Financial Statements

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Revenue					
65,438	Crown	2	70,706	78,496	78,496	125,500
135,862	Other revenue	2	144,408	131,395	109,171	57,808
201,300	***Total revenue***		**215,114**	**209,891**	**187,667**	**183,308**
	Expenses					
121,285	Personnel costs	3	128,854	128,354	126,465	158,193
57,203	Operating costs	4	60,519	63,702	57,452	71,698
17,673	Depreciation and amortisation expense	5	22,517	21,031	19,119	21,054
8,827	Capital charge	6	9,071	8,830	8,830	8,830
204,988	***Total expenses***		**220,961**	**221,917**	**211,866**	**259,775**
(3,688)	**Total comprehensive revenue and expense**		**(5,847)**	**(12,026)**	**(24,199)**	**(76,467)**

Explanations of significant variances against budget are provided in note 23.

Statement of Change in Equity

For the year ended 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
166,786	**Taxpayers' funds as at 1 July**		**164,767**	**152,477**	**152,476**	**162,011**
(3,688)	Total comprehensive revenue and expense for the year		(5,847)	(12,026)	(24,199)	(76,467)
(2,648)	Capital withdrawals		–	–	–	–
–	Capital injections		2,603	35,345	35,345	78,786
(7,974)	Provision for return of surplus	11	–	–	(1,933)	–
152,476	**Taxpayers' funds as at 30 June**		**161,523**	**175,796**	**161,689**	**164,330**

Explanations of significant variances against budget are provided in note 23.

Statement of Financial Position

As at 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Current assets					
19,762	Cash and cash equivalents		12,601	43,081	37,824	54,656
5,702	Prepayments		5,266	5,702	4,685	5,702
48,158	Debtors and receivables	7	33,616	39,872	31,724	17,190
73,622	***Total current assets***		**51,483**	**88,655**	**74,233**	**77,548**
	Non-current assets					
33,255	Property, plant and equipment	8	39,080	33,558	30,429	31,728
85,339	Intangible assets	9	111,200	93,323	89,667	94,793
42	Receivables and advances		26	42	42	42
118,636	***Total non-current assets***		**150,306**	**126,923**	**120,138**	**126,563**
192,258	**Total assets**		**201,789**	**215,578**	**194,371**	**204,111**
	Current liabilities					
16,561	Creditors and payables	10	25,375	16,353	13,163	16,352
11,255	Employee entitlements	12	9,455	7,154	13,376	7,154
7,974	Provision for repayment of surplus to the Crown	11	–	7,974	1,933	7,974
–	Other short term liabilities	13	95	208	–	208
35,790	***Total current liabilities***		**34,925**	**31,689**	**28,472**	**31,688**
	Non-current liabilities					
3,742	Employee entitlements	12	5,091	7,843	3,960	7,843
250	Other long term provisions	14	250	250	250	250
3,992	***Total non-current liabilities***		**5,341**	**8,093**	**4,210**	**8,093**
39,782	**Total liabilities**		**40,266**	**39,782**	**32,682**	**39,781**
152,476	**Net assets**		**161,523**	**175,796**	**161,689**	**164,330**
	Equity					
146,785	Crown capital and retained earnings	15	150,057	182,171	182,130	248,747
5,691	Memorandum accounts (net position)	15	11,466	(6,375)	(20,441)	(84,417)
152,476	**Total equity as at 30 June**		**161,523**	**175,796**	**161,689**	**164,330**

Explanations of significant variances against budget are provided in note 23.

Statement of Cash Flows

For the year ended 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Cash flows – operating activities					
	Cash was provided from:					
70,242	Crown		94,104	87,973	86,784	156,826
136,312	Other		140,361	131,395	119,463	57,808
	Cash was applied to:					
(117,097)	Personnel		(117,099)	(126,192)	(124,127)	(180,912)
(67,043)	Operating		(73,685)	(67,053)	(59,971)	(66,152)
(1,110)	net GST		227	–	640	–
(8,827)	Capital charge		(5,360)	(8,830)	(8,830)	(8,830)
12,477	***Net cash flow from operating activities***	20	**38,548**	**17,293**	**13,959**	**(41,260)**
	Cash flows – investing activities					
	Cash was provided from:					
154	Sale of fixed assets		–	–	161	–
	Cash was disbursed to:					
(10,200)	Purchase of fixed assets		(15,673)	(1,373)	(6,188)	(535)
(8,657)	Purchase of intangible assets		(26,338)	(27,946)	(14,594)	(20,159)
(18,703)	***Net cash flow from investing activities***		**(42,011)**	**(29,319)**	**(20,621)**	**(20,694)**
	Cash flows – financing activities					
	Cash was provided from:					
–	Capital contributions		2,603	35,345	32,697	78,786
	Cash was disbursed to:					
–	Capital withdrawal		–	–	–	–
(1,156)	Repayment of surplus		–	–	(7,973)	–
(1,156)	***Net cash flow from financing activities***		**2,603**	**35,345**	**24,724**	**77,786**
(7,382)	**Net increase/(decrease) in cash**		**(860)**	**23,319**	**18,062**	**16,832**
27,144	**Cash at the beginning of the year**		**13,461**	**19,762**	**19,762**	**37,824**
19,762	**Cash at the end of the year**		**12,601**	**43,081**	**37,824**	**54,656**

Explanations of significant variances against budget are provided in note 23.

Statement of Commitments
As at 30 June 2020

2018/19 Actual $000		2019/20 Actual $000
	Capital commitments	
–	Property, plant and equipment	–
–	***Total capital commitments***	**–**
	Non-cancellable operating lease commitments	
12,426	Not later than one year	14,022
15,778	Later than one year and not later than five years	24,485
596	Later than five years	281
28,800	***Total non-cancellable operating commitments***	**38,788**
28,800	**Total commitments**	**38,788**

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant, and equipment and intangible assets that have not been paid for or not recognised as a liability at balance date.

Non-cancellable operating lease commitments

The New Zealand Customs Service has long-term leases on its premises throughout the country and overseas. Annual lease payments on the three largest leases, located in Auckland, Wellington, and Christchurch, are subject to three-yearly reviews. Other leases are subject to a range of review periods.

The amounts disclosed above as future commitments are based on the current rental rates.

The New Zealand Customs Service has no future non-cancellable sublease of premises receipts due over the next 10 financial years as at 30 June 2020 (30 June 2019: nil).

The New Zealand Customs Service also has several non-cancellable software licence and support agreements for which it is bound to pay for the length of the agreement or a cancellation fee.

Statement of Departmental Contingent Liabilities and Assets
As at 30 June 2020

The New Zealand Customs Service has no quantifiable or unquantifiable contingent assets or liabilities as at 30 June 2020 (30 June 2019: nil).

Schedule of Trust Monies

For the year ended 30 June 2020

Account	As at 01/07/2019 $000	Contribution $000	Distribution $000	As at 30/06/2020 $000
Health Promotion Agency Trust	856	12,834	12,925	765
Heavy Engineering Research Association Trust	172	1,839	1,900	111
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	54,972	12,754	11,431	56,295
New Zealand Customs Service Multiple Deposit Scheme Release Trust	478	11,828	12,066	240
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	59	12,741	12,790	10
Total	**56,537**	**51,996**	**51,112**	**57,421**

The funds held in the Health Promotion Agency and Heavy Engineering Research Association accounts represent funds collected and held on their behalf and are transferred to these entities at the beginning of the next financial year.

