



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

B.24 AR (2020)

B.14 (Vote Customs)

Annual Report 2020



Protecting New Zealand

Making our country safer and more secure by reducing the risks associated with international trade and travel. We focus our resources on illegal and non-compliant activity at the border and revenue fraud.





Promoting and facilitating trade and travel

Helping New Zealand exports to flow freely into overseas markets and efficiently processing imports arriving into our country. Providing secure and efficient border processes that efficiently and effectively process international travellers.



Collecting revenue

Ensuring that duties, excise taxes, levies, GST on imports, and fees owed to the Government continue to be collected. Customs collects around 18% of Government core tax revenue each year.





CUSTOMS

Chief executive's overview

We are here to protect and promote New Zealand across borders, and to play our part to protect the country from COVID-19.

E ngā mana, e ngā reo, e ngā karangatanga maha, tēnā koutou katoa.

In the 12 months to 30 June 2020, Customs continued its work to protect New Zealand's border, promote and facilitate secure and efficient trade and travel, and collect Crown revenue. We did all this at a time when New Zealand and the world were responding to the COVID-19 pandemic, which placed unprecedented demands on Customs and saw us undertaking new roles and responsibilities.

Many of us never imagined we would see New Zealand close its air and sea borders to almost all but its own citizens. Yet this was the reality from March 2020. Providing an essential government service, many of our staff worked tirelessly at our country's frontline, as New Zealanders returned home, and as businesses imported much-needed personal protective equipment and other essential items, while continuing to facilitate exports and support the economy.

We also contributed to the all-of-government response, including Customs staff focused on national contact tracing efforts while others led teams overseeing the maritime border and supported managed isolation and quarantine facilities. Many of us continued to deliver on the core purposes of Customs while working from home during Alert Levels 3 and 4.

I have been incredibly proud to work alongside such hard-working and committed colleagues these past 12 months. I could not have asked for more

from our team – they have continued to model the very best of public service in New Zealand.

I also want to express my sincere thanks to Bill Perry for his leadership of Customs as Acting Comptroller during the first half of 2019/20, while I was seconded to the Department of Corrections.

In 2019/20 our focus on protecting New Zealand resulted in more than 1,806 kilograms and 488 litres of illicit drugs being seized at the border – preventing \$1.8 billion of potential social and economic harm to our communities. The focus we have on ensuring trade flows efficiently across borders saw 19.1 million import and export transactions processed in 2019/20. Our commitment to providing a streamlined border experience for travellers saw 10.8 million international passengers being assessed for risk and processed in 2019/20, most prior to the border closure. Importantly, we collected \$15.1 billion in revenue due to the New Zealand Government – about 18% of core tax revenue. You can read more about our work and successes across the four strategic priority areas of Protection, Trade, Travel, and Revenue in the 'Progress Against our Strategy' section of this annual report (pages 12–31).

I also recognise the importance of Customs reflecting the community we serve. In 2019/20 we continued to increase the ethnic diversity of our workforce. While our diversity has been increasing in recent years, the proportion of our staff who are Māori is still below that of New Zealand society. As a result

we are implementing a strategy to increase the number of Māori staff, from 9.9% of the Customs workforce in June 2020 to 12.6% by December 2021.

Reducing the gender pay gap has remained an important priority these past 12 months, and our strategy to achieve this is frequently referenced as an exemplar by the Public Service Commission. Pleasingly, we continue to make progress, and were able to reduce both our mean and median gender pay gaps in 2019/20.

The new financial year brings new challenges and opportunities and a considerable degree of uncertainty about 2020/21 due to COVID-19. We will continue to play our part in New Zealand's response to the global pandemic. At the same time we will retain our strong focus on protecting the country and its communities from other harms, and continue to support the economic recovery of New Zealand businesses.

May I again acknowledge and thank the people of Te Mana Ārai o Aotearoa, both for their mahi in 2019/20 and for their service to New Zealanders in the year to come.

Kia tau ngā manaakitanga ki a koutou katoa.



Christine Stevenson
Comptroller of Customs



The year at a glance

Protection

more than
1,806
kilograms
and
488 litres
of illicit drugs seized
at our border



\$569 million
of potential social
and economic harm
prevented by seizing
drugs overseas



ADVISED
PACIFIC
BORDER
PARTNERS
of transiting
passengers
to protect the
Pacific Islands
from **COVID-19**

Travel

10.8 million
international
passengers
assessed for risk
and processed



eGate
eligibility
expanded to
citizens of Japan
and South Korea



ADAPTED
processing of
international
passengers
as part of
New Zealand's
response to
COVID-19



Trade

19.1 million

 import and export
 transactions
 processed

Expanded the
**SECURE
 EXPORTS
 SCHEME**
 to airfreight

CONTACTED
80
**IMPORTERS
 OF PPE**
 to assess supply and
 support needs during the
COVID-19 response

Revenue

\$15.11
billion
 collected on
 behalf of the Crown

4.9 million

 cigarettes and
638 kilograms
 of loose tobacco stopped
 from being smuggled
 into New Zealand

ASSISTED
350
BUSINESSES
 by changing their
 payment arrangements
 to support them during
 the impacts of **COVID-19**

What we do

Our functions

Te Mana Ārai o Aotearoa, the New Zealand Customs Service (Customs), provides essential border services and infrastructure that protect New Zealand and advance our economy. We have four core functions:

- Protecting New Zealand’s border
- Promoting and facilitating secure and efficient trade to and from New Zealand
- Promoting and facilitating secure and efficient travel to and from New Zealand
- Collecting Crown revenue.

Our services

The services we provide include:

- facilitating the flow of people, goods, and craft across our border
- protecting New Zealand from external risks and threats such as illicit drug smuggling
- promoting and facilitating secure and efficient trade and travel
- enforcing relevant law, which includes identifying and seizing prohibited imports and exports
- providing intelligence and risk assessment information to other government agencies, and also to Customs’ frontline officers
- collecting Crown revenue
- monitoring whether traders and travellers are complying with border requirements, and providing assurance over trade security and the border revenue system
- participating in the global customs community by helping to develop international customs policy and through our relationships with overseas customs and law enforcement bodies
- supporting the economic, protection, and security outcomes of other agencies
- providing policy advice to Government ministers on border and revenue management issues.

Our legislative authority

Our functions and services are mandated by the Customs and Excise Act 2018 and related regulations. We also enforce a range of other Acts at the border on behalf of other agencies.

Contribution to Ministerial and Government priorities

In 2019/20 we progressed the four priorities that had been agreed with the Minister of Customs for the Customs portfolio:

- reducing the harm to families through increased disruption to the supply of illicit drugs into New Zealand
- strengthening New Zealand’s trading links to support exporters
- eliminating the gender pay gap, paying the Living Wage, and increasing diversity in Customs’ workforce
- co-design of future border systems.

We continued to contribute to the Government’s priorities by helping to build the economy, improve wellbeing, and make New Zealand proud. In addition, we made a considerable contribution to the Government’s objectives relating to New Zealand’s response to and recovery from the COVID-19 pandemic.

Rautaki Mana Ārai – the Customs Strategy

Rautaki Mana Ārai drives our planning to deliver on our purpose to protect and promote New Zealand across borders and our aspiration to eliminate border and revenue risk.

Four values underpin all that we do at Customs:

- we do what’s right – te ara tika
- we are guardians – kaitiakitanga
- we value people – he tāngata
- we look forward – pae tawhiti.

The Treaty of Waitangi principles of kotahitanga (partnership), kaitiakitanga (protection), and manaakitanga (participation/care for others) provide the foundations for what we do – our Pou Tokomanawa.¹ Integrating these principles into our strategy enables us to strengthen partnerships with Māori, protect Māori communities, and actively contribute to Māori economic development.

As set out in the *New Zealand Customs Service Statement of Intent 2019–2023*, our strategic intentions focus on maintaining and improving delivery of the core functions of our business – *protection of New Zealand’s borders, promoting and facilitating trade and travel, and collecting revenue in the face of changing demands and expectations*. This supports the achievement of ministerial and Government priorities.

This annual report details our operations in the 12 months to 30 June 2020 and our progress in delivering on our strategic intentions.

¹ Te Pou Tokomanawa is the central pole of a meeting house, which holds everything up.

Our strategic framework

Government priorities

Building an economy that is growing and working for us all

Improving the wellbeing of New Zealanders and their families

Making New Zealand proud

Ministerial priorities

Reducing harm to families through increased disruption to the supply of illicit drugs into New Zealand

Strengthening New Zealand's trading links to support exporters

Eliminating the gender pay gap, paying the Living Wage, and increasing the diversity of Customs' workforce

Co-designing future border systems

We are here to

protect and promote New Zealand across borders

Ko te whakahaumarū me te whakatairanga i a Aotearoa ki ngā rohe

Our Values — Whanonga Pono

WE DO WHAT'S RIGHT
Te Ara Tika

WE ARE GUARDIANS
Kaitiakitanga

WE VALUE PEOPLE
He Tāngata

WE LOOK FORWARD
Pae Tawhiti

We aspire to

eliminate border and revenue risk

Te whakakore tūraru rohe me ngā mahi kohinga tāka

We aim to achieve

Protection
Prevent risk reaching our borders
Whakahaumarū

Trade
New Zealand's trade flows efficiently across borders
Hokohoko

Travel
A streamlined experience for travellers across borders
Tāroi

Revenue
Collect all due revenue
Kohinga tāka

Te Pou Tokomanawa — The Foundations

Kotahitanga
Partnership

Kaitiakitanga
Protection

Manaakitanga
Participation

Output classes

Clearance and enforcement services related to passengers and crew

Clearance and enforcement services related to goods

Clearance and enforcement services related to craft

Information and intelligence services

Revenue collection

Policy advice

International services and ministerial servicing



COVID-19 Pandemic

Few events in Customs' 180-year history have had such an immediate, dramatic, and wide-ranging impact on New Zealand's border management as the COVID-19 pandemic.

From January 2020 the rapid spread of COVID-19 disrupted global travel and trade, as well as the movement of illicit drugs and goods. It presented new challenges for Customs, from the need to quickly respond to ever-increasing border entry restrictions, to significantly impacting our staff deployment, and the funding we had budgeted to receive.

The pandemic required Customs to be more agile, flexible, and resilient in 2019/20. It also required us to play our part, by contributing skills, knowledge, and resource to New Zealand's all-of-government response and recovery efforts.

Customs was an essential service during New Zealand's COVID-19 lockdown, due to our role controlling and facilitating the movement of people and freight across the border.

Major disruption to free flow of people and goods

The COVID-19 pandemic disrupted one of the hallmarks of globalisation – the free flow of people and goods across international borders.

The earliest impact on Customs related to international travel, with border measures restricting entry into New Zealand from 3 February 2020. As a consequence, there was a substantial reduction in traveller volumes.

Trade volumes were less impacted by the pandemic. While imports and exports dropped from February 2020, trade activity had returned by the end of the financial year to levels similar to 2018/19. That said, there continued to be a major reduction in the air freight capacity to and from New Zealand.

The impact of COVID-19 on international supply chains disrupted the trade in illicit drugs substantially, particularly in April and May 2020. We expect transnational organised crime groups to evolve their smuggling methods in response to the new travel and trade environments (see page 17).

Being prepared and agile

As the virus spread globally, Customs acted early, setting up an incident management structure on 21 January 2020 to coordinate our response to COVID-19. We used the New Zealand Influenza Pandemic Plan to inform our actions at the border and our business continuity planning. Our National Incident Response Plan was a foundation for strategic decision-making, including contributing to the all-of-government response and providing advice to the Government on operational and policy matters relating to border restrictions.

We had business continuity plans we could implement to maintain our operations as New Zealand moved through the COVID-19 Alert Levels. Our operational command structure also provided a strong framework for responding to challenges the pandemic presented.

Customs' investment in mobile and modern technologies enables staff to work from anywhere, and this was key to our ability to continue operating between March and June 2020. We rolled out Office 365 with Microsoft Teams in 2019/20, enhancing the ability of staff to undertake their roles, collaborate with colleagues, and stay connected while working from home.

Our comprehensive network of stakeholders, and strong business and industry relationships across New Zealand, meant we were able to quickly communicate and implement decisions in response to the pandemic. We could also receive valuable feedback on those decisions and ensured this information was considered by the Government.

Collaborative border management

A key part of the Customs response to COVID-19 has been implementing New Zealand's border entry restrictions.

To do this, we worked closely with the other government border agencies involved in protecting our country from COVID-19, including: the Ministry of Health, which leads public health screening processes at the border; Immigration New Zealand, which issues travel visas to New Zealand and determines the immigration measures to be put in place to implement border restrictions; and Managed Isolation and Quarantine, which is responsible for the facilities used by international passengers when they arrive in New Zealand.

Customs also worked closely with the many non-government organisations that operate at airports and seaports, to manage passengers, crew, and craft in line with the latest border entry requirements.

Our collaboration also extended to helping protect the Pacific from COVID-19, by providing information to the Ministry of Health and Pacific nations about passengers who had journeyed through risk countries, were suspected or confirmed to have COVID-19, or had not completed mandatory isolation before transiting through New Zealand.

Playing a leading role in response and recovery

New Zealand's all-of-government structure provided strategic oversight of the responses of government agencies to COVID-19. A key element of that structure was the grouping of agencies into pillars: Health; Welfare; Civil Defence Emergency Management; Economic; International; Law and Order; Education; Infrastructure; Workplaces; and Border, which Customs chaired.

Established in January 2020, the Border Sector Working Group² commissions work across border agencies to support the all-of-government response to the pandemic. This Customs-chaired group has facilitated rapid and coordinated operational activities, and provided an efficient and effective forum for proactive problem-solving. This includes matters arising from increased border restrictions at the sea border such as managing cruise ships still in New Zealand waters, and the ports vessels should use to arrive in, or depart from, New Zealand.

In addition, the chief executives of Customs, the Ministry for Primary Industries (MPI), the Ministry of Business, Innovation and Employment (MBIE – for Immigration New Zealand), and the Ministry of Transport met as the Border Sector Governance Group (BSGG).³ Throughout New Zealand's response to COVID-19, the Customs-chaired BSGG has met regularly to coordinate border responses to the pandemic. The agencies worked together to lessen the health risk presented by individuals at our air and sea borders, and undertook a range of new functions to ensure they play their part in the all-of-government response.

In June 2020 the BSGG was expanded to include chief executives from the Ministry of Health, Department of the Prime Minister and Cabinet, the Ministry of Foreign Affairs and Trade, and The Treasury. This recognised the broader range of

agencies with a role in the border response to COVID-19. Work being progressed includes potential safe travel and quarantine-free travel zones, and the financial sustainability of border and transport agencies.

Supporting businesses and keeping critical supplies moving

Since the introduction of New Zealand's COVID-19 Alert Level system in March 2020, Customs has focused on keeping international trade flowing, and providing much-needed support and guidance to importers and the freight and logistics industries. This included approving the movement of essential goods at the border to reduce bottlenecks, engaging with importers to help assess the country's overall supply of personal protective equipment (PPE), and helping to identify and expedite border clearance for critical goods, such as PPE and ventilators.

We supported our customers and the public by helping businesses impacted by COVID-19 and responding to enquiries. Our National Contact Centre and our website have played an important role in distributing and communicating COVID-19-related information during the pandemic response.

Importantly, our focus on 'cushioning the blow' included agreeing alternative payment arrangements for businesses with duty payable to Customs. We worked with other government agencies and industry representatives to identify and implement practical solutions to emerging trade challenges faced by New Zealand businesses.

The online channel, Trade Single Window, operated continuously during lockdown, enabling trade to be cleared. As a result, Customs was able to maintain its high standards for trade facilitation, and ensured that essential goods were cleared without delay.

The combined efforts of our whole team

Our committed, capable, and flexible team, together with union representatives, played a huge part in enabling us to respond quickly and effectively to changes in our operating environment due to COVID-19.

There were significant changes to our workstreams, workloads, and systems and processes due to the pandemic. This was true especially during New Zealand's COVID-19 lockdown, when many of our staff worked from home and our essential frontline

² The members of the Border Sector Working Group are Customs, MPI, Ministry of Health, Immigration New Zealand, Ministry of Transport, Maritime New Zealand, New Zealand Police (NZ Police), and the Ministry of Foreign Affairs and Trade.

³ Customs took over as chair of the BSGG (formed in 2007 to provide stewardship and governance for border sector work) from MBIE in April 2020.

workers carried out their responsibilities under additional health and safety and infection control protocols – measures which helped to keep 100% of our team safe from COVID-19 in 2019/20.

A large number of our staff from across the country were redeployed into alternative roles, both within Customs and in other government agencies. These staff exemplified the spirit of public service, with each and every member of our team playing their part.

Examples of the work not previously undertaken by our staff, to which our team ably contributed, included: supporting the Ministry of Health with contact tracing; assisting NZ Police with maritime patrols to educate the boating community about permitted Alert Level activities; helping other government agencies at managed isolation facilities; assisting in the National Crisis Management Centre; and working in MBIE's national contact centre.

The redeployment of our frontline staff as a result of reduced traveller volumes at the border has been done in such a way that they can return to passenger processing when traveller numbers increase. Our staff who continued to work at our international airports have undertaken a much wider range of duties (see page 26).

Additional Government funding due to reduced third party funding

Before the COVID-19 pandemic, we received about 60% of our total departmental revenue from third parties. However, the reduced volumes of international travellers and, to a lesser extent, goods crossing the border due to COVID-19 reduced our third party revenue considerably.

As a result, we received a \$30 million capital injection from the Government to replace our expected shortfall in revenue in the 2019/20 financial year. In July 2020 the Government approved additional Crown funding of \$84 million through operating funding, a capital injection, and a tagged capital contingency to cover our forecast decrease in third party revenue in 2020/21 (for more information see page 41).

The future – response and recovery

In 2020/21, and as long as necessary, Customs will continue to contribute to New Zealand's COVID-19 response and recovery. This will require us to undertake our core border management responsibilities, while progressing new initiatives and addressing new challenges.

On 30 June 2020, a COVID-19 Public Health Response (Maritime Border) Order⁴ came into effect, strengthening maritime border controls to further reduce the risk of the virus entering New Zealand. The Order restricts the vessels that may arrive into New Zealand by sea, and puts in place strict isolation or quarantine requirements for crew and passengers of vessels. Customs is leading coordination and implementation of the operational response and application of the Order (with the support of other government agencies). Our role includes monitoring compliance and working with government agencies to undertake enforcement.

Supporting New Zealand's economic recovery

The efficient flow of goods into and out of New Zealand will continue to be essential for the country's economic recovery. In late 2019/20, Customs started a programme of work to support that recovery. We will continue to provide support and guidance to importers and the freight and logistics industries, agree alternative payment arrangements for businesses with duty payable to Customs, and expedite border clearance for critical goods.

In 2020/21 we will also identify and progress activities that will help keep New Zealand businesses competitive in global markets, and support longer-term transformation of the economy.

Developing the world's smartest and safest border

In April 2020, the Prime Minister expressed a vision for New Zealand to have 'the smartest border in the world'. This vision includes a robust, science-led border response to protect New Zealanders from the 'new normal' of offshore health risks. The Government also wanted to look at how we organise ourselves at the border to ensure an appropriate balance of the need to keep threats out and the need to facilitate the flow of people and goods.

To progress this work, the BSGG commissioned the World's Smartest and Safest Border programme. Led by Customs, this programme seeks to identify ways in which New Zealand's border can remain amongst the world's safest and smartest as well as contribute to all-of-government efforts to establish safe travel zones when it is safe to do so. This work programme continues in 2020/21, and complements work being undertaken in collaboration with other border agencies internationally to define how borders will operate in the future.

⁴ The Order was made under section 11 of the COVID-19 Public Health Response Act 2020 by the Minister of Health.



6.9450
The
6.9450

Progress Against Our Strategy

Our *Rautaki Mana Ārai* strategy aims to ensure Customs is well-placed to protect New Zealand from risk and threats while helping the economy grow. We aim to respond to increasing and changing demands across borders, while building our capability to deliver world-class border management. We continued to deliver on that strategy in 2019/20.

Te Pou Tokomanawa

As the founding document of New Zealand, the Treaty of Waitangi underpins the relationship between Māori and the Crown. At Customs, the Treaty principles of kotahitanga, kaitiakitanga, and manaakitanga provide the foundations for what we do – our Pou Tokomanawa.

We talk about what this means for Customs in *Te Pou Tokomanawa Māori o Te Mana Ārai*, the Customs Māori Strategy. These principles are also reflected in our strategic plan, with our goals to ensure:

- relationships with Māori are founded on the principles of the Treaty of Waitangi
- Te Reo Māori me ōna tikanga (the Māori language and its customs) is normalised across Customs
- our workforce is representative of Māori in Aotearoa.

We focus on strengthening partnerships with Māori, protecting Māori communities, and actively contributing to Māori economic development. We work to ensure our policies and actions reflect the interests of Māori, whether as staff or our customers.

In 2019/20 we set up a new Northland maritime team based in Ōpua – the first step in partnering with Māori coastal communities to protect our borders through monitoring remote coastlines for illegal activity. The maritime team's new patrol boat was launched in May 2020. Its name Āraia is linked to Customs' name – Te Mana Ārai – and means to 'shield' or 'prevent' in Te Reo Māori. In 2020/21 we are expanding our engagement with Māori communities, hapu, and iwi to protect our borders.

