses and capital expenditure and statement of unappropriated expenditure and capital expenditure of the Ministry, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- 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 2 to 7 and 120 to 138, 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.

Other than in our capacity as auditor, we have no relationship with, or interests in, the Ministry.

Stuart Mutch

Ernst & Young

On behalf of the Auditor-General

Wellington, New Zealand

Overview of Departmental Financial Results

For the year ended 30 June 2018

ACTUAL 2017 \$000		ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000
502,858	Revenue – in total	581,633	536,180
323,656	Revenue Crown	389,200	338,826
179,202	Revenue other	192,433	197,354
484,902	Expenditure – in total	582,797	530,395
260,368	Personnel costs	277,813	268,405
205,591	Other operating expenses	285,393	244,170
12,861	Depreciation and amortisation expense	10,306	12,984
5,245	Capital charge	8,393	4,536
837	Restructuring costs	892	300
17,956	Operating surplus/(deficit)	(1,164)	5,785
10,252	Repayment of surplus (current liability)	2,451	983
50,825	Working capital	49,557	31,210
94,315	Non-current assets	142,419	174,054
10,962	Non-current liabilities	11,280	9,675
134,178	Equity	180,696	195,589

Significant movements between 2016/17 and 2017/18

Revenue other

The \$13.231 million increase in third party revenue is due to increased volumes for:

- Verification services (\$6.033 million);
- Border Clearance Levy – Air (\$2.701 million);
- rental income for sub-leased accommodation (\$1.562 million);
- Biosecurity System Entry Levy (\$1.444 million); and
- Border Clearance Levy – Cruise (\$393,000).

Personnel costs

MPI employs 2,704 full-time equivalent staff. Most are employed in New Zealand, but MPI has a small offshore presence as well. The \$17.444 million increase in personnel costs is due to:

- an average 2 percent increase to permanent staff salaries;
- increased volumes for incursion response activities, such as *Mycoplasma bovis*, resulting in additional allowances and overtime being required to meet service demand.

Other operating expenses

The \$79.801 million increase in other operating expenses is mainly due to an increase in response activities.

Significant responses were *Mycoplasma bovis*, (\$36.100 million), myrtle rust, (\$3.800 million), and wilding conifers, (\$2.900 million).

Non-current assets

The \$48.104 million increase in non-current assets is mainly due to the spending in the current year on the Modern Workplaces Programme across Auckland, Wellington, and Christchurch offices, \$20.800 million, and the National Biocontainment Laboratory Project \$29.180 million.

Equity

The \$46.517 million increase in equity is due to:

- a capital injection from Crown of \$42.000 million, mainly for the National Biocontainment Laboratory Project and Charles Fergusson Tower refurbishment; and
- a net retention of \$6.549 million operating surplus; and
- a current year deficit of \$1.164 million.

Significant variances between 2017/18 actual results and the Estimates of Appropriations

Revenue other

Revenue other is \$4.921 million lower than budgeted due to a decrease in the Border Clearance Levy – Air.

Personnel costs

Personnel costs are \$9.408 million higher than budgeted. This was due to the need for additional resources for:

- border biosecurity responses and intelligence activities at the border;
- the on-farm verification programme; and
- facilitation of the Implementation of Food Act 2014.

Other operating expenses

Other operating expenses are \$41.223 million higher than budgeted. This was due to changes in timing for projects impacted by external factors, such as the 2016 Kaikoura earthquake. In these instances MPI completed a carry forward of funding from 2016/17 to 2017/18 (in-principle expense transfers). The funds transferred were confirmed after the Estimates of Appropriation had been completed.

Current assets

Current assets are above budget by \$59.622 million. The primary drivers for this are:

- cash and bank balance of \$78.484 million, over budget by \$51.461 million due to foreign exchange holdings of \$13.375 million and capital injections of \$42.000 million; and
- debtors and other receivables of \$68.195 million, over budget by \$9.650 million.

Non-current assets

Non-current assets are \$31.635 million lower than budgeted. This is primarily due to the change in the expenditure and timing profile of the National Biocontainment Laboratory and Wellington accommodation projects.

Current liabilities

Current liabilities are \$41.276 million higher than budgeted. The primary drivers are:

- annual leave current of \$26.153 million, over budget by \$10.000 million; and
- creditor and other payables of \$66.511 million, over budget by \$27.591 million.

Equity

Equity was \$14.894 million lower than budgeted as a result of capital injection forecast adjustments from 2017/18 to 2018/19, as well as an operating deficit for the year as a result of Cabinet approved, but not appropriated, increases in response activity costs.

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

ACTUAL 2017 \$000	REVENUE ¹	NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ² 2019 \$000
323,656	Revenue Crown		389,200	338,826	353,786
179,202	Revenue other	2	192,433	197,354	214,787
502,858	Total revenue		581,633	536,180	568,573
	EXPENDITURE				
260,368	Personnel costs	3	277,813	268,405	305,744
12,861	Depreciation and amortisation expense	8,9	10,306	12,984	14,187
5,245	Capital charge	4	8,393	4,536	8,756
837	Restructuring costs		892	300	300
205,591	Other operating expenses	5	285,393	244,170	238,483
484,902	Total expenditure		582,797	530,395	567,470
17,956	Net surplus/(deficit)		(1,164)	5,785	1,103
	OTHER COMPREHENSIVE REVENUE AND EXPENSE				
5,370	Gain on property revaluations		–	–	–
5,370	Total other comprehensive revenue and expense		–	–	–
23,326	Total comprehensive revenue and expense		(1,164)	5,785	1,103

The accompanying notes form part of these financial statements.

¹ PBE IPSAS 23.106(a) requires, either in the statement of financial position or the notes, that entities disclose the amount of revenue from non-exchange transaction by major classes, showing separately; (i) taxes, showing separately major classes of taxes; and (ii) transfer, showing separately major classes of transfer revenue. As the separate labelling of revenue as exchange or non-exchange is not considered material, we have not labelled revenue as exchange or non-exchange in the financial statements. We have, however, separately disclosed the major classes of revenue streams in the financial statements.

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

Statement of Financial Position

As at 30 June 2018¹

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ² 2019 \$000
ASSETS					
CURRENT ASSETS					
77,377	Cash and cash equivalents		78,484	27,023	67,850
61,404	Debtors and other receivables	6	68,195	58,590	58,590
2,153	Prepayments		1,929	3,500	3,500
5,165	Inventories	7	5,127	5,000	5,000
146,099	Total current assets		153,735	94,113	134,940
NON-CURRENT ASSETS					
66,551	Property, plant and equipment	8	117,232	145,385	160,699
27,764	Intangible assets	9	25,187	28,669	22,373
94,315	Total non-current assets		142,419	174,054	183,072
240,414	Total assets		296,154	268,167	318,012
LIABILITIES					
CURRENT LIABILITIES					
50,534	Creditors and other payables	10	61,882	38,920	43,420
10,252	Repayment of surplus	11	2,451	983	9,468
1,704	Provisions	12	1,674	1,500	1,500
32,282	Employee entitlements	13	33,530	21,500	25,000
502	Derivative financial instruments	17	12	–	–
95,274	Total current liabilities		99,549	62,903	79,388
NON-CURRENT LIABILITIES					
–	Creditors and other payables	10	4,629	–	–
725	Provisions	12	34	–	–
10,219	Employee entitlements	13	11,246	9,675	9,675
18	Derivative financial instruments	17	–	–	–
10,962	Total non-current liabilities		15,909	9,675	9,675
106,236	Total liabilities		115,458	72,578	89,063
134,178	Net assets		180,696	195,589	228,949
EQUITY					
116,460	Crown capital and retained earnings	14	165,571	194,896	222,886
11,655	Memorandum accounts (net position)	14	9,062	–	–
6,063	Property revaluation reserves	14	6,063	693	6,063
134,178	Total equity		180,696	195,589	228,949

The accompanying notes form part of these financial statements.

¹ PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for recoverables from non-exchange transaction, receivable from exchange transactions, taxes and transfers payable, and payable under exchange transactions. We do not consider that this analysis will provide material information. Therefore, we have chosen to provide a meaningful breakdown in the notes to the financial statement.

² 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 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
80,218	Balance at 1 July		134,178	120,071	188,964
23,326	Total comprehensive revenue and expense		(1,164)	5,785	1,103
OWNER TRANSACTIONS					
38,194	Capital injections	14	42,000	70,716	48,350
–	Capital withdrawals	14	(867)	–	–
2,692	Retention of surplus	14	9,000	–	–
(10,252)	Return of operating surplus to the Crown	11	(2,451)	(983)	(9,468)
134,178	Balance at 30 June		180,696	195,589	228,949

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 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
314,655	Receipts from Crown		384,387	343,826	358,786
179,158	Receipts from revenue other		190,104	197,279	214,712
(250,809)	Payments to employees		(276,430)	(269,755)	(314,394)
(206,032)	Payments to suppliers		(267,339)	(240,683)	(238,783)
(5,245)	Payments for capital charge		(8,393)	(5,759)	(8,756)
6,343	Goods and services tax (net)		(5,978)	–	–
38,070	Net cash from operating activities	15	16,351	24,908	11,565
CASH FLOWS FROM INVESTING ACTIVITIES					
(86)	Receipts from sale of property, plant and equipment		2,678	2,284	0
(21,279)	Purchase of property, plant and equipment		(54,832)	(78,245)	(43,364)
(2,131)	Purchase of intangible assets		(2,972)	(321)	(1,490)
(23,496)	Net cash from investing activities		(55,126)	(76,282)	(44,854)
CASH FLOWS FROM FINANCING ACTIVITIES					
–	Loss on FX		–	(4,364)	0
38,194	Capital injections from the Crown		42,000	70,716	48,350
–	Repayment of surplus to the Crown		(1,251)	(6,341)	(983)
–	Repayment of capital to the Crown		(867)	–	–
38,194	Net cash from financing activities		39,882	60,011	47,367
52,768	Net increase (decrease) in cash		1,107	8,637	14,078
24,609	Cash at the beginning of the year		77,377	18,386	53,772
77,377	Cash at the end of the year		78,484	27,023	67,850

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 2018

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 and 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 1 to 15 years.

The total minimum future sublease payments expected to be received under non-cancellable subleases at the balance date is \$328,000 (2017: \$282,000).

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

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	CAPITAL COMMITMENTS	
77,464	Buildings	49,147
	Leasehold improvements	
469	Motor vehicles	357
	Intangible assets – software	
77,933	Total capital commitments	49,504
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:	
7,766	Not later than one year	16,344
22,255	Later than one year and not later than five years	47,311
12,400	Later than five years	103,151
42,421	Total non-cancellable operating lease commitments	166,806
120,354	Total commitments	216,310

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

Statement of Contingent Liabilities and Contingent Assets

As at 30 June 2018

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 defended the claim. On 27 June 2018 the High Court found that MPI owed a duty of care to Strathboss and claimants, that it breached its duty of care at the import permit stage, and that the breach caused the Psa-V incursion. An appeal was filed by the Crown on 24 July 2018.

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.

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 Goods and Services Tax (GST) for having their shared premises left off an approved “relationship matrix” list of exporters to China, thus losing the ability to export to China for approximately one year, while MPI negotiated inclusion of those premises and others (2017: \$688,853).

KIWIFRUIT VINE DISEASE PSA-V

In the same case as the unquantified liability, a second plaintiff (Seeka), a post-harvest operator, has also filed a claim against MPI alleging it is liable for damages it 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 defended the claim. On 27 June 2018 the High Court found that MPI did not owe a duty of care to Seeka. Strathboss and Seeka filed a cross-appeal on 7 August 2018.