Notes to the Financial Statements

For the year ended 30 June 2020

Note 1: Statement of accounting policies

Reporting entity

The New Zealand Customs Service is a government department as defined by section 2 of the Public Finance Act 1989. The primary objective of the New Zealand Customs Service is to facilitate the movement of people, goods, and craft across the border and protect New Zealand's border and revenue. Accordingly, the New Zealand Customs Service is a public benefit entity (PBE) under the External Reporting Board standards framework.

In addition, the New Zealand Customs Service has reported on Crown activities and trust monies which it administers.

The financial statements are for the year ended 30 June 2020. The financial statements were authorised for issue by the Comptroller of Customs on 13 November 2020.

Basis of preparation

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

Statement of compliance

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

These financial statements have been prepared in accordance with Tier 1 PBE accounting standards, and comply with PBE International Public Sector Accounting Standards (IPSAS) as appropriate for PBEs.

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

Functional and presentation currency

The general accounting systems recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been followed. The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand. The functional currency of the New Zealand Customs Service is New Zealand dollars.

Standard early adopted

In line with the Financial Statements of the Government, the New Zealand Customs Service has elected to early adopt PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. The New Zealand Customs Service has adopted this new standard in preparing the 30 June 2020 financial statements.

Standards issued and not yet effective and not early adopted

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

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 *Statement of Cash Flows* requires departments to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The New Zealand Customs Service does not intend to early adopt the amendment.

PBE IPSAS 41 Financial Instruments

The External Reporting Board issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the New Zealand Customs Service has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022. The New Zealand Customs Service has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Critical accounting estimates and assumptions

In preparing these forecast financial statements, the New Zealand Customs Service has made estimates and assumptions concerning the future. These estimates and assumptions may differ from 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 in respect of:

- Assessing the impairment of Debtors and receivables – see Note 7
- Assessing the useful lives of software – see Note 9
- Measuring long service leave entitlements and retirement gratuities – see Note 12.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

Accounting for foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the date of the transaction. 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 Statement of Comprehensive Revenue and Expense.

Operating leases

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

Cash and cash equivalents

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

The New Zealand Customs Service is only permitted to expand its cash and cash equivalents within the scope and limits of its appropriations.

Payables

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

Equity

Equity is the Crown's investment in the New Zealand Customs Service and is measured as the difference between total assets and total liabilities. Taxpayers' funds is disaggregated and classified as general funds and property, plant and equipment revaluation reserves where applicable.

Memorandum accounts

Memorandum accounts are 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 the memorandum account is expected to trend toward zero over time.

Commitments

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

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

Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are recorded in the Statement of Departmental Contingent Liabilities and Assets at the point at which the contingency is probable and can be reasonably estimated.

Contingent liabilities are disclosed if it is probable that they will occur. Contingent assets are disclosed if it is probable that the benefits will be realised.

Goods and Services Tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, 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 in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

Budget figures

The 2019/20 'Budget' figures are for the year ended 30 June 2020 and were published in the 2018/19 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2020. The 2019/20 'Supps' figures are those from the *Addition to the Supplementary Estimates of Appropriations 2019/20*. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

Forecast figures

The presentation of forecast financial information is a statutory requirement of the Public Finance Amendment Act 2013. The aim of this is to increase transparency by providing next year's forecast for comparison.

The 2021 forecast figures for the year ending 30 June 2021 are consistent with the best estimate financial forecast information available to the New Zealand Customs Service as at 13 November 2020. The basis of this forecast information is the Pre-Election Economic and Fiscal Update (PREFU) information that was approved by the Comptroller of Customs on 28 August 2020 but has been amended to reflect significant funding decisions made by Cabinet since this date. The additional funding decisions relate to the Government's response to COVID-19.

The 30 June 2021 forecast figures have been prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were approved for issue by the Comptroller of Customs on 13 November 2020.

The Comptroller is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the New Zealand Customs Service regularly updates its forecasts, any future updates made to the forecast financial statements for the year ending 30 June 2021 will not be published.

Significant assumptions used in preparing the forecast financial information

The forecast figures in these financial statements have been compiled on the basis of existing government policies and Ministerial expectations as at 13 November 2020.

The significant assumptions are as follows:
- the department's activities will remain substantially the same as for the previous year, apart from the additional work undertaken by the New Zealand Customs Service in response to the COVID-19 Public Health Response (Maritime Border) Order 2020. The impact of this Order is reflected in the forecast information presented
- operating costs are based on historical experience adjusted for the anticipated impact of COVID-19. Due to the closure of the country's border to international travellers, the New Zealand Customs Service has received additional Crown revenue to compensate for the loss of third party revenue. The impact of this additional Crown revenue is reflected in the forecast information presented
- no allowances have been made for general cost and/or inflationary pressures, and
- the actual year-end information for 2019/20 is used as the opening position for the 2020/21 forecasts.

The actual financial results achieved for 30 June 2021 are likely to vary from the forecast information presented, and the variation may be material.

Cost accounting policies

The New Zealand Customs Service has determined the costs of outputs using a cost allocation system, which is outlined below.

Cost allocation policy

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information.

Criteria for Direct and Indirect Costs

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

Direct costs assigned to outputs

Direct costs are charged directly to outputs, where appropriate. This includes depreciation and occupancy costs.

For the year ended 30 June 2020, direct costs accounted for 75% (2019: 77%) of the New Zealand Customs Service's costs.

Basis for assigning Indirect and Corporate costs to outputs

Indirect costs are assigned to outputs based on a proportion of direct staff costs usage for each output.

For the year ended 30 June 2020, indirect costs accounted for 25% (2019: 23%) of the New Zealand Customs Service's costs.

Changes in accounting policies

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

Comparatives

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

Note 2: Revenue

The New Zealand Customs Service derives revenue through the provision of outputs to the Crown, and services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

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

Revenue Crown

Revenue from the Crown is treated as a non-exchange transaction and is measured based on the New Zealand Customs Service's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

This treatment is based on the view that there are no use or return conditions attached to the funding from the Crown. However, the New Zealand Customs Service 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.

Other Revenue

Revenue from the application and processing fees is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from the supply of services is recognised at balance date on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Statutory levies

Revenue from statutory levies is recognised when the obligation to pay the levy is incurred. Although there are restrictions on how levy funding may be spent, including the requirement to manage deficits and surpluses by means of a memorandum account, there are no conditions attached to the levies that give rise to obligations to return levies to levy payers.

