

ANNUAL REPORT 2017



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NEW ZEALAND CUSTOMS SERVICE ANNUAL REPORT 2016/ 17 (B.24 AR (2017))

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Presented to the House of Representatives pursuant to section 44 of the Public Finance Act 1989

REPORT OF MINISTER OF CUSTOMS ON PERFORMANCE INFORMATION FOR VOTE CUSTOMS NON-DEPARTMENTAL APPROPRIATIONS 2016/ 17 (B.14 (VOTE CUSTOMS))

Presented to the House of Representatives pursuant to section 19B of the Public Finance Act 1989

REPORT OF THE NEW ZEALAND CUSTOMS SERVICE

FOR THE YEAR ENDED 30 JUNE 2017



TE MANA ĀRAI O AOTEAROA

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COMPTROLLER'S OVERVIEW

The New Zealand Customs Service protects and promotes New Zealand through world class border management. The 2016/17 financial year was a challenging but productive one for Customs. We responded to increased demand on our resources, including record trade and travel volumes, while continuing to improve our service delivery and effectiveness.

As an organisation, we are evolving and transforming to meet these challenges by improving and modernising the way we work at the border, and improving our intelligence and profiling capability.

In 2016/17 we completed the Joint Border Management System (JBMS) programme. This includes the Trade Single Window, which allows clients to meet the information requirements of both Customs and the Ministry for Primary Industries (MPI) through a single electronic channel, eliminating duplication and reducing compliance costs for traders. JBMS also delivered sophisticated risk and intelligence tools that enable improved risk profiling, modelling, and targeting, and that are used by the new Joint Border Analytics team (involving Customs, MPI, and the Ministry of Business, Innovation and Employment).

After consultation with business stakeholders and the public, a new Customs and Excise Bill was introduced to the House in November 2016. The legislation reflects current business practices and supply chains, and will enable Customs to respond more flexibly to changes in technology and business practices. This will benefit industry by reducing compliance costs. The Bill was considered by the Foreign Affairs, Defence and Trade Committee, and reported back to the House in May 2017. At the time of writing this report, the Bill was awaiting its second reading.

The Joint Electronic Verification System (JEVS) developed in partnership with China Customs went live in December 2016, accelerating clearance of New Zealand exports by electronically providing relevant information to China. The JEVS won the Excellence in Regulatory Systems Award at the Institute of Public Administration New Zealand's 2017 Public Sector Excellence Awards.

We developed and introduced our Intelligent Enforcement strategy in 2016/17, which guides how Customs approaches the risks and threats we face. It is based on four key principles: prevention; being intelligence-led; efficient prioritisation; and effective partnerships.

In line with the strategy, over the last year we increased our ability to identify risk, detect and deter illicit and non-compliant activity, and carry out appropriate enforcement. A primary focus is the seizure of illicit drugs at the border, particularly methamphetamine. July 2016 saw our largest-ever seizure of methamphetamine – 176 kilograms concealed in the doors of shipping containers sent from China.

We continue to increase our focus on targeting risk at the source offshore. We have strengthened our relationships with overseas enforcement partners and agencies – the exchange of information and intelligence enables more targeted risk management, and joint investigative and operational activities. As part of this, we placed more staff overseas, which enables us to have greater impact on illegal drug supply chains at the source.

In support of the growth of New Zealand's exports, we signed Mutual Recognition Agreements (MRAs) with the Australian Department of Immigration and Border Protection, and with the General Administration of China Customs. Through MRAs, countries recognise each other's supply chain security programme, providing approved exporters with a market advantage through swifter processing with fewer border checks, and priority in trade recovery situations.

People are fundamental to what we do and Customs continues to seek to be a great place to work where our people have a sense of belonging. We have worked hard to ensure we have the capability and commitment needed to meet our challenges now and into the future. Our Operations Transformation Programme gave us an improved people structure and deployment model for our Operations workforce in 2016/17, delivering operational efficiencies and greater flexibility so that we are able to respond to and manage growing service demands and border risks. It also benefits staff through offering additional career opportunities.

I commend the response and resilience of staff following the Kaikoura earthquake, particularly those who have since been working out of alternative locations due to the Wellington Customhouse undergoing remediation since the earthquake.

I wish to acknowledge the strong and effective leadership of Carolyn Tremain, who led the organisation over the time the many achievements reflected in this report were made.

I began as Acting Comptroller of Customs in July 2017 and I have been amazed at the breadth and complexity of what we do. I am also deeply impressed by the professionalism, integrity, and commitment of our people, who are critical to the success of the intelligence-led, risk-based, and customer-focused organisation that Customs is. I look forward to working with the team as we continue to provide New Zealanders with smart, efficient border services.



Christine Stevenson
Acting Comptroller of Customs

THE YEAR AT A GLANCE

TRAVEL & TRADE

RECORD

13.3million



Arriving and departing passengers risk-assessed and processed

RECORD

14.4million



Trade transactions processed



99.9%

Of trade transactions processed within 30 minutes (other than those referred for compliance checks)

REVENUE

RECORD

\$13.3billion



Collected in Crown revenue

TRADE SINGLE WINDOW

FINAL MAJOR RELEASE

Of Joint Border Management System in April 2017, completing the Trade Single Window



PROTECTION

\$329million



Street value of illicit drugs intercepted

\$1.15billion



In potential harm (social and economic costs) avoided to New Zealand through illicit drugs seized by Customs

INCREASED EFFORTS



To disrupt illicit drug supply chains offshore – through further strengthening our relationships and intelligence-sharing with overseas enforcement partners and agencies



JOINT BORDER ANALYTICS TEAM

Formed with the Ministry for Primary Industries and the Ministry of Business, Innovation and Employment (Immigration NZ), using data modelling techniques to better inform border risk and target interventions