To help increase our cultural competency and Te Ao Māori capability, we developed and introduced an online learning platform called Te Kura in 2019/20. Te Kura provides our staff with useful resources and e-learning modules about Te Reo Māori, tikanga Māori, Te Tiriti o Waitangi, and the ongoing Crown/Māori relationship. It aligns with the Māori Crown Relations Capability Framework developed by Te Arawhiti.

We want to normalise the use and visibility of Te Reo Māori. Some of the e-learning helps with this, and we encourage frontline staff to use Māori greetings with arriving travellers. We also support staff generally to use Te Reo Māori in written communication internally and externally.

The Te Arawhiti framework covers four levels of individual capability: unfamiliar, comfortable, confident, and capable. Our Te Kura e-learning helps those at the lower end of the framework. Customs encourages and supports those at the confident and capable end of the spectrum to undertake year-long Te Reo immersion courses.

Our efforts to build understanding and commitment in this area were reflected at the December 2019 meeting of the Customs Executive Board Focus Committee, discussing the Māori-Crown relationship (see page 34 for more on the Committee). Members visited the National Library's He Tohu exhibition to view both the Declaration of Independence of the United Tribes of New Zealand and the Treaty of Waitangi. They then shared examples of their involvement in the Māori-Crown relationship during their careers, and talked about how everyone at Customs can help the Crown to fulfil its responsibilities to Māori.

In 2020/21 Customs is looking to increase our support of Māori business and exporters, including providing tailored advice and assistance on trade matters such as joining the Secure Exports Scheme (see page 23), maximising the benefits of Free Trade Agreements, and supporting Māori businesses with critical supply chain issues.

We aim to increase the representation of Māori at Customs (see page 37 for more on Customs' efforts around inclusion and diversity). This will focus on recruiting Māori (including specialists with an understanding of Māori business), targeting Māori leadership for direct recruitment at senior levels, and developing opportunities for current Māori staff with leadership potential.

The year ahead

- Continue to develop and normalise the use of Te Reo Māori me ōna tikanga at all levels across Customs
- Outreach to Māori business to be a focus in economic recovery
- Increase the proportion of Māori staff and leaders.

Whakahaumarū PROTECTION

Our intention: Prevent risk reaching our borders

Customs continues to focus on protecting New Zealand from risks and threats at the border. This contributes to the country's future wellbeing by supporting healthier, safer, and more connected communities, and enabling people to fully participate in all aspects of society.

Our strategy is to protect New Zealand by preventing risk reaching our borders. While we continue to target and seize illicit drugs at our border, we recognise that the most effective way of preventing harm to New Zealand is to work with domestic and international partners to disrupt drug supply chains offshore, and intercept drugs at the point of export.

We have seen growing success in our efforts in recent years, reflected in the increasing volumes of illicit drugs seized offshore. This trend continued in 2019/20.

The COVID-19 pandemic disrupted international supply chains for illicit goods in the latter half of 2019/20, resulting in a slight decline in seizures at the border compared with 2018/19.

Strategic targeting and disruption of illicit drug supply chains offshore

New Zealand's 'street prices' for illicit drugs remain among the highest in the world, making the country an attractive and lucrative market for domestic and international crime groups. Criminal syndicates continue to employ new and sophisticated methods in their attempts to supply this illicit market. We use intelligence to understand and identify risk, and focus our efforts accordingly.

Having staff in key overseas locations means we can quickly exchange information and intelligence, enabling Customs and our partners to develop actionable intelligence on threats to the border and prevent drugs coming to New Zealand. It also supports joint investigations and operations to disrupt supply chains and dismantle transnational criminal networks. Customs received additional funding in Budget 2018 to deliver on our strategy of disrupting supply chains to prevent harm and cost to New Zealand. As part of this we have increased the number of staff and posts overseas, and plan to continue to do so in 2020/21.

Following a risk assessment, our counsellors in Asia returned to New Zealand at the beginning of the pandemic, but they continued their work remotely. Based on updated assessments, the counsellors in Hong Kong, China, and Bangkok returned to their posts in June and July 2020. Our other counsellors located in the United States, Australia, Brussels, and London remained in their posts.

Through working with our international partners, there were around 240 interceptions offshore in 2019/20 of illicit drugs (mainly methamphetamine, MDMA, and cocaine) destined for New Zealand. This avoided potential harm to the country of just under \$569 million,⁵ an increase from the \$520 million in harm avoided through such seizures in 2018/19. Most of the interceptions related to drugs coming from the Americas and Europe.

Harm to New Zealand avoided by offshore drug interceptions, by area



⁵ Based on the New Zealand Drug Harm Index, which quantifies the economic and social costs associated with illicit drugs.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicators:⁶ Total harm avoided through onshore and offshore drug seizures

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|---|-----------------|-----------------|-----------------|------------------------------|-----------------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Total harm avoided through onshore drug seizures | \$1.585 billion | \$1.184 billion | \$1.490 billion | \$1.909 billion ⁷ | \$1.804 billion | ↑ | ↔ |
| Total harm avoided through offshore drug seizures | Not measured | \$31 million | \$205 million | \$520 million | \$569 million | ↑ | ↑ |

Continued growth in the amount and proportion of harm avoided through offshore drug seizures shows the success of our strategy. We were on track to surpass the 2018/19 total for harm avoided through onshore drug seizures, and continue trending upwards, but COVID-19 affected illicit drug activity and seizures at the border (see page 17).

Strategic indicator: Proportion of interventions that yield the intended results

Our interventions aim to target, identify, and prevent harmful people and items from crossing our borders, while minimising the impact of our interventions on legitimate trade and travellers. We continue to refine our intelligence and data management systems so we can better understand the effectiveness of our interventions, and further enhance reporting against this measure.

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Proportion of interventions that resulted in the interception of drugs or prohibited goods | 3.9% | 3.9% | 3.7% | 4.6% | 4.7% | ↑ | ↑ |

Interventions relating to import entries, electronic consignments, and passengers. In 2019/20 2,039 of 43,111 interventions (4.7%) concluded in the interception of drugs or prohibited goods.

⁶ For each strategic indicator in this Annual Report, the expected future trend takes into account both the indicator's five-year trend to 2019/20 and the currently-expected impact of COVID-19 on the indicator. This means the reported expected future trend differs for some indicators from the expected future trend outlined in our Statement of Intent 2019–2023.

⁷ This total differs from the \$1.795 billion reported in the *New Zealand Customs Service Annual Report 2019* as that total was based on the provisional totals for drugs seized in that year (as noted in footnote 9 on page 16).

Strategic indicator: Overall level of public trust and confidence in Customs' performance of protection role

We are most recognised for our role in border security and protection. We need the trust and confidence of the New Zealand public to undertake this role effectively.

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|---|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Trust and confidence in Customs' performance of protection role | - | - | - | 52.2% | - | N/A | ↑ |

Our annual Public Trust and Confidence survey was not conducted in 2019/20 due to COVID-19. It was scheduled for May 2020. However, if conducted at this time it would have been difficult for the public to differentiate between the Government's COVID-19-related policy at the border, and Customs' execution of that policy and our wider border protection role. We decided the survey results would be of limited use for performance reporting as they would not compare directly with results generated in a 'normal' environment.

Colmar Brunton carried out its Public Sector Reputation survey in March 2020 which showed a positive rise in Customs' overall reputation to third out of the 54 agencies included – up from ninth place last year. We also scored second in trust, up from fifth place last year. This result indicates that the public has trust in Customs.

The year in review

Illicit drug seizures at the border

We seized a total of 1,806.2 kilograms and 488.0 litres of illicit drugs⁸ at the border in 2019/20.

Significant seizures of illicit drugs by Customs in 2019/20, and examples of smugglers' various concealment methods, include the following.

- A record 469 kilograms of methamphetamine found in August 2019 at the Ports of Auckland in a shipment of 60 electric motors from Thailand. Two Canadian nationals and a New Zealander were arrested. Subsequent search warrants across Auckland found another 15 kilograms of methamphetamine, a hand gun, and a large quantity of cash.
- 13 kilograms of ephedrine found in July 2019 after Customs officers on patrol at the Tauranga port saw and grew suspicious of a crew member from a merchant vessel – he was attempting to smuggle 12 kilograms by strapping it to his torso. Another kilogram was then found on searching the ship, and the Chinese national was arrested. Further investigations linked him to another foreign national; NZ Police arrested this man (and found a further 12 kilograms of ephedrine in his vehicle).
- 2.5 kilograms of cocaine hidden in the lining of five puffer jackets in the baggage of a United States woman arriving at Christchurch Airport in September 2019.
- 34 kilograms of methamphetamine on a commercial vessel arriving in Tauranga in November 2019. Our search of the vessel located the drugs hidden in bags across the ship. Two Fijian nationals were arrested.
- Around 46 kilograms of MDMA, 6 kilograms of ephedrine, and 1 kilogram of methamphetamine that arrived by mail or air freight, hidden in items such as LED lights, clothing, ornaments, toys, and thermos flasks. A Chinese national was arrested after our investigation connected him to drug packages we seized between July 2019 and February 2020.
- 20 kilograms of methamphetamine at Auckland Airport in May (while in Alert Level 3) in the carry-on suitcase of a New Zealand national. Search warrants led to an additional New Zealand man being arrested.

⁸ This includes all drug seizures with a weight in grams (the majority of these seizures are in powder and crystal form) or litres (including 409.5 litres of GBL, 35.8 litres of cannabis oil, and 15.3 litres of opium). These totals exclude other seizures, most of which are pills/capsules and seeds.

In our fight against illicit drugs we work closely with NZ Police, including the National Organised Crime Group. This includes sharing intelligence and proactively targeting criminal networks through joint operations.

In 2019/20 NZ Police continued its nationwide wastewater testing (except for a period due to COVID-19), providing us with an indication of illicit drug use in New Zealand. The results continued to reflect the seizures we made at the border – methamphetamine by far the most commonly detected illegal drug, MDMA the second most common, and then cocaine. Given the level of cocaine use compared with the volume seized at our border and by our offshore partners, it appears a significant proportion of the cocaine seized might have been intended to transit through New Zealand to another country, rather than intended for the New Zealand market.

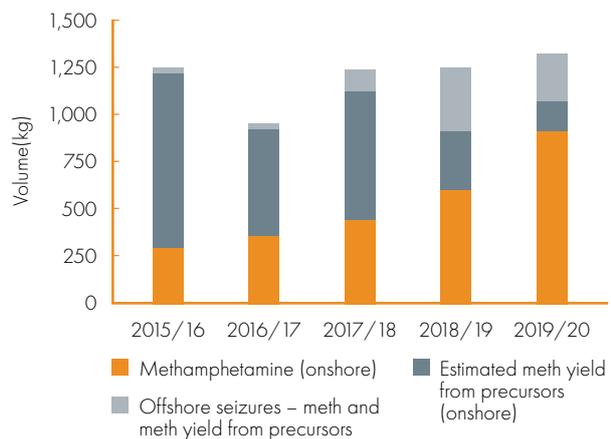
Drug seizures by type

Methamphetamine continues to be New Zealand's most commonly used drug. Other illicit drugs continue to be seized at our border and offshore, however. This includes growing volumes of MDMA (ecstasy) and GBL (gamma-butyrolactone, commonly known as the 'date rape drug') in the last couple of years.

In 2019/20 Customs seized 905.5 kilograms⁹ and 6.1 litres of methamphetamine at the border, an increase in the powder/crystal weight of 51.1% from the 599.3 kilograms seized in 2018/19. The volume of methamphetamine precursors (ephedrine and pseudoephedrine) seized fell by 47.8%, from 411.7 kilograms in 2018/19 (with an estimated yield of 308.3 kilograms of methamphetamine) to 214.8 kilograms in 2019/20 (with an estimated methamphetamine yield of 160.2 kilograms). This reflects the continued shift in the last few years to importing the completed product.

The offshore seizures in 2019/20 included 247.2 kilograms of methamphetamine.¹⁰

Methamphetamine seizures by Customs and offshore partners



Seizures of other significant illicit drugs are in the table below. The increasing volumes seized offshore show the success of our strategy to stop illicit drugs before they reach our border.

| Drug type | 2018/19 | | 2019/20 | |
|-----------|---------------------------------|--------------------------------|----------------------------------|------------------------|
| | At NZ border | Offshore | At NZ border | Offshore |
| Cocaine | 248.8kg | 31.9kg | 21.1kg | 56.8kg, 3,000ml |
| MDMA | 501.8kg, 8,060 tablets, 5,000ml | 55.6kg, 1,054 tablets, 2,250ml | 479.4kg, 3,460 tablets, 10,380ml | 170.8kg, 8,915 tablets |
| GBL | 3.4kg, 300,334ml | 10.8kg | 20.1kg, 409,459ml | 34.7kg, 36,500ml |

⁹ All of the 2019/20 drug totals in this report (including precursor totals), and the associated drug harm figures based on those totals, are provisional figures based on our initial weighing and recording of interceptions. These figures may change; for example, quantities may be updated after substances are further tested and/or the drugs are reweighed as an investigation progresses. The 2018/19 totals are different from those reported in the *New Zealand Customs Service Annual Report 2019* as those were provisional and the 2018/19 totals have now been finalised.

¹⁰ The offshore seizures for 2015/16 contained in the graph are based on data from a World Customs Organization database in which overseas agencies recorded interceptions. Customs' system was updated to more effectively track offshore seizures from 2016/17.



Effect of COVID-19 on drug smuggling

While the number of seizures and volume of illicit drugs seized fluctuates from month to month, COVID-19 appears to have had an impact, particularly in April and May 2020. We made 61 seizures in April and 92 in May, compared with a minimum of 148 and an average of 225 in the other 10 months of the 2019/20 financial year. However we still seized illicit drugs in that two month-period, including nearly 30 kilograms of methamphetamine and over 6 kilograms of MDMA and 6 litres of GBL.

We expect this drop in seizures was the result of worldwide disruptions in the supply chain of these drugs due to the pandemic. While in the short-term the border travel restrictions in New Zealand and worldwide might have constricted the supply of illicit drugs into New Zealand, transnational organised crime groups will be looking at other ways to smuggle illicit goods across borders. We expect those groups have been adapting – for example, moving away from drug couriers in the passenger stream to alternative pathways.

Despite COVID-19 affecting the global environment and activity at the border, risks to our border continue and we remain vigilant. We continue to respond as methods of importation evolve.

Preventing financial crime

Organised criminal groups use cross-border cash transfers and trade-based money laundering to move the profits of their illegal activity across borders, and make them appear legitimate.

Our Financial Crime Unit (FCU) enhances our financial intelligence and investigative capability to reduce cash smuggling and trade-based money laundering, and in doing so reduce the incentives driving drug smuggling.

Following a successful trial in late 2018/19, the FCU grew in size, capability, and experience in 2019/20. We undertook a number of investigations into potential trans-border money laundering during the year, including instances of cash smuggling detected at the border.

The FCU also enhanced our relationships with local and international partners, increasing the visibility and reputation of Customs in the financial crime arena. In New Zealand this liaison includes with the NZ Police Financial Intelligence Unit, Money Laundering Team, and Asset Recovery Unit. Customs hosted experts from our Border Five partners (Australia, United Kingdom, United States, and Canada) at the inaugural Border Five Trade-Based Money Laundering Conference in Auckland in October 2019. We also signed a Memorandum of Understanding with the United States Department of Homeland Security that strengthens the cooperative relationship and data sharing between our two agencies. This will enable the FCU to carry out more sophisticated trade data analysis for targeted investigations of trade-based money laundering.

The movement of large sums of cash has been linked to illegal activities.¹¹ One of Customs' roles is to ensure money crossing our border is being carried for legitimate purposes. In 2019/20 our dogs detected the equivalent of NZ\$7.60 million in undeclared currency at airports, and \$0.08 million in premises or vehicles being searched under a Customs or NZ Police search warrant.

We continue to look to prevent people importing equipment to carry out fraudulent activity such as credit card skimming, or entering the country with that intention.

After executing a search warrant in January 2020, with NZ Police assistance, Customs officers arrested two Romanian nationals in Auckland for importing card skimming equipment to fraudulently withdraw money from ATMs. The pair was charged under the Customs and Excise Act with being knowingly concerned in the importation of goods that are for a dishonest purpose.

¹¹ While it is not illegal to carry large sums of money into and out of New Zealand, the law requires that travellers declare cash in any currency or form if it is equivalent to NZ\$10,000 or more, so authorities can check that the money is being carried for legitimate purposes and is not linked to illegal activities. Undeclared or misdeclared cash can be forfeited and seized. Not declaring cash or providing false or misleading information is an offence under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and carries a range of penalties, including fines and imprisonment.



Combatting objectionable material

We continued work in 2019/20 on combatting and reducing objectionable material and online offending; the bulk of this relates to child sexual exploitation. Our role includes identifying people carrying images and videos across New Zealand's physical border, and those accessing or uploading them online across our virtual border.

We work closely with the Department of Internal Affairs (DIA), NZ Police, and overseas enforcement agencies to catch offenders, and identify and protect child victims. This includes sharing intelligence to target perpetrators, as well as information on trends, practices, and technology used by offenders and law enforcement.

Budget 2019 provided Customs with \$10.2 million over four years to boost resourcing and capability to combat child exploitation across our cyber and physical borders. The funding enables us to employ more specialist staff and buy more analytical and forensic tools. We can then target and investigate a greater volume of objectionable material, and work more effectively with our partner agencies.

In 2019/20 we bought two additional mobile forensic laboratories equipped with the latest tools for finding digital evidence. These specialist vans enable us to forensically examine electronic devices at the border or at search warrants, and quickly take action based on what is found.

We also employed four additional investigators and analysts in 2019/20 and intend to add more in 2020/21.

Customs captured around 85,000 objectionable publications in 2019/20.¹² These were material on devices we seized at the border or at search warrants, together with publications shared by New Zealand-based offenders using online, cross-border platforms. Six child victims were identified and safeguarded, locally and internationally, from material we seized.

Arrests in 2019/20 as a result of Customs investigations and activity included the following people.

- A Paraparaumu man in September 2019 on charges of exporting, distributing, and possessing child sexual exploitation publications (an overseas agency detected him and notified us).
- An Auckland man on charges including importing and possessing objectionable material. On his arrival at Auckland Airport in January 2020, we searched his phone and found images and video depicting child sexual abuse.
- Three youths (one in Hamilton, one in Auckland, one in Dunedin) had formal interventions with us after detection of import, export, distribution, and possession offending using internet-based social media applications. We sought alternative youth justice processes for these young people in preference to charging them with serious offences.
- A Northland man was charged (in October and December 2019) with exporting, distributing and possessing child sexual exploitation material following a referral to us from an overseas internet service provider. After further investigation and forensic analysis of seized devices, production of abuse imagery by the man was identified. The joint-agency victim identification Taskforce Ruru (Customs, NZ Police and DIA) subsequently identified six local children who had been abused and recorded. A joint Customs-Police prosecution resulted in 71 charges ranging from possession of drugs and weapons to abduction for sex and unlawful sexual connection with children.

¹²This total is not yet final as we continue to examine and categorise some material seized in 2019/20 and progress investigations.

Firearms and other weapons

Preventing illegal firearms and weapons from entering New Zealand is an important role for Customs. We made 1,585 interceptions of a total of nearly 500 firearms, nearly 5,200 firearm parts, and over 1,500 other weapons such as flick knives and knuckledusters in 2019/20.

We manage the importation of lawful and restricted firearms and firearm parts subject to permits issued by NZ Police, and detain and seize any prohibited firearms or parts. Amendments to the Arms Act 1983 soon after the 15 March 2019 mosque attacks in Christchurch changed the ownership and import permit requirements, and we implemented relevant changes at the border. The Arms Legislation Act 2020 made further changes (from June 2020) that will help Customs officers apply and enforce the Arms Act at the border.

Assurance programme

Our Assurance programme will inform and refine our intelligence through randomised sampling across various import streams. Over time it will enable us to refine our targeting and increase our success rate with fewer interventions.

In 2019/20 the programme verified compliance levels are reasonably consistent in all streams. From the sampling undertaken, the indicative compliance levels were:¹³

- air passengers: 97%
- mail: 97%
- fast freight: 96%
- sea cargo: 95%
- air cargo: 93%.

During 2019/20 we continued to further develop and embed the Assurance programme. We made significant progress by fully implementing automated sampling in all cargo streams, developed a sampling engine for the air passenger stream, and progressed to a trial phase in the sea passenger stream.

New tools and approaches

We continue to develop and implement new tools and initiatives to assist in our targeting of risk and protection role:

- *The Joint Border Analytics (JBA) team*: This is a border sector initiative with staff from Customs, MPI (Biosecurity New Zealand), and MBIE (Immigration NZ). It enables the three agencies to share data science expertise, tools, and methodology to help identify border risk and target interventions. In 2019/20 the JBA team developed analytical products using a range of data science techniques to support the all-of-government response to COVID-19, as well as intelligence and targeting functions across the border sector.