2018/19		2019/20	
Actual $000		Unaudited Budget $000	Actual $000
65,869	Border Clearance Levy	65,811	49,748
42,839	Import Entry Transaction Fees	45,346	34,277
14,859	Goods Cost Recovery Fees	17,309	13,084
8,395	Information processing	11,093	8,385
1,360	Cost recoveries – other	1,733	1,322
1,549	Overseas aid projects	1,748	1,321
322	Compliance activity – Officers time	565	427
320	Rental income	403	305
214	Compliance activities – other	302	228
135	Sale of publications	98	74
135,862	**Total other revenue**	**144,408**	**109,171**

Note 3: Personnel costs

2018/19		2019/20	
Actual $000		Unaudited Budget $000	Actual $000
110,346	Salaries and wages	114,021	116,548
3,695	Employer contributions to defined contribution plans	4,092	3,935
7,244	Other personnel expenses	10,741	5,982
121,285	**Total personnel costs**	**128,854**	**126,465**

The 'Contractors and temporary staff' expense has been reclassified from Operating costs (as included in Note 4 in the *New Zealand Customs Service Annual Report 2019*) to Other personnel expenses (in Note 3).

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

Note 4: Operating costs

2018/19		2019/20	
Actual $000		Unaudited Budget $000	Actual $000
13,040	Facilities management	13,709	12,414
10,192	Computer equipment costs	10,716	10,695
7,978	Operating lease rentals	8,387	8,699
4,909	Travel and accommodation	5,161	3,594
4,620	Occupancy costs (excluding rentals)	4,857	5,087
3,953	Consultants and professional fees	4,156	4,826
3,574	Repairs and maintenance	3,757	3,084
3,171	Communication costs	3,334	3,321
259	Fees paid to Audit NZ for the financial statement audit	273	261
35	Net (gain)/loss on sale of fixed assets	416	(51)
(114)	Bad debts written off	(120)	–
8	Net foreign exchange losses	8	–
81	Expected credit loss on financial assets	86	584
(187)	Other operating costs recovered	(197)	(214)
5,684	Other operating costs	5,976	5,152
57,203	**Total operating costs**	**60,519**	**57,452**

The 'Contractors and temporary staff' expense has been reclassified from Operating costs (as included in Note 4 in the *New Zealand Customs Service Annual Report 2019*) to Other personnel expenses (in Note 3).

Note 5: Depreciation and amortisation

2018/19 Actual $000		2019/20 Unaudited Budget $000	2019/20 Actual $000
	Depreciation		
1,473	Leasehold improvements	1,916	1,454
178	Office equipment	184	137
4,027	Other equipment and plant	6,195	4,720
149	Furniture and fittings	133	86
1,665	Computer equipment	2,194	1,666
573	Motor vehicles	809	598
224	Launch and watercraft	307	233
8,289	***Total depreciation***	**11,738**	**8,894**
	Amortisation		
9,384	Intangible assets – computer software	10,779	10,225
17,673	**Total depreciation and amortisation cost**	**22,517**	**19,119**

Note 6: Capital charge

The New Zealand Customs Service pays a capital charge to the Crown on its equity (adjusted for memorandum accounts and donated assets) as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2020 was 6.0% (1 July 2018–30 June 2019: 6.0%).

Note 7: Debtors and receivables

Debtors and other receivables are initially measured at the amount due, and assessed annually for impairment.

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The New Zealand Customs Service applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expense. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

2018/19 Actual $000		2019/20 Actual $000
10,513	Debtor – Border Clearance Levy	1,357
2,938	Debtor – Import Entry Transaction Fee	1,946
1,886	Debtor – Goods Cost Recovery	1,514
1,210	Trade debtors	1,633
940	Receivables	755
17,487	**Receivables and debtors**	**7,205**
(298)	Less: accumulated credit losses	(810)
17,189	**Net trade debtors**	**6,395**
30,969	Debtor – Crown	25,329
48,158	**Total debtors and receivables**	**31,724**

The ageing profile of receivables at year-end is detailed below:

	2018/19			2019/20		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Current	14,821	–	14,821	4,021	–	4,021
Past due 1–30 days	1,795	–	1,795	380	–	380
Past due 31–60 days	113	–	113	112	–	112
Past due 61–90 days	338	–	338	2,103	(235)	1,868
Past due >90 days	420	(298)	122	589	(575)	14
Total	**17,487**	**(298)**	**17,189**	**7,205**	**(810)**	**6,395**

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

2018/19 Actual $000		2019/20 Actual $000
379	Balance at 1 July	298
(33)	Change in accumulated expected credit losses	584
(48)	***Receivables written-off during the year***	(72)
298	**Balance at 30 June**	**810**

Note 8: Property, plant and equipment

Property, plant and equipment consist of furniture and office equipment, plant and equipment, computer hardware, motor vehicles, launches and watercraft.

Property, plant and equipment is shown at cost less accumulated depreciation and impairment losses.

All property, plant and equipment costing individually $2,700 or more, or as a group of assets more than $15,000, 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 the New Zealand Customs Service 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 included in the Statement of Comprehensive Revenue and Expense.

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 New Zealand Customs Service 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 and work in progress, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows:

Furniture and office equipment	4 to 5 years
Plant and equipment	5 to 15 years
Computer hardware	4 to 5 years
Motor vehicles	5 years
Launch and watercraft	5 to 25 years
Leasehold improvements	5 to 24 years

The launch is being depreciated at various rates according to the life expectancy of the various components.

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

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

Impairment of non-financial assets

Property, plant and equipment, and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The reversal of an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense.

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 the entity would, if deprived of the asset, replace its remaining service potential.

	Leasehold Improvements $000	Office Equipment $000	Other Equipment $000	Furniture and Fittings $000	Computer Equipment $000	Motor Vehicles $000	Launches/ Watercraft $000	Total $000
Cost								
Balance at 1 July 2018	20,918	1,618	38,242	4,173	16,580	4,520	4,477	90,528
Additions	98	126	5,157	8	990	921	3	7,303
Disposals	–	–	–	–	(1,783)	(661)	–	(2,444)
Work in progress movement	92	119	2,540	(228)	238	134	1	2,896
Balance at 30 June 2019	**21,108**	**1,863**	**45,939**	**3,953**	**16,025**	**4,914**	**4,481**	**98,283**
Balance of work in progress	99	–	3,184	2	583	153	7	4,028*
Balance at 1 July 2019	21,108	1,863	45,939	3,953	16,025	4,914	4,481	98,283
Additions	42	–	5,791	11	1,306	1,185	359	8,694
Transfers	–	(165)	506	(341)	–	–	–	–
Disposals	–	–	–	–	–	(599)	–	(599)
Work in progress movement	(99)	–	(2,240)	16	(631)	457	(7)	(2,504)
Balance at 30 June 2020	**21,051**	**1,698**	**49,996**	**3,639**	**16,700**	**5,957**	**4,833**	**103,874**
Balance of work in progress	–	–	944	18	(48)	610	–	1,524
Accumulated depreciation and impairment losses								
Balance at 1 July 2018	13,326	1,197	26,059	3,404	12,601	2,166	213	58,966
Depreciation expenses	1,473	178	4,026	149	1,680	601	224	8,331*
Disposals	–	–	–	–	(1,797)	(472)	–	(2,269)
Balance at 30 June 2019	**14,799**	**1,375**	**30,085**	**3,553**	**12,484**	**2,295**	**437**	**65,028**
Balance at 1 July 2019	14,799	1,375	30,085	3,553	12,484	2,295	437	65,028
Depreciation expenses	1,454	137	4,720	86	1,666	598	233	8,894
Disposals	–	–	–	–	–	(477)	–	(477)
Balance at 30 June 2020	**16,253**	**1,512**	**34,805**	**3,639**	**14,150**	**2,416**	**670**	**73,445**
Carrying amount								
At 1 July 2018	7,592	421	12,183	769	3,979	2,354	4,264	31,562
At 30 June 2019	6,309	489	15,854	399	3,541	2,619	4,044	**33,255**
At 30 June 2020	**4,798**	**186**	**15,191**	**–**	**2,550**	**3,541**	**4,163**	**30,429**

* These amounts have been restated for 2018/19 (from those in the *New Zealand Customs Service Annual Report 2019*) for accuracy – from 4,029 to 4,028; and 8,332 to 8,331.