ACCIDENT COMPENSATION CORPORATION APPEAL

ACC decided not to provide coverage for an injury to an MPI employee. The employee disputed this decision, which was then dismissed at the hearing. The employee subsequently lodged an appeal against the decision. A further review hearing was sought and held in May 2018 on the basis of documents submitted by the employee. Again the review hearing was dismissed. The appeal date is still to be set 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 (2017: \$25,000).

Contingent assets

MPI has one contingent asset of \$11.2 million relating to the *Mycoplasma bovis* industry contribution as at 30 June 2018 (2017: nil). Industry organisations have agreed to partially fund the incursion response. The industry contribution is subject to certain conditions being met. As at 30 June 2018 these are still not fully met.

The accompanying notes form part of these financial statements.

Statement of Departmental Unappropriated Expenditure and Capital Expenditure

For the year ended 30 June 2018

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 authorised but unappropriated expenditure for the year to 30 June 2018 (2017: nil). This was in relation to Cabinet's decision for the phased eradication of the cattle disease *Mycoplasma bovis*. Cabinet approved \$8 million of response funding in 2017/18 to enable the depopulation of infected properties as a result of this decision.

As the decision was made after the Budget and Supplementary Estimates process any spending incurred would be required to be validated within the Appropriation (2017/18 Confirmation and Validation) Bill.

The table below presents a summary of the Border and Domestic Biosecurity Risk Management MCA:

	30/06/2017 UNAPPROPRIATED EXPENDITURE \$000	30/06/2018 EXPENDITURE \$000	30/06/2018 APPROPRIATION \$000	30/06/2018 UNAPPROPRIATED EXPENDITURE \$000
DEPARTMENTAL OUTPUT EXPENSES				
Border and Domestic Biosecurity Risk Management MCA				
Border biosecurity monitoring and clearance	–	117,555	119,545	1,990
Border biosecurity systems development and maintenance	–	18,611	17,953	(658)
Biosecurity incursion response and long-term pest management	–	96,427	91,062	(5,365)
Domestic biosecurity surveillance	–	45,338	46,734	1,396
Total unappropriated expenditure	–	277,931	275,294	(2,637)

The accompanying notes form part of these financial statements.

Statement of Departmental Expenses and Capital Expenditure against Appropriations

For the year ended 30 June 2018

EXPENDITURE AFTER REMEASUREMENTS 2017 \$000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2018 \$000	REMEASUREMENTS 2018 \$000	EXPENDITURE AFTER REMEASUREMENTS 2018 \$000	APPROPRIATION VOTED ¹ 2018 \$000	FORECAST ² 2019 \$000
VOTE PRIMARY INDUSTRIES AND FOOD SAFETY						
ADMINISTRATION AND MANAGEMENT OF CROWN FORESTRY ASSETS AND OPERATIONS MCA						
1,094	Administration and management of Crown Forestry assets	1,047	0	1,047	1,249	1,381
BORDER AND DOMESTIC BIOSECURITY RISK MANAGEMENT MCA						
34,802	Biosecurity incursion response and long-term pest management	96,418	9	96,427	91,062	38,793
98,673	Border biosecurity monitoring and clearance	117,510	45	117,555	119,545	128,463
21,243	Border biosecurity systems development and maintenance	18,604	7	18,611	17,953	24,500
37,718	Domestic biosecurity surveillance	45,328	10	45,338	46,734	48,674
192,437		277,860	71	277,931	275,294	240,430
DEVELOPMENT AND IMPLEMENTATION OF FOOD SAFETY POLICY ADVICE MCA						
4,498	Development of policy advice	4,287	2	4,289	4,693	4,591
3,536	Implementation of policy advice	2,624	1	2,625	2,584	2,934
8,035		6,911	3	6,914	7,277	7,525
DEVELOPMENT AND IMPLEMENTATION OF PRIMARY INDUSTRIES POLICY ADVICE MCA						
26,119	Agriculture and forestry policy advice	25,911	8	25,919	27,618	27,871
2,897	Biosecurity policy advice	4,020	2	4,022	4,249	5,017
6,287	Fisheries policy advice	9,386	3	9,389	10,995	12,023
30,645	Implementation of agriculture and forestry policy advice	25,325	8	25,333	27,053	19,718
3,603	Implementation of biosecurity policy advice	2,930	1	2,931	2,254	2,401
9,059	Implementation of the Emissions Trading Scheme and indigenous forestry	7,607	2	7,609	9,468	9,344

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 2017 \$000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2018 \$000	REMEASUREMENTS 2018 \$000	EXPENDITURE AFTER REMEASUREMENTS 2018 \$000	APPROPRIATION VOTED ¹ 2018 \$000	FORECAST ² 2019 \$000
28,434	Operational advice on sustainability and management controls in fisheries	32,055	4	32,059	32,104	30,372
0	Trade and market access primary industries	14,090	6	14,096	14,163	17,820
107,044		121,325	34	121,358	127,904	124,566
FOOD SAFETY MCA						
73,137	Assurance	65,746	29	65,775	63,755	68,122
1,761	Information	2,681	1	2,682	3,701	3,588
5,745	Response	6,132	3	6,135	6,081	6,426
20,672	Standards	17,484	5	17,489	22,936	21,024
0	Trade and market access food safety	5,912	2	5,914	7,025	7,304
101,315		97,955	40	97,995	103,498	106,464
GRANTS AND PROGRAMMES MCA						
9,408	Administration grants and programme	14,015	4	14,019	13,837	14,214
SUSTAINABLE ECONOMIC DEVELOPMENT AND TRADE MCA						
10,260	Animal welfare education and enforcement	7,607	3	7,610	8,138	8,393
5,376	Aquaculture	3,987	1	3,988	3,801	3,862
36,824	Fisheries enforcement and monitoring	39,362	16	39,378	39,144	38,456
11,286	Fisheries management	12,312	4	12,316	13,341	15,862
63,745		63,268	24	63,292	64,424	66,573
GROWTH AND DEVELOPMENT OF THE FORESTRY SECTOR MCA						
0	Growth and development of the forestry sector	394	0	394	400	418
483,078	Total multi-category expenses	582,774	176	582,950	593,883	561,571
24,055	Capital expenditure PLA	61,089	0	61,089	69,917	44,854
507,133	Total multi-category expenses and capital expenditure	643,863	176	644,039	663,800	606,425

¹ The 2018 Appropriation Voted figures are those submitted to Treasury for the 2018 Budget Economic Fiscal Update.

² The statement of accounting policies provides explanations for these figures, which are not subject to audit. The forecast figures represent the restated Budget 2018 estimates for the 2017/18 financial year.

Statement of Trust Monies

For the year ended 30 June 2018

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 2017 \$000		ACTUAL 2018 \$000
4	Balance at 1 July	64
57,774	Contributions	60,614
(57,724)	Distributions	(60,497)
10	Revenue	5
–	Expenditure	(12)
64	Balance at 30 June	174

National Animal Identification Tracing Trust

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

ACTUAL 2017 \$000		ACTUAL 2018 \$000
4	Balance at 1 July	13
2,426	Contributions	2,400
(2,417)	Distributions	(2,158)
13	Balance at 30 June	255

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 2018

Reporting entity

The MPI is a government department as defined by section 2 of the PFA, 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 2018. They were authorised for issue by the Director-General of MPI on 28 September 2018.

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 PFA, which include the requirement to comply with New Zealand generally accepted accounting practice, 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 which 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; and
- 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 PBE IPSAS 21: Impairment of Revalued Assets, and PBE IPSAS 26: Impairment of Cash-Generating Assets, which now clearly scopes 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 Non-exchange transactions

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.

Revenue Crown has been accounted for based on the funding being non-exchange in nature with no use or return conditions attached. 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 Exchange transactions

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

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.

Finance Leases

A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred. At the start of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item and the present value of the minimum lease payments.

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

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

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand dollars (the functional currency) using the spot exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions 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 include 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 are outstanding over 365 days.

Inventories

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

Derivative financial instruments

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)	8–40 years (2.5–12.5%)
Office furniture and equipment	3–12 years (8–33%)
Motor vehicles	up to 10 years (10%)
Vessels	4–25 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 are 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	3–7 years (14–33%)
Developed computer software	3–12 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 they 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 and 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 that has either been announced publicly to those affected, or for which implementation has already commenced.

ACCIDENT COMPENSATION CORPORATION PARTNERSHIP PROGRAMME

MPI belongs to the ACC Partnership Programme whereby MPI 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 options to renew these leases, which may change the timing of the expected cash outflows to make-good the premises.

Equity

Equity is the Crown's investment in 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 towards 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 (that is, 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 Inland Revenue is included as part of receivables or payables in the statement of financial position.

The net GST paid to or received from Inland Revenue, 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 2018 Estimates of Appropriations figures are for the year ended 30 June 2018 and were published in the 2016/17 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 2018. The 2019 forecast figures are for the year ending 30 June 2019, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 30 June 2018.

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

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

The 30 June 2019 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 MPI on 16 April 2018. 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 2019 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 2018/19 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 16 April 2018, were 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 2,704 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.
- Estimated year-end information for 2017/18 was used as the opening position for the 2018/19 forecasts.

Factors that could lead to material differences between the forecast financial statements and the 2018/19 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 2018 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 licence 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.

Provisions

An analysis of the exposure in relation to estimates and uncertainties surrounding the provisions recognised in accordance with MPI's provision policy is disclosed in Note 12.

Holidays Act pay remediation

In 2016/17 MPI estimated its liability arising from non-compliance with the Holidays Acts based on analysis of all employees. In recognition of this, a provision was raised for \$10 million. In 2017/18 remediation payments were made against this provision, which is presented in Note 13: Provision for employee entitlements. Other than the payments made, no other adjustments have been made to the provision in 2017/18.

Note 2: Revenue other

ACTUAL 2017 \$000		ACTUAL 2018 \$000
36,686	Verification services (food safety)	42,719
28,107	Biosecurity systems entry levy	29,551
43,939	Miscellaneous statutory fees and charges	45,019
55,608	Border clearance levy	58,702
3,286	Rental income from sub-leased accommodation	4,848
(83)	Net gain on sale of property, plant and equipment	(3)
11,659	Other goods and services	11,597
179,202	Total revenue other	192,433

Note 3: Personnel costs

ACTUAL 2017 \$000		ACTUAL 2018 \$000
252,807	Salaries and wages	259,504
7,177	Employer superannuation contributions to defined contribution plans	7,954
(10,397)	Increase/(decrease) in employee entitlements including Holidays Act 2003 provision	(2,275)
10,781	Other personnel costs	12,630
260,368	Total personnel costs	277,813

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 2018 was 6 percent (2017: 7 percent).

Note 5: Other operating expenses

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	FEES PAID TO AUDITOR ERNST AND YOUNG	
354	– audit of financial statements	379
65	– other services	–
13,849	Operating lease expenses	19,377
1,540	Advertising and publicity	2,358
20,188	Fisheries and marine-related research contracts	22,817
9,355	Other research contracts	9,699
74,379	Other contracts for services	116,358
14,450	Travel	17,742
5,462	Property costs	6,961
12,891	Information technology	12,562
2	Net foreign exchange losses	–
727	Net loss on foreign exchange derivatives	(5,214)
(245)	Reversal of inventory impairment	–
(62)	Debt impairment (note 6)	119
157	Property, plant and equipment impairment and write-off	447
30,680	Consultancy	54,464
21,799	Other operating expenses	27,324
205,591	Total other operating expenses	285,393

No fees for other services were paid to Ernst & Young in 2018 (2017:\$65,000).