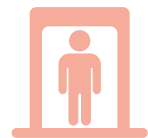
SMARTGATE



50 NEXT-GENERATION SMARTGATES

Installed by the end of June 2017 (of total of 51)

5.8million OR **45%**



Air passengers processed through SmartGate automated passenger processing

TRUST IN CUSTOMS

94% PASSENGERS 
87% COMMERCIAL GOODS CLIENTS

Continued high levels of trust by our customers – from surveys

SYSTEM LAUNCH

JOINT ELECTRONIC VERIFICATION SYSTEM



Launched in December 2016, reducing delays for New Zealand exports to China



44,520
COUNTERFEIT GOODS

Individual counterfeit goods items intercepted at the border (these can be low-quality and dangerous to the public)

353 KG 
METHAMPHETAMINE

725 KG
METHAMPHETAMINE PRECURSORS

SEIZED



\$13.4million

Of harm prevented through interceptions at the border of other unlawful activity (such as seizures of objectionable material and weapons, and attempted evasion of duty)

A photograph of a customs officer from behind, wearing a bright yellow-green high-visibility vest with reflective silver stripes. The word "CUSTOMS" is printed in large, bold, black letters on the back of the vest. The officer is standing in a port or industrial area, with a large red shipping container labeled "tex" visible in the background. The scene is lit with warm, golden light, suggesting late afternoon or early morning.

CUSTOMS

**WHAT WE DO
AND WHERE WE
ARE HEADING**



OUR FUNCTIONS

The New Zealand Customs Service (Customs) provides essential border services and infrastructure that protect New Zealand and advance our economy. We have three core functions:

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

We seek to protect New Zealand from risks and threats at the border while having minimal adverse impact on legitimate trade and travel, as these are significant contributors to New Zealand's economic growth.

Customs collects around 18 percent of the Crown's total core tax revenue each year. We work with other agencies to provide and improve assurance over the collection of Crown revenue at the border.

The services Customs provides include:

- facilitating the flow of legitimate people, goods, and craft across our border
- collecting Crown revenue
- enforcing the law, which includes identifying and seizing prohibited imports and exports
- providing information, intelligence, and risk assessment products to external customers, and also to support Customs' frontline
- monitoring whether traders and travellers are complying with border requirements, and providing assurance over trade security and the border revenue system
- providing policy advice to ministers on issues relating to the border and revenue
- participating in the international customs community by contributing to the development of international customs policy and through our relationships with overseas customs and law enforcement bodies.
- supporting the economic, protection, and security outcomes of other agencies.

Through these services we prevent harm from a range of risks, including risks to New Zealanders' security, health and safety, and their values, and to the collection of Crown revenue. By deterring and responding to offending, our frontline and offshore presence, and our targeted interventions, help to create a low-risk border.

CUSTOMS' CONTRIBUTION TO THE GOVERNMENT'S PRIORITIES

Customs' outcomes and priorities contribute to two of the Government's core priorities that aim to build a brighter future for New Zealand: building a more competitive and productive economy; and delivering better public services.

We promote and facilitate secure and efficient trade and travel as this contributes to New Zealand's economic competitiveness and to the Government's Business Growth Agenda goals of increasing New Zealand's exports and the value of tourism. By managing the border effectively, Customs continues to contribute to New Zealand's reputation as a highly desirable and safe destination for travel and a trustworthy country to trade with.

Customs contributed to the Government's priorities and to New Zealand through the outcomes we aimed to achieve in 2016/17:

Protection – New Zealand is more safe and secure through reduced risks to New Zealand's interests arising from international trade and travel

Trade – New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes

Travel – Travel to and from New Zealand flows more freely through more secure and efficient border processes

Revenue – The rate of collection of due Crown revenue is maintained.

HOW WE ARE TRANSFORMING

Our current *Customs 2020* strategy sets out how we are seeking to deliver our services more effectively and efficiently. We continue to improve our services through making them more ‘joined up’ and customer-focused, and enabled by technology. Through this, we look to improve risk management at the border, while enhancing the border experience for customers and reducing their compliance burden.

Customs 2020 drives our planning and organisational development by establishing the core strategic concepts for Customs’ work – including our purpose, philosophy, key strategic objective, and focus for our day-to-day work.

In 2016/17 we began work on refreshing our strategy out to 2025, with the new strategy to be finalised and adopted in 2017/18. Customs has also been contributing to the development of the Border Sector’s new strategy and vision to 2025, which is also expected to be completed in 2017/18 (as discussed further on page 35).¹

Customs’ purpose, philosophy, objective, and day-to-day focus

Our purpose – Protecting and promoting New Zealand through world class border management

This reflects our core function of protecting New Zealand’s border using world-class tools, world-class people, and innovative approaches. We promote New Zealand’s interests by facilitating legitimate trade and travel.

Our philosophy – What we believe, our organisational spirit, and focus every day

Our core beliefs focus on our staff, our customers, our partners, and our stakeholders – the people who are essential to our ability to fulfil our purpose. We operate with a spirit of service excellence, and work hard to uphold our reputation for service excellence.

Our key strategic objective – Make compliance easy to do and hard to avoid

Customs’ key strategic objective is to maximise compliance by making it easy for people to understand the rules and to work with us, and by making it harder for people to get around the rules.

Our day-to-day focus – High assurance with a light touch

In fulfilling our purpose with a spirit of service excellence, we focus on providing and achieving high assurance with a light touch. This ensures that traders and travellers who present risks are identified and appropriately managed, with the minimum possible disruption for legitimate traders and travellers.

Our change programme

We are implementing our *Customs 2020* strategy through a change programme structured around four areas of focus:

- Be intelligence-led
- Modernise the border
- Enhance services with a customer focus
- Support development of our people and enhance our culture.