- *The frontline mobility application (Customs On Line – COLIN) for work-issued smartphones*: COLIN was completed and rolled out in phases to our frontline officers inspecting freight and mail, and searching passengers in 2019/20. The app enables them to capture reporting on interventions in a standardised format, in real time and anywhere. This delivers efficiencies and, over time, improved data quality. It also benefits customers as compliant cargo can be released directly via the app following the inspection.
- *Building relationships with Customs-controlled Area operators*: Teams in Christchurch and Auckland are proactively working with Customs-controlled Area operators to identify and address vulnerabilities, and make it harder for criminals to exploit their operations. Following a successful pilot in Christchurch in 2018/19, an additional team started in Auckland in November 2019. This work is producing results through actionable information.

The year ahead

- Assess the impact of COVID-19 on illicit drug markets and supply chains, and respond as smuggling methods evolve.
- Lead the implementation of New Zealand's response to mitigating the risk of transmission of COVID-19 across the maritime border.
- Expand our overseas presence as part of our work to identify and seize illicit drugs offshore.
- Continue developing our Assurance programme to assess levels of compliance and inform targeting.
- Further build our capability to combat objectionable material, particularly child sexual exploitation material.

Hokohoko TRADE

Our intention: New Zealand's trade flows efficiently across borders

Customs plays an important role in facilitating and promoting trade, and so growing New Zealand's economy.

We aim to ensure low-risk trade flows efficiently with the minimum of disruption (in time and money) to traders. We develop agreements to improve cooperation between customs administrations, negotiate and support Free Trade Agreements (FTAs), and support traders to benefit from those agreements.

We worked hard to support exporters and importers as the COVID-19 pandemic started to affect traders and the economy. Our immediate focus during Alert Levels 3 and 4 was on continuing to facilitate imports, exports, and critical supplies, and assisting businesses experiencing financial difficulties. This continues as we work through subsequent stages of the response and recovery.

¹³ All results are preliminary and indicative, and calculated as simple averages of sampled interventions only. Compliance data for 2019/20 excludes the period 27 March to 21 May 2020 (sampling activity was a non-essential function during the COVID-19 lockdown), and sampling for the air cargo stream started from 1 October 2019. Full implementation of sampling is dependent on the creation of systems-generated random selections in each stream.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicator: Percentage of trade transactions that are compliant

We aim to achieve high levels of voluntary compliance to underpin the efficient flow of trade. Trade compliance remained high in 2019/20, even as the number of transactions (import and export) transactions increased 14.4% from 2018/19. The proportion of transactions processed without requiring further intervention after risk assessment remained high throughout the year.

| Indicator ¹⁴ | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Percentage of import transactions that do not require further intervention after risk assessment | 98.3% | 98.5% | 98.8% | 98.8% | 99.0% | ↑ | ↔ |
| Percentage of export transactions that do not require further intervention after risk assessment | 99.8% | 99.8% | 99.8% | 99.8% | 99.9% | ↑ | ↔ |

Further intervention with a transaction may include, but is not limited to, document inspection, screening, or search.

Strategic indicator: Ease of compliance

We aim to provide a simple, fair, equitable, and transparent system that is easy for all users. We provide education and information for all traders on their rights and obligations to make complying with border clearance requirements quick and easy.

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Commercial goods clients' ease of compliance | 76.6% | 72.7% | 65.9% | 71.0% | - | ↓ | ↑ |

We did not conduct our survey of goods clients (importers and exporters) in 2019/20. This was planned for late 2019/20 but we wanted to limit the load on businesses in a time of stress due to COVID-19, and the survey is designed for a business-as-usual environment.

Previously the slight downward trend was attributed in part to the gradual uptake of Trade Single Window (TSW) and the new information requirements to which customers needed to adapt. TSW has now become the standard for all traders and was available continuously in Alert Levels 3 and 4. When the survey is next conducted, we expect to see the positive trend from 2018/19 continue.

¹⁴The wording of these measures has been changed to avoid confusion with assurance-based compliance measures now being reported (see page 19). These measures were previously 'Percentage of import/export transactions deemed compliant'. In all other respects the measures remain unchanged.



Strategic indicator: Economic value of trade promotion and facilitation

New Zealand businesses and consumers benefit from the international relationships we have brokered with key trading partners. Trading arrangements, such as Mutual Recognition Agreements (MRAs) and Customs Cooperation Agreements, reduce customs clearance times and enhance the flow of trade across the border, reducing the costs for business and increasing trade flows as a result. In 2018/19 Customs commissioned the New Zealand Institute of Economic Research (NZIER) to assess the potential economic benefits from our MRAs. This research found that MRAs had a significant positive impact on New Zealand's gross domestic product (GDP) and consumer welfare.

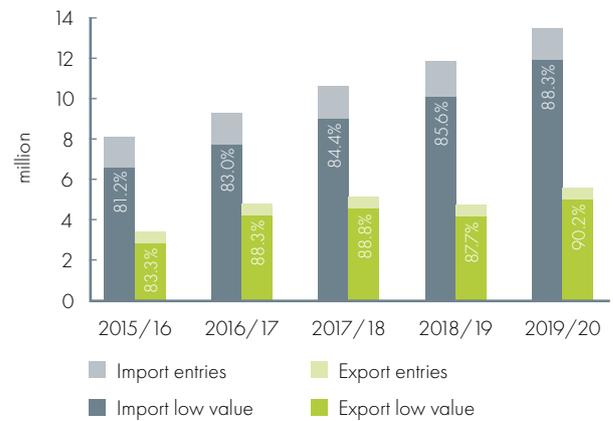
In 2019/20 NZIER tested the underlying assumptions of the original research by conducting a series of face-to-face meetings with exporters and logistics companies to better understand and quantify the time saving impacts for different commodities. As a result, NZIER refined its economic modelling assumptions and is more confident in the results produced in 2019/20.¹⁵

NZIER found that over the long term (7 to 10 years) the benefits delivered by our current MRAs (particularly the time savings through domestic and overseas customs and border clearances) increase New Zealand's GDP by US\$310 million and consumer welfare by US\$200 million annually. This is through stronger international competitiveness of New Zealand exports together with decreases in import costs, which result in increased consumption opportunities for New Zealand consumers (purchasing power from falls in prices), and productivity improvements of importing firms.

The year in review

The number of trade transactions processed increased in 2019/20. We processed 13.518 million import transactions,¹⁶ an increase of 13.3% from the total in 2018/19, and 5.615 million export transactions,¹⁷ an increase of 17.2% from the 2018/19 total. The growth in total transactions resulted from the significant increase in the number of low-value (under \$1,000) import and export transactions in 2019/20 because of the continued rise of e-commerce in recent years.

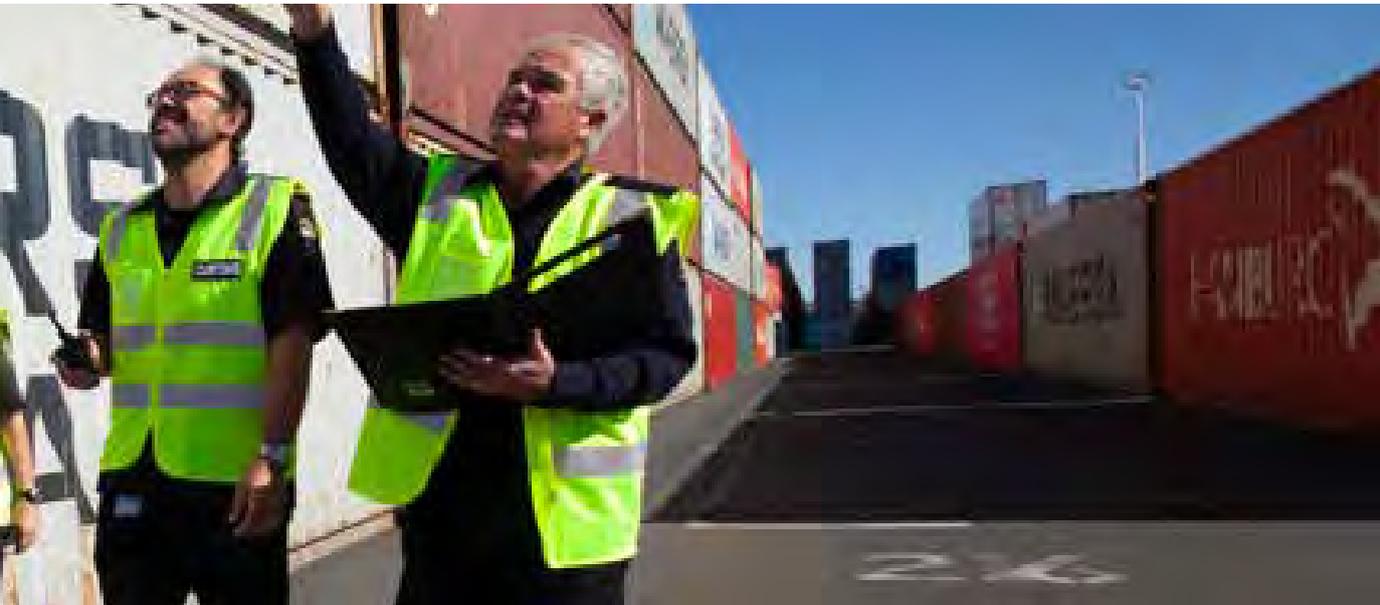
Trade transactions cleared



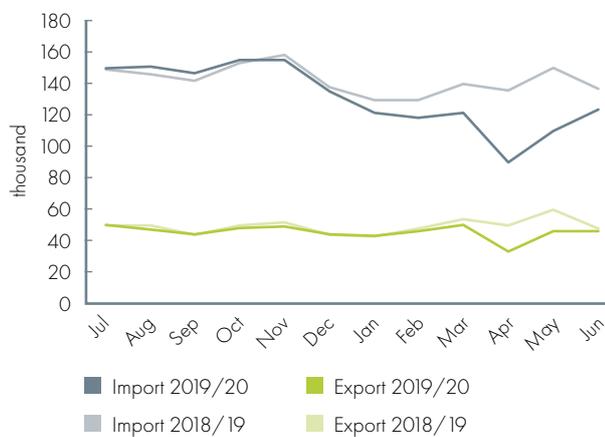
COVID-19 had a major disruptive impact on international supply chains, with a corresponding impact on New Zealand import and export volumes. In particular, trade with New Zealand's largest trading partner, China, decreased in the early stages of the pandemic, and air freight volumes were heavily affected by the loss of available flights.

This affected the number of transactions, particularly the import and export entries (the higher-value trade transactions). However, by the end of 2019/20 these were returning to levels similar to 2018/19 (in relation to sea freight, while air freight capacity continued to be significantly reduced).

¹⁵ On the economic benefits of the eight MRAs in place in 2019/20 – with Australia, China, Japan, Republic of Korea, the United States, Hong Kong, Canada, and Singapore.
¹⁶ Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship Electronic Cargo Information transactions (ECIs). However, the import transactions total excludes import mail items.
¹⁷ Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items.



Trade entries (excludes low-value transactions)



Trade facilitation and critical supplies

When Alert Level 4 started in New Zealand, we helped keep international trade flowing, and provided support and guidance to importers, exporters, and the freight and logistics industry. Our efforts included:

- approving the movement of essential goods at the border, as well as non-essential goods when they hindered the movement of essential goods
- helping identify and expedite the border clearance of critical supplies such as personal protective equipment (PPE) and ventilators
- contacting around 80 importers of PPE to help assess supply and support needs (to inform the all-of-government response)
- supporting businesses with storage problems created by oversupply and congestion at the ports
- providing guidance to importers and exporters to ensure non-essential goods that could be moved from ports to storage areas met the necessary health precautions.

We worked across government and industry to come up with practical solutions to any issues emerging from disruption to the supply chain. We continue to provide expedited trade clearance arrangements with overseas customs administrations to clear critical supply chain shortages and barriers to essential imports and exports.

We have advocated for New Zealand exporters in ensuring shipments of essential goods are processed without delay at overseas ports. We have also engaged with our international partners on COVID-19 about lessons learned and any collective response to trade (and travel) issues.

The Trade Single Window (TSW) was available continuously throughout Alert Levels 3 and 4. This was key to keeping trade flowing over this period. The TSW enables cargo and excise industries to meet the information requirements of Customs and other border agencies (and receive responses) through a single electronic channel.

Business financial support

Under Alert Levels 3 and 4, we:

- worked with the Ministry of Business, Innovation and Employment, and urgently implemented a temporary tariff concession allowing the duty-free importation of hand sanitiser, and testing kits and reagent. We also fast-tracked tariff concession requests from businesses related to challenges arising from COVID-19
- supported excise manufacturers wishing to assist health efforts by using ethanol to manufacture hand sanitiser with no excise duty payable.

Our primary efforts with businesses were to cushion the immediate impact of COVID-19 by providing support and relief in meeting their obligations to pay duty, GST, and other levies to Customs. We invited all whose ability to pay on time was adversely affected by COVID-19 to contact us to discuss options.¹⁸

We assisted more than 350 businesses in 2019/20 by negotiating new payment dates, providing deferred payment options and a streamlined application process, and setting up instalment plans to assist clients better manage their cash flows. We received feedback this was invaluable in helping some businesses to trade out of the economic conditions and to retain staff. The number of clients with which we had adjusted payment arrangements (and the associated revenue payable to us) peaked at the end of May; by 30 June 2020 it had dropped to around 260 businesses.

So as to not penalise businesses struggling to pay their duty on time, the Government also agreed to remit or refund interest and penalties for late payment.¹⁹

¹⁸ Customs has flexibility to defer payments under the Customs and Excise Act 2018.

¹⁹ Through an amendment to the Customs and Excise Regulations 1996 that came into effect on 29 May 2020. It applies to duty interest and penalties arising on payments due on or after 25 March 2020 if specific criteria are met, and for up to two years.



Due to the lockdown's impact on the hospitality industry, and the expected flow-on effect for payers of excise on alcohol, we contacted all alcohol manufacturers to establish their needs and discuss options for managing their cash flow and payments on a case-by-case basis. We also worked with them to license new storage areas, or expand those areas already licensed, to store excess product that would normally have been sold.

In March 2020, to further help export and import businesses and protect jobs from the COVID-19 impacts, the Government suspended fee rises and pricing reviews by agencies that charge fees at the border for the next 12 months. This meant the planned increases to Customs' goods clearance fees, due to start on 1 June 2020, were deferred for 12 months.

Relationships with other customs administrations

We maintain relationships with other customs administrations around the world, supported by agreements with those administrations, and our counsellors in overseas posts.

Customs Cooperation Agreements (CCAs) are typically the first formal agreement we negotiate, helping to build relationships and trust between customs administrations and facilitate the subsequent negotiation of Mutual Recognition Arrangements (MRAs).

As a result of the UK's exit from the European Union (EU), we negotiated a new agreement with the UK to ensure we have the right cooperation frameworks in place beyond Brexit. The new CCA was signed in August 2019.

Customs has a multi-faceted response to support exporters and promote broader NZ Inc. interests in response to Brexit. This includes a counsellor in London. Our London and Brussels posts are working together to understand how the UK and the EU will redesign their border control processes and intelligence targeting post-Brexit, which could have implications for New Zealand goods going into those markets. We also have a multi-channel communications strategy, including industry outreach and our website, to provide consistent and reliable information on Brexit to our stakeholders.

In November 2019 we signed an amendment to the CCA with Australia, formalising the exchange between our customs administrations of passenger information on trans-Tasman cruise ship routes. This enables passengers to be pre-cleared before arrival in New Zealand, and provides a basis for future trans-Tasman seamless travel initiatives.

We have a number of MRAs with key trading partners. Through MRAs, customs administrations recognise each other's supply chain security programme, and treat exports from MRA members as low-risk. This provides trade facilitation benefits and lower compliance costs for programme members, including fewer border checks and reduced documentation requirements, and increased speed to market in the partner country, as well as priority in trade recovery situations.

New Zealand's supply chain security programme, the Secure Exports Scheme (SES), had applied only to sea freight. We expanded the SES to airfreight in 2019/20 to enable exporters of the time-sensitive perishable goods generally sent via airfreight to access the trade facilitation benefits offered. The first business using air freight joined the SES in October 2019.

We proactively engage with exporters to inform them of the benefits of being an SES member (and of FTAs). In 2019/20 we progressed targeting non-SES exporters in the top 250 exporters by value (for air and sea freight), as well as Māori businesses and small to medium enterprises, especially in the regions.

In 2019/20, 40.9% of New Zealand's export trade was covered by the SES, an increase from 35.4% in 2018/19.

The strengthened connections and trust our overseas counsellors develop with local customs administrations help to resolve barriers to trade for New Zealand exporters quickly and effectively.

Examples of assistance by our overseas posts to assist exporters in 2019/20 include:

- In May 2020 an export of Manuka honey to the Netherlands via Singapore was held at the Rotterdam port. Our counsellors in Brussels and Bangkok resolved the issue with Singapore Customs and the relevant Dutch authority, enabling honey to be on shelves in the Netherlands two days later instead of being returned to New Zealand.
- Our Jakarta-based counsellor played a key role in unlocking a complex and long-standing non-tariff barrier in one of our export markets in South East Asia. This was causing disruption and financial hardship for a number of New Zealand exporters, and for one exporter the additional duty amounted to around NZ\$8 million. Following our intervention, the customs administration agreed to refund the duty, and changed its approach so our exporters would not be impacted by this issue again.



Free Trade Agreements

FTAs contribute to our economy by helping New Zealand businesses be more competitive in overseas markets. They provide the parties with favourable tariff rates and reduced trade barriers.

We lead negotiation of the customs-related aspects of New Zealand's FTAs. In 2019/20 we took part in negotiations of the Regional Comprehensive Economic Partnership, Pacific Alliance FTA, and New Zealand-European Union FTA, as well as the upgrade of the existing New Zealand-China FTA.

The Joint Electronic Verification System (JEVS) with China Customs provides assurance to China that our exports qualify for tariff preferences under the FTA. It does this by enabling data to be exchanged electronically by our customs administrations to validate certificates of origin. This streamlines and accelerates clearance procedures with our largest trading partner. As part of the New Zealand-China FTA upgrade, we negotiated a new system for approved exporters to self-declare origin data to obtain preferential access to China. This will lower costs for exporters and develop a more favourable trust-based trading relationship with China. Development of the new self-service capability within the JEVS platform started in late 2019/20.

After an FTA is signed, we proactively support exporters to understand and take up the opportunities offered by the agreement. We have an 'outreach' programme to educate traders about the benefits available and how to comply with FTA requirements.

Streamlining trans-Tasman trade

The Secure Trade Lane (STL) initiative²⁰ aims to streamline border processes and make low-risk trans-Tasman trade more efficient and cost-effective for authorised traders. In 2019/20 a data discovery and analysis exercise by the STL project team identified 'pain points' and opportunities in the import/export process between selected ports in Australia and New Zealand. The team also consulted industry to understand its perspective.

That information fed into the digital STL trial with key industry partners. Phase one began on 1 March 2020 – COVID-19 affected the progress and scope, but we received sufficient data to demonstrate the potential benefits. We provided our phase one report to the Australian Border Force to collate with its findings. The project team will move into phase two of the trial in 2020/21.

The year ahead

- Continue to support traders affected by COVID-19.
- Continue to expedite the border clearance of critical supplies such as PPE and ventilators.
- Progress initiatives to support New Zealand's recovery from COVID-19.
- Expand the Secure Exports Scheme to more businesses, particularly those using airfreight.

Tāroi TRAVEL

Our intention: A streamlined experience for travellers across borders

Our focus is on streamlining the process for compliant travellers to improve the customer experience, while managing risk and maintaining border security. We aim to deliver high-quality border management across all modes of travel through more integrated and automated processes.

The COVID-19 pandemic had a deep and wide-ranging impact on international travel in 2019/20. Border restrictions imposed from early 2020 substantially reduced the number of international travellers and required a strong focus on managing health risk at the border. This shifted our emphasis in the latter half of 2019/20 from facilitating passengers to managing border risk as part of the broader all-of-government response to COVID-19.

We are also supporting the recovery from COVID-19. Work is underway with relevant agencies to put in place COVID-safe travel zone arrangements so that selected international commercial passenger air travel can resume when it is safe to do so. We are also leading work to define future border settings for travel through the World's Smartest and Safest Border initiative.

²⁰The STL initiative; our efforts to expand SES and increase SES membership; and the actions taken to support traders in the COVID-19 environment are relevant to section 439 of the Customs and Excise Act 2018. This requires reporting on initiatives or steps taken to reduce the costs of complying with the Act for businesses with a strong record of compliance. See page 109 for the reporting.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicators: Timeliness of passenger movements through Customs controls, and passenger experience

We aim to process international air passengers across the border in a manner that passengers experience as both timely and satisfactory. We achieve this by minimising the degree of interaction and delay for legitimate and compliant travellers, while ensuring potential risks are correctly identified and mitigated.

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|---|-------------|---------|---------|---------------------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Proportion of arriving international air passengers processed within 45 minutes | 95.1% | 93.8% | 95.5% | 95.6% ²¹ | 94.4% | ↔ | ↓ |
| Air passenger satisfaction | 91.9% | 92.0% | 90.0% | 92.9% | – | ↔ | ↔ |

The border restrictions due to COVID-19 included closing eGates to all arriving air travellers in March 2020. This resulted in more travellers being processed through manual screening and a significant increase in the average processing time for arriving passengers.²² In the eight months from 1 July 2019 to 29 February 2020, 95.5% of arriving air passengers were processed within 45 minutes. From 1 March to 30 June 2020, this figure was only 86.1%; this had a minimal impact on the overall 2019/20 result due to the drastic drop in overall passenger numbers during the same period.