Note 6: Debtors and other receivables

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	EXCHANGE TRANSACTIONS	
12,453	Debtors	13,300
(148)	Less provision for impairment	(177)
12,305	Net debtors	13,123
8,956	Border Clearance Levy	9,058
4,107	Biosecurity Systems Entry Levy	4,022
2,035	Accrued revenue	3,179
	NON-EXCHANGE TRANSACTIONS	
34,001	Debtor Crown	38,813
61,404	Total debtors and other receivables	68,195

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

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

	2017			2018		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	7,183	–	7,183	9,277	–	9,277
Greater than 30 days	3,681	–	3,681	2,579	–	2,579
Greater than 60 days	723	–	723	425	–	425
Greater than 90 days	866	(148)	718	1,019	(177)	842
Total	12,453	(148)	12,305	13,300	(177)	13,123

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 as follows.

ACTUAL 2017 \$000		ACTUAL 2018 \$000
148	Collective impairment	177
148	Total provision for impairment	177

Movements in the provision for impairment of debts are as follows:

ACTUAL 2017\$000		ACTUAL 2018 \$000
240	Balance at 1 July	148
153	Additional provisions made	220
(214)	Unused amounts reversed during the year	(101)
(31)	Receivables written off during the year	(90)
148	Balance at 30 June	177

Note 7: Inventories

ACTUAL 2016 \$000		ACTUAL 2017 \$000
	HELD FOR DISTRIBUTION INVENTORIES	
4,426	Foot and mouth vaccine	4,880
739	Other	247
5,165	Total inventories	5,127

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 (2017: 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 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 1 July 2017	2,123	37,750	23,106	28,344	15,480	106,803
Additions through purchase	–	29,239	26,333	954	1,592	58,118
Write-offs and disposals	–	–	(96)	(6,929)	(347)	(7,372)
Balance at 30 June 2018	2,123	66,989	49,343	22,369	16,725	157,549
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES						
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 at 1 July 2017	–	1,450	13,903	18,890	6,009	40,252
Depreciation expense	–	967	1,267	1,564	958	4,756
Write-offs and disposals	–	–	(95)	(4,358)	(238)	(4,691)
Balance 30 June 2018	–	2,417	15,075	16,096	6,729	40,317
CARRYING AMOUNTS (NET ASSET VALUE)						
At 1 July 2016	1,944	16,301	7,691	7,658	9,668	43,262
At 30 June and 1 July 2017	2,123	36,300	9,203	9,454	9,471	66,551
At 30 June 2018	2,123	64,572	34,268	6,273	9,996	117,232

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

- 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 the above figures at cost, less impairment, and is not depreciated.

Buildings in the course of construction for 2018 total \$54.883 million (2017: \$15.991 million). Leasehold improvements for 2018 total \$13.673 million (2017: \$5.482 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 2016	17,237	62,702	79,939
Additions	332	3,041	3,373
Write-offs and disposals	–	(1,242)	(1,242)
Balance at 1 July 2017	17,569	64,501	82,070
Additions	269	2,704	2,973
Write-offs and disposals	(1,340)	(1,328)	(2,668)
Reclassification	–	–	–
Balance at 30 June 2018	16,498	65,877	82,375
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
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
Balance at 1 July 2017	13,316	40,990	54,306
Amortisation expense	1,400	4,150	5,550
Write-offs and disposals	(1,340)	(1,328)	(2,668)
Balance at 30 June 2018	13,376	43,812	57,188
CARRYING AMOUNTS (NET ASSET VALUE)			
At 1 July 2016	5,536	26,018	31,554
At 30 June and 1 July 2017	4,253	23,511	27,764
At 30 June 2018	3,122	22,065	25,187

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 2018 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 development for the year ended 30 June 2018 is \$3.725 million (2017: \$3.189 million).

Note 10: Creditors and other payables

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	EXCHANGE TRANSACTIONS	
	Current liabilities	
5,257	Creditors	12,946
7,553	Unearned revenue	7,200
–	Lease incentive	1,466
–	Auckland kennel lease	514
28,333	Accrued expenses	36,343
	NON-CURRENT LIABILITIES	
–	Auckland kennel lease	4,629
41,143	Total payables and deferred revenue under exchange transactions	63,098
9,391	GST payable to Inland Revenue	3,413
50,534	Total creditors and other payables	66,511

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 2017 \$000		ACTUAL 2018 \$000
17,956	Net surplus/(deficit)	(1,164)
(1,886)	Adjust for unrealised losses/(gains) on forward foreign exchange contracts recognised in the surplus/(deficit)	50
(5,818)	Adjust for (surpluses)/deficits for services subject to memorandum accounts	3,565
10,252	Total return of operating surplus	2,451

Memorandum accounts are disclosed separately within equity. These 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 repayment of surplus is required by 31 October of each year.

Note 12: Provisions

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	CURRENT	
403	Restructuring	1,168
1,186	Compensation under the Biosecurity Act 1993	392
67	ACC Partnership Programme	67
45	Pet cat and dog import overcharging	44
3	Other provisions	3
	NON-CURRENT	
725	Lease make-good	34
2,429	Total provisions	1,708

Note 12a: Provision for restructuring

ACTUAL 2017 \$000		ACTUAL 2018 \$000
60	Opening balance 1 July	403
403	Additional provisions made	1,019
(60)	Amounts used	(74)
–	Unused amounts reversed	(180)
403	Closing balance	1,168

Provision for restructuring is MPI's estimate for the severance of 20 positions. The restructure is planned to be completed during the 2018/19 financial year.

During the financial year severance of \$73,712 was paid to 2 employees. Restructure costs of \$53,730 incurred were not provided for.

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

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,425	Opening balance 1 July	1,186
–	Additional provisions made during the year	273
(351)	Amounts used	(1,067)
112	Unused amounts reversed	–
1,186	Closing balance	392

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.

Note 12c: Provision for ACC Partnership Programme claims

ACTUAL 2017 \$000		ACTUAL 2018 \$000
67	Opening balance 1 July	67
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 expected future wage and salary levels and experience of employee claims and injuries.

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 2017 \$000		ACTUAL 2018 \$000
725	Opening balance 1 July	725
–	Additional provisions made during the year	–
–	Amounts used	(691)
–	Unused amounts reversed during year	–
725	Closing balance	34

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

Note 13: Employee entitlements

ACTUAL 2017 \$000		ACTUAL 2018 \$000
CURRENT EMPLOYEE ENTITLEMENTS REPRESENTED BY:		
1,734	Salaries and wages	1,854
25,749	Annual leave	26,113
542	Sick leave	542
1,533	Long-service leave	1,747
2,724	Retiring leave	3,274
32,282	Total current employee entitlements	33,530
NON-CURRENT EMPLOYEE ENTITLEMENTS REPRESENTED BY:		
2,328	Long-service leave	2,349
7,891	Retiring leave	8,897
10,219	Total non-current employee entitlements	11,246
42,501	Total employee entitlements	44,776

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: 1.78 percent (1 year); 1.90 percent (2 year); and 3.55 percent (3 year plus) (2017: 1.97 percent, 2.36 percent, 3.92 percent). A salary inflation factor of 3.1 percent (2017: 3.1 percent) has been used and is based on a 1.7 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 \$731,000 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 \$818,000 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 \$1.051 million 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 \$934,000 lower.

Note 14: Equity

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	CROWN CAPITAL AND RETAINED EARNINGS	
73,906	Balance at 1 July	116,460
38,194	Capital injections from the Crown	42,000
	Repayment of capital to the Crown for:	
–	– Part repayment of capital injection	(867)
(218)	Write-off irrecoverable memorandum account operating deficits	(972)
17,956	Net surplus/(deficit)	(1,164)
(5,818)	Transfer of memorandum accounts net surplus/(deficit)	3,565
2,692	Retention of prior year surplus	9,000
(10,252)	Return of operating surplus to the Crown	(2,451)
116,460	Balance at 30 June	165,571
	MEMORANDUM ACCOUNTS (NOTE 19)	
5,619	Balance at 1 July	11,655
5,818	Net memorandum account (surpluses)/deficits	(3,565)
218	Write-off irrecoverable operating deficits	972
11,655	Balance at 30 June	9,062
	REVALUATION RESERVE – LAND	
505	Balance at 1 July	684
179	Revaluation gains	–
684	Balance at 30 June	684
	REVALUATION RESERVE – RESIDENTIAL BUILDINGS	
69	Balance at 1 July	5,260
5,191	Revaluation gains	–
5,260	Balance at 30 June	5,260
	REVALUATION RESERVE – ARTWORKS	
119	Balance at 1 July	119
119	Balance at 30 June	119
134,178	Total equity	180,696

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

ACTUAL 2016 \$000		NOTE	ACTUAL 2018 \$000
17,956	Net surplus/(deficit)		(1,164)
	Add/(less) non-cash items classified as investing or financing activities		
5,921	Amortisation, impairment and write-off of intangible assets		5,549
7,097	Depreciation, impairment and write-off of property, plant and equipment		5,204
13,018	Total non-cash items		10,753
	Add/(less) items classified as investing or financing activities		
83	Net (gain)/loss on sale of property, plant and equipment	2	3
(2,055)	Adjust for unrealised (gains)/losses on forward foreign exchange contracts recognised in the surplus/(deficit)		(508)
(1,972)	Total investing or financing activities		(505)
	Add/(less) movements in working capital items		
(681)	(Increase)/decrease in inventories		38
(11,160)	(Increase)/decrease in debtors and other receivables		(6,791)
426	(Increase)/decrease in prepayments		224
10,037	Increase/(decrease) in creditors and other payables		12,243
10,397	Increase/(decrease) in employee entitlements		2,315
49	Increase/(decrease) in provisions		(760)
9,068	Total net movement in working capital items		7,269
38,070	Net cash from operating activities		16,353

Note 16: Related parties

PI 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 2017 \$000		ACTUAL 2018 \$000
\$2,789	Leadership team, including the Director-General remuneration	\$3,164
7	Full-time equivalent staff numbers	8

Key management personnel of MPI comprise the Minister of Agriculture, the Minister of Forestry, the Minister of Fisheries, the Director-General and eight Deputy Directors-General. The figures for 2017/18 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 of Agriculture, the Minister of Forestry and Minister of Fisheries. 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 2017 \$000		ACTUAL 2018 \$000
	LOANS AND RECEIVABLES	
77,377	Cash and cash equivalents	78,484
61,404	Debtors and other receivables (Note 6)	68,195
138,781	Total loans and receivables	146,679
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	
33,590	Creditors and accrued expenses (excluding unearned revenue) (Note 10)	49,289
	FAIR VALUE THROUGH SURPLUS AND DEFICIT – HELD FOR TRADING	
520	Foreign exchange derivatives	12

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes balances denominated in foreign currencies translated to New Zealand dollars at the foreign exchange rate at balance date.

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

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 statement of comprehensive revenue and expense.

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, pound sterling, US dollar and Australian dollar. 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 2018 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 forward foreign exchange contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, 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 17a). 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 foreign 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
2018						
Gross settled forward foreign exchange contracts:	12	–	–	–	–	–
– outflow	–	–	101	101	0	0
– inflow	–	–	89	89	0	0
2017						
Gross settled forward foreign exchange contracts:	520	–	–	–	–	–
– outflow	–	–	2,952	1,133	1,718	101
– inflow	–	–	2,396	927	1,388	81

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 2018				
FINANCIAL LIABILITIES				
Foreign exchange derivatives	12	–	12	–
30 June 2017				
FINANCIAL LIABILITIES				
Foreign exchange derivatives	520	–	520	–

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, Treasury instructions, and the PFA.