This report discusses those four areas in detail under ‘Progress against Our Strategic Intentions’ (from page 21).

In 2016/17 we progressed seven priorities that were agreed with the Minister of Customs and that were linked to *Customs 2020*:

- A new Customs and Excise Act
- Deliver the Joint Border Management System
- Improve the sustainability of Customs’ border management capability
- Grow secure exports, in particular to China, ASEAN, and the European Union
- Expand automated passenger clearance (‘SmartGate’) and screening of departing passengers
- Expand information sharing
- Increase assurance over and revenue collected from low-value goods.

¹ The Border Sector consists of Customs, the Ministry for Primary Industries, the Ministry of Business, Innovation and Employment, and the Ministry of Transport. Border Sector agencies have been working together since 2007 to deliver a more integrated, responsive, and efficient border management system that best serves New Zealand’s interests. The Border Sector Governance Group (BSGG – made up of the chief executives of the relevant agencies) provides stewardship and governance for Border Sector work.

CUSTOMS' STRATEGIC FRAMEWORK

PURPOSE Protecting and promoting New Zealand through world-class border management



<p>Building a more productive and competitive economy</p> <p>Delivering better public services</p>	<p>A new Customs and Excise Act</p> <ul style="list-style-type: none"> Deliver the Joint Border Management System Improve the sustainability of Customs' border management capability Grow secure exports, in particular to China, ASEAN and the EU Expand automated passenger clearance and screening of departing passengers Expand information sharing Increase assurance over and revenue collected from low-value goods 	<ul style="list-style-type: none"> Be Intelligence-led Modernise the Border Enhance Services with a Customer Focus Support the Development of our People and Enhance our Culture
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<p>Output classes</p>	<p>Clearance and enforcement services related to passengers and crew</p>	<p>Clearance and enforcement services related to goods</p>	<p>Clearance and enforcement services related to craft</p>
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KEY OBJECTIVE

Compliance is easy to do and hard to avoid

Impacts and Objectives

Reduced harm and potential harm from illicit people and goods

Increased disruption of illegal border activity

Reduced levels of intervention with compliant trade and travellers

Reduced risk of Crown revenue leakage

Improved service experiences for traders and travellers

Increased efficiency and security of New Zealand's trade supply chains

Increased levels of voluntary compliance

Improved cost-efficiency and effectiveness

Improved people capability to meet current and future operating intentions

Enhanced leadership development

Improved engagement in innovation and continuous improvement

Increased retention of Customs' staff with less than four years' service

Improved health and safety, and wellbeing

Outcomes

Protection

New Zealand is more safe and secure through reduced risks to New Zealand's interests arising from international trade and travel

Travel

Travel to and from New Zealand flows more freely through more secure and efficient border processes

Trade

New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes

Revenue

The rate of collection of due Crown revenue is maintained for New Zealand

Information and intelligence services

Revenue collection

Policy advice

International services and ministerial servicing



OUR OPERATIONS IN 2016/17



In 2016/17 Customs responded effectively to growing service demands and a more complex risk environment. Our border management processes support effective, targeted risk management while at the same time facilitating compliant trade and travel. We looked to further improve the border management system by using information more effectively, streamlining the experience for traders and travellers, and improving our operating and funding models.

PROTECTION

Customs continues to protect New Zealand through identifying and managing a variety of risks and threats at the border. We must respond effectively to the increasing volume, diversity, and sophistication of border and revenue offending. We use an integrated, risk-based approach to facilitate the flow of people, goods, and craft across the border while also addressing the associated risks.

We developed and introduced our Intelligent Enforcement strategy in 2016/17, which guides how Customs approaches the risks and threats we face. It is based on four key principles:

- prevention – minimising harm to New Zealand by having a greater effect offshore and upstream
- being intelligence-led – expanded information gathering to enable us to know what is normal and target what is abnormal
- efficient prioritisation – strategic prioritisation and targeting of resources
- effective partnerships – with our domestic and international partners.

Illicit drugs

Methods of concealing drugs continue to become more elaborate and sophisticated. We use intelligence to understand and identify risk, and focus our efforts accordingly. Customs seeks to continually enhance our risk-targeting methodologies and capabilities, and to deliver greater assurance at the border.

Significant interceptions of illicit drugs by Customs in 2016/17, and examples of the various and changing concealment methods by drug smugglers, include:

- the largest-ever seizure of methamphetamine imported into New Zealand: approximately 176 kilograms concealed in the doors of shipping containers sent from China in July 2016 (the result of a 16-month investigation). A 20-year-old Hong Kong man pleaded guilty and was sentenced to over 15 years' imprisonment in May 2017
 - approximately 20 kilograms of methamphetamine hidden in an air cargo shipment from Hong Kong (80 boxes of 24-piece spatula sets) in August 2016 – Customs' investigators linked the shipment to, and arrested, a Hong Kong national who had arrived in May 2016
 - 4.8 kilograms of methamphetamine at the International Mail Centre in June 2017, hidden inside a consignment of candles sent from Canada – our investigators linked the consignment to, and arrested, a Canadian man
 - 4.6 kilograms of cocaine concealed in the suitcases of a Brazilian woman arriving at Auckland airport in April 2017 – she was sentenced to eight years' imprisonment in June 2017
-

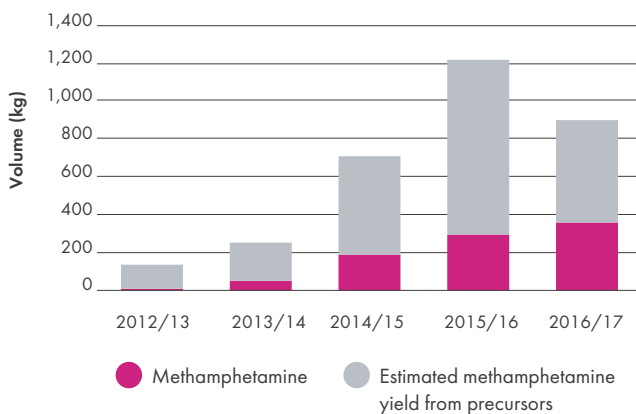
New Zealand street prices for methamphetamine are among the highest in the world, making this a lucrative and attractive market for both domestic and international crime groups. Customs plays a key role in the multi-agency response to tackling methamphetamine. Our efforts to disrupt the supply of methamphetamine and its precursors into New Zealand are coordinated under Customs' *Methamphetamine Campaign Plan 2016–2020*.