Note 9: Intangible assets

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 associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the New Zealand Customs Service are recognised as an intangible asset. Direct costs include the software development, employee costs, and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. The amortisation charge for each period is recognised in the Statement of Comprehensive Revenue and Expense.

The useful lives of intangible assets have been estimated as follows:

Computer software	5 to 15 years

Intangible assets that have an indefinite useful life, or are not yet available for use, are not subject to amortisation. Intangible assets are tested annually for impairment.

	Acquired Software $000	Internally Generated Software $000	Total $000
Cost			
Balance at 1 July 2018	27,835	112,336	140,171
Additions	1,328	14,439	15,767
Disposals	(36)	(1,460)	(1,496)
Work in progress movement	(1,405)	(5,574)	(6,979)
Balance at 30 June 2019	**27,722**	**119,741**	**147,463**
Balance of work in progress	4,142	3,314	7,456*
Balance at 1 July 2019	27,722	119,741	147,463
Additions	552	6,150	6,702
Disposals	(14)	–	(14)
Work in progress movement	542	7,322	7,864
Balance at 30 June 2020	**28,802**	**133,213**	**162,015**
Balance of work in progress	4,684	10,636	15,320
Accumulated amortisation and impairment losses			
Balance at 1 July 2018	12,555	41,681	54,236
Amortisation expenses	1,783	7,602	9,385
Disposals	(36)	(1,460)	(1,496)
Balance at 30 June 2019	**14,302**	**47,823**	**62,125***
Balance at 1 July 2019	14,302	47,823	62,125
Amortisation expenses	1,816	8,409	10,225
Disposals	(2)	–	(2)
Balance at 30 June 2020	**16,116**	**56,232**	**72,348**
Carrying amount			
At 1 July 2018	15,280	70,655	85,935
At 30 June 2019	13,420	71,918	85,338*
At 30 June 2020	**12,686**	**76,981**	**89,667**

* These amounts have been restated for 2018/19 (from those in the *New Zealand Customs Service Annual Report 2019*) for accuracy – from 7,457 to 7,456; 62,124 to 62,125; and 85,339 to 85,338.

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

Note 10: Creditors and payables

2018/19 Actual $000		2019/20 Actual $000
	Payables under exchange transactions	
7,822	Trade creditors and accrued expenses	10,602
8,288	MPI – Border Clearance Levy	1,470
16,110	***Total payables under exchange transactions***	**12,072**
	Payables under non-exchange transactions	
451	GST payable	1,091
451	***Total payables under non-exchange transactions***	**1,091**
16,561	**Total creditors and payables**	**13,163**

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 approximates their fair value.

Note 11: Return of operating surplus

2018/19 Actual $000		2019/20 Actual $000
(3,688)	Net surplus/(deficit)	(24,199)
11,662	Add (surpluses)/deficits of memorandum accounts	26,132
7,974	**Total return of operating surplus**	**1,933**

Note 12: Employee entitlements

Current employee entitlements

Employee entitlements that the New Zealand Customs Service expects 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.

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

Non-current employee entitlements

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

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 1.02% (2019: 1.84%) and a salary inflation factor of 2.50% (2019: 2.50%) were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2019. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

Retirement and long service leave

2018/19 Actual $000		2019/20 Actual $000
	Current liabilities	
2,971	Personnel accruals	3,888
7,154	Annual leave	8,370
1,130	Retirement and long service leave	1,118
11,255	***Total current portion***	**13,376**
	Non-current liabilities	
3,742	Retirement and long service leave	3,960
3,742	***Total non-current portion***	**3,960**
14,997	**Total employee entitlements**	**17,336**

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 Statement of Comprehensive Revenue and Expense as incurred.

Note 13: Other short term liabilities

The New Zealand Customs Service has no other short term liabilities as at 30 June 2020 (30 June 2019: nil).

Note 14: Other long term provisions

The New Zealand Customs Service recognises a provision 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. Provisions are not recognised for future operating losses.

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

2018/19 Actual $000		2019/20 Actual $000
250	Lease make good provision	250
250	**Total other long term provisions**	**250**

Movement for provisions are as follows:

2018/19 Actual $000		2019/20 Actual $000
250	Lease make good provision as at 1 July	250
–	Additional provisions made	–
250	**Lease make good provision at 30 June**	**250**

In respect of a number of its leased premises, the New Zealand Customs Service is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the New Zealand Customs Service. In many cases the New Zealand Customs Service has the option to renew these leases, which impacts on the timing of expected cash outflows to make good the premises.

Note 15: Equity

2018/19 Actual $000		2019/20 Actual $000
	Crown Capital and retained earnings	
149,433	Balance as at 1 July	146,785
(3,688)	Surplus/(deficit)	(24,199)
11,662	Transfer of memorandum account net (surplus)/deficit for the year	26,132
(7,974)	Return of operating surplus to the Crown	(1,933)
(2,648)	Capital (withdrawal)/injection	35,345
146,785	***Balance as at 30 June***	**182,130**
	Memorandum accounts	
17,353	Balance as at 1 July	5,691
(11,662)	Net memorandum account net surplus/(deficit) for the year	(26,132)
5,691	***Balance as at 30 June***	**(20,441)**
152,476	**Total equity as at 30 June**	**161,689**

Note 16: Financial instruments

The New Zealand Customs Service's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The New Zealand Customs Service 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 any transactions that are speculative in nature to be entered into.

Market risk

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.

In 2019/20 the New Zealand Customs Service had nine overseas posts and operated two foreign currency bank accounts. The New Zealand Customs Service is exposed to currency risk arising from various currency exposures, primarily with respect to the US dollars, Australian dollars, and Thailand Thai Baht. Currency risk arises from future overseas posts operation, which is denominated in a foreign currency.

The New Zealand Customs Service's foreign exchange management policy requires the New Zealand Customs Service to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to reduce its foreign currency risk exposure. The New Zealand Customs Service's policy has been approved by The Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

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.

The New Zealand Customs Service has no interest bearing financial instruments and, accordingly, has no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the New Zealand Customs Service, causing the New Zealand Customs Service to incur a loss.

In the normal course of its business, credit risk arises from debtors and deposits with banks.

The New Zealand Customs Service is only permitted to deposit funds with Westpac and operate foreign currency accounts for overseas posts expenses, with registered overseas banks, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the New Zealand Customs Service does not have significant concentrations of credit risk.