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 2017 \$000		ACTUAL 2018 \$000
1,925	Border biosecurity clearance fees account	(1,877)
912	Phytosanitary exports account	873
(2,499)	Verification of the food regulatory programme account	(1,284)
1,763	Approvals, accreditations and registrations	2,811
665	Standards setting for the food industry account	395
1,285	Wine standards management – Wine Act 2003	2,337
(142)	Food standards and assurance – Food Act 2014	(43)
7,746	Border biosecurity traveller clearance levy	5,850
11,655	Total memorandum account balances	9,062

Note 19a: Border biosecurity clearance fees account

ACTUAL 2017 \$000		ACTUAL 2018 \$000
(641)	Opening balance 1 July	1,925
42,073	Revenue	43,884
(39,507)	Expenses	(47,686)
1,925	Closing balance	(1,877)

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 2017 \$000		ACTUAL 2018 \$000
952	Opening balance 1 July	912
2,328	Revenue	2,342
(2,368)	Expenses	(2,381)
912	Closing balance	873

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

Note 19c: Verification of the Food Regulatory Programme account

ACTUAL 2017 \$000		ACTUAL 2018 \$000
2,142	Opening balance 1 July	(2,499)
37,362	Revenue	40,766
(42,221)	Expenses	(40,523)
218	Write-off irrecoverable operating deficits	972
(2,499)	Closing balance	(1,284)

This account covers verification activities undertaken by MPI in accordance with section 7 of the Animal Products (Fees, Charges and Levies) Regulations 2007, as well as certification activities undertaken up to 30 June 2018.

Note 19d: Approvals, accreditations and registrations

ACTUAL 2017 \$000		ACTUAL 2018 \$000
869	Opening balance 1 July	1,763
5,163	Revenue	5,202
(4,269)	Expenses	(4,154)
1,763	Closing balance	2,811

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 2017 \$000		ACTUAL 2018 \$000
800	Opening balance 1 July	665
18,621	Revenue	21,586
(18,756)	Expenses	(21,856)
665	Closing balance	395

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. From 1 July 2017 this account also covers certification activities undertaken by MPI in accordance with section 7 of the Animal Products (Fees, Charges and Levies) Regulations 2007.

Note 19f: Wine standards management – Wine Act 2003

ACTUAL 2017 \$000		ACTUAL 2018 \$000
530	Opening balance 1 July	1,285
2,623	Revenue	2,651
(1,868)	Expenses	(1,599)
1,285	Closing balance	2,337

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 2017 \$000		ACTUAL 2018 \$000
(156)	Opening balance 1 July	(142)
731	Revenue	833
(717)	Expenses	(734)
(142)	Closing balance	(43)

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

Note 19h: Border Biosecurity Traveller Clearance Levy

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,123	Opening balance 1 July	7,746
55,662	Revenue	58,768
2,049	Revenue from the Crown for exempt travellers	1,675
(51,088)	Expenses	(62,339)
7,746	Closing balance	5,850

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

MPI completed a first principles review of cost recovery in 2017/18. This review included 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 30 August 2018, the Minister of Finance agreed to allow MPI to retain its operating surplus. Any operating surplus is typically repaid to the Treasury, but for the 2017/18 year the Minister of Agriculture approved \$2.451 million to be retained. MPI continues to manage its pressure on working capital.

Non-Departmental Statements and Schedules

Introduction

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

MPI administered \$318.725 million of expenses, \$36.443 million capital expenditure, \$148.566 million of income, \$419.284 million of assets and \$106.745 million of liabilities on behalf of the Crown for the year ended 30 June 2018. Further details of MPI's management of these Crown assets and liabilities are provided in the Measuring 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 2018.

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

For the year ended 30 June 2018

ACTUAL 2017 \$'000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2018 \$'000	EXPENDITURE AFTER REMEASUREMENTS 2018 \$'000	APPROPRIATION VOTED ¹ 2018 \$'000	FORECAST ² 2019 \$'000
VOTE PRIMARY INDUSTRIES AND FOOD SAFETY					
APPROPRIATIONS FOR OUTPUT EXPENSES					
Administration and Management of Crown Forestry Assets and Operations MCA					
60,924	Operational Management of the Crown Forestry Estate	74,554	74,554	76,126	79,251
GROWTH AND DEVELOPMENT OF THE FORESTRY SECTOR MCA					
	Operational management of the Crown forests	156	156	400	4,800
1,297	Climate change research	3,179	3,179	3,258	2,304
26,000	Control of bovine TB	26,000	26,000	26,000	24,000
–	Control of TB vectors	–	–	–	–
–	Management of Crown Forestry assets	–	–	–	–
1,789	Support for walking access	1,789	1,789	1,789	1,789
250	Food safety science and research	250	250	250	700
90,260	Total output expenses	105,928	105,928	107,823	112,844
APPROPRIATIONS FOR BENEFITS OR RELATED EXPENSES					
1,429	Rural veterinarians bonding scheme	1,409	1,409	1,650	1,650
1,429	Total benefits or related expenses	1,409	1,409	1,650	1,650
APPROPRIATIONS FOR OTHER EXPENSES					
–	Adverse climatic events	–	–	–	–
9,616	Aquaculture settlements	–	–	3,800	20,000
–	Fisheries quota shares and ACE administration costs	–	–	–	–
Food Safety MCA					
2,132	Joint Food Standards Setting Treaty	2,100	2,100	2,100	2,100
Grants and Programmes MCA					
1,081	Adverse climatic events	1,028	1,028	1,292	526
2,036	Hill Country Erosion Fund	2,181	2,181	2,320	4,000
8,936	Sustainable Farming Fund	8,174	8,174	9,663	12,786
3,733	Adverse earthquake events	561	561	607	–
(872)	Provision for fisheries debt write downs	46	46	1,000	1,000
499	Response to the kiwifruit disease <i>Pseudomonas Syringae</i> pv. <i>Actinidiae</i>	–	–	–	–
–	Compensation and ex-gratia following a biosecurity event	81,109	81,109	75,000	–
2,983	Subscriptions to international organisations	2,995	2,995	3,208	3,208

¹ The 2018 Appropriation Voted figures are those submitted to Treasury for the 2018 Budget Economic and Fiscal Update.

² The statement of accounting policies provides explanations for these figures, which are not subject to audit. The forecast figures represent the restated budget 2018 estimates for the 2017/18 financial year.

ACTUAL 2017 \$000	ANNUAL APPROPRIATIONS	EXPENDITURE BEFORE REMEASUREMENTS 2018 \$000	EXPENDITURE AFTER REMEASUREMENTS 2018 \$000	APPROPRIATION VOTED ¹ 2018 \$000	FORECAST ² 2019 \$000
SUSTAINABLE ECONOMIC DEVELOPMENT AND TRADE MCA					
	Fisheries quota shares and ACE				
	– Administration costs	–	–	24	24
	– Sustainable Farming Fund	–	–	–	–
30,144	Total other expenses	98,194	98,194	99,014	43,644
APPROPRIATIONS FOR CAPITAL EXPENDITURE					
	– Crown Forestry assets	443	443	13,160	15,400
	– Total capital expenses	443	443	13,160	15,400
121,833	Total annual appropriation expenditure	205,974	205,974	221,647	173,538

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 authorised but unappropriated expenditure of \$6.109 million for the year to 30 June 2018 (2017: nil). This was in relation to Cabinet's decision for the phased eradication of the cattle disease *Mycoplasma bovis*.

A consequence of this Cabinet decision is that the Crown has had to recognise compensation expenses sooner than previously expected. Cabinet approved an additional \$100 million compensation funding in 2017/18 to enable the depopulation of further infected properties as a result of this decision.

The table below presents a summary of the non-departmental other expense Compensation and Ex-gratia Payments following a Biosecurity Event.

	30/06/2017 UNAPPROPRIATED EXPENDITURE \$000	30/06/2018 EXPENDITURE \$000	30/06/2018 APPROPRIATION \$000	30/06/2018 UNAPPROPRIATED EXPENDITURE \$000
Non-departmental other expenses				
Compensation and Ex-Gratia Payments following a Biosecurity Event	–	81,109	75,000	6,109
Total expenditure	–	81,109	75,000	6,109

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 2018.

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

For the year ended 30 June 2018

ACTUAL 2017 \$000	ANNUAL APPROPRIATIONS	ACTUAL 2018 \$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
	Adjustments for 2017/18 appropriation moved to Vote Forestry in 2018/19	(10,363)
	Adjusted appropriation	9,137
2,328	Actual expenses to 2016/17 year end	2,328
	Actual expenses to 2017/18 year end	3,560
3,900	Estimated expenses for prior year, and 2019	–
13,272	Appropriation remaining (moved to Vote Forestry)	3,249
250	Food Safety Science and Research	700
90,260	Total output expenses	112,844
	Forestry and Other Economic Development and Erosion Control	
18,460	Original appropriation – over four years from 1 July 2017 to 30 June 2021	18,460
–	Adjustments for 2017/18 appropriation moved to Vote Forestry in 2018/19	(16,940)
–	Adjusted appropriation	1,520
–	Actual expenses for 2017/18	370
4,615	Estimated expenses for prior year, and 2019	–

ACTUAL 2017 \$000	ANNUAL APPROPRIATIONS	ACTUAL 2018 \$000
13,845	Appropriation remaining (moved to Vote Forestry)	1,150
	Global Research Alliance on Agricultural Greenhouse Gases	
26,960	Original appropriation – over four years from 1 July 2016 to 30 June 2020	26,960
7,148	Cumulative adjustments	7,148
34,108	Adjusted appropriation	34,108
4,235	Actual expenses to 2016/17 year end	4,235
-	Actual expenses to 2017/18 year end	8,044
11,005	Estimated expenses for prior year and 2019	10,388
18,868	Appropriation remaining	11,441
	Primary Growth Partnership	
244,312	Original appropriation – over five years from 1 July 2017 to 30 June 2022	244,312
	Adjustments for 2017/18	(80,892)
	Adjusted appropriation	163,420
	Actuals for 2017/18	38,299
50,300	Estimated expenses for prior year and 2019	35,850
194,012	Appropriation remaining	89,271
	Water Storage and Irrigation Investment Proposals	
25,000	Original appropriation – over five years from 1 July 2016 to 30 June 2021	25,000
34,037	Cumulative adjustments to 17/18	(3,863)
59,037	Adjusted appropriation	21,137
12,950	Actual expenses to 2016/17 year end	12,950
	Actual expenses to 2017/18 year end	3,440
25,472	Estimated expenses for prior year and 2019	-
20,615	Appropriation remaining	4,747
	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
-	Adjustments for 2017/18	(20,000)
111,850	Adjusted appropriation	91,850
28,250	Actual expenses to 2017	28,250
-	Actual expenses to 2018	36,000
73,600	Estimated expenses for prior year, and 2019	-
10,000	Appropriation remaining	27,600
	Crown Irrigation Investments Limited	
63,000	Original appropriation – over four years from 1 July 2017 to 30 June 2021	63,000
	Adjustments for 2017/18	(10,200)
	Adjusted appropriation	52,800
63,000	Estimated expenses for prior year, and 2019	39,245
-	Appropriation remaining	13,555
86,018	Total multi-year appropriation expenditure	89,712
86,018	Total Vote Primary Industries and Food Safety	89,712
	Total expenditure for 2018	259,243
	Total capital expenditure for 2018	36,443

Schedule of Non-Departmental Revenue

For the year ended 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
89,696	Sale of forest produce		110,494	96,040	96,589
42,275	Fines, penalties and levies	2	30,177	36,900	38,170
1,374	Sale of Crown quota and Annual Catch Entitlement (ACE)		2,142	100	100
2,723	Deemed value for over-fishing		4,182	5,000	5,000
346	Forestry encouragement loan interest	3	255	255	158
465	Gain on remeasurement of forestry encouragement loans	3	1,041	405	350
107	Emissions Trading Scheme fees		72	150	150
18	Forestry land rental		18	568	19
272	Miscellaneous revenue		184	50	50
137,276	Total non-departmental revenue		148,566	139,468	153,156

Schedule of Non-Departmental Capital Receipts

For the year ended 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
1,686	Forestry encouragement loan repayments	3	5,433	1,686	1,686
1,686	Total non-departmental capital receipts		5,433	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 2018.