There continues to be a shift towards importing methamphetamine rather than its precursors. In 2016/17 we seized 353.1 kilograms² of methamphetamine, an increase of 20.1 percent from the 294.0 kilograms seized in 2015/16. Meanwhile, the volume of methamphetamine precursors seized has dropped, from the 2015/16 total of 1,227 kilograms (with an estimated yield of 919.9 kilograms of methamphetamine) to 725 kilograms in 2016/17 (with an estimated methamphetamine yield of 543.3 kilograms).³

² All of the 2016/17 drug totals in this report (including precursor totals), and the associated drug harm figures based on those totals, are provisional figures based on Customs' initial weighing and recording of interceptions. These figures may change – for example, quantities may be updated after substances are further tested or the drugs are reweighed as the relevant investigation progresses to a prosecution.

³ Since 2014 ephedrine has made up the bulk of our interceptions of methamphetamine precursor at the border, replacing pseudoephedrine (in the form of ContacNT) as the predominant precursor. Ephedrine has a significantly higher methamphetamine yield than pseudoephedrine – granules of ContacNT convert to methamphetamine at a rate of 0.3027 per gram while pure ephedrine converts at a rate of 0.75 per gram (assuming high cook efficiency). Customs adopted the new calculation in 2016/17, and updated the 2014/15 and 2015/16 'estimated methamphetamine yield from precursors' amounts using that higher yield rate (given the shift to ephedrine from 2014). Accordingly the 2014/15 and 2015/16 amounts stated above, and shown in the graph on page 14, differ from those in the *New Zealand Customs Service Annual Report 2016*.

Methamphetamine seizures



In January 2017 Customs also intercepted around 160 litres of t-boc methamphetamine contained in a cargo consignment from Hong Kong labelled as dishwashing liquid.⁴ The t-boc form of methamphetamine is chemically masked to prevent it being detected, and it can then be converted back into methamphetamine; the amount seized in this consignment is estimated to convert into approximately 120 kilograms of methamphetamine. This intercepted import is an example of criminal syndicates employing new and sophisticated methods in their attempts to supply the illicit drug market.

We are also seeing a recent trend in organised criminal syndicates attempting to smuggle MDMA (ecstasy) into New Zealand in larger quantities – in addition to the smaller amounts coming in through the mail stream after being bought over the dark web. This resulted in us intercepting 32.3 kilograms in crystal form and over 5,000 tablets in 2016/17, compared to 6.6 kilograms and nearly 6,000 tablets in 2015/16.

Agencies use a range of measures to understand the New Zealand illicit drug market. In 2016/17, the National Drug Intelligence Bureau (NDIB)⁵ began a pilot wastewater analysis programme to help accurately assess the levels of drug consumption in New Zealand, and to inform enforcement and treatment strategies by the relevant agencies. Wastewater collected in Auckland and

Christchurch in the preliminary analysis undertaken in 2016/17 indicated that the drugs being consumed in New Zealand reflect the drugs Customs is seizing at the border – predominantly methamphetamine but also MDMA and cocaine.

Customs is seeing, and responding to, increasing diversification in the source and transit countries for the smuggling of methamphetamine into New Zealand. In 2016/17 we have seen a change from China, Hong Kong, and Taiwan as the predominant source countries due to a rise in North American smuggling routes (from Canada, the United States, and Mexico).

In 2016/17 we continued to increase our presence overseas and work cooperatively with our international partners to disrupt illicit drug supply chains offshore, and intercept attempted imports 'upstream' before they reach our border (as discussed further on page 21). Our overseas partners (including those in Hong Kong, Germany, Canada, and the US) have told us that in 2016/17 they made 16 interceptions of illicit drugs, mainly methamphetamine, destined for New Zealand. Those interceptions avoided potential harm to New Zealand of over \$30 million, based on the New Zealand Drug Harm Index, which quantifies the social and economic costs associated with illicit drugs.

Shared intelligence and joint operational activity also sees New Zealand helping other countries protect their borders. Customs' intelligence played a key role in Australian authorities seizing over 1.4 tonnes of cocaine in February 2017 from a sailing vessel before it arrived in Australia (the largest-ever seizure of drugs in Australasia).⁶

Gang Action Plan

Gangs are a key player in the methamphetamine supply chain in New Zealand. In 2016/17 Customs continued to work with New Zealand Police (NZ Police) and other agencies under the *Whole-of-Government Action Plan to Reduce the Harms caused by New Zealand Adult Gangs and Transnational Crime Group*. Customs' focus is on gang involvement in drug trafficking activities. We have a representative in the multi-agency Gang Intelligence Centre, which enables agencies to combine intelligence to allow better targeting and coordination.

⁴ This is not included in the volumes of methamphetamine or precursor seized by Customs in 2016/17 as t-boc methamphetamine was not classified as a controlled drug under the Misuse of Drugs Act 1975. Following a joint Customs and New Zealand Police operation, the interception ultimately led to the arrest of four people in March 2017 on charges relating to having the equipment to manufacture methamphetamine, and the supply of methamphetamine.