We did not conduct our survey of international air passengers in 2019/20. The survey was originally planned to be undertaken in March 2020 based on a sample of passengers arriving in January but this was deferred due to the unfolding COVID-19 situation. We subsequently decided in late May 2020 to cancel the 2020 survey as the original sample was too dated and, due to international travel restrictions, there were insufficient numbers of passengers to generate a viable new sample.

Strategic indicators: Intervention rate and intervention effectiveness by level of risk

We continually consider whether our risk settings and systems are appropriate. The assurance model currently being developed will further inform and refine our intelligence (see page 19). Reporting against these indicators is expected to start in the 2020/21 year.

Strategic indicator: Degree of meaningful collaboration and engagement

Border sector agencies have been working together under the Border Sector Governance Group (BSGG – which provides leadership and strategic direction) since 2007 to lift our quality of service to legitimate travellers and ensure we identify and prevent potential risks at our ports of entry. The COVID-19 global pandemic has required us to take on new functions and work together to manage the health risk from individuals crossing our air and sea borders.

Customs chairs the BSGG (since April 2020) and the Border Sector Working Group (since January 2020). These collaborative multi-agency groups have met regularly since the start of the pandemic to support the all-of-government response (see page 9 for more on the groups). They have been imperative for maintaining New Zealand's strong border response, and are important to the recovery, including through pursuit of the World's Smartest and Safest Border.

²¹ The results for 2015/16 to 2018/19 differ from those included in the *New Zealand Customs Service Annual Report 2019* – we have identified that the previous values were those processed in less than or equal to 45 minutes (so less than 46 minutes) rather than less than 45 minutes.

²² Due to social distancing requirements resulting in passengers being escorted off arriving flights in staggered groups, undergoing health and temperature checks, and being separated from other incoming flights before Customs processing.

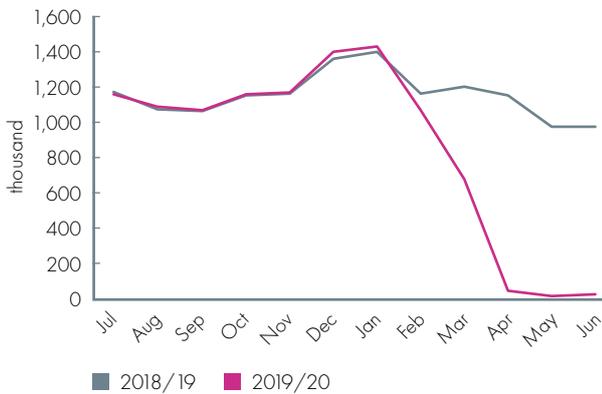
The year in review

In 2019/20 we processed 10.777 million international passengers,²³ a drop of 25.5% from the record 14.464 million in 2018/19. Most travellers are arriving and departing air passengers (10.395 million in 2019/20, down from 13.950 million in 2018/19). Border restrictions introduced due to COVID-19 had a significant effect on traveller volumes.

The Government introduced the first border restriction for air travellers on 3 February 2020 (relating to foreign nationals travelling to New Zealand from, or transiting through, mainland China). Other changes followed to border measures restricting entry to New Zealand, until entry was prohibited (subject to exceptions) from 19 March 2020 for all but New Zealand residents and citizens (and their children and partners).

Cruise ships were banned from entering New Zealand's territorial waters from 11.59pm on 14 March 2020.

Commercial air passengers (arriving and departing)



Some staff have been redeployed from passenger processing to other work while volumes remain low due to COVID-19 and border restrictions, but in such a way that they can return to processing when traveller numbers increase.

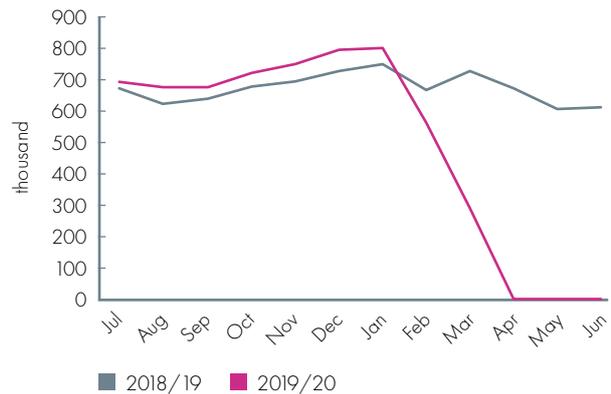
Our staff still at airports are undertaking a wider range of duties than the usual passenger processing. This includes escorting arriving passengers from the aircraft through the health, customs, and biosecurity processes and to the transport to managed isolation facilities.

eGate passenger processing

An eGate is an automated way to get through passport control. This self-service option provides a streamlined passenger experience while enabling us to focus on those travellers who might present a higher risk. It has been particularly valuable in recent years as traveller volumes continued to rise and eligibility was extended to more nationalities, meaning eGate was being used by an increasing proportion of travellers.

Due to COVID-19, restrictions on eGates were introduced in February 2020 (only eligible passengers on flights from particular countries were able to use them). In March eGates were closed to all travellers. As a result, 6.000 million arriving and departing passengers used eGate in 2019/20, a drop of 25.9% from 2018/19 (8.095 million).

Passengers using eGate



We continued to work with MBIE (Immigration NZ) in 2019/20 on making eGate available to more nationalities. Eligibility was formally extended to Japanese ePassport holders in September 2019 and South Korean ePassport holders in October 2019. Our work on extending eligibility further was put on hold once the border restrictions were introduced and eGates closed.

²³This includes all people arriving in and departing New Zealand by air or sea excluding crew. Crew amounted to a further 0.665 million approximately.



Digital arrival card/declarations

In 2019/20 Customs led a project, with MPI and MBIE (Immigration NZ) and external stakeholders, to assess the feasibility of a digital arrival card to replace the current paper card. Benefits of an e-declaration include passengers not having to fill out the same personal information each trip, border agencies being able to provide better information and guidance to passengers (than can fit onto a reasonably-sized physical card), and the declaration data being able to be transferred electronically to relevant agencies. The COVID-19 pandemic also reinforced the advantage of a non-physical card.

In 2019/20 we undertook a trial to assess the viability of a digital arrival card and identify changes required to border agency processes. The trial report reflects general support for the concept, and a digital arrival card is likely to be viable. Further work and trialling is required to develop the best end-to-end design, particularly as a result of COVID-19.

The World's Smartest and Safest Border initiative (see page 10) is looking to address the future of passenger processing, including digital declarations, and the trial report will inform that work.

COVID-safe travel zones

We have been involved in work across relevant agencies relating to COVID-safe travel zones. A zone would only be put in place once necessary border, health, transport, and other protocols have been developed and met.

We have worked with MBIE (Immigration NZ), the Ministry of Foreign Affairs and Trade, the Ministry of Health, the Ministry of Transport, the Department of the Prime Minister and Cabinet, and a number of private sector organisations, including airlines and international airports in New Zealand and Australia, to identify solutions and develop advice on possible safe travel zones.

Initial work in 2019/20 centred on achieving a trans-Tasman COVID-safe travel zone or 'travel bubble' by easing restrictions between Australia and New Zealand. As part of this we regularly engaged with our Australian counterparts (particularly the Department of Home Affairs and the Australian Border Force), and provided advice to the Government. That work continues in 2020/21, taking into account the continually changing situation.

Agencies also progressed work on a mechanism and processes for bringing the Cook Islands, Niue, and Tokelau, with which New Zealand has a special relationship,²⁴ into a quarantine-free travel zone.

The year ahead

- Continue to work on the World's Smartest and Safest Border initiative.
- Participate in developing safe/quarantine-free travel zones, and implement relevant processes for any zones created.

²⁴As countries in the Realm of New Zealand.



Kohinga tāka REVENUE

Our intention: Collect all due revenue

We contribute to the Government's accounts by collecting around 18% of core Crown tax revenue each year. We do this by way of customs duty (including tariffs) and GST on imports together with excise duty on domestically manufactured alcohol, tobacco, and petroleum products, and excise equivalent duty on the same products imported into New Zealand.

Our focus is on collecting all due Crown revenue through high voluntary compliance and addressing all non-compliance.

Our 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. We worked proactively with businesses to help mitigate the business impacts of the pandemic, using the mechanisms available to us to provide support and relief to businesses experiencing cash flow challenges. This was balanced against our obligations to collect all revenue due, and includes us proactively managing debt.

Measuring progress against our strategic intention

Our Statement of Intent 2019–2023 records the indicators that will measure our success in delivering on our strategic intentions over those four years.

Strategic indicator: Compliance rate of audited companies

We undertake activity to ensure importers, exporters, and licensed manufacturers of excisable goods comply with legislation, and the correct duties and taxes are paid. Random sampling of import entries provides assurance of compliance through the transactional verification process (see page 22). Risk audits²⁵ serve the dual purpose of identifying non-compliance and providing education to encourage future voluntary compliance.

| Indicator: compliance rate | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Random sampling compliance rate (1,413 import entries) | 89.8% | 88.7% | 90.3% | 90.9% | 91.4% | ↑ | ↑ |
| Compliance rate (299 risk audits) | – | – | – | 37.6% | 47.8% | N/A | ↑ |

The risk audit programme is developed using a combination of industry intelligence, assessed risk, trade volume, and voluntary disclosures (meaning the compliance rate is expected to be, and is, lower than that found through random sampling). This means the expected rate of compliance depends on the type and scope of audits conducted and the degree of non-compliance observed. We expect the rate of risk audit compliance to improve over time from the benchmark established in 2018/19. Most non-compliance observed in risk audits in 2019/20 was unintentional (98.1%), with only three instances of deliberate non-compliance.

²⁵ Risk audits include both comprehensive audits (all elements of a company's trading activity) and partial audits (focused on specific elements of a company's trading activity).

Strategic indicator: Appropriateness of response to non-compliance

Most revenue is collected on time (98.0%, as recorded on page 66). In those rare instances where due revenue is still outstanding after standard follow-up processes, Customs responds by working with organisations to agree payment plans or by pursuing debt recovery methods.

| Indicator: amount of outstanding revenue by response | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|----------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Payment plans (262 responses in 2019/20) | - | - | - | \$0.65m | \$58.27m | | |
| Statutory demands served (1) | - | - | - | \$0.49m | \$0.07m | N/A | ↓ |
| Summary judgments sought (11) | - | - | - | \$3.10m | \$3.70m | | |

The number of responses (30 in 2018/19) and associated amount of outstanding revenue significantly increased in 2019/20. This was due to us working with businesses to reach alternative payment arrangements and defer payments where appropriate to ease the effects of COVID-19 on New Zealand businesses (see page 22). At the end of December 2019, prior to COVID-19, we were seeking only \$0.81 million of outstanding revenue. By the end of May 2020, when adjusted payment arrangements peaked, outstanding revenue had increased to \$126 million. However, as New Zealand moved down Alert Levels and business operation resumed, the amount of outstanding revenue reduced. As at 30 June 2020 there were 274 responses to outstanding revenue relating to \$62.04 million in debt.

Strategic indicator: Overall level of trust and confidence in Customs' revenue collection

As a core Crown tax revenue collector, it is essential New Zealanders have trust and confidence that we undertake our collection role effectively.

| Indicator | Performance | | | | | Five-year trend | Expected future trend |
|--|-------------|---------|---------|---------|---------|-----------------|-----------------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | | |
| Trust and confidence in Customs' revenue collection role | - | - | - | 45.0% | - | N/A | ↑ |

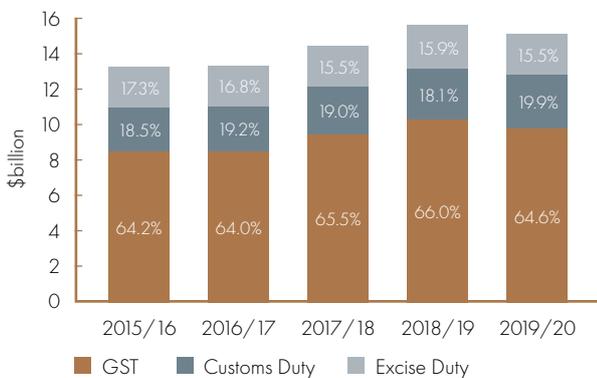
Our Public Trust and Confidence survey was not conducted this year due to the effects of COVID-19 (see page 15). Colmar Brunton's 2020 Public Sector Reputation survey showed positive movement, with Customs ranking third in overall reputation and second in trust.

The year in review

In 2019/20 we collected \$15.108 billion of revenue by way of customs duty, excise duty, and GST, a decrease of 2.8% from the 2018/19 record total of \$15.543 billion.

This drop in revenue represents in part the effect of COVID-19 on trade. To a lesser extent, it reflects our arrangements with traders to delay payment of revenue to us as part of our assistance to those the pandemic adversely affected (see page 22).

Crown revenue collected by Customs



We also collected a total of \$352.2 million in levies at the border on behalf of other agencies,²⁶ together with \$7.6 million for the Crown through the Synthetic Greenhouse Gas levy on imported goods (\$7.4 million) and infringement notices (\$0.2 million).

Our collection of revenue is based on self-assessment of duty liability and voluntary compliance by traders (importers, exporters, and licensed manufacturers of excisable goods), reinforced by our assurance activity.²⁷ As a result, we focus on increasing the levels of voluntary compliance with revenue obligations and improving our revenue risk management, while also delivering efficiencies.

We continually revise and improve our trade assurance strategy and programme. We do this to achieve greater assurance in self-assessment processes, and address identified risks such as non-compliance with revenue requirements. We also then recover any outstanding revenue.

A primary part of our strategy is ongoing engagement with, and education of, traders to encourage and improve voluntary compliance when they calculate and declare the amount of revenue owed to Customs. As part of this, we completed a new Customs Valuation Guide, published on our website in May 2020. The Guide was designed as an accessible resource to help businesses understand the rules and principles around valuing goods imported into New Zealand, and so how to determine a Customs value for their goods.

In 2019/20 we continued intelligence-led, risk-based audits to ensure traders complied with legislation and paid the correct revenue. Although our in-person audit visits were limited for a time due to COVID-19 Alert Levels, we were able to continue with electronic-based, document audits. We also carry out random verifications, using a wider range of transactions, of data entered by traders. If a trader has not complied with requirements, our response ranges from educating traders to encourage voluntary compliance, to auditing and prosecution.

The Joint Border Analytics team used data analytics and anomaly detection to identify a discrepancy in the declared versus expected weight of an import of alcohol in 2019/20, leading to uncollected due revenue of over \$0.3 million. The relevant company was then audited, uncovering more uncollected revenue (and Customs applied an administrative penalty to the company).

Investigating fraud and revenue evasion

We maintain a strong focus on identifying and addressing revenue evasion and fraud-related offending.

A Dunedin businessman was arrested in November 2019 following a Customs investigation into systematic undervaluation of machinery imports using altered invoices, resulting in underpayment of at least \$1.4 million in GST. The charges included defrauding Customs revenue and obtaining by deception. NZ Police also restrained property worth around \$6 million.

²⁶This includes MPI's portion of the Border Clearance Levy, which we collect on behalf of MPI. The largest proportion annually is the ACC levy.

²⁷Self-assessment allows trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

Tobacco

New Zealand has one of the highest retail prices in the world for tobacco products. This means organised crime groups and individuals have strong incentives to target New Zealand due to the profits in illicit trade. Tobacco products are only illegally imported to evade taxes. We have seen an increasing volume of illicit tobacco products at the border in recent years, including tobacco leaf being imported in growing quantities. While we have seen large-scale smuggling through air and sea freight, we have also seen a growth in low-level smuggling of small quantities through the mail system.

We made over 4,000 interceptions of over 4.9 million cigarettes and nearly 638 kilograms in loose tobacco in 2019/20 (this does not include the tobacco abandoned at the border by those who did not want to pay the taxes). This is an increase from the 2,000 interceptions of over 4.6 million cigarettes and nearly 642 kilograms in loose tobacco in 2018/19.

Stronger regulatory controls were introduced at the border through the Customs and Excise (Tobacco) Amendment Act 2020, which came into effect on 1 July. Tobacco products (including tobacco leaf and refuse) became prohibited imports unless a business or individual obtained a Customs permit to import the products. The Act also prohibits their importation through international mail, closing off an import channel used by smugglers.

To reduce the costs of processing border seizures of illicit tobacco, the Act provides for a simplified seizure process. Before 1 July, Customs had to prove the importation was intended to evade excise tax before the tobacco could be seized or significant enforcement action taken (such as a prosecution). The Act gives us the authority to seize and destroy illegally-imported tobacco products, and tobacco leaf and refuse, on the spot. This frees up resources and reduces costs.

Collecting duty on low-value goods

On 1 December 2019 the Government implemented the Offshore Supplier Registration system (OSR). Offshore suppliers are required to register, collect GST on items valued at or below \$1,000 supplied to New Zealand consumers, and remit the revenue to Inland Revenue.

Arrests in 2019/20 as a result of Customs' investigations and activity included:

- An Auckland businessman in August 2019 charged with defrauding Customs revenue by smuggling 483,600 cigarettes in a shipping container of foodstuffs, evading payment of \$0.54 million in Customs duty and GST.
- A man at Auckland Airport in November 2019 following an investigation by Customs with the Cook Islands Customs Service and Financial Intelligence Unit. The investigation identified a family-based criminal enterprise operating out of Auckland and manipulating travellers into illegally bringing tobacco into New Zealand. We believe the offending spanned at least 10 months and involved evasion of over \$0.1 million in revenue. Following search warrants, a woman was also arrested.
- In January 2020 we examined a sea cargo consignment of 'new household items' and discovered 75,000 undeclared cigarettes, involving the evasion of over \$80,000 in revenue. Our investigation linked the shipment to an Auckland man and showed the use of a number of storage facilities and PO Boxes across Auckland opened using false identities – likely used to facilitate illegal imports. We executed search warrants in Auckland in June, resulting in the man's arrest and the seizure of about 3,000 cigarettes and \$14,000 in cash.

From that date Customs did not collect revenue on imported consignments (parcels) valued at or under \$1,000, unless they included alcohol or tobacco (these are not subject to the new system). Under the OSR, Customs only collects GST and duty (together with our import entry transaction fee and MPI's biosecurity system entry levy) on consignments over the \$1,000 threshold. We do not collect GST if documentation shows it has already been charged offshore. Customs shares data on low-value imports with Inland Revenue, enabling that agency to monitor and ensure payment.

We continue to assess all consignments entering New Zealand for non-revenue risks, regardless of value or who collects the GST.

The year ahead

- Keep supporting clients adversely affected by COVID-19 through alternative payment arrangements, while continuing to collect all possible Crown revenue due.
- Assess the impact of the Customs and Excise (Tobacco) Amendment Act 2020 on tobacco smuggling, and action any resulting changes to processes and procedures.





Organisational Health and Capability

Leadership and governance

We have a system to ensure efficient decision-making, effective business performance, and good governance.

Our main governance body is the Customs Executive Board (CEB), comprising members of our upper-level management. The CEB provides leadership by setting the strategic direction for Customs and driving our ongoing performance and sustainability. It also ensures we have a robust management and control environment in which to deliver on our functions now and into the future. The CEB members at 30 June 2020 were:

- Christine Stevenson, Comptroller of Customs
- Bill Perry, Deputy Comptroller Operations
- Sharon May, Deputy Chief Executive Finance, Technology and Infrastructure
- Jacinda Funnell, Deputy Chief Executive People and Capability
- Michael Papesch, Deputy Chief Executive Policy, Legal and Strategy
- Jamie Bamford, Deputy Chief Executive International and Governance.

The CEB's roles at the end of 2019/20 reflect the Project Whakakotahi review undertaken of our corporate groups in 2019. The review sought to ensure the structure matches the way we work now, and resources are organised to best support achievement of our goals. From February 2020 a revised senior leadership structure was put in place, with corporate functions aligned under that structure. Phase 2 of Project Whakakotahi will be completed in 2020/21. It will determine the structure and size of the corporate functions to best support our delivery of frontline services. The project will take into account the work being undertaken on the World's Smartest and Safest Border and New Zealand's economic recovery in response to COVID-19 (see page 10).

The CEB has a number of subcommittees relating to our strategy, stewardship, organisational priorities, and performance.

CEB Start-Up Weekly information sharing with real-time joint management of emerging issues, risks and opportunities

CEB Focus Substantive and strategic discussions about matters impacting Customs now and into the future

CEB Investment and Performance Oversight and accountability of the allocation and use of resources, and the performance of Customs

CEB Business Decisions and direction to help Customs run well

CEB Health, Safety and Wellbeing Decisions and oversight to manage risk and keep our staff and those we work with safe and well

A number of other bodies – both standing and project-related – support the CEB to ensure effective performance and risk management, and provide advice to the CEB.

Our Assurance and Risk Committee is a key governance body. It provides advice to ensure we have an effective and comprehensive framework for corporate governance, and significant risks are identified and mitigated. It comprises external members, including an independent Chair, while members of our senior management attend meetings depending on specific agenda items.