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

Schedule of Non-Departmental Expenses

For the year ended 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
81,457	Grants		59,961	99,178	67,804
99,359	Operating		103,553	121,297	129,471
–	Compensation for biosecurity incursions	13	81,109	–	–
1,429	Benefits		1,409	1,650	1,650
5,531	Research and development		11,223	16,599	15,181
1,789	New Zealand Walking Access Commission funding	8	1,789	1,789	1,789
159	Depreciation and impairment of property, plant and equipment	7	152	162	162
(872)	Impairment of receivables		46	1,000	1,000
4,326	Loss on revaluation of forests measured at fair value	5	12,107	–	–
–	Impairment of the Crown's equity investment in Crown Irrigation Investments Limited	9	21,659	–	–
24,305	GST input expenses		25,717	32,207	28,785
217,483	Total non-departmental expenses		318,726	273,882	245,842

Schedule of Non-Departmental Capital Expenditure

For the year ended 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
19,000	Investment in Crown Irrigation Investments Ltd	9	36,000	136,600	39,245
–	Purchase and development of Crown Forestry assets	5	443	–	15,400
19,000	Total non-departmental expenses		36,443	136,600	54,645

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 2018.

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

Schedule of Non-Departmental Assets

As at 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
70,649	Cash and cash equivalents		166,025	37,306	47,415
25,828	Debtors and other receivables	6	19,241	25,475	25,475
1,652	Prepayments		1,735	2,000	2,000
550	Non-current assets held for sale	4	550	–	–
1,686	Forestry encouragement loans	3	–	1,686	1,686
100,365	Total current assets		187,550	66,467	76,576
NON-CURRENT ASSETS					
22	Debtors and other receivables	6	204	25	25
2,451	Forestry encouragement loans	3	0	1,686	247
172,048	Forests	5	160,385	176,375	200,608
19,294	Property, plant and equipment	7	19,254	15,084	18,970
Crown equity investment in Crown entities					
1,150	– New Zealand Walking Access Commission	8	1,150	1,150	1,150
36,400	– Crown Irrigation Investments Limited	9	50,741	183,000	139,245
231,365	Total non-current assets		231,734	377,320	360,245
331,730	Total non-departmental assets		419,284	443,787	436,821

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 2018.

Schedule of Non-Departmental Liabilities

As at 30 June 2018

ACTUAL 2017 \$000		NOTE	ACTUAL 2018 \$000	ESTIMATES OF APPROPRIATIONS 2018 \$000	FORECAST ¹ 2019 \$000
CURRENT LIABILITIES					
24,528	Creditors and other payables	10	33,152	18,775	18,700
7,803	Over and under recovered costs from fishing industry	11	11,429	12,500	12,500
3,286	Provisions	12	60,836	4,078	3,286
NON-CURRENT LIABILITIES					
1,240	Provisions	12	1,328	1,454	1,240
36,857	Total non-departmental liabilities		106,745	36,807	35,726

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 2018.

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 2018

Contingent liabilities

UNQUANTIFIED

Central Otago irrigation schemes

Possible financial assistance to current owners of ex-Crown dams in Central Otago to upgrade or partially decommission their dams to meet the requirements of the Building (Dam Safety) Regulations 2008. These regulations came into force on 1 July 2014.

Scampi quota decisions

An unquantified contingent liability from a review of section 329(4)(b) of the Fisheries Act 1996 regarding scampi permitting decisions made between 1993 and 1996. If the outcome of the review is favourable, a third party is likely to request the allocation of scampi quota, and/or seek damages through court proceedings. Judgement in April 2018 dismissed the review. The decision has subsequently been appealed and the matter is to remain a contingency until the outcome of the appeal.

QUANTIFIED

Biosecurity compensation

MPI, on behalf of the Crown, has one quantifiable contingent liability in relation to the Biosecurity Act compensation totalling \$86.497 million. Under 162A of the Biosecurity Act 1993, MPI's activities regarding *Bonamia ostreae* (\$86.285 million), myrtle rust (\$91,335) and fruit fly (\$120,374) may result in compensation being sought. This can arise where MPI'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 claims can be quantified but do not meet the tests for recognising a provision.

Contingent assets

MPI, on behalf of the Crown has no contingent assets (2017: nil).

Schedule of Non-Departmental Commitments

As at 30 June 2018

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 2018 to 2082. The commitments shown are MPI's best estimate of the minimum expenditure over the remaining term of the leases.

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
60,418	Not later than one year	70,606
212,460	Later than one year and not later than five years	187,349
262,411	Later than five years	444,389
535,289	Total non-departmental operating lease commitments	702,344

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 2018.

¹ 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 2018

Declared Overfishing Trust Account

The Declared Overfishing Trust Account holds relation to the deemed value of fish taken in excess of quota under the quota management system.

ACTUAL 2017 \$000		ACTUAL 2018 \$000
7,327	Balance at 1 July	6,644
2,804	Contributions	5,176
(3,675)	Distributions	(8,419)
188	Revenue	175
6,644	Balance at 30 June	3,576

Forfeit Property Trust Account

The Forfeit Property Trust Account holds proceeds received from the sale of seized forfeited property that is disposed of in accordance with Ministerial or Court direction.

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,254	Balance at 1 July	1,331
92	Contributions	110
(39)	Distributions	(43)
24	Revenue	24
1,331	Balance at 30 June	1,422

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 2017 \$000		ACTUAL 2018 \$000
11	Balance at 1 July	–
–	Contributions	–
(11)	Distributions	–
–	Expenditure	–
–	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 2018.

Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2018

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 2018. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2018.

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 as appropriate for 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 the New Zealand dollar.

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 2018. They are consistent with the financial information in the Main Estimates.

FORECAST FIGURES

The 2019 forecast figures for the year ending 30 June 2019, are those submitted to Treasury for purposes of consolidation into the 2018 Budget Economic and Fiscal Update (2018 BEFU out-year 1 figures).

The forecast financial statements and schedules have been prepared as required by the PFA 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 MPI on 16 April 2018. 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 2019 (2018/19 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 2017/18 is used as the opening position for the 2018/19 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.

Revenue

REVENUE EXCHANGE TRANSACTIONS

Forestry Encouragement Loan Interest

Interest income is recognised using the effective interest method. Forestry encouragement loan interest in considered to be exchange revenue in nature.

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).

REVENUE NON-EXCHANGE TRANSACTIONS

Fines and Penalties

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

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 2017 to 30 June 2018 is primarily recovered from the commercial fishing sector over the

period 1 October 2017 to 30 September 2018. 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).

Debtors and other receivables are classified as either exchange or non-exchange transactions in the notes to the schedule of non-departmental assets. This is in compliance with PBE IPSAS 1.88.

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 capital expenditure or schedule of non-departmental revenue.

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 revenue and schedule of non-departmental 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	5–45 years (2–20%)
Roads	20–25 years (4–5%)
Bridges and fencing	5–25 years (4–20%)
Motor vehicles	5–10 years (10–20%)
Plant and equipment	3–5 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 revenue or schedule of non-departmental 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. Creditors and other payables are classified as either exchange or non-exchange transactions in the notes to the schedule of non-departmental liabilities.

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.

PROVISION FOR BIOSECURITY INCURSION EVENTS

This provision for compensation payable under section 162A of the Biosecurity Act 1993 is 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.

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);
- non-cancellable operating lease commitments (see Statement of Commitments);
- provision for biosecurity incursions (see Note 12); and
- impairment of the Crown's equity investment in Crown Irrigation Investments Limited (see Note 9).

Note 2: Fines, penalties and levies

ACTUAL 2017 \$000		ACTUAL 2018 \$000
COST RECOVERY LEVIES FROM FISHING INDUSTRY		
36,167	– Fisheries services	23,601
1,675	– Conservation services	1,528
3,852	Biosecurity Act 1993 fines	4,329
10	Forfeitures for fisheries offences	–
403	Dairy industry levy	452
163	Fisheries Act 1996 infringement notices	213
5	Animal welfare infringement	56
42,275	Total fines, penalties and levies income	30,177

Note 3: Forestry encouragement loans

ACTUAL 2017 \$000		ACTUAL 2018 \$000
5,012	Balance at 1 July	4,137
346	Interest	255
(1,686)	Repayments	(5,433)
465	Unwind present value adjustments	1,041
4,137	Balance at 30 June	–
1,686	Current asset portion	–
2,451	Non-current asset portion	–

Forestry encouragement loans were advanced to local authorities between 1981 and 1986 at interest rates ranging from 4.5 percent to 7 percent under the Forestry Encouragement Loan Regulations (1967) to encourage afforestation. These loans become repayable when either 30 or 40 years have 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 face value of forestry encouragement loans outstanding is \$0 (2017: \$5.178 million) as at 30 June 2018; all outstanding loans have been repaid in full as at 30 June 2018.

The Crown holds no collateral over forestry encouragement loans.

Note 4: Non-current forestry assets held for sale

Non-current assets held for sale consist of the Crown's interest in forests and associated property, plant and equipment that are subject to Treaty of Waitangi settlements or other Treaty of Waitangi obligations.

The accumulated property revaluation reserve recognised in equity for these assets at 30 June 2018 is \$225,000 (2017: \$225,000).

Note 5: Forests

ACTUAL 2017 \$000		ACTUAL 2018 \$000
FORESTS MEASURED AT FAIR VALUE		
176,374	Opening balance 1 July	172,048
22,160	Changes in fair value	20,616
(26,376)	Decrease due to harvesting	(32,722)
(4,216)	Gain/(Loss) on forest revaluation	(12,106)
–	Increase due to acquisition	443
(110)	Decrease due to disposals	–
172,048	Balance at 30 June	160,385
FOREST MEASURED AT COST LESS IMPAIRMENT		
7,211	Opening cost 1 July	7,211
7,211	Closing cost 30 June	7,211
(7,211)	Opening accumulated impairment 1 July	(7,211)
(7,211)	Closing accumulated impairment 30 June	(7,211)
–	Balance 30 June	–
172,048	Total carrying value of forests	160,385

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 2018 the net stocked area of trees was 12,583 hectares (2017: 14,294 hectares).

During the year ended 30 June 2018:

- 808,675 cubic metres of logs (2017: 738,413 cubic metres) were produced from harvesting operations;
- no forests were purchased (2017: nil);
- under the One Billion Trees programme new forestry rights were entered into comprising 3,635 hectares (2017: nil); and
- 2,166 hectares of Crown Forestry managed estate were surrendered or sold (2017: 1,561 hectares).

FORESTS MEASURED AT FAIR VALUE

The valuations at 30 June 2018 were carried out by Alan Bell and Associates, registered forestry consultants specialising in forest valuation. The following valuation assumptions 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.
- In the 2017/18 year, MPI's cash flows are discounted using a mid point discount. This is in recognition that cash received is spread throughout the year.

- 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.
- Log prices are based on a start point of current prices (adjusted March quarter 2018) 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 forest from Timberlands West Coast Limited. The special purpose species forest consists of a forestry right on Ngai Tahu land and was planted between 1993 and 2007 under an agreement between Timberlands West Coast Limited and the Crown.

For the valuation year ended 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 was recognised to cover rates, rent and overheads until the end of the term of the forest right.

Nothing has changed in the last 24 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), Veitch 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 continuing favourable exchange rate offset rising freight rates and steady fuel costs to maintain log prices into China. This is still setting 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 2017/18 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 2017 \$000		ACTUAL 2018 \$000
CURRENT ASSETS		
Non-exchange transactions		
19,458	Debtors and other receivables – fine, penalties and levies	14,257
(158)	Less provision for impairment	(138)
Exchange transactions		
6,550	Debtors and other receivables – Crown Forestry operations and miscellaneous revenues	5,122
NON CURRENT ASSETS		
Exchange transactions		
–	Debtors and other receivables – Crown Forestry operations and miscellaneous revenues	204
25,850	Total debtors and other receivables	19,445
(1,366)	Less provision for impairment	(158)
25,386	Total debtors and other receivables	25,850

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

The ageing profile of debtors and other receivables at year end is detailed below.