⁵ A joint operation headquartered at New Zealand Police including representatives from Customs and the Ministry of Health – responsible for producing intelligence reports that provide assessments of the state of the illicit drugs scene in New Zealand.

⁶ The seizure is discussed in this press release from the Australian Federal Police: www.afp.gov.au/news-media/media-releases/australias-biggest-cocaine-interception-14-tonnes-seized-six-charged.

Financial crime

We continue to work with other agencies, both locally (particularly the National Organised Crime Group) and internationally, to disrupt criminal resources and money laundering, and to identify people who enter the country intending to carry out fraudulent activity.

In September 2016 Customs searched a female passenger arriving at Auckland airport on a Romanian passport and found an air waybill detailing a consignment destined for New Zealand. The consignment was intercepted by Customs and found to contain equipment used to 'skim' credit cards used in ATM machines. Customs investigators identified the likely recipient of the consignment as a visiting male Hungarian national. He was arrested by Customs in September 2016 as he attempted to leave New Zealand, and charged with importing a prohibited good. This prevented a potentially significant amount of fraud, and resulting losses by banks.

One of Customs' roles is to ensure that money crossing the border is being carried for legitimate purposes.⁷ The movement of large sums of cash has been linked to illegal activities and criminal networks. Our dual-trained detector dogs, which are able to detect cash as well as illicit drugs, are one of the tools we use at the border.

Objectionable material

In 2016/17 Customs continued to work on combating and reducing objectionable material and online offending, including that involving child sexual exploitation and abuse, and that relating to terrorism or extremism. Our role includes identifying those carrying images and videos across New Zealand's physical border.

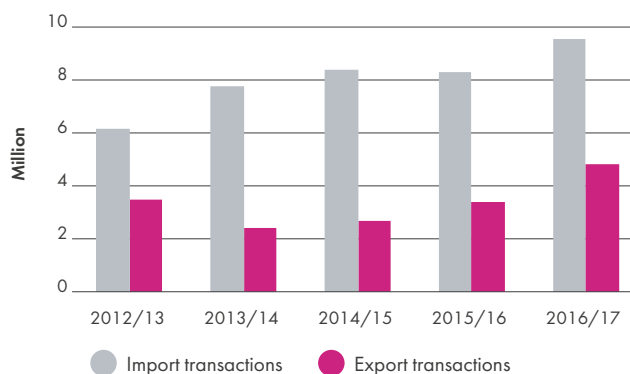
Customs has strong partnerships in this area with the Department of Internal Affairs and NZ Police. Internationally, the three agencies work closely with overseas partners as a 'Virtual Global Taskforce' to catch perpetrators and identify and protect child victims. This international collaboration includes the sharing of intelligence that enables offenders to be targeted, as well as information on trends, practices, and technology used by both law enforcement and offenders.

Following an investigation by Customs, in May 2017 an Auckland man was convicted and sentenced to 26 months' imprisonment on one representative charge of knowingly distributing objectionable publications. He was also ordered to be registered on the Child Sex Offender Register.

TRADE

Customs seeks to facilitate secure, low-risk trade with minimum disruption (in time and money) to traders. In 2016/17 we processed 9.55 million import transactions,⁸ an increase of 14.5 percent from the 2015/16 total. There has been significant growth in recent years, mostly due to the increasing number of imports of low-value goods – so likely to be largely due to internet shopping.⁹ We also processed a total of 4.82 million export transactions, an increase of 40.5 percent from 2015/16.¹⁰

Trade transactions cleared



Customs promotes and facilitates secure and efficient trade and travel through formal customs partnerships, input to New Zealand's Free Trade Agreements, and support for traders to benefit from those agreements. Our services in this area are essential to New Zealand's economic competitiveness.

Free Trade Agreements

Free Trade Agreements (FTAs) establish rules and procedures to facilitate trade and provide preferential access into trading partners' markets. Customs leads the negotiation of the customs-related aspects of FTAs. In 2016/17 we took part in negotiations of the Regional Comprehensive Economic Partnership and the Pacific Agreement on Closer Economic Relations (PACER Plus). These negotiations were concluded in 2016/17. We also participated in the upgrade of the New Zealand-China FTA (this work continues in 2017/18). In upgrading this FTA, Customs is focused on achieving significant practical gains through modernised Rules of Origin and Customs Procedures and Cooperation that will provide tangible benefits to traders while supporting recent bilateral customs initiatives, such as the Joint Electronic Verification System and the Mutual Recognition Arrangement, discussed on page 16.

⁷ Travellers must declare cash in any currency or form if it is the equivalent of NZ\$10,000 or more. Undeclared or misdeclared cash is a prohibited good under the Customs and Excise Act 1996, and can be subject to forfeiture and seizure. 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 is subject to a range of penalties, including fines and imprisonment.

⁸ Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship ECI (Electronic Cargo Information). However, the import transactions total excludes import mail items.

⁹ Part of the increase from 2013/14, however, is attributable to improvements in the recording of ECI import entries by the fast freight industry.

¹⁰ Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items. The increase in the total (from 3.43 million in 2015/16 to 4.82 million in 2016/17) is principally due to an increase in the number of ECI consignments to China and South Korea.

After an FTA is signed, Customs proactively supports exporters to understand and take up the opportunities offered by the agreement. In 2016/17 this included our continued ‘outreach’ programme to educate traders about the benefits available to them through FTAs and how to comply with FTA requirements – so they can claim preferential tariff rates and reduce costs. We also work with our counterparts in the partner countries to address any issues that may arise, and to ensure that trade from New Zealand is facilitated.