The New Zealand Customs Service's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors (note 7). 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 the New Zealand Customs Service will encounter difficulty raising liquid funds to meet commitments as they fall due.

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

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

	Less than 6 months $000	Between 6 months and 1 year $000	Between 1 and 5 years $000	Over 5 years $000
2018/19				
Creditors and other payables (note 10)	16,561	–	–	–
Total	**16,561**	**–**	**–**	**–**
2019/20				
Creditors and other payables (note 10)	13,163	–	–	–
Total	**13,163**	**–**	**–**	**–**

Note 17: Categories of financial instruments

Financial liabilities

Financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than twelve months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the Statement of Comprehensive Revenue and Expense as is any gain or loss when the liability is derecognised. There have been no financial liabilities designated as hedge items, therefore, no hedge accounting applied.

2018/19 Actual $000		2019/20 Actual $000
	Financial assets measured at amortised cost	
19,762	Cash and cash equivalents	37,824
48,158	Debtors and other receivables	31,724
67,920	***Total financial assets measured at amortised cost***	**69,548**
	Financial liabilities measured at amortised cost	
16,561	Creditors and other payables	13,163
16,561	***Total financial liabilities measured at amortised cost***	**13,163**

Note 18: Related party information

The New Zealand Customs Service is a wholly owned entity of the Crown.

Related parties

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the New Zealand Customs Service would have adopted in dealing with the party at arm's length in the same circumstances. The Government reporting entity comprises a large number of commonly controlled entities, which includes the New Zealand Customs Service. These entities, and their key management personnel, transact among themselves on a regular basis, for example, for the purchase of postage stamps and the registration of vehicles. These transactions are conducted at arm's length. Any transactions not conducted at arm's length will be disclosed in the financial statements.

2018/19 Actual		2019/20 Actual
	Leadership Team, including the Comptroller	
$1,723,733	Salaries and other short-term employee benefits	$1,737,375
6.0	Full-time equivalent staff	6.0

The above key management personnel disclosure for the New Zealand Customs Service consists of the members of the Customs Executive Board (discussed on page 34). It excludes the remuneration of the Minister of Customs. The Minister's 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 the New Zealand Customs Service.

If close family members of key management personnel are employed by the New Zealand Customs Service, the terms and conditions of those arrangements are no more favourable than would be adopted if there were no relationship to key management personnel.

Note 19: Capital management

The New Zealand Customs Service's capital is its equity, which comprises taxpayers' funds and the memorandum account.

Equity is represented by net assets. The New Zealand Customs Service manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The New Zealand Customs Service's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions and the Public Finance Act 1989.

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

Note 20: Reconciliation of net surplus/deficit to net cash flow from operating activities for the year ended 30 June 2020

2018/19 Actual $000		2019/20 Actual $000
(3,688)	**Net operating surplus/(deficit)**	**(24,199)**
17,671	Depreciation and amortisation expense	19,119
17,671	***Total non-cash items***	**19,119**
	Working capital movements	
7,581	(Increase)/decrease in debtors and receivables	16,583
(3,208)	(Increase)/decrease in prepayments	1,017
(5,597)	Increase/(decrease) in creditors and payables	(849)
(257)	Increase/(decrease) in employee entitlements	2,121
(227)	Increase/(decrease) in other short term liabilities	–
(1,708)	***Working capital movements – net***	**18,872**
	Movements in non-current liabilities	
–	Provision for premises make good	–
176	Increase/(decrease) in employee entitlements	218
176	***Movements in non-current liabilities***	**218**
(8)	(Increase)/decrease in investing activity items	–
35	Net (gain)/loss on sale of fixed assets/impairment	(51)
27	***Total investing activity items***	**(51)**
12,477	**Net cash from operating activities**	**13,959**

Note 21: Memorandum Account

2018/19 Actual $000		2019/20 Actual $000
17,353	Opening balance 1 July	5,691
66,539	Revenue – Border Clearance Levy	50,483
(78,201)	Expenses	(76,615)
5,691	**Closing balance of total memorandum accounts**	**(20,441)**

This account summarises financial information relating to the accumulated surplus or deficit incurred in the provision of traveller clearance services operating on a full recovery basis from third parties through the Border Clearance Levy. The account enables the New Zealand Customs Service to take a long-run perspective to fee setting and cost recovery.

These transactions are included as part of the New Zealand Customs Service's operating income and expenses in the surplus/(deficit) – however, these transactions are excluded from the calculation of the New Zealand Customs Service's return of operating surplus. The cumulative balance of the surplus/(deficit) of the Memorandum Account is recognised as a component of equity (refer note 15).

The New Zealand Customs Service has undertaken a significant piece of work to review its cost recovery model, using a new Activity-Based Costing (ABC) methodology and a robust cost recovery framework. The ABC model has given the New Zealand Customs Service a better understanding of the actual cost of its activities and the framework is used to determine which activities are to be funded by which fees.

The memorandum account allows for the fact that revenue and expenses may not necessarily equate in any given financial year, with balances expected to trend to zero over a reasonable period of time (three to five years).

The current levy rates, effective from 1 July 2018, were set based on forecast traveller processing costs, forecast traveller volumes, and reducing the surplus over the term of the three-year levy period.

From January 2020, the COVID-19 global pandemic disrupted travel and trade around the world and led to the closure of worldwide borders. International traveller volumes reduced to extremely low levels from March 2020. The resulting reduction in Border Clearance Levy revenue has reduced the surplus in the memorandum account faster than forecast and led to a deficit in the account.

Note 22: Effects of COVID-19 on financial results

As a border agency, the New Zealand Customs Service was among the first government departments in New Zealand to respond to the COVID-19 pandemic. We activated our incident management structure on 21 January 2020 to inform and action responses at the border. From late January we ensured our staff had the correct Personal Protective Equipment (PPE) and that appropriate cleaning regimes and physical distancing procedures were implemented. We also commenced working with other relevant agencies as part of the all-of-government response. This is discussed further in the 'COVID-19 pandemic' part of this Annual Report on pages 8–10.

Trade and travel was disrupted by COVID-19 from January 2020. The Government introduced the first border measure restricting entry into New Zealand on 3 February 2020, with additional, adjusted border restrictions after that date. On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3, thereafter, until 13 May.

During the lockdown period, the New Zealand Customs Service was deemed an essential service. All office locations were closed and affected staff worked remotely. Operational locations were impacted in different ways. Where service demand dropped, such as processing passengers through airports, staff were redeployed to other operational roles or to roles that could be performed remotely.

After 13 May, wherever possible, the New Zealand Customs Service continued to redeploy staff to services that were either less impacted by COVID-19 or were seen as a growing priority, such as helping import or export businesses in facilitating trade, or supporting national contract tracing and managed isolation and quarantine. Work also began on the operational requirements of safe travel zones and the Maritime Border Order. While the Maritime Border Order did not come into force until 11.59pm 30 June 2020, planning was underway to ensure this could be put in place as quickly as possible to minimise the risk of COVID-19 transmission across the maritime border.

The main impacts on the New Zealand Customs Service financial statements due to COVID-19 are explained below.