	2017			2018		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due	25,643	–	25,643	18,061	–	25,643
Greater than 30 days	–	–	–	910	–	–
Greater than 60 days	–	–	–	439	–	–
Greater than 90 days	365	(158)	207	35	(158)	207
Total	26,008	(158)	25,850	19,445	(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 2018, MPI has not identified any debtors (2017: 1) that are insolvent (2017: \$28,000).

Movement in the provision for impairment of receivables is as follows:

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,366	Balance at 1 July	158
(886)	Additional provisions made	39
–	Unused amounts reversed	–
(322)	Receivables written off	(59)
158	Balance at 30 June	138

Note 7: Property, plant and equipment

	LAND \$000	BUILDINGS \$000	ROADS, FENCES AND EQUIPMENT \$000	MOTOR VEHICLES \$000	TOTAL \$000
COST OR VALUATION					
Cost or valuation					
Balance 1 July 2016	14,322	140	5,898	402	20,762
Revaluations	3,945	85	–	–	4,030
Balance 30 June 2017	18,267	225	5,898	402	24,792
Balance 1 July 2017	18,267	225	5,898	402	24,792
Other adjustments	112	–	–	–	112
Balance 30 June 2018	18,379	225	5,898	402	24,904
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
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	–	0	5,152	346	5,498
Balance at 1 July 2017	–	–	5,152	346	5,498
Depreciation expense	–	5	133	14	152
Balance 30 June 2018	–	5	5,285	360	5,650
CARRYING AMOUNTS (NET ASSET VALUE)					
At 1 July 2016	14,322	128	889	69	15,408
At 30 June and 1 July 2017	18,267	225	746	56	19,294
At 30 June 2018	18,379	220	613	42	19,254

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; and Blue Hancock and John Dunkley of Colliers International.

Note 8: New Zealand Walking Access Commission

The New Zealand Walking Access Commission is a Crown entity established under the Walking Access Act 2008, to provide leadership and co-ordination of walking access, the negotiation and funding of new access over private land and the creation of a code of responsible conduct in respect of walking access.

Note 9: Crown Irrigation Investments Limited

The Crown Irrigation Investments Limited (CIIL) 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 company is also listed in Schedule 2 of the Crown Entities Act 2004.

In 2017/18 MPI assessed its investment in CIIL for indicators of impairment. The most appropriate information available to estimate the value of the Crown's investment in CIIL is the net asset position of CIIL. The investment has been impaired to reflect the CIIL net asset position as at 30 June 2018. Movements in MPI's investment is shown in the table below.

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	CROWN IRRIGATION INVESTMENT LIMITED IMPAIRMENT	
17,400	Opening balance	36,400
19,000	Investment in CIIL	36,000
–	Impairment of crown equity investment in CIIL	(21,659)
36,400	Closing balance (total investment)	50,741

Note 10: Creditors and other payables

ACTUAL 2017 \$000		ACTUAL 2018 \$000
	NON-EXCHANGE TRANSACTIONS	
2,470	GST payable	2,915
14,076	Grants payable	11,684
–	Compensation payable for biosecurity incursions	8,941
–	Other accrued expenses	4,307
	EXCHANGE TRANSACTIONS	
7,982	Other accrued expenses	5,305
24,528	Total creditors and other payables	33,153

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 of Fisheries 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 2018 to be applied against future cost recovery levy orders.

Note 12: Provisions

ACTUAL 2016 \$000		ACTUAL 2017 \$000
	CURRENT	
1,243	Rural veterinarians bonding scheme	1,419
2,043	Commercial aquaculture claims settlement	2,043
–	Compensation for biosecurity incursions	57,374
3,286	Total current provisions	60,836
	NON-CURRENT PROVISIONS	
767	Rural veterinarians bonding scheme	731

473	Onerous contracts	597
1,240	Total non-current provisions	1,328
4,526	Total provisions	62,165

In 2017/18 MPI established a new appropriation for the recognition of compensation and ex-gratia payments following a biosecurity event. Due to the significant occurrence of incursions, notably *Mycoplasma bovis*, MPI has recognised a substantial increase in provisions for 2017/18.

MPI's recognition of a provision for biosecurity events is completed in accordance with its accounting policy for provisions. Provisions for compensation payable under section 162A of the Biosecurity Act 1993 is 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.

As at 30 June 2018, MPI's provision relates mainly to the incursion of *Mycoplasma bovis*. MPI recognises a provision on the issue of a "Notice of Infection" or "Notice of Direction" to an affected property. The provision accounts for several criteria associated with claims for *Mycoplasma bovis* as a result of the "Notice of Infection" or "Notice of Direction".

Note 12a: Rural Veterinary Bonding Scheme

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,843	Opening balance	2,010
1,429	Additional provisions made	1,408
(1,262)	Amounts used	(1,268)
2,010	Closing balance	2,150

The Rural Veterinary 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 101 (2017:108) veterinarians currently in the scheme.

Note 12b: Onerous contracts

ACTUAL 2017 \$000		ACTUAL 2018 \$000
1,129	Opening balance	473
473	Additional provisions made for South Westland	124
(1,129)	Reversal of Tokararangi Onerous Contract	–
–	Increase/(decrease) for passage in time and change in discount rate	–
473	Closing balance	597

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 6 percent (2017: 8.5 percent) 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 2017 \$000		ACTUAL 2018 \$000
2,560	Opening balance	2,043
(517)	Amounts used	–
2,043	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: Expenditure on Compensation for biosecurity events

ACTUAL 2017 \$000	ACTUAL 2018 \$000
COMPENSATION FOR BIOSECURITY INCURSIONS EXPENDITURE:	
– Opening balance	–
– <i>Mycoplasma bovis</i>	69,922
– Other incursions	11,187
– Closing balance	81,109

Expenditure is on funding approved within the newly established non-departmental appropriation (Compensation and Ex-gratia Payments following a Biosecurity Event) in the 2017/18 financial year. This was to enable the compensation liabilities under the Biosecurity Act 1993 to be met arising from biosecurity events.

Note 14: 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 2017/18 is attributable to the sale of forest produce revenue. This is due to increased log prices which has resulted in increased revenue higher than budget. The log price increase is driven by growth in the China log export markets and increased demand from domestic log processors.

NON-DEPARTMENTAL EXPENSES

Operating expenses were \$17.744 million lower than budget primarily due to the 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 and in-principle expense transfer was sought to carry forward underspent budget from 2017/18 to 2018/19.

This was partially offset by operating expenses for Crown Forestry operations which were higher than what was budgeted primarily due to bringing forward harvest volumes as harvesting operations are required to be completed prior to Crown Forestry's forestry right terminating on 31 December 2020.

Expenditure on grants was \$39.000 million lower than budget primarily due to reprioritisation of funding to support the Government's 2018 budget priorities. Additionally, timing changes in key projects were 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 decisions made by Cabinet regarding CIIL's commitments and extensions on the timing of financial close, for the projects that CIIL is continuing to work with. As the expenditure is against a multi-year appropriation, the underspend in 2017/18 is still available in 2018/19. Further information on CIIL can be found in its annual report.

Note 15: Events after balance date

MYCOPLASMA BOVIS

Subsequent to 30 June 2018 MPI under the Biosecurity Act has continued to respond to incursions, such as *Mycoplasma bovis*. In undertaking these activities MPI has issued "Notices of Infection" and "Notices of Direction" after the balance date. The issue of these notices may 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. The financial impact is yet to be measured.



Other Information

Legislation

Administered by MPI as at 30 June 2018

MPI administers 49 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 (Quota Operations Validation) Act 1997
- Fisheries Act 1983
- Fisheries Act 1996
- Food Act 2014
- Forestry Encouragement Act 1962
- Forestry Rights Registration Act 1983
- Forests (West Coast Accord) Act 2000
- Forests Act 1949
- 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
- Pork Industry Board Act 1997
- Primary Products Marketing Act 1953
- Public Works Act 1981 (Part 19)
- 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 2017 to 30 June 2018

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 which are 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 has supported rural water harvesting, storage and distribution infrastructure. Funding has been provided to support three distinct activities:

- **Strategic water management studies** – to help with the development of regional approaches to integrated water management, particularly the potential of rural irrigation-related infrastructure and testing of the Managed Aquifer Recharge concept.
- **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.
- **Regional-scale water management and infrastructure development (through Crown Irrigation Investments Limited)** – to support regional schemes as well as capital upgrades of existing large-scale scheme infrastructure.

Following the Government's wind down of large scale irrigation, this fund is on hold, with no further applications being accepted. Current contracts will be honoured and work is underway to repurpose remaining funds.

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 working with production animals in rural areas, a voluntary bonding scheme provides veterinarians with a taxable payment of \$11,000 per year for every year they work in an eligible area, over the five year bonding period.

An aerial photograph showing a vast forest plantation on a sloping hillside. The trees are young, coniferous, and planted in a regular grid pattern. The ground between the trees is covered with dry, yellowish-brown grass or low-lying vegetation. The overall scene is a mix of green and brown tones, with the sun casting long shadows across the terrain.

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 (M2).

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 2020. 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 \$1300 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 over the next six years.

DESCRIPTION OF ACTIVITIES

From the 2016 AGS funding round, MPI contracted 81 applicants to plant 4,800 hectares in winter 2017. At the conclusion of the planting season MPI had received claims for payment for 2,634 hectares planted (from the 81 contracts). As at 30 June 2018, payments had been made for 2,053 hectares, with further inspections to be carried out and verified on 581 hectares.

MPI agreed to defer planting of 1,075 hectares to winter 2018 and 2019 because some grantees were unable to plant due to circumstances outside of their control. For example, some applicants were unable to secure enough seedlings due to high demand for the 2017 season. Also, 1,092 hectares were withdrawn, including 878 hectares by Landcorp Farming Ltd.

The third funding round held in 2017 saw 86 applications contracted to plant 4,752 hectares. This planting began in winter 2018, and we expect to receive claims between September 2018 and June 2019.

The fourth funding round held in 2018 saw 96 applications received, to plant 6,123 hectares. The majority of planting will begin in winter 2019, with a small amount to be planted in winter 2018.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Total area afforested since initial implementation of the scheme	2,500 hectares	2,634	✓

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2017 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
2,328	This category is limited to the administration of government approved schemes, grants and assistance to the land-based sectors.	3,560	3,900	6,809

ADDITIONAL COMMENTS

This multi-year appropriation commenced 1 July 2016 and expires 30 June 2021. This is intended to achieve and encourage new planting of an expected 15,000 hectares of forest over the next three years.

APPROPRIATION, ADJUSTMENTS AND USE	\$000
Original appropriation	19,500
Adjustments for 2016/17	—
Adjustments for 2017/18	(10,363)
Adjusted appropriation	9,137
Actual to 2016/17 year end	2,328
Actual for 2017/18 year end	3,560
Estimated appropriation remaining	3,249

This appropriation has decreased by \$10.363 million to \$9.137 million in 2017/18. This is due to the transfer of funds to Vote Forestry, established on 1 July 2018.

Climate Change Research

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental output expense Climate Change Research. The appropriation provides for research delivered by universities, crown research institutes and private sector research providers.

The Sustainable Land Management and Climate Change (SLMACC) research programme aims to improve knowledge of climate change in the agriculture and forestry sectors. The programme is focused on:

- the 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 using a strategic research framework and subject matter experts from MPI as well as external, independent advisors. Priority is given to projects that fill gaps in existing knowledge or advance climate change response capability in the primary sector.

The knowledge generated by this fund is used to inform primary sector stakeholders, develop policies and generate further research. Research is also transferred to land users and their advisers through the SLMACC technology transfer programme, and other means.