Facilitating trade and increasing assurance over exports

As well as the work relating to FTAs, Customs made progress in a number of other areas in 2016/17 to further support the growth of New Zealand’s exports.

Mutual Recognition Arrangements (MRAs) are formal arrangements between customs administrations that recognise each other’s supply chain security programme, and exports from MRA members as low-risk.¹¹ Establishing a more secure and predictable supply chain provides significant trade facilitation benefits and reduced compliance costs for members of these programmes – with fewer border checks, reduced documentation requirements, and increased speed to market, as well as priority in trade recovery situations.

Customs signed an MRA with the Australian Department of Immigration and Border Protection (DIBP) in July 2016. We also negotiated an MRA with the General Administration of China Customs, which was implemented on 1 July 2017.

In 2016/17 we also progressed work towards the development of an innovative and sustainable service model for a Secure Trade Lane between New Zealand and Australia. This would provide a more streamlined and cost-effective customs clearance process for low-risk trans-Tasman trade, while maintaining the security of supply chains. The project encompasses a two-year programme of work by Customs and DIBP to develop and run a proof-of-concept and a small-scale pilot.

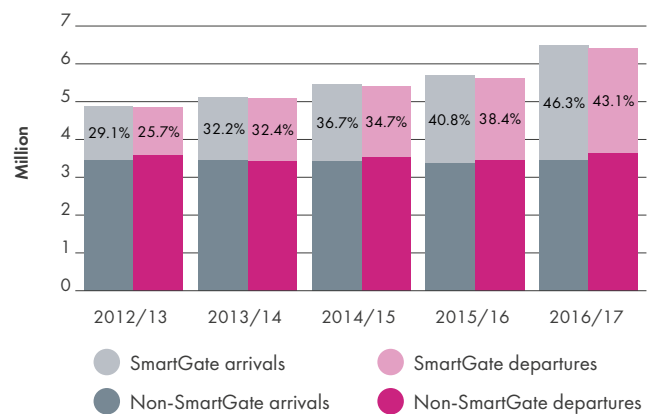
The Joint Electronic Verification System (JEVS) that Customs developed with China Customs went live in December 2016. The JEVS provides assurance to China that our exports qualify for tariff preferences under the FTA by enabling data to be exchanged electronically to validate certificates of origin. This streamlines and accelerates clearance procedures with our largest trading partner, helping to ensure that trade is facilitated into China for our exporters with minimal disruption. It also frees up Customs staff (in both New Zealand and China) to focus more attention on other border risks. In July 2017, the JEVS won the Excellence in Regulatory Systems Award at the Institute of Public Administration New Zealand’s Public Sector Excellence Awards in Wellington – the judges praised the JEVS for being “across jurisdictions; technologically innovative; with tangible results”.

Customs established a trade specialist post in Jakarta, Indonesia to support the growth of trade with the ASEAN region. The new post will reduce the risk of a disruption to trade through enhanced relationships with the relevant customs administrations, and providing targeted information to enable importers of New Zealand goods to claim preferential tariff rates under FTAs. The new First Secretary (Customs) commenced in the position on 1 July 2017.

TRAVEL

Travel volumes continue to increase. In 2016/17 Customs processed a record 13.273 million international passengers,¹² an increase of 9.3 percent from the 2015/16 total of 12.144 million. The vast majority of travellers are arriving and departing air passengers (a total of 12.899 million in 2016/17). Our processing of the volume growth in air passengers has been assisted by increasing use of SmartGate.

Air passenger arrivals and departures



SmartGate automated passenger processing technology

The self-service option provided by SmartGate improves the passenger experience while providing productivity benefits for Customs. It also contributes to Better Public Services Result 10 (see page 26) and to supporting the Business Growth Agenda objective of increasing the value of tourism.

An increasing proportion of air passengers self-process through SmartGate. A total of 5.765 million arriving and departing passengers used SmartGate in 2016/17, a 29.1 percent increase (1.300 million passengers) from 2015/16. A majority of these (4.849 million) were Australian and New Zealand passengers, with the remainder (0.916 million) being passengers from the United Kingdom, the United States, and Canada.

Customs, in conjunction with the Ministry of Business, Innovation and Employment (MBIE – Immigration NZ), continues to look to extend eligibility to other nationalities. Following a trial begun late in the 2016/17 year, eligibility will be formally extended to Chinese electronic passport holders in 2017/18. Further countries are being considered.

We also expanded SmartGate in 2016/17 through the continued roll-out of the next-generation technology discussed on page 23.

¹¹ New Zealand’s supply chain security programme is the Secure Exports Scheme (SES).
¹² This includes all people arriving in and departing New Zealand by air or sea excluding crew.

Risk management

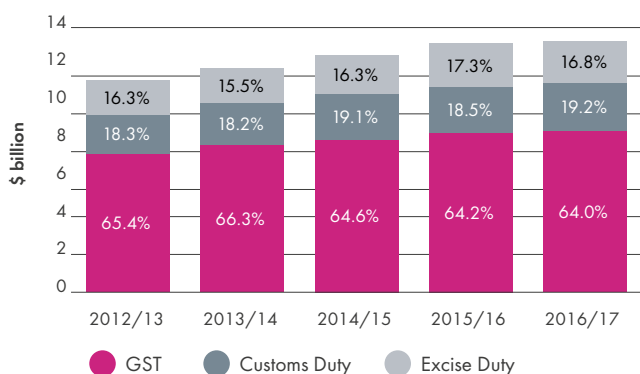
The source countries for travellers are now more diverse as a result of strong economic growth in Asian countries and more direct flights to New Zealand (for example, from China, the Middle East, and South America). This brings new and greater risks that Customs must address.