Customs Assurance and Risk Committee Report For The Year Ended 30 June 2020

The Customs Assurance and Risk Committee (ARC) is an independently chaired body offering a strategic advisory function to the Comptroller.

It would be fair to say that this has been a year like no other, not only for Customs, but also for all of New Zealand and the rest of the world. The ARC recognises the significant impact that COVID has had on Customs, particularly in the following areas:

- its border operations function,
- financial strain due to a lack of travellers, and
- latterly the impact on the maritime front line as Customs secures people access through all of New Zealand Ports to minimise the risk of community transmission.

We recognise Customs staff throughout the entire organisation have gone above and beyond to provide any and all assistance that was required for the broader All-of-Government response.

In February, we thanked Paul O'Neil from the Serious Fraud Office and acknowledged his three-year contribution to the Committee. A more formal thank you occasion will be held in 2020/21. We are pleased to have Audrey Sonerson (Ministry of Foreign Affairs and Trade) extend for another term having renewed her membership.

At the suggestion of the ARC, Acting Comptroller Bill Perry instigated additional support and input opportunities in 2019 with regular 'in between meetings' conference calls. These have been continued by the Comptroller in 2020. Like all organisations and groups, we have taken the opportunity to manage meetings via TEAMS to ensure our quarterly meetings continued through COVID.

Last year we congratulated Christine Stevenson on her permanent appointment to Comptroller of Customs, and this year we are pleased to see her take up that position on return from her secondment to Corrections.

The regular survey that is completed by ARC members and stakeholders to understand the effectiveness of the ARC was not undertaken this year due to organisational demands responding to COVID. It is essential that Customs extracts a value from the ARC process that exceeds the investment required to operate the independent function.

The ARC has continued to offer advice and guidance throughout the year regardless of the circumstances. We provided specific advice and guidance on some high priority areas in 2019/20, such as:

- Customs functions and responses to COVID, including recovery action
- Financial processes, reporting and Budget responses
- Integrity Pulse survey
- the Assurance Work Programme and arising suggestions
- Audit New Zealand report recommendations to the Comptroller
- People and Capability-related matters particularly *Positive and Safe Workplaces* and *Health, Safety and Wellbeing*
- Specific Customs projects or revisions including *Whakakotahi*, *Kaimahi* and *Rantaki Mana Āruhi*
- Customs' strategic risk profile
- Public Trust and Confidence in Customs survey
- Gifts and Hospitality Policy.

Finally, we acknowledge the commitment and focus of Customs to support their staff and keep people in jobs during COVID. Customs has led the way by providing the leadership needed in the recovery phase to ensure all New Zealanders have an opportunity to participate in a re-start of the economy.

Further challenges lie ahead for the NZ market but the ARC has confidence that the calibre of the Customs senior team and wider workforce will enable appropriate responses to be delivered in this testing environment.



Mark O'Connor
Chair, New Zealand Customs Service Assurance and Risk Committee

People

He aha te mea nui o te ao? He tāngata, he tāngata, he tāngata.

People are fundamental to what we do. We aim to create a great place to work where our people have a sense of belonging, and the capability and commitment needed to meet our challenges now and into the future. We have invested in the skills and capabilities of our staff to help Customs be a customer-focused, agile organisation that can respond to the dynamic nature of the border environment.

The dedication and efforts of our people in response to the COVID-19 pandemic have been outstanding (read more on pages 8-10).

Due to the nature of the services we deliver, our staff are located around New Zealand, with most working in operational areas at ports and international airports. We also have people posted to other countries to support our work programme overseas (see pages 13 and 70).

Staff numbers by location (as at 30 June 2020)

- Major International Airports
- Regional International Airports
- Marine Ports
- Other Locations
- Overseas Posts



The overseas posts map includes the Counsellor (Customs and Immigration) in Canberra who was employed in 2019/20 by Immigration NZ, but does not include four staff in administration roles at posts

Workforce profile

| Financial year | Headcount | Full-time equivalents (FTEs) | Average age (years) | Unplanned turnover | Total turnover | Average length of service (years) |
|----------------|-----------|------------------------------|---------------------|--------------------|----------------|-----------------------------------|
| 2019/20 | 1,339 | 1,279.4 | 45.3 | 6.2% | 8.1% | 12.3 |
| 2018/19 | 1,317 | 1,258.7 | 44.6 | 7.2% | 9.5% | 12.1 |
| 2017/18 | 1,287 | 1,230.3 | 44.1 | 7.3% | 8.9% | 12.0 |
| 2016/17 | 1,222 | 1,166.3 | 44.3 | 9.0% | 12.3% | 12.3 |
| 2015/16 | 1,135 | 1,078.4 | 44.7 | 9.4% | 11.8% | 13.6 |

All information is at 30 June – except turnover, which is annualised²⁸

Staff retention remained high in 2019/20, as shown by the unplanned turnover rate and average length of service.

We have a constructive relationship with the three unions representing our staff – the Customs Officers Association, the Public Services Association, and E tū. We have had positive engagement with these unions around redeploying staff in response to the changing demands from COVID-19.

Embracing and improving inclusion and diversity

VISION

Kotahi te kōhao o te ngira e kuhuna ai te miro ma, te miro whero, me te miro mangu²⁹

Customs is inclusive and diverse: every voice is valued and respected

Being inclusive means valuing everyone's uniqueness and helping everyone to contribute and bring their authentic selves to work. Being diverse means that our people have a blend of knowledge, skills, and experience, based on professional skills, ethnicity, age, sexual orientation, gender identity, and more.

We recognise that a diverse and inclusive culture and workplace where every voice is valued and respected makes Customs stronger. It improves organisational performance, decision-making, and employee engagement. Having a workforce that reflects the increasingly diverse community we serve also enables us to better understand and meet our customers' needs. This contributes positively to the services the public of New Zealand receive.

We are committed to delivering on the Panel Pledge, and the Papa Pounamu³⁰ priority commitments of addressing bias and discrimination; strengthening cultural competency; building inclusive leadership; developing relationships that are responsive to diversity; and supporting and engaging with employee-led networks. We continued to progress delivery in 2019/20.

Our Inclusion and Diversity Council is highly active. It refreshes its membership regularly (most recently in late 2019/20) to ensure it is made up of people with diverse experiences and perspectives, and sources of new ideas.

The Council led the development of the new *Inclusion and Diversity Strategy 2019–2021* launched in August 2019 (replacing our 2014–2018 strategy). The Strategy sets out our goals to make Customs an even more inclusive workplace. It focuses on gender equity and ethnic diversity, with accompanying goals to be achieved in 2021 (discussed below).

The Strategy also identifies emerging areas for further work to improve our data and develop targeted actions and goals. These are: sexual orientation, gender identity, disabilities, and mental health. This work will help us progress our efforts to be more inclusive, diverse, and representative of the community, including through increased employment of disabled people in the public sector.

We continue to encourage and support our staff networks, as they help staff feel included and supported, and help Customs build connections with these communities. We have a number of networks – Māori, Pasifika, Asian, Rainbow, and Women's – all of which were active in 2019/20.

²⁸The turnover figures are consistent with the turnover definitions supplied by the State Services Commission. Unplanned turnover includes resignations, retirements, dismissals and deaths, while total turnover includes planned turnover such as fixed-term contracts ending.

²⁹This whakatauaiki or Māori proverb captures the essence of Customs' vision in relation to inclusion and diversity. Its literal meaning is 'through the eyes of the needle pass the white thread, the black thread, and the red thread'. It originated with Potatau Te Wherowhero, the first Māori King, who, at the birth of the Kingitanga movement, spoke of strength and beauty through both unity and diversity, by alluding to the beauty and the strength of woven fabric.

³⁰The Panel Pledge was created by Champions for Change and seeks to achieve more balanced gender and ethnic representation at conferences and on panels. Papa Pounamu is a chief executive steering group for diversity and inclusion that leads a collaborative programme across the public service.

We are committed to the Accessibility Charter.³¹ Our primary method of communicating information to the public and our clients is through our website (www.customs.govt.nz). The website and its content have been designed to be accessible to all by making information easy to find, logical, and easy to read and understand (with reference to the New Zealand Government Web Standards).

Gender equity by addressing the pay gap

Women made up 47.8% of our staff at 30 June 2020, a slight drop from 48.1% at 30 June 2019.

Our *Gender Pay Gap Action Plan 2018–2020* included a range of strategies to affect recruitment, promotion, career development, and pay processes for our staff. It recorded our aim to eliminate the gender pay gap at Customs, with an immediate focus on reducing the gap by a third between 2018 and 2020. Eliminating the gap is part of our commitment to making sure equality and inclusivity are a core part of our culture.

We monitor both the mean and median gender pay gap to provide a balanced overview.³² Both gaps have been reducing at Customs since 2018. Our mean gender pay gap at 30 June 2020 was 12.4% – a decrease from the 13.8% gap at 30 June 2019 and 14.6% at 30 June 2018. It remains above the 10.9% gap for the public sector at 30 June 2019. Our median gender pay gap at 30 June 2020 was 13.8%, continuing the drop from 14.8% at 30 June 2019 and 17.9% at 30 June 2018.

While making progress, we considered it unlikely to hit our target for a mean gender pay gap of 9.7% and median gap of 10.6% by October 2020. Due to our research and the initiatives already undertaken, we now know much more about how pay gaps work than when we set that target. So in March 2020 we launched an updated *Gender Pay Gap Action Plan 2020* that is more realistic about the speed of change possible. Our new goals are those in the *Inclusion and Diversity Strategy 2019–2021*.

The State Services Commission (now renamed the Public Service Commission) advised us our updated plan is an exemplar. As a result we have been asked to provide material and support to some other government departments to help their approach in addressing the gender pay gap.

Our *Inclusion and Diversity Strategy 2019–2021* contains actions to attract, retain, develop, and progress women at all levels, with accompanying goals for 2021, and measures to assess our progress against those actions and goals. We aim to increase the proportion of women leaders by 1.5% per year (from the December 2018 baseline of 32%) to the 2021 goal of 36.5%. We are on track to achieve the December 2020 goal of 35%, with the percentage of women leaders being 34.1% as at 30 June 2020.

We believe we have made substantial progress in introducing and embedding initiatives that are influencing the systems, structures, culture, and opportunities for all women at Customs. We are now focused on measures to improve women's access to opportunities that can increase their skills and position them to successfully apply for leadership roles.

Membership of the Customs Executive Board (CEB, page 34) was 50% female for the first time in Customs' long history in 2019/20.

Narrowing pay gaps is one element of our commitment to making sure that equality and inclusivity are a core part of our culture. We know we also need to reduce our ethnic pay gaps. A number of the gender pay gap initiatives will assist in also reducing those.

Flexible working

In 2019/20 we continued to participate in the flexible-work-by-default working group being run by the Gender Pay and Pay Equity Taskforce from the Ministry for Women and the State Services Commission. Flexible working provides benefits for organisations; it is particularly valuable for older workers, disabled people, and those with caring responsibilities. It also supports increased diversity in leadership and management roles.

CEB agreed to an 'if not, why not?' approach to flexible working in 2019/20; this means that all roles are regarded as suitable for flexible working unless there is a good business reason for them not to be. In line with that, Customs developed an updated Flexible Working Policy in consultation with leaders, our unions, staff networks, and the Inclusion and Diversity Council. The COVID-19 Alert Levels provided us with an opportunity to test our flexible working capability and inform the new policy, which was implemented in early 2020/21.

³¹The Accessibility Charter, developed by the Ministry of Social Development and the Disabled People's Organisations, records public sector chief executives' commitment to ensuring that all information intended for the public is accessible to everyone, regardless of their needs.

³²The mean can be disproportionately influenced by a few very high or very low salary levels and large intakes of new staff.

Growing ethnic diversity

We recognise we need to consciously grow ethnic diversity in our workforce and leadership.

Ethnic diversity has been increasing in recent years (staff are able to self-identify three ethnicities):

| Ethnicity | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------|-------|-------|-------|-------|
| New Zealand Māori | 8.9% | 9.1% | 9.5% | 9.8% | 9.9% |
| New Zealand European/ Pākehā | 65.8% | 62.8% | 62.6% | 62.8% | 60.4% |
| Other European | 16.1% | 15.3% | 14.6% | 14.8% | 14.5% |
| Pacific peoples | 7.8% | 9.3% | 10.4% | 10.9% | 10.7% |
| Asian | 11.1% | 14.0% | 14.3% | 16.0% | 16.7% |
| Middle Eastern, Latin American, African | 0.7% | 0.9% | 1.1% | 1.1% | 1.0% |
| Other ethnic group | 6.2% | 5.8% | 5.3% | 4.9% | 4.8% |

Each year's information is at 30 June

The proportion of our staff who are Māori is below that in New Zealand society. We are looking to increase Māori representation at Customs. The goal in our *Inclusion and Diversity Strategy 2019–2021* for the proportion of Māori staff is 11.6% by December 2020, and 12.6% by the end of 2021, increasing 1% a year from the December 2018 baseline of 9.6%. While the 9.9% as at 30 June 2020 is tracking below that goal, our recruitment programme has specific actions to attract Māori candidates, including incorporating Te Reo in all attraction tools and increasing our presence in the Māori community. This is part of *Te Pou Tokomanawa Māori o Te Mana Ārai*, our Māori Strategy (see page 12).

Our *Inclusion and Diversity Strategy 2019–2021* also aims to increase the proportion of Māori, Asian, and Pacific leaders at all levels – a 1% increase each year from the December 2018 baselines. That would result in Māori leaders making up 10.4% of total Customs leaders by December 2020, and 11.4% by December 2021; and Pacific and Asian leaders comprising 7.2% of total leaders each by December 2020, and 8.2% by December 2021.

As at 30 June 2020, 10.3% of our leaders were Māori, 5.1% were Pacific, and 6.7% were Asian.

We seek to attract and retain diverse staff through our recruitment and talent management processes. This includes promoting our commitment to inclusion and diversity in all job advertising and recruitment tools, and requiring unconscious bias training for all those involved in recruitment and selection.

The opportunity to further increase our gender and ethnic diversity was curtailed this year, at least in the short-term. We introduced a restriction in late 2019/20 on recruitment and promotion due to the impact of COVID-19.

Learning and development

Education and training are essential to ensuring we have effective leadership and a capable and agile workforce.

Our workforce plan has four areas of focus:

- sourcing and building new skills and capabilities
- building current capability pathways
- supporting the growth of inspiring leadership
- growing our culture.

In 2019/20 we consolidated our learning offerings and worked with on-the-job trainers to further grow our culture of learning as part of business-as-usual at Customs. This was complemented by a continued emphasis on providing high quality leadership and management training.

We have an extensive learning and development programme, which includes technical training and leadership development. We have a flexible, 'blended learning' approach, combining traditional classroom-based and 'on-the-job' learning with online education. The following table shows the mix in learning methods by our staff for training undertaken in 2019/20.

| Type of training session | Number |
|--------------------------|---------------|
| Blended | 3,202 |
| e-learning | 4,206 |
| Classroom | 3,247 |
| Total | 10,655 |

Our learning management system provides for a range of learning to be undertaken online. This proved to be invaluable as it enabled a lot of learning to continue uninterrupted during Alert Levels 4, 3, and 2. It also provided opportunities for quick 'refresher' training for our frontline officers deployed into areas they had not worked in for a while. During this time, we also moved into some 'virtual' learning; this face-to-face learning provided through technology enabled staff to be in different locations. It included some of our leadership development offerings and part of our Trainee Customs officer induction programme.

We will continue some virtual training in the future where it makes sense to do so. The resources on our learning management system support on-the-job learning for staff deploying into new work areas as part of our ongoing response to COVID-19.

We offer a range of training and resources relating to culture and diversity, including unconscious knowledge and bias and Te Reo Māori, and we saw an increase in Customs staff undertaking this learning in 2019/20.

Health, safety, and wellbeing

Customs is committed to promoting a safe and healthy workplace, and encouraging the positive wellbeing of our people. We also take all reasonably practicable steps to prevent harm to any contractors or members of the public as a consequence of our operations. Management and staff have responsibilities under our health and safety policy and procedures, and we remain committed to ensuring best practice is followed.

A strong emphasis on risk management, engagement, wellbeing, and assurance underpinned our activity in 2019/20, with COVID-19 the key feature in relation to health, safety, and wellbeing in the second half of the year.

Customs' frontline staff were among the first to interact with travellers arriving in New Zealand as the pandemic started. From late January 2020, we ensured relevant staff had the correct personal protective equipment (PPE), implemented physical distancing requirements and procedures, and enhanced our hygiene practices and cleaning regimes. Those staff with health vulnerabilities were able to stop working at the frontline. We obtained regular and updated guidance from the Ministry of Health on the appropriate measures and procedures for our staff in the airport and maritime environments. We also engaged with colleagues across the border sector and with external stakeholders such as airport companies.

As the pandemic progressed, we developed and put in place for every Alert Level specific health and safety requirements for all aspects of our work and each type of working environment. This included passenger processing areas in airports, areas for

processing marine craft and crew, and Customs' office space. We continually reviewed those practices and changed them as needed.

None of our staff members contracted COVID-19, at the frontline or elsewhere, in the 2019/20 financial year. Customs cooperated with, and quickly responded to, Ministry of Health guidelines around testing of staff in 2019/20.

Our mental health focus is on early awareness and intervention as a way of lessening stigma and supporting staff wellbeing. That foundation enabled us to respond quickly and effectively to the pandemic and its psychological effects on staff.

We introduced additional measures to manage staff wellbeing during the lockdown. This included providing regular updates to staff and requiring managers to contact their team members daily (with an associated protocol for managers to assess wellbeing and take action if necessary). A survey of staff in May 2020 about the way they worked during Alert Levels 3 and 4 showed these measures were effective in making staff feel connected and supported.

We also introduced additional resources to support staff wellbeing. An example was adding the Employee Assistance Programme (EAP) and Mentemia apps to work phones – these provide users with practical tips and techniques to help them take control of their mental health.

We carried out business-as-usual health and safety activities during the pandemic, including the EAP for staff to obtain counselling on mental health-related matters, and internal communications promoting healthy lifestyles. These included articles on our Intranet, and the monthly health and safety newsletter.

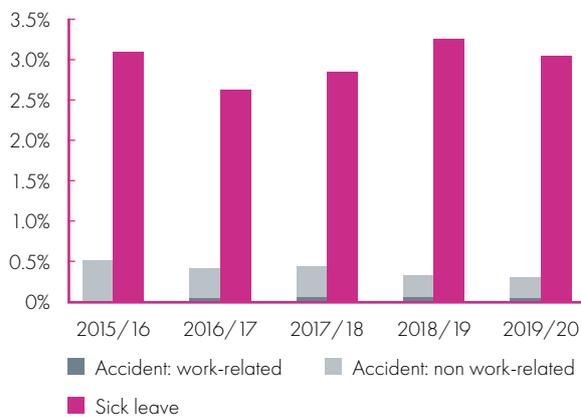
Customs continues to proactively manage health and safety risks relating to COVID-19 and follow the Ministry of Health's advice. We recognise there will be ongoing risks, particularly for staff who directly interact with arriving travellers (both crew and passengers) and who participate in maritime managed isolation and quarantine operations.

Measurement relating to accidents, hazards

We had a total of 140 accidents reported in 2019/20, most of a minor nature – a slight increase from 136 accidents in 2018/19.

Customs monitors lost productivity due to accidents (at work and outside work) and sickness. The significant majority of productivity lost³³ as a result of accidents is due to non-work accidents – lost productivity from work-related accidents was at 0.06% in 2019/20 (relating to 14 employees).

Lost productivity due to accidents and sickness



We had 91 preventive reports of near misses and hazards in 2019/20. These are important indicators of what could injure or seriously harm our people if not addressed, and of safety awareness among staff. Preventive and near miss reporting provides learnings and enables corrective actions to prevent future incidents. The 2019/20 total is a decrease from 108 reports for 2018/19, although the lower activity levels during COVID-19 lockdown was the main reason for the drop. We continue to see a stronger culture and acceptance of prevention at Customs as risk review becomes further embedded into the design of processes and facilities, and operational orders.

Financial sustainability

Before COVID-19, we received around 60% of our total departmental revenue from third party revenue. This was largely through the Border Clearance Levy, which recovers from international travellers the costs Customs incurs for processing them at the border, and goods clearance fees for Customs’ activities in clearing imported and exported goods crossing the border. COVID-19 has significantly reduced our third party revenue.

Border restrictions have substantially lowered the volume of passengers arriving and departing New Zealand (see page 26). Goods volumes also declined, although to a lesser extent (see page 21).

In March 2020, due to the effect of COVID-19 on businesses, the Government suspended fee rises and pricing reviews by agencies that charge fees at the border for the next 12 months. This included increases in our goods clearance fees, which were to take effect from 1 June 2020 (the increases followed our review to set fees that accurately reflected the actual cost of us clearing goods). A planned review of the Border Clearance Levy was also postponed, with Customs’ current levy rates carried over to the new levy period from 1 July 2021. These deferrals further reduce our third party revenue.

We have identified and made cost savings, but we required additional Crown funding to replace the drop in third party revenue.

We received a capital injection of \$30 million from the Government for 2019/20 to cover the expected shortfall in revenue.