Government and stakeholder funding (fees and levies)

Before the COVID-19 pandemic, Customs received approximately 60% of total departmental revenue from third parties. This was largely through the Border Clearance Levy, which recovers the cost of border processing from international travellers, and goods clearance fees for clearing imported and exported goods crossing the border. COVID-19 has significantly reduced this third party revenue due to the reduced volumes of international travellers and, to a lesser extent, goods crossing the border.

The New Zealand Customs Service has worked closely with other border and transport agencies to model the funding required to sustain services in light of revenue shortfalls. As a result, the New Zealand Customs Service received a $30 million capital injection from the Government to replace the shortfall in third party revenue in the 2019/20 financial year.

Due to the pressure placed on the New Zealand Customs Service because of the reduction in third party funding levels, operating costs are being closely managed through the deferment of non-essential recruitment, the redeploying of staff across the organisation, and through the slowing or reprioritising of investment projects.

Operating expenses

As a result of COVID-19 the New Zealand Customs Service incurred additional operating expenditure in certain areas, including staff redeployment costs, information technology equipment to support remote working, amendments to international travel arrival cards to incorporate health questions, and PPE and hygiene supplies. However, these additional costs were offset by lower expenditure due to COVID-19 travel restrictions and reduced operating levels in certain areas.

Investment portfolio – capital expenditure

The New Zealand Customs Service plans and monitors capital expenditure via its Long Term Investment Plan. This is a dynamic model that enables various investment scenarios to be quickly developed and reviewed. The overall investment portfolio is reviewed monthly by the Executive and any impacts of COVID-19 are factored into this plan.

A scaled-back 'sustain' scenario is currently deployed across the investment portfolio meaning that only priority investments are receiving approval given the current financial situation. Investments are continually being reviewed and reprioritised in order to ensure capital expenditure (and the operating costs this creates) are within current affordable levels.

The COVID-19 effect on our operations is reflected in these financial statements based on the information available to date. At this time, it is difficult to determine the full ongoing effect of COVID-19 and therefore some material uncertainties remain. There could also be other matters that affect the New Zealand Customs Service going forward that we are not yet aware of.

Note 23: Explanations for major variances from 2019/20 Budget

Statement of Comprehensive Revenue and Expense

Other Revenue was below budget reflecting the impact of lower international traveller and goods volumes due to the COVID-19 global pandemic and the worldwide border restrictions. This significantly reduced Border Clearance Levy revenue collected from international travellers. Goods revenue was similarly affected although to a lesser extent, but was also impacted through a decision to defer increases in our international goods clearance levies which were due to take effect from 1 June 2020.

Overall expenditure was lower than budgeted reflecting a direct response by the New Zealand Customs Service to the impacts of COVID-19 on our financial position by reducing operating costs where possible. The major reductions were in personnel costs through deferring recruitment and redeploying staff across the organisation, travel by suspending domestic and international travel except for essential functions, and savings in professional services.

Depreciation was lower than budget due to slowing investment projects within the capital programme, some of which were impacted with delays caused by COVID-19.

Statement of Change in Equity

Total equity is slightly above budget mainly due to a capital injection to support the New Zealand Customs Service's cash liquidity during the latter part of the year. The capital injection offset the reduction in Border Clearance Levy revenue from international travellers due to COVID-19 border restrictions and the resulting deficit in the Border Clearance Levy memorandum account.

Statement of Financial Position

The increase in cash and cash equivalents is mainly due to a capital injection which provided cash liquidity to offset the reduction in Border Clearance Levy revenue and lower operating and capital expenditure.

Property, plant and equipment and Intangible assets have decreased compared to budget due to delays in the capital programme.

The lower than forecast level of Creditors is due to the timing of trade creditor and tax payments due at year end.

The Border Clearance Levy memorandum account deficit reflects significantly reduced Border Clearance Levy revenue as a result of the lower volume of international travellers due to the COVID-19 border restrictions.

Statement of Cash Flows

The overall cash balance is above budget for the reasons noted below.

The net cash flow from operating activities is lower than budget due to lower international traveller volumes and revenue associated with the impact of COVID-19 border restrictions. Operating expenses are lower than budget as costs were reduced in the latter part of the year in response to COVID-19.

Investment activities are lower than budget due to delays in the capital programme.

Financing activities are above budget due to the capital injection of $30 million which provided cash liquidity to offset the reduction in Border Clearance Levy revenue related to COVID-19 border restrictions.

Note 24: Events after the balance date

There have been no significant events after the balance date.

Non-Departmental Statements and Schedules

The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the New Zealand Customs Service manages on behalf of the Crown.

Summary of Schedules and Statements

For the year ended 30 June 2020

2018/19		2019/20			2020/21
Actual $000		Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
15,551,913	Revenue	16,012,282	15,104,029	15,115,940	15,626,811
5,754	Expenditure	8,080	24,080	14,240	24,080
2,197,512	Assets	2,255,976	2,223,512	2,091,211	2,249,072
17,960	Liabilities	24,477	17,960	19,014	19,014

Explanations of significant variances against budget are provided in note 6.

Schedule of Non-Departmental Revenue

For the year ended 30 June 2020

2018/19		2019/20			2020/21
Actual $000		Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Revenue				
	Indirect taxation				
1,085,595	Customs and excise duty on alcohol	1,100,000	1,085,000	1,064,090	1,088,000
1,980,160	Customs and excise duty on tobacco products	1,969,000	2,189,000	2,167,609	2,165,000
2,048,194	Customs and excise duty on refined motor spirit	2,146,000	1,977,000	1,944,622	2,137,000
171,991	Customs duty on other imported goods	177,000	177,000	163,672	170,000
10,257,202	Goods and Services Tax	10,609,000	9,667,000	9,767,880	10,058,000
15,543,142	***Total indirect taxation***	**16,001,000**	**15,095,000**	**15,107,873**	**15,618,000**
	Indirect non-taxation				
67	World Customs Organization	80	80	64	80
275	Sale of seized goods	80	80	391	80
8,348	SGG Levy	10,560	8,307	7,420	8,442
81	Infringement Notice	562	562	192	209
8,771	***Total indirect non-taxation***	**11,282**	**9,029**	**8,067**	**8,811**
15,551,913	**Total revenue**	**16,012,282**	**15,104,029**	**15,115,940**	**15,626,811**

Schedule of Non-Departmental Expenditure

For the year ended 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Expenditure					
67	World Customs Organization		80	80	64	80
5,687	Expected credit loss on financial assets	2	8,000	24,000	14,176	24,000
5,754	**Total expenditure**		**8,080**	**24,080**	**14,240**	**24,080**

Schedule of Non-Departmental Assets

As at 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Current assets					
1,109,657	Cash and cash equivalents		990,390	1,109,657	983,776	1,109,657
1,087,855	Debtors and other receivables	2	1,265,586	1,113,855	1,107,435	1,139,415
2,197,512	**Total assets**		**2,255,976**	**2,223,512**	**2,091,211**	**2,249,072**

Schedule of Non-Departmental Liabilities

As at 30 June 2020

2018/19			2019/20			2020/21
Actual $000		Note	Unaudited Budget $000	Unaudited Supps $000	Actual $000	Unaudited Forecast $000
	Current liabilities					
15,021	Payables and provisions		24,477	17,960	17,045	19,014
2,939	Creditor – departmental		–	–	1,969	–
17,960	**Total liabilities**	3	**24,477**	**17,960**	**19,014**	**19,014**

Statement of Non-Departmental Contingent Liabilities and Assets

As at 30 June 2020

2018/19 Actual $000		2019/20 Actual $000
	Contingent liabilities	
682	Legal proceedings and disputes – assessed	5,885
682	**Total contingent liabilities**	**5,885**
	Contingent assets	
2,183	Legal proceedings – assessed	1,418
2,183	**Total contingent assets**	**1,418**

Contingent liabilities

Assessed legal proceedings and disputes represent the disputed assessments of revenue amounts in relation to the performance of the New Zealand Customs Service's statutory role and associated estimated legal costs. The New Zealand Customs Service is currently defending these assessments of revenue.