We aim to limit our interaction with legitimate travellers who comply with border requirements. In 2016/17 we continued to refine our approach to the risk management of travellers and how best to effectively target our interventions to risk. This is discussed further on pages 21-22.

REVENUE

Customs contributes to strengthening the Government's accounts by collecting around 18 percent of core Crown tax revenue annually. In 2016/17 we collected a record total of \$13.270 billion in revenue on the Crown's behalf,¹³ a slight increase (of 0.7 percent) from the 2015/16 total of \$13.180 billion.

Crown revenue collected by Customs



Customs also collects revenue at the border on behalf of other agencies – we collected a total of \$389.2 million of this revenue in 2016/17.¹⁴

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.¹⁵ As a result, our focus is on increasing the levels of voluntary compliance with revenue obligations and improving our revenue risk management, while also delivering efficiencies.

Customs continually revises our trade assurance strategy and programme so that we achieve greater assurance in the self-assessment processes, and address identified risks such as non-compliance with revenue requirements – and the resulting revenue leakage.

A primary goal 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. Over 50 percent of the additional revenue identified through our trade compliance programme in 2016/17 (see page 51) was as a result of voluntary disclosures by our customers.¹⁶

We continued in 2016/17 to undertake intelligence-led, risk-based audits to ensure that traders complied with relevant legislation and paid the correct revenue. We also carry out random verifications, across a wider range of transactions, of the data entered by traders – if a trader has not complied with requirements, our response ranges from engaging with the trader to encourage them to comply voluntarily, to auditing them to assess the accurate level of revenue owed.

Our Investigations team focuses on serious fraud-related offending, including that involving tobacco. Customs has been, and is, monitoring whether the recent increases in tax payable on tobacco drives growth in smuggling and the illicit tobacco market. At the end of 2016/17 we had a number of revenue fraud investigations and prosecutions underway relating to tobacco.

Following an investigation by Customs' Investigations team, an Auckland man was convicted and sentenced to three years and four months' imprisonment in February 2017 on 43 charges involving revenue evasion related to the importation of water pipe tobacco (Customs had seized 5.7 tonnes of water pipe tobacco, and we found that the duty owing had been undervalued by \$525,000).

¹³ Customs collects Crown revenue by way of customs duty 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.

¹⁴ This includes MPI's portion of the Border Clearance Levy, which we collect on behalf of MPI.

¹⁵ Self-assessment allows trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

¹⁶ This included excise duty owing by fuel companies on blended fuel. The Supreme Court ruled in December 2013 that Terminals (NZ) Ltd's process of blending motor spirit constituted 'manufacture' for the purposes of the Customs and Excise Act and therefore the full resultant volume was subject to duty. As a result of that decision, Customs has sought the past duty owing by each fuel company relating to fuel-blending activity.

Excise duty

Our review of the Customs and Excise Act (discussed on page 23) found that excise collection could be streamlined and simplified for excise payers while also maintaining assurance over revenue.

Changes to the Customs and Excise Regulations for alcohol and tobacco manufacturers were implemented from 1 February 2017, with the new regime reducing compliance costs and supporting business growth. A key change was that all alcohol manufacturers (rather than just wine makers) are now able to store excess stock at an offsite facility without paying duty. The Regulations also allow most alcohol and tobacco manufacturers to manage their own remissions, removing what was a compliance and administrative burden for them. In addition, in 2016/17 Customs began consulting with the alcohol sector on an Alcohol Excise Plan for licensees in order to improve guidance for the sector. These changes responded to feedback from industry, reflecting the Customer Focus stream of our *Customs 2020* strategy.

Low-value goods

With the growth in online shopping, imports of low-value goods have been steadily increasing in recent years. The Government had asked Customs to look at how the collection of revenue on low-value goods could be streamlined and strengthened, and the threshold under which revenue is not collected.¹⁷ The main goals are to address the distortion in our tax system created by the threshold and to provide a fairer environment for local retailers.

In 2016/17, along with other relevant agencies, Customs continued to explore different ways to collect revenue on low-value imported physical goods. Any collection mechanism must be efficient and cost-effective, both for Customs and stakeholders, while maintaining high levels of risk assurance.

Streamlining the collection of GST

Customs has been working with Inland Revenue and The Treasury (and key stakeholders) to develop options for streamlining the collection of GST on imported goods at the border. This work responds to submissions received during the review of the Customs and Excise Act indicating that existing processes could be more efficient – currently businesses that import goods deal with both Customs and Inland Revenue on their GST obligations. This work continues in 2017/18.

Recovering the costs of goods clearance work

A sustainable way of funding our border clearance activity is essential to ensure that we continue to efficiently facilitate travel and trade while also providing assurance over border and revenue risks in the face of increasing volumes. Through the Border Clearance Levy, we are recovering the costs of processing travellers at the border from the users of those services. While traders pay for some of Customs' goods clearance activity, in 2016/17 we continued to work on our review of cost recovery arrangements for goods clearance to ensure that importers and exporters are making a fair contribution to the costs that Customs incurs in processing their goods.

Our work involves developing a better understanding of the cost of delivering Customs' services for clearing goods. We began to develop an activity costing model in 2016/17 to inform this understanding. We currently expect to consult on any proposed changes to goods clearance cost recovery in late 2018.

¹⁷ If the amount of duty (GST plus any tariff that may be collected) on an import is less than \$60, it is currently waived under the *de minimis* provisions of the Customs and Excise Act 1996. The purpose of this threshold is to avoid the situation where the costs of collecting duty on a consignment would be more than the revenue gained.