Four reviews covering adaptation, mitigation, forestry and extension were carried out in 2017/18. The reviews found that the SLMACC fund had delivered a wide range of benefits over the 10 year programme, including:

- detailed and comprehensive knowledge of the risk and impacts of climate change on land management and on the implications of, and opportunities arising from, climate change policy;
- active engagement between research users and research providers to develop actionable research results and applications;
- identifying knowledge gaps in the sector; and
- support for policy and sector stakeholder decision makers.

For example, one project, “Small Carbon Forestry Options for Landowners”, has provided information that will help landowners to evaluate timber returns, carbon returns and any environmental benefits, as components of the whole farm system. The information lowers investment risk for landowners by helping them to select the appropriate combinations of tree species, management and site.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to obtaining climate change science, research, technology, capacity and capability in relation to the land-based primary industries.

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.

Research generates knowledge that can be used to:

- address cross-cutting issues, including economic analysis; lifecycle analysis; farm, catchment and systems analysis; and social impacts;
- capitalise on new business opportunities arising from the world's response to climate change;
- encourage indigenous and plantation forest sinks;
- enhance and support adaptation to climate change;
- manage deforestation;
- develop policy research to address targeted policy questions;
- reduce agricultural greenhouse gas emissions; and
- understand the effects of climate change.

DESCRIPTION OF ACTIVITIES

This other expense covers payments for:

- financial management;
- project management;
- research activities;
- scientific report and paper writing; and
- technology transfer and extension.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE 2017/18	PERFORMANCE RESULTS	STANDARD MET
Percentage of funded research projects completed within contracted timeframes	80%	100%	✓

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
1,297	Actual expenses incurred compared to that appropriated in estimates (funded by the Crown)	3,179	3,105	3,258

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.

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 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.

DESCRIPTION OF ACTIVITIES

This output covers the Crown's contribution to implementation of the Plan. Activities under the Plan are as specified in an Operational Plan prepared by TBfree New Zealand pursuant to S100B of the Biosecurity Act 1993.

Crown funding is according to the Biosecurity (National Bovine Tuberculosis Pest Management Plan) Order 1998 and an associated funding agreement between the Crown, Dairy NZ Inc, Beef+Lamb NZ Ltd, Deer Industry NZ and TBfree New Zealand.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Number of cumulative hectares (within $\pm 5\%$) where eradication has been achieved reclassified as vector free from vector risk	1.2 million hectares	1.99 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 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
26,000	Actual expenses incurred compared to that appropriated in estimates (funded by the Crown)	26,000	26,000	26,000

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 into significant programmes of research and innovation that 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 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. The appropriation includes 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 PGP funding, a 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 PGP PROGRAMMES AS AT 30 JUNE 2018

PGP programmes are delivering clear and tangible benefits. Some examples are detailed below.

Transforming the Dairy Value Chain

The recently completed Transforming the Dairy Value Chain programme has developed a range of pre- and post-farm gate developments. For example:

- Every dairying region now has its own riparian planning guide; more than 9500 farms (83 percent of industry) have a budget in place to track nitrogen use and loss; and significant non-compliance for effluent discharge is down to 5.2 percent, a new record low.
- Fonterra is building a \$240 million mozzarella plant at Clandeboye – the biggest food service capital investment in New Zealand dairy history. The expansion decision is supported by science developed by the programme.
- An expert panel of the globe's best dairy scientists praised Fonterra's food structure science and the public-private PGP programme that supported it.
- Nineteen organisations have signed up to deliver the GoodYarn mental health programme training to their staff.

Clearview Innovation

A focus for the Clearview Innovation programme has been to develop products which make nitrogen and phosphorus use more efficient, reducing environmental impacts. The programme has developed three key products to optimise the use of fertiliser for higher farm productivity and environmental improvement.

The products are:

- N-Guru™, a decision support tool that accurately predicts pasture responses to nitrogen, allowing farmers to use nitrogen more efficiently on their farms.
- SpreadSmart™, a technology that automatically applies fertiliser from topdressing planes at an ideal rate – it avoids environmentally sensitive areas, is more efficient, and improves returns for farmers; and
- MitAgator™, which takes data from OVERSEER files and links this with a geo-referenced farm map, a soil map and a digital elevation model. It develops risk maps for individual farms and identifies areas where there's more likely to be a loss of phosphorous, nitrogen, sediment, and bacterial contaminants. This tool is in its final development for commercial release in 2018.

FoodPlus

The FoodPlus programme aims to generate more value from the red meat carcase by developing new and innovative uses for the current lower value and under-utilised portions. To date the programme has developed 22 products ranging from a slow-cooked beef oxtail product through to beef bone extracts. The programme

is also developing medical and surgical products from low value parts of the animal carcass and other products from animal blood.

Lighter Wines

The Lighter Wines programme is designed to position New Zealand as number one in the world for high-quality, lower-alcohol and lower-calorie “lighter” wines. The research focuses on natural production using sustainable viticulture and winery techniques, giving wineries a point of difference to existing processing methods and other products on the market. There have been a growing number of lighter wines produced using the techniques developed and refined by the programme, with a number of these receiving medals and awards. To date, the majority of lighter wines have been sold in the domestic market, but there is demonstrated consumer demand for the wines in export markets and growing interest from major retailers in Australia, Canada, the UK and Sweden to stock a range of New Zealand lighter wines.

Marbled Grass-fed Beef

The Marbled Grass-fed Beef programme will develop an integrated value chain for high-value, marbled beef that is internationally recognised for its superior eating qualities. Key to this proposition is the use of Wagyu sires with high-marbling genetics for the yearly mating with dairy heifers and cows, and developing rearing and grazing systems that support year-round cattle growth. Good progress has been made with establishing and growing the supply of Wagyu calves from the dairy industry and delivering sustained premiums to breeders. The programme has also developed a retail range of products that has been launched in New Zealand, the US and Europe, delivering sustained premiums over the prime steer price back to farmers.

New Zealand Avocados Go Global

Irregular fruit bearing and an over-reliance on the Australian export market were two key challenges that the New Zealand Avocados Go Global programme seeks to overcome. The industry reached a record-breaking industry value of over \$200 million from 7.9 million trays in 2016/17 – well on track to delivering the 2023 targets of the New Zealand Avocados Go Global programme. Over 70 percent of growers have changed orchard practices over the past two years as a result of information developed by the programme.

Passion2Profit

The Passion2Profit programme 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. New Zealand’s venison industry very much relies on markets where demand is seasonal, and not in sync with our venison supply. Trial sales in non-seasonal markets are improving the alignment of the production of New Zealand venison with consumer demand to increase the volume of chilled

product sold. Premiums of approximately \$3,000 per tonne over frozen product are being achieved. Twenty-six Advance Parties are now in operation with over 260 farmers involved and a number of information resources and decision support tools developed and distributed to farmers.

Pioneering to Precision

The Pioneering to Precision programme seeks to improve fertiliser practice on hill country farms through remote sensing of the nutrient status of the farms and precision application of fertiliser. The programme has assembled the most comprehensive soil and plant tissue dataset collected in New Zealand – 8,052 soil and 7,280 plant tissue samples. An independent technical review by international experts has concluded that the development of robust remote sensing algorithms to predict soil fertility has great potential to increase the profitability of hill country farms.

DESCRIPTION OF ACTIVITIES

PGP programmes are innovation programmes run over several years. At the beginning of the year (1 July 2017), 16 programmes were underway with industry partners. The Transforming the Dairy Value Chain programme ended on 30 January 2018. No new programmes were started at the time of writing this report although it is anticipated that a new programme will commence in September 2018.

The following is a list of the current programmes for the PGP.

1. **High Performance Mānuka Plantations** (partnering with Mānuka Research Partnership (NZ) Ltd) aims to increase the reliability of supply and the proportion of medical grade mānuka honey.
2. **Clearview Innovations** (partnering with Ballance AgriNutrients) aims to improve on-farm productivity and nutrient efficiency and reduce farms’ environmental footprints.
3. **Precision Seafood Harvesting** (partnering with Moana Fisheries, Sanford and Sealord Group) aims to develop new wild catch harvest technology.
4. **SPATnz** (partnering with Sanford) aims to domesticate the greenshell mussel.
5. **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.
6. **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.
7. **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.

8. **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 profit 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.
9. **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.
10. **Lighter Wines** (partnering with New Zealand Winegrowers and 18 contributing wineries) is designed to position New Zealand as number one in the world for high-quality lower-alcohol and lower-calorie wines.
11. **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.
12. **Passion2Profit** (partnering with Deer Industry New Zealand, New Zealand Deer Farmers Association, Alliance Group, Duncan New Zealand Ltd, Firstlight Foods, Mountain River Venison and Silver Fern Farms) 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.
13. **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.
14. **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.
15. **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 programme was completed during 2017/18.

- **Transforming the Dairy Value Chain** (partnering with DairyNZ and Fonterra) aimed to create new products, increase productivity on farm, reduce farm environment footprints and improve agricultural education.

Four business cases have been approved and are currently being contracted. Five additional business cases are currently under development, having been approved through the first application stage. It is anticipated that some of these will become new programmes during the 2018/19 financial year.

MONITORING 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 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Percentage of quarterly reports reviewed and signed off by Programme Steering Group	90%	100%	✓
Percentage of annual business plans approved in accordance with specific PGP agreements	90%	67% 10 out of 15 programmes' annual business plans were reviewed and accepted in accordance with specific PGP agreements. Delays occurred where governance bodies for respective programmes sought improvements to Annual Plans.	✗
The annual meeting is held in accordance with Investment Advisory Panel Terms of Reference	Achieved	The PGP annual meeting was held on 30 November 2017, followed by a "Food and Fibre Innovation" conference and PGP expo.	✓

SERVICE PERFORMANCE – FINANCIAL

The PGP fund expenditure is covered by a multi-year appropriation over five years from 1 July 2017 to 30 June 2022. Multi-year appropriations give departments flexibility to manage expenses over several years up to a maximum of five years. This appropriation is limited to primary 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. 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	244,312
Adjustments for 2016/17	–
Adjustments for 2017/18	(80,892)
Adjusted appropriation	163,420
Actual expenses for 2017/18	38,299
Estimated appropriation remaining	125,121

This appropriation decreased by \$80.892 million to \$163.420 million in 2017/18 to support the Government's 2018 budget priorities.

Sustainable Farming Fund

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Sustainable Farming Fund. Non-departmental outputs purchased by the Crown under this appropriation relate to projects that are part-funded by MPI SFF grants.

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 in recent years has made grant payments of around \$7 million per year. The fund is consistently oversubscribed.

The current 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 higher 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.

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, improving management of New Zealand's natural resources.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Percentage of project milestones met	85%	93%	✓

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
8,936	Actual expenses incurred compared with that appropriated in estimates (funded by the Crown)	8,174	9,865	9,663

ADDITIONAL COMMENTS

The decrease in appropriation to \$9.663 million is due to a reprioritisation of funding from the Primary Growth Partnership to provide funding for the Primary Industry Earthquake Recovery Fund (ERF). Funding was made available to community groups of quake-affected farmers in Hurunui, Kaikōura and Marlborough regions to support shared community problems and assist with earthquake recovery across the affected areas. A contestable fund round was held and the same

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.

assessment criteria for SFF was used for ERF. Under this specific fund, eight community projects were approved and commenced in late 2017.

A list of the eight approved earthquake-related community projects and the project details are available on the MPI website at: <http://www.mpi.govt.nz/protection-and-response/responding/adverse-events/kaikouraearthquake/primary-industries-earthquake-recovery-fund/#community>.

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. Budget 2016 allocated \$25 million (over five years) to support irrigation infrastructure proposals, to the investment-ready prospectus stage. The appropriation was split on a ratio of 90:10 between Crown Irrigation Investments Limited (CIIL) and the Irrigation Acceleration Fund (IAF) administered by MPI.