Contingent assets

Crown contingent assets are seizures that have been appealed and may result in forfeiture to the Crown.

Schedule of Non-Departmental Commitments

As at 30 June 2020

The New Zealand Customs Service has no Crown Commitments as at 30 June 2020 (30 June 2019: nil).

Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2020

Note 1: Statement of accounting policies

Reporting entity

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

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

Basis of preparation

The non-departmental schedules and statements have been prepared in accordance with the Government's accounting policies as set out in 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 public benefit entities.

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

The following particular accounting policies have been applied.

Revenue

The New Zealand Customs Service collects revenue on behalf of the Crown.

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, in itself, entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers. Accordingly it is classified as non-exchange revenue.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Tax type	Taxable activity
Goods and services tax	The importation of taxable goods and services during the taxation period
Excise tax	An inland tax on the sale, or production for sale, of specific goods
Excise equivalent tax	An importation tax of the equivalent to the inland tax on the sale, or production for sale, of specific goods
Customs duty	A customs duty is a tariff or tax on the importation (usually) or exportation (unusually) of goods

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not declare the correct value of goods liable for taxation. The New Zealand Customs Service has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various Acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the New Zealand Customs Service. Such procedures cannot be expected to identify all sources of non-compliance with tax laws. The New Zealand Customs Service is unable to estimate the amount of unreported tax.

Debtors and other receivables

Debtors and other receivables are sovereign receivables and are initially measured at face value as the fair value is not materially different from the face value. Debtors and receivables are subsequently tested for impairment at year-end.

Impairment of a receivable is established when there is objective evidence that the New Zealand Customs Service 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 debt is impaired. The impairment is calculated based on a review of specific overdue receivables and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs. The amount of the impairment is the difference between the asset's carrying amount and the estimated future cash flows.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectable, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

Contingent liabilities and assets

Contingent liabilities and assets are recorded at the point at which the contingency is probable and can be reasonably estimated. Contingent liabilities are disclosed if it is probable that they will occur. Contingent assets are disclosed if it is probable that the benefits will be realised.

Changes in accounting policies

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

Budget figures

The 2019/20 'Budget' figures are for the year ended 30 June 2020 and were published in the 2018/19 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2020. The 2019/20 'Supps' figures are those from the *Addition to the Supplementary Estimates of Appropriations 2019/20.* The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

Forecast figures

The presentation of forecast financial information is a statutory requirement of the Public Finance Amendment Act 2013. The aim of this is to increase transparency by providing next year's forecast for comparison.

The 2021 forecast figures for the year ending 30 June 2021 are consistent with the best estimate financial forecast information available based on the 2020 Pre-Election Economic and Fiscal Update.

Note 2: Debtors and other receivables

2018/19 Actual $000		2019/20 Actual $000
850,696	Crown receivables	940,269
(11,132)	Less provision for impairment	(22,326)
839,564	Net Crown receivables	**917,943**
248,291	Accrued revenue	189,492
1,087,855	***Total debtors and other receivables***	**1,107,435**
	Represented by:	
1,087,855	Receivables from non-exchange transactions	**1,107,435**

2018/19 Actual $000		2019/20 Actual $000
935,244	Not past due	942,945
152,611	Past due 1–30 days	103,099
–	Past due 31–60 days	42,989
–	Past due 60 days	18,402
1,087,855	**Total**	**1,107,435**

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

2018/19 Actual $000		2019/20 Actual $000
6,608	Balance at 1 July	11,132
5,687	Change in the provision for impairment	14,176
(1,163)	Less: Bad debts written off	(2,982)
11,132	**Balance at 30 June**	**22,326**

In the latter part of the year, the New Zealand Customs Service worked with businesses to cushion the immediate impact of COVID-19 by providing support and relief in meeting their obligations to pay duty and GST (as discussed on page 22). This meant an increase in deferred financial arrangements. The Non-Departmental Other Expenses Appropriation: Change in Doubtful Debt Provision was increased from $8 million to $24 million to reflect the economic impact from COVID-19 on businesses who may be unable to pay their debts.

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

Note 3: Creditors and other payables

2018/19		2019/20
Actual $000		Actual $000
15,021	Payables and accruals	17,045
2,939	Import Entry Transaction Fees payable	1,946
–	Other creditors – Departmental	23
17,960	**Total creditors and other payables**	**19,014**

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 approximates their fair value.

Note 4: Financial instruments

The carrying amounts of financial assets and financial liabilities in each of the PBE IFRS 9 categories are as follows:

2018/19		2019/20
Actual $000		Actual $000
	Financial assets measured at amortised cost	
1,109,657	Cash and cash equivalents	983,776
1,087,855	Debtors and other receivables	1,107,435
2,197,512	**Total financial assets measured at amortised cost**	**2,091,211**
	Financial liabilities measured at amortised cost	
17,960	Creditors and other payables	19,014
17,960	**Total financial liabilities measured at amortised cost**	**19,014**

Credit risk

Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred.

In the normal course of its business, credit risk arises from debtors and deposits with banks.

In determining the recoverability of debtors, the New Zealand Customs Service uses information about significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debt is impaired.

Under the Customs and Excise Act 2018, the New Zealand Customs Service has broad powers to ensure that people meet their obligations. Part 3 of the Act sets out the powers of the chief executive to recover unpaid amounts.

Receivables are widely dispersed over a number of customers and as a result the Crown does not have any material individual concentrations of credit risk.

Funds must be deposited with Westpac, a registered bank (Standard and Poor's credit rating of AA-).

Maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net debtors.

There is collateral held as security against some of these financial instruments in the form of bank guarantees and deposits held in trust. Bank guarantees must be from an appropriate New Zealand-based bank or finance company and agree to cover every deferred payment up to a set maximum.

The New Zealand Customs Service operates a deferred payment scheme, which allows deferral of Customs charges by up to seven weeks and a month's transactions to be settled by a single payment the following month. A bank or equivalent guarantee may be required for overseas registered companies, trusts, insolvent companies, or a person with a history of bankruptcy. If payment is not received on time, the New Zealand Customs Service can take remedial action, including withdrawal from the scheme, late payment penalties, or using the security provided to pay the debt.