In July 2020 the Government approved additional Crown funding for Customs for 2020/21 of \$84 million from the COVID-19 Response and Recovery fund to cover the forecast reduction in third party revenue (from \$141 million to \$57 million). This funding enables us to continue operating, and have sufficient resources to respond as passenger and goods volumes (and associated risks) increase.

The 2020/21 funding was based on assumptions and scenarios for the impact of COVID-19 on trade and travel volumes as at May 2020, and took into account the decision to defer cost recovery increases. Together with other border and transport agencies that received funding, Customs must report back to the Government in November 2020 with updated forecasts for passenger and goods volumes, and proposals for future reviews of fees, which might lead to further adjustments to Crown funding.

Managing risks

To achieve our strategic objectives and run day-to-day business efficiently, we need to manage risks actively and effectively. We aspire to a risk-aware culture where our people are encouraged and enabled to identify risks, and respond to them quickly and effectively.

Our Risk Management Policy sets out arrangements for ensuring active, reliable risk management throughout Customs, and reinforces that everyone must manage risk. The Risk Management Guidelines support the policy’s application and provide a practical process for staff to identify, assess, and respond to risks. We regularly review the policy and processes to ensure they remain effective and aligned with appropriate standards and international best practice.

³³The lost productivity percentages in the graph are the number of leave hours taken as a percentage of the maximum number of FTE hours that could have been worked in the financial year. Accidents are those recognised as an accident by ACC.

Maintaining integrity

If we are to maintain our reputation and deliver on our mandate effectively, we must have public trust and confidence, especially as we rely on most customers and others we interact with to comply voluntarily with our requirements. Our Customs Strategy, *Rautaki Mana Ārai* (see page 5), includes 'We do what's right' as a key value; we recognise this is fundamental to maintaining that trust and confidence. Our solid reputation depends on the way we act and the way we use our powers to protect and promote New Zealand across borders.

During 2019/20, we progressed our programme to continue to safeguard integrity and prevent corruption. Initiatives included:

- facilitating workshops for our staff to focus on good security behaviours, promote integrity and speaking up about wrongdoing, report security and integrity incidents, raise awareness, and generate conversation
- reviewing and refining the disciplinary policy and the gifts and hospitality policy, and setting up an online register for recording offers of gifts and hospitality
- ensuring policies are aligned with the State Services Commission's Positive and Safe Workplace Standards
- development of insider threat assessment tools and learning resources
- an independent moderation of Customs' self-assessment against the Government Protective Security Requirements
- developing a security investigations policy and reviewing the security policy, considering expectations and risks associated with working remotely
- continuing to strengthen our networks with other key agencies and administrations on integrity, and security matters that contribute to the Government Protective Security Requirements.

We also undertook pulse surveys of staff to measure how well we are doing in the integrity and security space. Ensuring our senior staff consistently role-model the Customs values and do what's right was identified as an area for focus and improvement.

Code of Conduct

Our Code of Conduct sets out Customs' expected standards of behaviour, reflecting the four guiding principles in the State Services Commissioner's Standards of Integrity and Conduct: *fair, impartial, responsible, and trustworthy*. The Code applies to all our employees and those we engage as contractors and consultants.

Our Integrity Assessment Committee (IAC) is chaired by an external independent representative and provides an independent assessment of allegations of integrity breaches. The IAC provides a level of confidence (within Customs and externally) that appropriate action is taken, and in a timely, managed way.

We take allegations of integrity breaches and corruption seriously and manage them professionally. In addition to the IAC, Customs has a Disciplinary Policy, and procedures for addressing unacceptable behaviour.

The following table shows the outcomes of investigations concluded in 2019/20 into allegations of unacceptable behaviour by Customs staff and contractors/consultants we engaged.

| Upheld | Not upheld | Did not meet threshold for misconduct | Person left Customs before investigation concluded |
|--------|------------|---------------------------------------|--|
| 16 | 11 | 6 | 1 |

When misconduct occurs and it is determined that disciplinary measures are necessary, these measures are meant to be corrective rather than punitive. In some cases termination is justified and appropriate. The following table provides statistics on disciplinary action, sanction, or outcome in 2019/20 where the allegation was upheld.

| Formal warning ³⁴ | Letter of expectation | Termination (with or without notice) | Resignation | Other |
|------------------------------|-----------------------|--------------------------------------|-------------|-------|
| 9 | 3 | 1 | 2 | 1 |

³⁴A formal warning could also include one or a combination of the following: referral to the Employee Assistance Programme or other professional assistance; removal of delegated powers; removal of privileges; transfer; demotion; non-eligibility for merit remuneration increase or one-off payment; change of reporting time or hours of work; or such other penalty decided by the chief executive.

Privacy

We collect, receive, hold, and use personal information to carry out our functions and duties. We aim to be a privacy-aware organisation that treats personal information with care, respect, and transparency to promote trust and confidence from customers, employees, and stakeholders. Our vision in this space is to be 'transparent to the public, trustworthy by design'.

The vision drives our mission to protect every individual's personal information by embedding privacy protections and transparency into all of our activities. This is reflected in our Privacy Strategy. We protect personal information that we collect, use, access, enrich, disclose, and dispose of, as well as the rights of individuals to access their own information.

We have a dedicated team managing privacy. From February 2020 responsibility for privacy was moved to the Policy, Legal and Strategy Group, with the Chief Legal Advisor taking responsibility for the Privacy Officer role. The move provides alignment with the Legal function and highlights the importance of privacy as an independent, cross-Customs function. Quarterly reports on notable actions and statistics are provided to the CEB.

In 2019/20 we investigated 40 privacy incidents, including near-misses, reported by staff. This is an increase from 33 incidents in 2018/19. We consider this the result of staff having more education about, and an increased understanding of, the need to report all incidents even if they seem minor in nature. In 2019/20 one complaint was referred from the Office of the Privacy Commissioner about our handling of information or response to Privacy Act requests – this was investigated and closed.

The all-of-government response to the COVID-19 pandemic prompted significant work for Customs relating to privacy. As an agency that receives and processes significant amounts of data relevant to the response (including personal information), we needed to be put in place processes enabling the appropriate sharing of this information, while balancing that with the need to protect personal information. During the initial response, information sharing was facilitated by the Privacy Act and the Civil Defence National Emergencies (Information Sharing) Code 2013. Once the Code ceased to apply, we entered into an agreement with the Ministry of Health and NZ Police under the Customs and Excise Act to allow for the sharing of information.

Commitment to Official Information Act

The Official Information Act 1982 (OIA) is intended to make government activities more open and transparent to the public. Customs is committed to the principles of openness and public engagement, and complying with the purposes and requirements of the OIA. We make the official information we hold as a government agency available to the public unless there is good reason (as set out in the OIA) for withholding it.

In 2019/20 we responded to 833 requests for information under the OIA, with all but four of those responses provided within the legislated timeframe.

We are aware that proactive release of official information can improve public trust and confidence in government and facilitate informed participation in government decision-making. We regularly publish responses to OIA requests on our website (<https://www.customs.govt.nz/about-us/information-releases/official-information-act-requests/>), as well as release a range of information to keep the public informed about our work, such as interceptions of drugs and other illicit goods (<https://www.customs.govt.nz/about-us/statistics/>).

The Official Information Act is an important tool and safeguard, and I am committed to ensuring that we comply with the purposes, principle, and requirements of the Act. Making our official information available to the public enables more effective participation in our country's democracy, promotes accountability, enhances respect for the law, and promotes the good government of New Zealand. Equally, withholding our official information is important when it is in the public interest to protect the information or necessary to preserve personal privacy.

Christine Stevenson

Comptroller of Customs

Asset performance indicators

Asset portfolios

Assets have been grouped into the following asset portfolios for reporting:

- Property – buildings for office accommodation in our main centres
- Information and Communications Technology (ICT) – computer hardware and software relied on for facilitating trade and travel, collecting revenue, and managing the associated risks.

Other assets have been excluded for reporting due to them being less critical to delivering our core services.

Asset performance

Property asset performance measures

The following measures relate to the Auckland, Wellington, and Christchurch Customhouses.

| Measure | Indicator | 2018/19 Target | 2018/19 Actual | 2019/20 Target | 2019/20 Actual |
|--|---------------|-------------------|---------------------|------------------------------------|---------------------|
| m ² per office person | Utilisation | ≤16m ² | 16.20m ² | 12m ² –16m ² | 14.48m ² |
| Percentage of building services, and other infrastructural services, that provide a safe and comfortable environment for staff ³⁵ | Functionality | 100% | 100% | 100% | 100% |
| Percentage of buildings not earthquake-prone ³⁶ | Condition | 100% | 100% | 100% | 100% |

³⁵This measure is the same as that reported for 2018/19 but expressed as a percentage instead of a 0–5 scale (and we have restated 2018/19 for consistency). We want to measure and ensure that we provide a comfortable, modern, and safe workplace for our people and customers through an assessment based on the following criteria: accessibility, location, safety, security, and fit for purpose. Each of the properties meets our agreed performance service standards.

³⁶This measure has changed slightly for 2019/20 (and we have restated 2018/19 for consistency). The result reflects that each of the three Customhouses is rated above 33% New Building Standard.

ICT asset performance measures

The following measures relate to our key ICT systems.³⁷ They were agreed at the executive level and are used in our Asset Management Plans.

| Measure | Indicator | 2018/19 Target | 2018/19 Actual | 2019/20 Target | 2019/20 Actual |
|---|---------------|----------------|----------------|----------------|----------------|
| Percentage of time systems available | Availability | 100% | 99.5% | 100% | 99.7% |
| Percentage of priority one (P1) incidents resolved within agreed support and maintenance service levels | Functionality | 100% | 52.2% | 100% | 62.5% |
| Percentage of ICT assets fully supported by vendor | Condition | 100% | 60.0% | 100% | 80.0% |
| Percentage of commercial air passengers using eGate | Utilisation | >55% | 58.1% | >55% | 57.8% |
| Percentage of revenue collected electronically | Utilisation | >95% | 99.5% | >95% | 99.9% |
| Percentage of trade lodgements processed electronically | Utilisation | 97% | 97.0% | 97% | 98.1% |
| Alerts in border management system | Utilisation | N/A | 182,598 | N/A | 223,793 |

Explanation for variances from 2019/20 standard

Availability: If planned outages are excluded, availability was 99.9%. Planned outages are scheduled for times that have the minimum possible impact on business operations, including least disruption to our customers.

Functionality: Five of eight P1 incidents were resolved within agreed support levels. Of the remaining three incidents, two resulted in reduced technical service rather than complete outages, and system availability remained high. The other one related to a significant system outage; we have been working with our supplier to address this issue.

Condition: We initiated work to replace our Financial Management Information System (FMIS) in 2019/20. The new system is expected to be implemented by the end of 2020. Despite the existing FMIS being out of support, the system remained fully functional throughout the year and no unplanned outages were experienced.

The year ahead

- Continue to assess and change deployment of staff to respond to changing needs, particularly relating to COVID-19 response and recovery.
- Continue to assess and adjust information sharing requirements and arrangements, particularly relating to shifting needs due to COVID-19.
- Monitor third party funding due to the impact of COVID-19 on trade and travel volumes. With other border and transport agencies, report back to the Government in November 2020 with updated forecasts and funding proposals.

³⁷Joint Border Management System/Trade Single Window; CusMod border management system; Nexus data warehouse; eGate for passenger processing; Financial Management Information System.



Statement of Responsibility

I am responsible, as Comptroller of Customs, for:

- the preparation of the New Zealand Customs Service’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 the New Zealand Customs Service is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report
- the accuracy of any end-of-year performance information prepared by the New Zealand Customs Service, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the New Zealand Customs Service as at 30 June 2020 and its operations for the financial year ended on that date
- the forecast financial statements fairly reflect the forecast financial position of the New Zealand Customs Service as at 30 June 2021 and its operations for the financial year ended on that date.



Christine Stevenson

Comptroller of Customs
13 November 2020

Independent Auditor's Report

To the readers of the New Zealand Customs Service's annual report for the year ended 30 June 2020

The Auditor-General is the auditor of the New Zealand Customs Service (the Department). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Department on pages 76 to 79 and 81 to 100, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2020, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that includes the statement of accounting policies and other explanatory information;
- the performance information prepared by the Department for the year ended 30 June 2020 on pages 8 to 31 and 54 to 72;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2020 on pages 73 and 74; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 102 to 108 and 80 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2020;
 - the schedules of expenses; and revenue for the year ended 30 June 2020;
 - the schedule of trust monies for the year ended 30 June 2020; and
 - the notes to the schedules that includes the statement of accounting policies and other explanatory information.

Opinion

Unmodified opinion on the audited information, excluding the performance information

In our opinion:

- the financial statements of the Department on pages 76 to 79 and 81 to 100:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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 statements of expenses and capital expenditure of the Department on pages 73 and 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 Department on behalf of the Crown on pages 102 to 108 and 80 present fairly, in all material respects, in accordance with the Treasury Instructions:
 - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2020; and
 - expenses; and revenue for the year ended 30 June 2020; and
 - the schedule of trust monies for the year ended 30 June 2020.

Modified opinion on the statement of service performance because the Department was unable to report against measures relating to the results of stakeholder surveys

In our opinion, except for the matter described in the *Basis for our modified opinion* section of our report:

- the performance information on pages 8 to 31 and 54 to 72:
 - presents fairly, in all material respects, for the year ended 30 June 2020:
 - 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.

Our audit was completed on 13 November 2020. This is the date at which our modified opinion is expressed.

The basis for our modified opinion is explained below, and we draw attention to the impact of Covid-19 on the Department and the activities it manages on behalf of the Crown. In addition, we outline the responsibilities of the Comptroller and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our modified opinion

The level of public trust and confidence and the satisfaction of users of the Department's services are an important part of the performance information of the Department because they are indicative of the quality of the services provided. As explained on pages 15, 20, 25, 29, 56 and 60 of the annual report, three stakeholder surveys could not be completed due to the Covid-19 pandemic. As a result, the Department has been unable to report against seven performance measures related to these surveys this year.

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 modified audit opinion.

Emphasis of matter – Impact of Covid-19

Without further modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Department as set out in note 22 to the financial statements, note 5 to the schedules of non-departmental activities and pages 8 to 10 of the performance information.

Responsibilities of the Comptroller for the information to be audited

The Comptroller is responsible on behalf of the Department for preparing:

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

The Comptroller 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 Comptroller is responsible on behalf of the Department for assessing the Department's ability to continue as a going concern. The Comptroller 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 Department, or there is no realistic alternative but to do so.

The Comptroller'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 Department's Statement of Intent 2019-2023, Estimates, Supplementary Estimates and addition to the Supplementary Estimates of Appropriations 2019/20 and the 2019/20 forecast financial figures included in the Department's 2018/19 Annual Report.

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 Department's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Comptroller.
- We evaluate the appropriateness of the reported performance information within the Department's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Comptroller and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department'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 Department 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 Comptroller 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 Comptroller is responsible for the other information. The other information comprises the information included on pages 1 to 6, 34 to 47 and 109 to 112, 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.

The Minister of Customs' report on relevant non-departmental appropriations that is appended to the Department's annual report is not part of the Department's annual report. The Public Finance Act 1989 does not require the information in the Minister's report to be audited and we have performed no procedures over the information in the Minister's report.

Independence

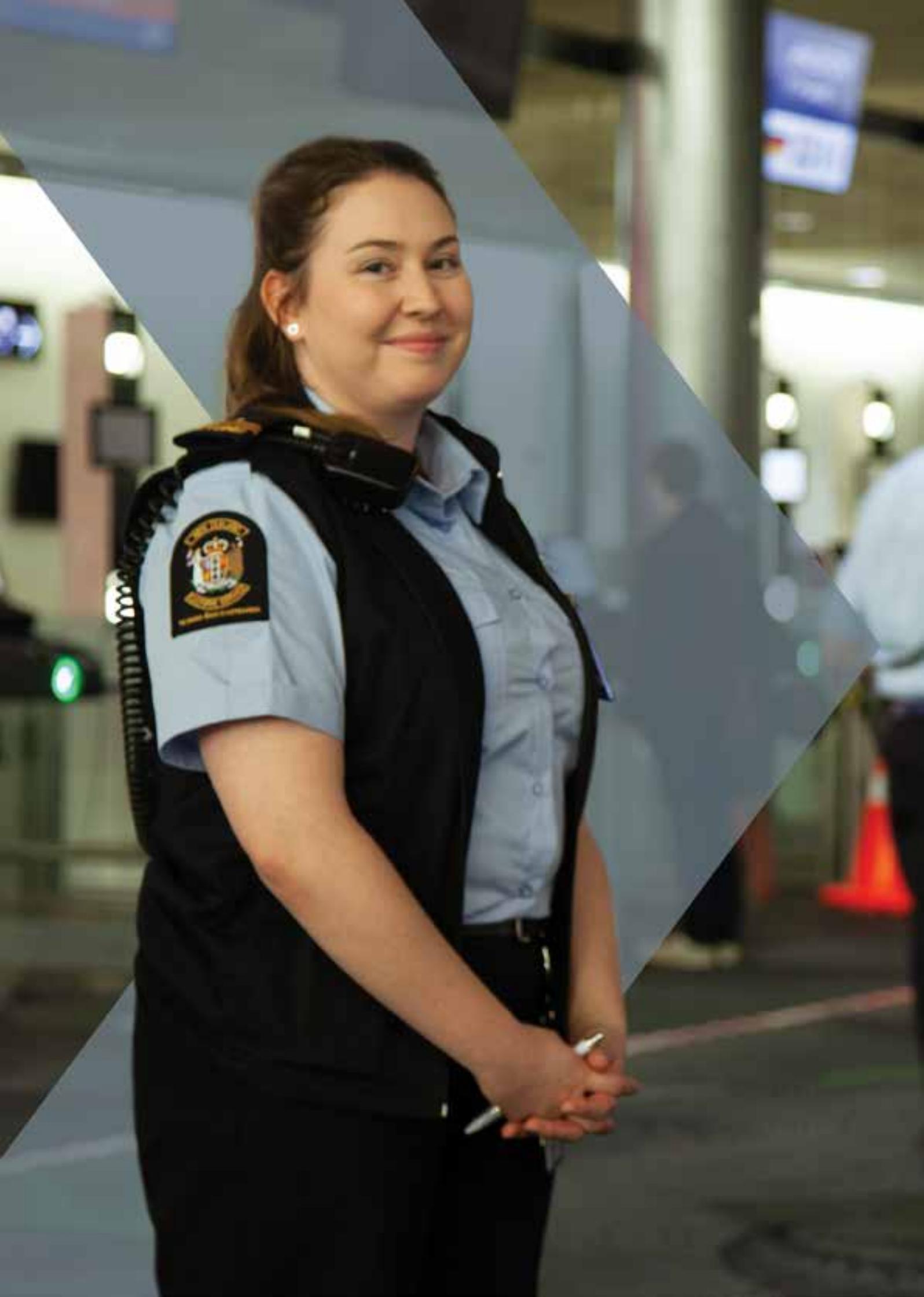
We are independent of the Department in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand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

In addition to the audit, since 30 June 2020, we have commenced an engagement to review the Department's implementation of the new Financial Management Information System which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Department.



Ajay Sharma
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand





Performance Information: Report Against Appropriations

For the year ended 30 June 2020

This section of our annual report contains end-of-year performance information for the 2019/20 financial year for the output class appropriations and departmental capital expenditure appropriation contained in *The Estimates of Appropriations 2019/20* for Vote Customs. Collectively, these output classes support the achievement of the priorities and strategic intentions discussed on page 5.

The end-of-year performance information in this section (the 'Actual' results for 2019/20) is audited.

The 'Budget' figures are those included in *The Estimates of Appropriations 2019/20*. The 'Revised Budget' figures are those from *The Supplementary Estimates of Appropriations 2019/20* and the *Addition to the Supplementary Estimates of Appropriations 2019/20*. This information is unaudited.

If a performance measure was in place in the prior 2018/19 financial year, comparative performance information for 2018/19 has been included. To provide further context for the 2019/20 results, we have also included the standards set for the output performance measures for 2020/21, together with the new output performance measures for 2020/21 (as contained in *The Estimates of Appropriations 2020/21* for Vote Customs). For any new measures for 2020/21, we have not reported results for 2018/19 or 2019/20. This information is unaudited.

Customs was one of the departments directed to consolidate appropriations of less than \$10 million with effect from 1 July 2020. This was part of the work programme directed by Cabinet to modernise the public finance system by simplifying and restructuring appropriations – to provide more strategic oversight of the value of public spending and whether it is helping to achieve the Government's objectives and priorities. The seven departmental output expense appropriations for Vote Customs in place in 2019/20 have been consolidated into three output expense appropriations for 2020/21. The new appropriation structure will support a meaningful and simplified basis for reporting on performance that is connected with our strategic intentions. The output performance measures for 2020/21 were reviewed to cover our activity and performance under each appropriation scope and align with the new appropriation structure.

Effects of COVID-19 on 2019/20 performance information

Results are not available for the three stakeholder survey measures (in the Clearance and enforcement services related to passengers and crew, and Clearance and enforcement services related to goods output classes) as these annual surveys were not conducted in late 2019/20 as planned due to the effect of COVID-19 on the survey populations.