The IAF has supported community scale irrigation schemes and strategic water management studies. CIIL has been responsible for larger scale regional irrigation infrastructure development projects.

In the 2017 Budget, CIIL was allocated \$26 million to increase the amount of grant funding available to assess the feasibility of regional-scale schemes.

In late 2017, in line with the Government's aim to wind down public investment in large-scale irrigation projects, the IAF and CIIL stopped accepting applications. All existing contracts will be honoured and residual funds will be re-appropriated.

Statement of service performance

SCOPE OF APPROPRIATION

This appropriation is limited to proposals for water management studies, trials and irrigation scheme investigations.

The IAF has current contracts with two water management studies/trials and one smaller-scale irrigation scheme. CIIL has contracts with five irrigation schemes in development. All contracted studies will be completed by 15 December 2018.

INTENDED IMPACTS, OUTCOMES OR OBJECTIVES

The objective of funded water storage and irrigation investment proposals is to support investment in modern water management infrastructure, providing reliable water for both economic and environmental uses.

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 (with flows managed). This ensures supply for farms that need water to grow grass, crops, vines, seeds, fruits and vegetables, while providing rivers with sustained flows, even when nature does not provide them.

These objectives are now to be delivered through the PGF administered by MBIE on a case-by-case basis. MPI is working closely with MBIE to assist with developing, assessing and managing water storage projects.

DESCRIPTION OF ACTIVITIES

This "other expense" covers grant payments for:

- technical work programmes required to develop scheme proposals, water studies and trials; and
- community consultation and engagement.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Total potential new irrigated area enabled by existing Crown funded projects that are commissioned, in construction or in development	220,000 hectares	220,650 hectares comprising: <ul style="list-style-type: none"> • 73,300 hectares in operation (water flowing) compared with 55,300 hectares 12 months ago) • 28,800 hectares in construction • 116,050 hectares under investigation for development 	✓

SERVICE PERFORMANCE – FINANCIAL

The IAF expenditure (undertaken by MPI and CIIL) which was covered by a multi-year appropriation (five years from 1 July 2016 to 2021) has been halted. Existing development contracts are to be honoured. All funding will be allocated within 2018/19.

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
12,950	Actual expenses incurred, compared with that appropriated in estimates (funded by the Crown)	3,439	25,472	8,187
APPROPRIATION, ADJUSTMENTS AND USE				\$000
Original appropriation				25,000
Adjustments to 2016/17 appropriation				34,037
Adjustments to 2017/18 appropriation				(37,900)
Adjusted appropriation				21,137
Actual expenses for 2016/17				12,950
Actual expenses for 2017/18				3,440
Appropriation remaining				4,747

ADDITIONAL COMMENTS

The figures shown illustrate the position as of 11 July 2018. The original budget allocated 1 July 2016 was \$25 million. There was a transfer of \$7.375 million from the previous multi-year appropriation that finished 2015/16 plus an additional \$26.7 million in the 2017 Budget (totalling \$34.037 million). As investment into large scale irrigation has been wound down, \$37.9 million has been re-appropriated, leaving sufficient funds to honour existing contracts.

Forestry and Other Economic Development, and Erosion Control

Introduction

This report covers Vote Primary Industries and Food Safety non-departmental other expense Forestry and Other Economic Development, and Erosion Control (M2).

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.

In February 2017, Cabinet approved an expansion of the ECFP's scope, 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 date, ECFP has awarded \$1.45 million to the following three community projects.

- **Kānuka harvesting**
 - This research project aims to identify optimal growing and sustainable harvesting techniques for bioactive extracts. The research assesses existing mature kānuka stands grown in and around Ruatoria (kānuka currently grows on about 30 percent of the land there). By creating commercial opportunities for the plant, people will become more likely to retain the existing kānuka land-cover, providing significant erosion mitigation benefits. Funding recipients are working with plant scientists and local landowners to research a range of kānuka qualities, including plant genetics; optimal planting and growing conditions and locations; best harvest times and techniques; and the use of technologies to promote plant health and good regrowth.
- **Advanced digital mapping (LiDAR)**
 - This project will involve mapping the Gisborne area with high-definition digital 3D aerial technology. This will enable better informed erosion control and business decisions. Once completed, the LiDAR model will increase the accuracy of identifying highly erodible land and potential slips. This, in turn, will improve the effectiveness of tree planting to mitigate erosion. Other benefits include identifying heritage pā sites that would otherwise be hidden below tree canopies, and improving infrastructure planning by ensuring roads and bridges are located away from natural hazards (such as landslips).
- **Riparian treatment projects in the Gisborne area**
 - This is the first stage of a larger programme. It aims to protect valuable, alluvial, flat, productive land. MPI is working closely with the local community to develop the programme further. River bank stabilisation will be followed by in-fill planting (with mainly native species). The programme aims to develop skills in the community. Gisborne District Council and senior members of the community will manage the project jointly.

These changes are intended to lead to increased fund uptake, and enable more opportunities for erosion control in the district.

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, orchards, 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.

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, reducing the likely effects of climate change, improving water quality by reducing nutrient leaching and improving 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 2017/18 funding round for ECFP land treatments, 37 applications were assessed for funding eligibility with 33 approved for funding for planting in subsequent years.

Six community-led projects were also assessed, of which three were approved for funding support.

In 2017/18, 140 hectares of erosion treatments were established. Maintenance was also carried out on projects undertaken in previous years. 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 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Number of hectares approved for planting and treatment	1,000 hectares	4,727 hectares	✓
Total area afforested since initial implementation of the scheme	42,000 hectares	41,906 hectares	✓

ADDITIONAL COMMENTS

The ECFP is in the mature phase of the programme uptake. Most willing participants 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 recruiting an additional 1.5 full-time equivalent (FTE) staff (to bring the total to 2.5 FTE), to support community outreach and community participation in the ECFP across the Gisborne region.

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 are presented with unique challenges (for example, small blocks, low income generated from the land, or 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. This increased focus on building relationships with landowners will continue into 2018/19, enabling further progress towards the goals of the ECFP.

SERVICE PERFORMANCE – FINANCIAL

The Erosion Control Funding Programme expenditure is covered by a multi-year appropriation over four years from 1 July 2017 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 timing of expenditure between the years is uncertain.

This appropriation is limited to forestry and other economic development and erosion control in the Tairāwhiti region.

APPROPRIATION, ADJUSTMENTS AND USE	\$000
Original appropriation	18,460
Adjustments for 2016/17	–
Adjustments for 2017/18	(16,940)
Adjusted appropriation	1,520
Actual expenses for 2017/18	370
Estimated appropriation remaining	1,150

REASONS FOR CHANGE IN APPROPRIATION

This appropriation has decreased by \$16.940 million to \$1.520 million in 2017/18. This is due to the transfer of funds to Vote Forestry, established on 1 July 2018. The adjusted appropriation \$1,520 million is committed for contracts established in 2017/18. New contracts will be awarded from Vote Forestry in 2018/19.

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 50 member countries and 17 partners. Its partners are 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 2017/18 is Japan with Germany as the Vice Chair. Germany will take over the chair at the Global Research Alliance Council meeting in September 2018. New Zealand was the Council chair from 2011 to 2012 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 Prime Minister’s Chief Science Advisor, Professor Sir Peter Gluckman. Final projects are approved by MPI’s Director-General.

Research funded under the GPLER must be significantly beyond business as usual, resulting in innovative, cost-effective, sustainable solutions that can be readily adopted by New Zealand farmers (and those in other countries with similar livestock emissions) or that will benefit New Zealand in other ways. 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 2016–2020. 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 has established the Global Research Alliance Development Scholarships 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.

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 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Percentage of Alliance projects funded with the New Zealand budget completed to contracted quality standards	95%	98%	✓

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 \$000	2017/18 \$000	2018/19 \$000	2019/20 \$000	TOTAL \$000
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	0	0	0	10,926
Forecast spend profile for multi-year appropriation – Global Research Alliance	(13,479)	4,609	2,979	5,891	0
Indicative spending profile	6,601	11,005	9,205	7,297	34,108
Actual expenses for 2016/17	(4,234)				(4,234)
Actual expenses for 2017/18		(8,044)			(8,044)
Carry forward of underspend from 2016/17	(2,366)		1,183	1,183	
Appropriation remaining		2,961	10,388	8,480	21,829

Administration and Management of Crown Forestry Assets and Operations

This report covers Vote Primary Industries and Food Safety non-departmental output expense Departmental 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.

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, as well as audit and administration functions related to these forest assets are carried out by MPI staff, and funded by departmental appropriations.

As at 30 June 2018, under this appropriation, MPI manages the Crown's interest in:

- 16 forests with a total planted area of 12,583 hectares from the existing Crown Forestry estate; and
- six afforestation leases where Crown forest land has been leased to other parties for forestry purposes.

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 of the Crown's forests. This includes forest establishment, silviculture and harvesting.

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 forest produce and replanting 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 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Number of hectares of the Crown forestry managed estate surrendered or sold	2,166	2,166	✓
Percentage of forest management activities comply with all statutory requirements, lease agreements and other contractual arrangements as assessed by annual independent review of a sample of forests	100%	100%	✓
Percentage of costs and revenues are consistent with industry norms as assessed by annual independent review of a sample of forests	100%	100%	✓
Manage contracts to supply planned cubic metres (m ³) of logs within ±10%	804,375	808,675	✓
Management fee (per net stocked hectare) exclusive of harvesting and reinvestment fees	\$26	\$26	✓

SERVICE PERFORMANCE – FINANCIAL

ACTUAL JUNE 2017 \$000		ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
60,924	Expenditure (funded by Crown)	74,553	72,077	76,126
89,696	Crown revenue (sale of forest produce)	110,512	96,608	106,598

ADDITIONAL COMMENTS

Forestry encouragement loans held by City Forests Ltd (wholly owned by Dunedin City Council) were repaid in full on 29 June 2018, interest and principal sums were repaid ahead of schedule.

Growth and Development of the Forestry Sector

This is a new appropriation established in 2017/18. The funding represents expected capital and operational expenditure to enable planting of forestry stock in 2018/19.

As at 30 June 2018, under this appropriation, MPI manages the Crown's interest in:

- three new forests under the One Billion Trees programme with a total plantable area of 3,635 hectares; and
- an order for 11.4 million seedlings for the 2019 planting season, for which a deposit will be due in the 2018/19 year.

PURPOSE

The overarching purpose of this appropriation is to support the growth and development of the forestry sector.

SCOPE OF APPROPRIATION

Management of the Crown's Forestry Assets

This category is limited to the management of the Crown's interest in forests and forestry related assets.


Operational management of the Crown's Forests

This category is limited to the purchase of forestry operation and management services.

Capital investment in the Crown's Forestry Assets

This category is limited to the purchase or planting of the Crown's Forestry assets.

SERVICE PERFORMANCE – NON-FINANCIAL

PERFORMANCE MEASURE 2017/18	PERFORMANCE STANDARD 2017/18	PERFORMANCE RESULTS	STANDARD MET
Number of hectares contracted under commercial forest leases or forest joint ventures as part of the One Billion Trees programme	4,000 hectares	3,635 hectares	

The 9 percent shortfall is due to legal delays in finalising a contract for a 430 hectare forestry right. Now that the legal right to establish the joint venture has been established, the new contract will bring the total area to 4066 hectare.

SERVICE PERFORMANCE – FINANCIAL

	ACTUAL JUNE 2018 \$000	MAIN ESTIMATES 2018 \$000	SUPP ESTIMATES 2018 \$000
Management of the Crown's Forestry Assets	156	–	400
Operational management of the Crown's Forests	394	–	400
Capital investment in the Crown's Forestry Assets	443	–	13,160



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