Note 5: Effects of COVID-19 on collection of Crown revenue

The New Zealand Customs Service contributes to the Government's accounts by collecting around 18% of core Crown tax revenue each year by way of customs duty, excise duty, and GST (as discussed on page 28).

Revenue collection was affected by the COVID-19 pandemic in the latter half of 2019/20. Lower trade volumes in early to mid-2020 resulted in a slight decline in the Crown revenue collected in 2019/20. Customs has been working proactively with businesses to help mitigate the business impacts of the pandemic, using the mechanisms available to provide support and relief to businesses experiencing cash flow challenges. This is being balanced against obligations to collect all revenue due, and includes proactively managing debt.

To reflect the likely increase in doubtful debt during 2019/20, the New Zealand Customs Service received an increased appropriation of $16 million from the Government for the provision of doubtful debts (through the relevant non-departmental other expenses appropriation).

Note 6: Major budget variations

Schedules and statements: non-departmental

Non-Departmental revenue

Crown Revenue changes are driven by economic conditions and changes in consumer behaviour. In the latter half of the year, COVID-19 disrupted international supply chains which reduced New Zealand import and export volumes and affected revenue collection.

Non-Departmental expenditure

The increase in expenditure is due to the impacts related to COVID-19 on businesses and their ability to settle amounts due for the payment of duty and GST.

Information Required by Statute

For period from 1 July 2019 to 30 June 2020

Customs and Excise Act 2018

Section 438 – electronic devices searched

Type of search	Number of devices searched
Initial search under section 228(2)(a)	317
Full search under section 228(2)(b)	101*

* Total only includes devices subject to a full search (excluding any devices that were not accessed and searched as the password/passcode was not provided and forensic tools had not been able to access the device). One full search was of one traveller's 48 devices, while another was of a traveller's 18 devices.

As some travellers have multiple devices, the devices searched in 2019/20 were carried by a total of 221 travellers (so Customs searched the devices of 0.002% of total travellers in the 2019/20 financial year).[50]

Section 439 – initiatives or other steps to reduce costs of complying with Act for businesses with strong record of compliance

Initiatives or other steps taken during 2019/20 to reduce the costs of complying with this Act for businesses that have a strong record of compliance with this Act/for 'trusted' traders are:

- Progressing development of a Secure Trade Lane with Australia; extending the Secure Exports Scheme to air freight; and actions taken to assist traders adversely affected by COVID-19 (all of which are discussed in the 'Trade' section of this Annual Report on pages 22-24).
- From 1 October 2019 allowing New Zealand-registered companies with no director resident in New Zealand but with a director residing in Australia to access Customs' deferred payment scheme without putting up a bond or guarantee (provided the normal requirements for accessing the scheme are met, including a credit risk assessment).
- From 1 June 2020 no longer requiring Intellectual Property Rights-holders to provide a $5,000 security to Customs when they request the detention of goods that might infringe their intellectual property rights (by lodging a Border Protection Notice with Customs) – this included returning all existing cash securities received from rights-holders.

Customs continued to deliver programmes and services that provide lower costs for businesses that meet qualifying criteria under the Customs and Excise Act 2018, and which are recognised internationally as services to trusted traders. These include:

- The provisional values scheme for qualifying importers (section 102)
- The deferred payments scheme for qualifying duty payers (section 123)
- The Secure Exports Scheme (section 281) – and we continue to encourage uptake by traders
- Remission of Excise for Approved Licensees (Customs and Excise Regulations).

Search and Surveillance Act 2012

Section 171(1)(a)-(d) – use of warrantless powers

Number of occasions on which entry or search powers were exercised without a warrant	214
Number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device	Nil
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by the exercise of a warrantless search or surveillance power	8

[50] This information is not required to be reported but is included for context.

Section 171(1)(e) – matters set out in section 172 in relation to surveillance device warrants

Number of applications for surveillance device warrants		13
Number of applications for surveillance device warrants granted		13
Number of applications for surveillance device warrants refused		Nil
Number of surveillance device warrants granted that authorised the use of:	tracking devices only	Nil
	visual surveillance devices only	1
	interception devices only	Nil
	tracking devices and visual surveillance devices	12
Number of surveillance device warrants granted that authorised entry into private premises		Nil
Number of interception devices used (authorised by a surveillance device warrant) for:	≤24 hours	Nil
	>24 hours but ≤3 days	1
	>3 days but ≤7 days	2
	>7 days but ≤21 days	2
	>21 days but ≤60 days	Nil
	>60 days (based on multiple warrants)	2
Number of tracking devices used (authorised by a surveillance device warrant) for:	≤24 hours	2
	>24 hours but ≤3 days	Nil
	>3 days but ≤7 days	4
	>7 days but ≤21 days	6
	>21 days but ≤60 days	6
	>60 days (based on multiple warrants)	3
Number of visual surveillance devices used (authorised by a surveillance device warrant) for:	≤24 hours	Nil
	>24 hours but ≤3 days	1
	>3 days but ≤7 days	10
	>7 days but ≤21 days	2
	>21 days but ≤60 days	Nil
	>60 days (based on multiple warrants)	3
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities under the authority of a surveillance device warrant		2
Number of reported breaches by a Judge to the chief executive (under section 61 or 62) of any of the conditions of the issue of a surveillance device warrant		Nil
Number of reports by a Judge to the chief executive (under section 61 or 62) about the use of a surveillance device not authorised under section 48 (warrantless emergency and urgency powers)		Nil

Some of the devices deployed by the New Zealand Customs Service in 2019/20 were authorised by surveillance device warrants obtained by NZ Police – as part of joint operations.

Section 171(1)(e) – matters set out in section 172 in relation to declaratory orders

Number of applications for declaratory orders	Nil
Number of applications for declaratory orders granted	N/A
Number of applications for declaratory orders refused	N/A
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities covered by a declaratory order made	N/A

Misuse of Drugs Act 1975 (Misuse of Drugs Amendment Act 1978)

Section 13M – detention warrants and searches

Number of applications for detention warrants made under section 13E	Nil
Number of applications for renewal of detention warrants made under section 13I	Nil
Number of applications under sections 13E and 13I granted	N/A
Number of applications under sections 13E and 13I refused	N/A
Average duration of detention warrants (including renewals) granted	N/A
Number of prosecutions instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants	Nil
Number of rub-down searches and strip searches under section 13EA	Nil

Privacy Act 1993

Section 109F – details of the operation of Part 10A and Schedule 4A relating to accessing information to verify the identity of a person

Customs accessed information held by another agency to verify the identity of a person	Number of times
Department of Corrections	267
Department of Internal Affairs	Nil
MBIE (Immigration NZ)	Nil
Ministry of Health and District Health Boards	Nil
New Zealand Transport Agency	Nil

In each instance where Customs accessed data held by the Department of Corrections (Corrections) it related to an alert created by Corrections (Customs' border management system electronically screens passenger information for matches, enabling Customs to notify Corrections if a person subject to an alert arrives at the border). Customs submitted a phone and email request to Corrections for offender images and supporting details to verify the identity of the person attempting to depart New Zealand – Corrections supplied an email response with an attached photograph.