The results for some other measures were affected due to COVID-19, as discussed in the reporting of the 2019/20 result for the relevant measure in the relevant appropriation.

Output Class – Clearance and enforcement services related to passengers and crew

Scope of appropriation: The provision of services relating to passengers and crew crossing the border, including collecting information, clearance of people and their possessions, and protection of New Zealand's interests through interventions, investigations and enforcement.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|-----------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 634 | Crown | 417 | 417 | 747 |
| 66,809 | Other | 50,771 | 68,096 | 71,733 |
| 67,443 | Total revenue | 51,188 | 80,539 | 78,327 |
| 71,857 | Expenses excluding remeasurements | 77,857 | 80,539 | 78,327 |
| (4,414) | Surplus/(Deficit) | (26,669) | (12,026) | (5,847) |

Performance

Processing of air passengers

Due to the effect of the COVID-19 pandemic and the associated international border restrictions on traveller volumes, we processed 5.48 million arriving international air passengers and crew in 2019/20, below the expected range of 7.3–7.8 million.

The impact of COVID-19 on traveller volumes in 2019/20, and our activity in relation to travellers is discussed on page 26 and page 8. COVID-19 affected the result for the performance measure relating to processing arriving international air passengers within 45 minutes (due to the closure of the eGates and change in processing, as discussed on page 25).

Risk management

We assess all arriving international air passengers and crew to determine who will be referred for further risk assessment at our secondary areas. As we aim to limit our interaction with legitimate travellers who comply with border requirements, we use intelligence-led risk management to target our interventions.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|---|---------------------|-----------|--------|------------------------------|
| | Actual | Standard | Actual | Standard |
| Minimum percentage of arriving international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently (as measured by Customs' stakeholder survey) | 89.8% | 85% | – | 85% |
| Minimum percentage of arriving international air passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention | 99.5% | 98% | 99.5% | 98% |
| Minimum percentage of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival | 96.0% ³⁸ | 90% | 94.4% | 90% |
| Percentage of arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas | 0.5% | 0.6%–1.0% | 0.5% | 0.4%–0.7% |
| Percentage of arriving international air passengers and crew who are selected for further risk assessment who were subsequently subject to a full or partial baggage examination | 57.9% | 50%–60% | 51.6% | Measure replaced (see below) |
| Result rate of secondary searches of arriving international air passengers and crew | N/A | N/A | N/A | 6.0%–10.0% |
| Minimum number of random interventions of travellers conducted (under Customs' Assurance programme) | N/A | N/A | N/A | 2,000 |

Explanation of variances for standards not achieved

Arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas

In recent years, enhanced risk assessment and better targeting of interventions to risk along with increasing passenger volumes has resulted in lower levels of interaction with compliant passengers. The travel restrictions imposed due to COVID-19 also resulted in a different travelling population whose reasons for travel did not meet traditional risk assessment criteria, leading to a drop in the proportion subject to further interaction with Customs. While below the standard, all passengers are subject to a risk assessment process and those identified for further intervention were interacted with in the secondary area.

Explanation for standards not measured

Arriving international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently

Our survey of international air passengers was not conducted in 2019/20. The survey was originally planned to be undertaken in March 2020 based on a sample of passengers arriving in January. This was deferred, however, due to the unfolding COVID-19 situation. We subsequently decided in late May 2020 to cancel the 2020 survey as the original sample was too dated and, due to international travel restrictions, there were insufficient numbers of passengers for a viable new sample.

³⁸This is the result included in the *New Zealand Customs Service Annual Report 2019*. We have identified, however, that this result was those processed in less than or equal to 45 minutes (so less than 46 minutes). The adjusted 2018/19 result based on those processed in under 45 minutes is 95.6%. The 2019/20 result is slightly lower due to the effect of COVID-19, as discussed on page 25).

Output Class – Clearance and enforcement services related to goods

Scope of appropriation: The provision of services relating to goods crossing the border, including clearance of goods, assessment and audit of revenue, trade compliance and supply chain security assurance, and protection of New Zealand's interests through interventions, audits, investigations and enforcement.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|---------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 21,305 | Crown | 32,863 | 32,863 | 21,893 |
| 65,759 | Other | 55,416 | 58,673 | 69,088 |
| 87,064 | Total revenue | 88,279 | 91,536 | 90,981 |
| 87,089 | Expenses excluding remeasurements | 87,016 | 91,536 | 90,981 |
| (25) | Surplus/(Deficit) | 1,263 | – | – |

Performance

Trade transactions

In 2019/20 we expected to process an estimated 10.5–11.5 million import transactions, 4.5–5.5 million export transactions, and 5,500–6,500 excise returns. We processed 13.52 million import transactions, 5.62 million export transactions, and 6,611 excise returns.

While the numbers of trade transactions processed in 2019/20 increased from 2018/19, this is due to the significant increase in low-volume import and export transactions. COVID-19 had an impact on the number of higher-value transactions due to its effect on the global economy and trade logistics, as discussed on page 21).

Protection through the interception of harm and potential harm

Illicit drugs and other items are not just found in imports of goods but also accompanying passengers and on craft – the measures relating to protection have been located in this output class as the majority of illicit items are found in the goods stream. Our role in the protection of New Zealand is discussed on pages 12–19. That includes information on the volumes of drugs seized by us at the border in 2019/20 (page 16), which led to the results for the measures below relating to the harm avoided through those seizures and the street value of those drugs being considerably above the standards – although affected to some extent by COVID-19 (as discussed on page 17).

Checks on compliance

We undertake risk audit activity to ensure that importers, exporters, and licensed manufacturers of excisable goods are compliant with legislation and that the correct duties and taxes are paid. Scheduled audit activity is based on identified risk priorities.

We also apply a random transaction verification process that looks for non-compliant activity across import entries submitted to Customs (that are not captured in the risk audit programme). These transactional verifications act to check that entered data can be validated through documentation, and this enables us to monitor the compliance level in entries. Any non-compliant activity identified is also moved across to the risk audit programme if appropriate.

Investigations

We commenced 51 investigation cases in 2019/20, below the 100–300 estimate. In recent years, our investigations have become increasingly strategic with a focus on disrupting supply chains and criminal organisations. These cases are usually more complex and require longer investigation times and greater commitment of resources. COVID-19's impact on border activity also had an effect on the number of investigations started.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|-------------------------------|---------------|-------------------------------|------------------------------|
| | Actual | Standard | Actual | Standard |
| Trade | | | | |
| Minimum percentage of importers and exporters satisfied or very satisfied with the overall quality of Customs' service delivery (as measured by Customs' stakeholder survey) | 74.4% | 85% | – | 85% |
| Minimum percentage of importers and exporters that find it easy to comply with border agencies' requirements when lodging electronic documents or making payments (as measured by Customs' stakeholder survey) | 71.0% | 85% | – | 85% |
| Minimum percentage of trade transactions other than those referred for compliance checks processed (including assessment against business rules and intelligence alerts) within 30 minutes | 98.9% | 95% | 99.1% | 95% |
| Minimum percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention ³⁹ | 98.8% | 95% | 99.0% | 95% |
| Minimum percentage of export transactions that are deemed compliant based on risk assessment and proceed without further intervention | 99.8% | 99% | 99.9% | 99% |
| Minimum percentage of a random sample of import entries that are found to be compliant through the transactional verification process | 90.9% | 90% | 91.4% | 90% |
| Minimum number of random interventions of import trade conducted (under Customs' Assurance programme) | N/A | N/A | N/A | 6,000 |
| Protection | | | | |
| Minimum value of harm (NZ\$) avoided through Customs' drug seizures, as measured by indicative data from the New Zealand Drug Harm Index | \$1.795 billion ⁴⁰ | \$500 million | \$1.804 billion ⁴¹ | Measure replaced (see below) |
| Minimum value of harm (NZ\$, as measured by the New Zealand Drug Harm Index) avoided through drug seizures, at or before the border, or as a result of seizures by Customs post-border | N/A | N/A | N/A | \$1,000 million |
| Minimum losses (NZ\$) incurred by importers of illegal goods through seizure of illicit drugs and proceeds of crime | \$535.0 million ⁴¹ | \$250 million | \$533.7 million ⁴² | Measure replaced (see below) |
| Minimum losses (NZ\$) incurred by importers of illegal goods through seizure of illicit drugs, assets, and proceeds of crime | N/A | N/A | N/A | \$400 million |
| Minimum percentage of investigation cases finalised within 12 months of commencement | 70.6% | 70%–85% | 78.5% | Measure retired |
| Minimum percentage of serious investigation cases ⁴³ that lead to punitive action ⁴⁴ | 95.6% | 90% | 94.9% | Measure replaced (see below) |
| Minimum percentage of high priority investigations where prosecution is initiated | N/A | N/A | N/A | 70% |

Explanation for standards not measured

Importers and exporters satisfied or very satisfied with the overall quality of Customs' service delivery

Importers and exporters that find it easy to comply with border agencies' requirements when lodging electronic documents or making payments

Our survey of importers and exporters (planned for late in the financial year) was not conducted in 2019/20. This was to limit the load on businesses in a time of stress due to COVID-19, and as the survey was created for a business-as-usual environment.

³⁹ Further intervention in relation to both import and export transactions means action by Customs to carry out further risk assessment. This may include, but is not limited to, document inspection, screening, or search.

⁴⁰ This is the result reported in the *New Zealand Customs Service Annual Report 2019* based on the provisional totals for drugs seized in that year. As discussed on page 14, the total harm avoided based on the finalised drugs totals for 2018/19 was \$1.909 billion. Each of this total and the \$1.804 billion total for 2019/20 is the harm avoided based on the drugs seized by us at the border (and does not include the harm avoided through offshore drug seizures discussed on page 14 – the amended 2020/21 measure does include that harm).

⁴¹ This result was affected in part by COVID-19 as discussed on page 17.

⁴² The illicit drugs seized by us at the border in 2019/20 had an estimated street value of \$533.10 million, calculated using drug prices sourced from the National Drug Intelligence Bureau (NDIB) Illicit Drug Pricing Report February 2020. The balance of the result is the cash seized by Customs in 2019/20 as a result of investigations, totalling \$0.579 million.

⁴³ A serious investigation case involves, or has the potential to involve, serious community harm. Examples of serious investigation cases include those that involve more than \$250,000 drug harm (as calculated using the New Zealand Drug Harm Index), Class A or B drugs for supply, objectionable material involving child exploitation, or the importation of counterfeit medicines.

⁴⁴ The action resulting from a closed or completed serious investigation case where an offence has been committed and an offender has been identified and the result includes but is not limited to: offender is placed before the Courts by Customs or NZ Police; seizure of goods; a formal warning of the offender; issue of an infringement notice under section 400 of the Customs and Excise Act 2018; or an administrative penalty.

Output Class – Clearance and enforcement services related to craft

Scope of appropriation: The provision of services relating to craft arriving in and departing from New Zealand, including clearance of craft, and protection of New Zealand's interests through interventions, audits, investigations and enforcement.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|--------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 8,870 | Crown | 9,863 | 9,863 | 9,895 |
| 66 | Other | 64 | 91 | 90 |
| 8,936 | Total revenue | 9,927 | 9,954 | 9,985 |
| 8,799 | Expenses excluding remeasurements | 9,390 | 9,954 | 9,985 |
| 137 | Surplus/(Deficit) | 537 | - | - |

Performance

We use intelligence-based risk assessments to determine the risk level of arriving craft and then to mitigate risk through further interaction with craft as well as the people/crew associated with those craft.

The master of vessel of each small craft is required to report to a customs officer upon arrival in a New Zealand port – so that we can mitigate border risks, and ensure compliance with Customs legislation, policy, and procedures. There were 641 arriving small marine craft in 2019/20 (within the expected range of 600–700).

Arriving commercial craft will be boarded if there is an identified need – such as craft showing a high risk or visiting New Zealand for the first time. All 470 arriving commercial marine craft showing high risk or requiring administrative process (within the 400–500 forecast) were boarded in 2019/20. A proportion of the commercial craft with a lower risk rating is also subject to secondary interaction – this encourages and maintains high levels of voluntary compliance, and acts as a check on our risk assessments (while the information collected feeds into future assessments).

Due to COVID-19 a ban was implemented on the entry of cruise ships into New Zealand's territorial waters from 11.59pm on 14 March 2020. We were responsible for making decisions about yachts and other vessels seeking to enter New Zealand under the border restrictions in place in 2019/20.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|---------|----------|--------|----------|
| | Actual | Standard | Actual | Standard |
| Percentage of small marine craft arriving whose master of vessel reported to a customs officer upon first arrival in a New Zealand port | N/A | 100% | 99.8% | 100% |
| Percentage of arriving commercial marine craft (including cruise ships) showing high risk or requiring administrative process that are boarded while in a New Zealand port | 100% | 100% | 100% | 100% |
| Minimum percentage of all arriving commercial marine craft that are not assessed as high risk that will be subject to Customs secondary interaction | 7.2% | 5% | 7.7% | 5% |

Explanation of variances for standards not achieved

Small marine craft arriving whose master of vessel reported to a customs officer upon first arrival in a New Zealand port

One small craft arrived unannounced in January 2020; the Harbour Master noted its arrival and directed it to the relevant pier for processing. Customs conducted a rummage of the vessel and issued a warning to the skipper.

Output Class – Information and intelligence services

Scope of appropriation: The provision of information, intelligence and risk assessment services to external clients, and the operation of the National Maritime Coordination Centre.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|---------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 12,379 | Crown | 13,334 | 13,334 | 14,900 |
| 883 | Other | 880 | 753 | 752 |
| 13,262 | Total revenue | 14,214 | 14,087 | 15,652 |
| 13,070 | Expenses excluding remeasurements | 12,683 | 14,087 | 15,652 |
| 192 | Surplus/(Deficit) | 1,531 | – | – |

Performance

Alerts managed for other agencies

Agencies provide us with information about people or goods that are of interest to them. Our border management system electronically screens data for matches, enabling us to notify (alert) the other agency if the person or goods arrive at the border. We managed 122,633 of these alerts created by other agencies in 2019/20. These alerts were created by Inland Revenue (48.4% of the total), MBIE (37.8%), the Ministry of Justice (10.5%), NZ Police (3.1%) and other agencies (0.2%).

National Maritime Coordination Centre (NMCC)

The NMCC supports the effective and efficient use of New Zealand's maritime patrol and surveillance assets for civilian purposes through a coordinated whole-of-government approach to maritime tasking and maritime domain awareness. Although the NMCC is operationally independent (and staffed by both civilian and military personnel from a number of agencies), it is hosted by and directly responsible to Customs.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|---|---------|----------|---------------------|-----------------|
| | Actual | Standard | Actual | Standard |
| Percentage of external alerts processed in accordance with alert instructions | N/A | 100% | 99.96% | 100% |
| Minimum percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's coordination of tasking | 85.7% | 80% | 66.7% ⁴⁵ | 80% |
| Minimum percentage of agency requests accepted by the National Maritime Coordination Centre that are successfully completed | 80.8% | 80% | 73.1% | Measure retired |

Explanation of variances for standards not achieved

External alerts processed in accordance with alert instructions

One alert (of a total of 2,514) was not processed correctly (the instruction relating to the agency wanting to speak to the traveller). The missed alert was followed up post-border and reported to the relevant agency.

Requesting agencies and assets providers satisfied with National Maritime Coordination Centre's coordination of tasking

This result is affected by the small number of respondents. Of the six respondents, one was very satisfied, three were satisfied, and two (including one new NMCC stakeholder) were 'neither satisfied nor dissatisfied'; no respondents were dissatisfied.

Agency requests accepted by the National Maritime Coordination Centre that are successfully completed

The NMCC allocates available assets to fulfil accepted requests based on prioritisation and the suitability of the assets for particular requests. If subsequently the asset becomes unavailable for a planned patrol due to other priorities or circumstances (such as serviceability or weather), an accepted request might not be completed. In the later part of the year, this included COVID-19 resulting in operational deployment constraints (under relevant Alert Levels), and requiring assets to be reprioritised, as well as the number of requests being higher than the number of assets available for tasking during that period.

⁴⁵We sought feedback from 11 agencies (by inviting agencies to complete an online survey) on the survey of the NMCC and received responses from seven of those agencies – although only six on the question providing the result for this measure.

Output Class – Revenue collection

Scope of appropriation: The provision of services relating to receipt and processing of revenues owing to the Crown and other agencies, revenue assurance, credit and debt management.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|---------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 9,682 | Crown | 10,006 | 10,006 | 9,646 |
| 667 | Other | 605 | 727 | 727 |
| 10,349 | Total revenue | 10,611 | 10,733 | 10,373 |
| 10,016 | Expenses excluding remeasurements | 10,341 | 10,733 | 10,373 |
| 333 | Surplus/(Deficit) | 270 | – | – |

Performance

A net total of \$46.20 million in additional revenue owing was identified, significantly exceeding the target of a minimum of \$15 million. This additional revenue is identified through undertaking verifications of data entered by importers, exporters, and licensed manufacturers of excisable goods; voluntary disclosures by traders; and audit activity. There is a high degree of variability in the total collected year-to-year as it is frequently affected by a small number of high-value collections.

We supported traders adversely affected by COVID-19 by agreeing alternative payment arrangements for duty payable to Customs (as discussed further on page 22). We only seek to write off debts after all cost-effective recovery actions have been taken. The debts written off are principally where a business has been liquidated and unpaid Customs duties have not been recovered, or where it is uneconomic to pursue a small amount of unpaid duty. Despite the assistance we provided, the impact of COVID-19 on the economy is likely to have an effect on traders, and the resulting debt able to be recovered, in 2020/21.

Our contribution to the Revenue outcome is discussed on pages 28–31.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|-----------------|--------------|---------------------|-----------------|
| | Actual | Standard | Actual | Standard |
| Minimum percentage of revenue that is collected electronically ⁴⁶ | 99.5% | 95% | 99.9% | Measure retired |
| Minimum percentage of revenue that is collected by the due date | 99.1% | 98% | 98.0% ⁴⁷ | 98% |
| Debt write-offs as a maximum percentage of total Crown revenue collected | 0.007% | 0.06% | 0.02% | 0.06% |
| Minimum additional revenue (NZ\$) owed that is identified through the trade compliance programme | \$50.98 million | \$15 million | \$46.20 million | Measure retired |

⁴⁶The significant majority of clients pay electronically through methods such as direct debit and internet banking. The balance pay manually by cheque or cash (payments by those methods represented only 0.1% of the total revenue collected in 2019/20). Given it is now standard practice for revenue to be collected electronically this measure is not in place from 2020/21.

⁴⁷This result is based on monthly calculations of the total amount paid to Customs for the month less any revenue payable that has been owing for more than 30 days at the end of that month – with the percentages of revenue collected by the due date from those 12 monthly calculations averaged to provide the result (of 98.0% for 2019/20). The result for 2019/20 is lower than that for 2018/19 due to COVID-19 – as discussed on page 22, we reached arrangements with some clients for instalment plans and/or to defer payments.

Output Class – Policy advice

Scope of appropriation: The provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|--------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 3,867 | Crown | 3,758 | 3,758 | 5,357 |
| 33 | Other | 20 | 27 | 27 |
| 3,900 | Total revenue | 3,778 | 3,785 | 5,384 |
| 3,700 | Expenses excluding remeasurements | 3,479 | 3,785 | 5,384 |
| 200 | Surplus/(Deficit) | 299 | - | - |

Performance

We provided policy advice to the Minister of Customs in 2019/20 on a range of topics related to border management, including:

- new fees for the clearance of goods crossing the border, resulting from the review of Customs' goods clearance cost recovery approach
- options for strengthening tobacco controls at the border, including enhanced regulatory and legislative controls, and enhanced Customs controls at the border (resulting in the Customs and Excise (Tobacco) Amendment Act 2020)
- implementation of the Government's decisions in relation to imported low-value goods, including the new Offshore Supplier Registration System
- the implications of, and actions taken by us in response to, the COVID-19 pandemic.

To monitor the quality of our policy advice, in addition to our internal quality assurance, we seek an assessment of the Minister of Customs' satisfaction and obtain an external review of our policy papers by NZIER (the New Zealand Institute of Economic Research).

For 2019/20, we surveyed⁴⁸ the Minister of Customs twice on her satisfaction (rather than once at year-end, as in previous years), in relation to each of the first six months and second six months of the financial year.

The external assessment of our policy advice was conducted by NZIER using the Policy Quality Framework.⁴⁹ NZIER awarded an average score of 4.1 out of 5, based on a sample of 20 papers, and a median score of 4. The high score was 5 and the low score was 3. Because this is the first time that the new Policy Quality Framework has been used, it is difficult to make comparisons with previous years' results. Nonetheless NZIER commented that this result was very impressive and continued the high quality results from Customs in recent years. It was pointed out that our median of 4 signals that more than half of all papers exceed the requirements and, more significantly, 100% of papers met requirements – scoring 3 or above (i.e. there were no poor papers). The review noted that Customs was particularly strong in introducing the reader to new areas and having clear purpose statements, and had used policy frameworks effectively and provided comprehensive information packs, including the innovative use of diagrams.

⁴⁸Using the Ministerial Policy Satisfaction Survey developed by The Policy Project (run by the Department of the Prime Minister and Cabinet), and introduced from 2019/20, for Ministers to use to provide feedback to government agencies.

⁴⁹Developed by The Policy Project and introduced from 2019/20.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|---|---------|-----------------------------|-----------------------------|-----------------------------|
| | Actual | Standard | Actual | Standard |
| Assessment of the quality of a sample of the agency's policy advice papers: | | | | |
| a) Minimum average score of papers | N/A | 3.5 out of 5 | 4.1 | 3.5 out of 5 |
| b) Minimum score of papers | | 100% above 3 25% above 4 | 100% above 3 80% above 4 | 100% above 3 25% above 4 |
| Satisfaction of the portfolio Minister with the policy advice service | N/A | 3.75 out of 5 | 4.1 | 3.75 out of 5 |
| Maximum total cost (NZ\$) of professional staff per hour of producing outputs | \$108.8 | \$120 | \$98.7 | Measure retired |

Output Class – International services and ministerial servicing

Scope of appropriation: The provision of international services, obligations, and assistance, and the provision of services to Ministers to enable them to discharge their portfolio (other than policy-decision making) responsibilities.

Revenue and output expenses

| 2018/19 | | 2019/20 | | |
|----------------|--|----------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| Revenue | | | | |
| 8,701 | Crown | 8,255 | 8,255 | 8,268 |
| 1,645 | Other | 1,415 | 3,028 | 1,991 |
| 10,346 | Total revenue | 9,670 | 11,283 | 10,259 |
| 10,164 | Expenses excluding remeasurements | 10,821 | 11,283 | 10,259 |
| 182 | Surplus/(Deficit) | (1,151) | – | – |

Performance

International services

We operate in a complex, dynamic international environment with multiple participants. We leverage international engagement to advance our goals and to influence the development of international standards and customs procedures to further New Zealand's trade and security interests. Our international relationships are both bilateral and multilateral. Our engagement activity is prioritised towards countries and regions that have the greatest influence on New Zealand's trade, security, and border settings.

We work with other agencies to shape the international environment in which New Zealand businesses engage and to support the movement of legitimate goods across borders, including through increased trade access and reduced non-tariff barriers. A key contribution in this area relates to FTAs (as discussed on page 24).

Customs plays an active role in ensuring the representation of New Zealand's interests in international customs policy and trade.

We participate in a number of key international fora and groupings to advance our objectives, including:

- World Customs Organization (WCO) – Customs is one of the Asia/Pacific Region's representatives on the WCO Policy Commission, which sets the policy direction for the WCO. In view of COVID-19 risks associated with passengers on cruise ships, Customs commenced work with Japan in 2019/20 to develop a global standard in partnership with the International Maritime Organisation industry and members.
- Border Five (B5) – Being a member of the B5 enables us to extend our reach, knowledge, and expertise, and to move forward on key issues facing New Zealand individually and as a bloc.
- Oceania Customs Organisation – Customs is a key member of this Pacific organisation, and is on the finance steering group. We contribute expertise and advice on a regular basis, particularly in relation to information sharing, border management practices, and the implementation of the Pacific Agreement on Closer Economic Relations (PACER Plus).

Customs also runs a full bilateral programme. In 2019/20 this included negotiating and entering into a new Customs Cooperation Agreement (CCA) with the United Kingdom, and upgrading the CCA with Australia (as discussed on page 23).

We have a network of counsellors located in offshore posts who support our work programme overseas and help to build better relationships and trust with our overseas partners. These posts provide additional policy and operational capability that supports our trade, security, and enforcement objectives. This includes gathering, sharing, and using information and intelligence to enable targeted disruption, with offshore partners willing to act on our behalf to prevent harm reaching New Zealand's borders (as discussed on page 13). COVID-19 had an impact on our overseas posts. Following a risk assessment by us, our counsellors (and their families) located in Asia returned to New Zealand at the beginning of the pandemic – although continuing their work with our international partners. Our counsellors located in the United States, Australia, Brussels, and London remained offshore, continuing their international liaison role for Customs while also providing consular assistance and support to New Zealand's Head of Mission. Based on updated assessments, our counsellors in Hong Kong, China, and Bangkok returned to their posts in June and July 2020.

Customs is delivering a five-year border-management development programme for the Pacific, funded by the Ministry of Foreign Affairs and Trade through a Partnership Arrangement that supports customs administrations in the Pacific to build capacity and develop effective border management. This enhances the Pacific region's ability to detect and disrupt organised crime, while allowing legitimate trade and travel.

Ministerial servicing

The services and support that we provide to the Minister of Customs include preparing draft replies to ministerial correspondence and draft responses to parliamentary questions. Volumes are demand-driven. In 2019/20 we provided 61 draft replies to ministerial correspondence, within the expected 40–70 range. We provided 227 draft responses to written parliamentary questions to the Minister, significantly above the expected range of 50–80.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|---|--|--------------------|----------------------|------------------------------|
| | Actual | Standard | Actual | Standard |
| Minister's satisfaction with advice and support in relation to international services and ministerial servicing | Meets and sometimes exceeds expectations | Meets expectations | Exceeds expectations | Measure replaced (see below) |
| Satisfaction of the portfolio Minister with ministerial servicing | N/A | N/A | N/A | Meets expectations |
| Minimum percentage of draft replies to ministerial correspondence that are provided within 20 working days or as agreed with the Minister | 98.2% | 90% | 100% | 95% |
| Percentage of draft responses to parliamentary questions that are provided to the Minister's office so that answers can meet the timeframe set in Parliamentary Standing Orders | 100% | 100% | 100% | 100% |

Departmental Capital Expenditure

Scope of appropriation: This appropriation is limited to the purchase or development of assets by and for the use of the New Zealand Customs Service, as authorised by section 24(1) of the Public Finance Act 1989.

Statement of Budgeted and Actual Capital Expenditure

| 2018/19 | | 2019/20 | | |
|---------------|-------------------------------|---------------|--------------------------|------------------|
| Actual | | Actual | Unaudited Revised Budget | Unaudited Budget |
| \$000 | | \$000 | \$000 | \$000 |
| 10,200 | Property, plant and equipment | 6,188 | 10,379 | 9,056 |
| 8,788 | Intangibles | 14,208 | 21,622 | 3,599 |
| - | Other | - | - | - |
| 18,988 | Total appropriation | 20,396 | 32,001 | 12,655 |

The increase in the Unaudited Revised Budget (the Supplementary Estimates of Appropriations for 2019/20) was due to the anticipated timing and level of capital expenditure for projects in 2019/20. Actual expenditure being below the Unaudited Revised Budget was the result of delays in the capital programme; due to COVID-19, some projects were granted extensions.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|----------|----------|----------|----------|
| | Actual | Standard | Actual | Standard |
| Expenditure is in accordance with the department's intention to renew and replace computer equipment and software, furniture and fittings, leasehold improvements, motor vehicles and office equipment and plant | Achieved | Achieved | Achieved | Achieved |

APPROPRIATION STATEMENTS

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the New Zealand Customs Service for the year ended 30 June 2020.

Statement of Expenses and Capital Expenditure Incurred Against Appropriations

For the year ended 30 June 2020

Annual and permanent appropriations for Vote Customs

| 2018/19 | | 2019/20 | | | |
|---|---|-------------------|-----------------------------|--------------------------------------|--|
| Expenditure excluding remeasurements | | Total expenditure | Remeasurements ¹ | Expenditure excluding remeasurements | Approved Appropriation 2020 ² |
| \$000 | | \$000 | \$000 | \$000 | \$000 |
| <i>Departmental output expenses</i> | | | | | |
| 71,857 | Clearance and enforcement services related to passengers and crew | 77,971 | 114 | 77,857 | 80,539 |
| 87,089 | Clearance and enforcement services related to goods | 87,122 | 106 | 87,016 | 91,536 |
| 8,799 | Clearance and enforcement services related to craft | 9,401 | 11 | 9,390 | 9,954 |
| 13,070 | Information and intelligence services | 12,697 | 14 | 12,683 | 14,087 |
| 10,016 | Revenue collection | 10,358 | 17 | 10,341 | 10,733 |
| 3,700 | Policy advice | 3,485 | 6 | 3,479 | 3,785 |
| 10,164 | International services and ministerial servicing | 10,832 | 11 | 10,821 | 11,283 |
| 204,695 | Total departmental output expenses | 211,866 | 279 | 211,587 | 221,917 |
| <i>Departmental capital expenditure</i> | | | | | |
| 18,988 | New Zealand Customs Service – capital expenditure PLA ³ | 20,396 | – | 20,396 | 32,001 |
| <i>Non-departmental other expenses</i> | | | | | |
| 5,687 | Change in doubtful debt provision | 14,176 | – | 14,176 | 24,000 |
| – | Provision of ACC-equivalent cover for New Zealand employees working overseas PLA ³ | – | – | – | 5 |
| 67 | World Customs Organization | 64 | – | 64 | 80 |
| 5,754 | Total non-departmental other expenses | 14,240 | – | 14,240 | 24,085 |
| 229,437 | Total annual and permanent appropriations | 246,502 | 279 | 246,223 | 278,003 |

¹ Remeasurements are the movement brought about by the change in the discount rate applied to non-current employee entitlements (see Note 12, page 93)

² These are the appropriations from the *Addition to the Supplementary Estimates of Appropriations 2019/20*

³ Permanent Legislative Authority under the Public Finance Act (section 24(1) for the capital expenditure appropriation and section 65ZG for the ACC-equivalent cover appropriation)

The 2019/20 end-of-year performance information for each departmental appropriation is reported in this annual report.

The 2019/20 end-of-year performance information for the non-departmental appropriations is in a report by the Minister of Customs appended to this annual report except for the ACC-equivalent cover for New Zealand employees working overseas PLA appropriation, which is exempt under section 15D(2)(b)(iii) of the Public Finance Act from the requirement to provide end-of-year performance information.

Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority

For the year ended 30 June 2020

In the 2019/20 financial year, the New Zealand Customs Service did not incur any:

- expenses or capital expenditure in excess of appropriation (2018/19 financial year: nil)
- expenses or capital expenditure without appropriation or other authority, or outside the scope or period of the appropriation (2018/19 financial year: nil).

Statement of Departmental Capital Injections

For the year ended 30 June 2020

| 2018/19 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| | Vote Customs | |
| | – New Zealand Customs Service – capital injection | 35,345 |

The 2019/20 total includes the \$30 million capital injection received from the Government to cover the expected shortfall in revenue due to the decrease in third party funding resulting from COVID-19 (as discussed on page 41).

Statement of Departmental Capital Injections Without, or in Excess of, Authority

For the year ended 30 June 2020

| 2018/19 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| | Vote Customs | |
| | – New Zealand Customs Service – capital injection without authority | 139 |

The New Zealand Customs Service recognised \$2,742,000 of the capital injection for the Drug Smuggling Networks: Strategic Disruption programme in July 2019 after the date at which the authority for it lapsed (30 June 2019). As the 2019/20 authority for a capital injection totalled \$2,603,000, the New Zealand Customs Service therefore incurred a capital injection in excess of authority in 2019/20 of \$139,000. The necessary authority for this departmental capital injection was reinstated, in November 2019.



Financial Statements

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2020

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

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 | | Note | Unaudited Budget | Unaudited Supps | Actual |
| \$000 | | | \$000 | \$000 | \$000 |
| 166,786 | Taxpayers' funds as at 1 July | | 164,767 | 152,477 | 152,476 |
| (3,688) | Total comprehensive revenue and expense for the year | | (5,847) | (12,026) | (24,199) |
| (2,648) | Capital withdrawals | | - | - | - |
| - | Capital injections | | 2,603 | 35,345 | 35,345 |
| (7,974) | Provision for return of surplus | 11 | - | - | (1,933) |
| 152,476 | Taxpayers' funds as at 30 June | | 161,523 | 175,796 | 161,689 |

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 | | | Unaudited | Unaudited | Actual |
| \$000 | Note | Unaudited | Budget | Supps | Unaudited |
| | | \$000 | \$000 | \$000 | Forecast |
| | | | | | \$000 |
| <i>Current assets</i> | | | | | |
| 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 | 17,190 |
| 73,622 | Total current assets | 51,483 | 88,655 | 74,233 | 77,548 |
| <i>Non-current assets</i> | | | | | |
| 33,255 | Property, plant and equipment | 8 | 39,080 | 33,558 | 31,728 |
| 85,339 | Intangible assets | 9 | 111,200 | 93,323 | 94,793 |
| 42 | Receivables and advances | | 26 | 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 |
| <i>Current liabilities</i> | | | | | |
| 16,561 | Creditors and payables | 10 | 25,375 | 16,353 | 16,352 |
| 11,255 | Employee entitlements | 12 | 9,455 | 7,154 | 7,154 |
| 7,974 | Provision for repayment of surplus to the Crown | 11 | - | 7,974 | 7,974 |
| - | Other short term liabilities | 13 | 95 | 208 | 208 |
| 35,790 | Total current liabilities | 34,925 | 31,689 | 28,472 | 31,688 |
| <i>Non-current liabilities</i> | | | | | |
| 3,742 | Employee entitlements | 12 | 5,091 | 7,843 | 7,843 |
| 250 | Other long term provisions | 14 | 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 |
| <i>Equity</i> | | | | | |
| 146,785 | Crown capital and retained earnings | 15 | 150,057 | 182,171 | 248,747 |
| 5,691 | Memorandum accounts (net position) | 15 | 11,466 | (6,375) | (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 | | Unaudited | Unaudited | Actual | Unaudited |
| \$000 | Note | Budget | Supps | \$000 | Forecast |
| | | \$000 | \$000 | \$000 | \$000 |
| Cash flows – operating activities | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| 70,242 | Crown | 94,104 | 87,973 | 86,784 | 156,826 |
| 136,312 | Other | 140,361 | 131,395 | 119,463 | 57,808 |
| <i>Cash was applied to:</i> | | | | | |
| (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 | 38,548 | 17,293 | 13,959 | (41,260) |
| Cash flows – investing activities | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| 154 | Sale of fixed assets | - | - | 161 | - |
| <i>Cash was disbursed to:</i> | | | | | |
| (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 | | | | | |
| <i>Cash was provided from:</i> | | | | | |
| - | Capital contributions | 2,603 | 35,345 | 32,697 | 78,786 |
| <i>Cash was disbursed to:</i> | | | | | |
| - | 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 | | 2019/20 |
|-----------------|--|-----------------|
| Actual \$000 | | Actual \$000 |
| | <i>Capital commitments</i> | |
| – | Property, plant and equipment | – |
| – | Total capital commitments | – |
| | <i>Non-cancellable operating lease commitments</i> | |
| 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 | | | As at |
|---|---------------|---------------|---------------|---------------|
| | 01/07/2019 | Contribution | Distribution | 30/06/2020 |
| | \$000 | \$000 | \$000 | \$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 | | Unaudited Budget | Actual |
| \$000 | | \$000 | \$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 | | Unaudited Budget | Actual |
| \$000 | | \$000 | \$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 | | Unaudited Budget | Actual |
| \$000 | | \$000 | \$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 | | 2019/20 | |
|---------------------|---|------------------|---------------|
| Actual | | Unaudited Budget | Actual |
| \$000 | | \$000 | \$000 |
| <i>Depreciation</i> | | | |
| 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 |
| <i>Amortisation</i> | | | |
| 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 | | 2019/20 |
|-----------------|---------------------------------------|-----------------|
| Actual \$000 | | 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 | | 2019/20 |
|-----------------|--|-----------------|
| Actual \$000 | | 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| | <i>Payables under exchange transactions</i> | |
| 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 |
| | <i>Payables under non-exchange transactions</i> | |
| 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | 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 | | 2019/20 |
|-----------------|------------------------------------|-----------------|
| Actual \$000 | | Actual \$000 |
| | <i>Current liabilities</i> | |
| 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 |
| | <i>Non-current liabilities</i> | |
| 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| 250 | Lease make good provision | 250 |
| 250 | Total other long term provisions | 250 |

Movement for provisions are as follows:

| 2018/19 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| | <i>Crown Capital and retained earnings</i> | |
| 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 |
| | <i>Memorandum accounts</i> | |
| 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 | | 2019/20 |
|---------------|---|---------------|
| Actual | | Actual |
| \$000 | | \$000 |
| | <i>Financial assets measured at amortised cost</i> | |
| 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 |
| | <i>Financial liabilities measured at amortised cost</i> | |
| 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 | | 2019/20 |
|-------------|---|-------------|
| Actual | | 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | 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 |
| | <i>Working capital movements</i> | |
| 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 |
| | <i>Movements in non-current liabilities</i> | |
| – | 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 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | 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 | | Unaudited Budget | Unaudited Supps | Actual | Unaudited Forecast |
| \$000 | | \$000 | \$000 | \$000 | \$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 | | Unaudited Budget | Unaudited Supps | Actual | Unaudited Forecast |
| \$000 | | \$000 | \$000 | \$000 | \$000 |
| | Revenue | | | | |
| | <i>Indirect taxation</i> | | | | |
| 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 |
| | <i>Indirect non-taxation</i> | | | | |
| 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 |

Statement of Non-Departmental Contingent Liabilities and Assets

As at 30 June 2020

| 2018/19 | | 2019/20 |
|-----------------|---|-----------------|
| Actual \$000 | | Actual \$000 |
| | <i>Contingent liabilities</i> | |
| 682 | Legal proceedings and disputes – assessed | 5,885 |
| 682 | Total contingent liabilities | 5,885 |
| | <i>Contingent assets</i> | |
| 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 | | 2019/20 |
|------------------|--|------------------|
| Actual \$000 | | 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 |
| | <i>Represented by:</i> | |
| 1,087,855 | Receivables from non-exchange transactions | 1,107,435 |

| 2018/19 | | 2019/20 |
|------------------|---------------------|------------------|
| Actual \$000 | | 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 | | 2019/20 |
|-----------------|--|-----------------|
| Actual \$000 | | 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 |
| <i>Financial assets measured at amortised cost</i> | | |
| 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 |
| <i>Financial liabilities measured at amortised cost</i> | | |
| 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 |

⁵⁰This 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.

Report of Minister of Customs on performance information for Vote Customs non-departmental appropriations 2019/20

The Minister of Customs is required under section 19B of the Public Finance Act 1989 to report the end-of-year performance information for the following non-departmental other expenses appropriations for Vote Customs for 2019/20:*

- Change in Doubtful Debt Provision
- World Customs Organization.

This performance information is not subject to audit.

This report has been appended to the annual report of the New Zealand Customs Service for publication.

The 'Budget' figures are those included in *The Estimates of Appropriations 2019/20* for Vote Customs. The 'Revised Budget' figures are those from *The Supplementary Estimates of Appropriations 2019/20* and the *Addition to the Supplementary Estimates of Appropriations 2019/20*.

Comparative performance information for 2018/19 has been included. To provide further context for the 2019/20 result, the standard set for the performance measure for 2020/21 (as contained in *The Estimates of Appropriations 2020/21* for Vote Customs) is also included.

* The Vote Customs non-departmental other expenses appropriation, Provision of ACC-equivalent cover for New Zealand employees working overseas PLA, is exempt under section 15D(2)(b)(iii) of the Public Finance Act from the requirement to provide end-of-year performance information – and this appropriation is no longer in place from 2020/21.

Change in Doubtful Debt Provision

Scope of appropriation: Provisioning of doubtful debts on Customs Crown revenue.

This appropriation is to achieve provisioning for doubtful debts on the revenue collected by the New Zealand Customs Service on behalf of the Crown.

Statement of Budgeted and Actual Expenses Against Appropriation

| 2018/19 | | 2019/20 | | |
|--------------|-----------------------|---------------|----------------|--------------|
| Actual | | Actual | Revised Budget | Budget |
| \$000 | | \$000 | \$000 | \$000 |
| 5,687 | Expenses | 14,176 | 24,000 | 8,000 |
| 5,687 | Total Expenses | 14,176 | 24,000 | 8,000 |

This appropriation increased by \$16 million in the *Addition to the Supplementary Estimates of Appropriations 2019/20* due to the impacts relating to COVID-19 on businesses and their ability to settle amounts due (to the New Zealand Customs Service) for the payment of duty and GST – requiring an increase in provisioning for doubtful debt.

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|---------|----------|--------|----------|
| | Actual | Standard | Actual | Standard |
| Debt write-offs as a maximum percentage of total Crown revenue collected | 0.007% | 0.06% | 0.02% | 0.06% |

World Customs Organization

Scope of appropriation: New Zealand's contribution to the operating budget of the WCO.

This appropriation is used to meet New Zealand's commitment as a member of the World Customs Organization (WCO) to contribute to the annual running costs of the WCO.

Statement of Budgeted and Actual Expenses Against Appropriation

| 2018/19 | | 2019/20 | | |
|-----------|-----------------------|-----------|----------------|-----------|
| Actual | | Actual | Revised Budget | Budget |
| \$000 | | \$000 | \$000 | \$000 |
| 67 | Expenses | 64 | 80 | 80 |
| 67 | Total Expenses | 64 | 80 | 80 |

Performance measures and standards

| Measure | 2018/19 | 2019/20 | | 2020/21 |
|--|----------|----------|----------|----------|
| | Actual | Standard | Actual | Standard |
| New Zealand's contribution to the operating budget of the WCO paid by the due date | Achieved | Achieved | Achieved | Achieved |





CUSTOMS

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