**PROGRESS
AGAINST OUR
STRATEGIC
INTENTIONS**



FRIDAY 2nd June 2017

TUE - 01 JUN 2017	
Fri, 02 Jun 2017 10:20 NZST	Fri, 02 Jun 2017 08:20 AEST
Fri, 02 Jun 2017 06:20 CST	Fri, 02 Jun 2017 05:20 ICT
Fri, 02 Jun 2017 00:20 CEST	Thu, 01 Jun 2017 18:20 EDT



Our *Customs 2020* strategy ensures that we are well-placed to respond to increasing and changing demands at the border, while continuing to build our capability to deliver world-class border management. Customs' strategic intentions are being delivered through a change programme structured around four streams: Be Intelligence-led; Modernise the Border; Enhance services with a Customer Focus; and Support development of our People and Enhance our Culture.

INTELLIGENCE-LED

Customs recognises that most trade and travel is legitimate and low-risk, and should therefore cross the border with minimal intervention from us. Our intelligence-led, targeted risk management approach enables us to focus our resources on targeting the minority of goods, people, and craft that are likely to present a border or revenue risk.

To achieve high assurance with a light touch we need timely and reliable information and intelligence. We continued in 2016/17 to increase our ability to identify risk, detect and deter illicit and non-compliant activity, and carry out appropriate enforcement.

Strategic targeting and disruption of illicit drug supply chains upstream and offshore

A key part of our intelligence-led approach is identifying and targeting risk upstream and offshore, and this has been an area of increased focus for us in recent years. Disrupting and dismantling supply chains pre-border and at the point of export is the most effective way of preventing harm to New Zealand. We have seen some positive results in the interception of illicit drugs before they reach New Zealand (as discussed on page 14).

We continue to strengthen and enhance our relationships with overseas enforcement partners – this facilitates the exchange of information and intelligence so that risk management is better targeted, and joint investigative and operational activities to disrupt supply chains for illicit drugs and dismantle transnational criminal syndicates.

In October 2016 Customs received funding for two years under the Criminal Proceeds (Recovery) Act 2009 to further build our capacity in this area through an increased presence overseas.

Our new Customs Consul in Hong Kong started in February 2017. The Consul is engaging with Hong Kong customs counterparts, and other law enforcement agencies in the region, to support multilateral operational activity and facilitate the exchange of information to disrupt and dismantle the organised criminal networks supplying methamphetamine and precursors to New Zealand.

In May 2017 we also established a liaison officer position at the International Targeting Center in Washington DC – this is a multi-agency organisation tasked with global drug enforcement awareness and targeting. We are seeing more illicit drugs coming from the Americas, and this new position is proving to be extremely valuable in helping us to proactively develop actionable intelligence related to threats to the border to inform operational assessments and activity, which is preventing drugs coming into New Zealand.

Border analytics

Customs is increasingly using analytics tools to identify trends and anomalies in data, and build predictive models, so that we are able to more effectively target interventions to risk. This included work in 2016/17 that contributed to improved risk assessment of air cargo consignments for the smuggling of methamphetamine and related drugs.

In early 2016/17 we formed a Joint Border Analytics team with the Ministry for Primary Industries (MPI) and MBIE to use data modelling techniques to provide better information for managing border risk and targeting interventions. The first joint project, focusing on identifying risk in arriving air passengers, commenced in 2016/17 – with the work ongoing into 2017/18. The team is also actively engaged in developing partnerships within the Border Five Data Analytics Working Group.¹⁸

Work is underway to deliver greater assurance at the border through increased sampling across our border activities to measure levels of non-compliance, and test our risk management model and risk profiling (as discussed on page 22).

Passenger Name Record information

Advance information enabling the risk assessment of arriving and departing travellers before they cross our border helps us to identify those who need further intervention at the border, and minimise our interaction with legitimate travellers. Passenger Name Record (PNR) information is the record in the airline's computer reservation system; it contains data such as the itinerary of a passenger, ticket information, and means of payment, which is useful in Customs' risk profiling of travellers in advance of their arrival at the border.

In 2015/16 we piloted a technology solution with selected airlines whereby PNR information was 'pushed'¹⁹ to Customs by airlines automatically providing the information – and for the first time, this included data on departing passengers.²⁰ In 2016/17 we continued to work on obtaining 'PNR push' data from remaining airlines (this continued into 2017/18). At year-end, we were obtaining the data from 63 percent of airlines, and we continue to 'pull' PNR information from those airlines that are yet to transition to the 'push' system. The proportion of passengers risk-assessed using PNR data grew considerably over the 2016/17 financial year, as shown in the following table:

Passengers profiled using PNR	July 2016	June 2017
Arriving	75.30%	90.40%
Departing	14.60%	89.60%
Total	45.70%	90.10%

18 The members of the Border Five group are New Zealand, Australia, Canada, the United Kingdom, and the United States.

19 Previously, Customs was able to 'pull' information (on arriving passengers) from airlines. The 'push' method is more cost-effective, and meets the accepted international standard (and as other countries have already adopted the PNR push approach, it enables airlines to standardise their approach to providing PNR data to border agencies).

20 We have increased our risk assessment of departing passengers in recent years for threats such as terrorism and drugs and this advance data enables extended risk screening.

Measuring progress against our intentions

Indicator: Level of harm avoided

The potential harm avoided by our interceptions in 2016/17 of some major classes of illicit drugs has been quantified at up to \$1.149 billion using the New Zealand Drug Harm Index.²¹ Methamphetamine and the expected methamphetamine yield from its precursors accounted for nearly 97 percent (\$1.111 billion) of that drug harm total. The total is lower than the \$1.585 billion in avoided harm in 2015/16 due to the volume of precursors intercepted in 2015/16 being considerably higher, as discussed on page 13.

To gauge the broader impact Customs is having on reducing harm to the community, we use an assessment tool called the 'Customs Harm Model'. This enables us to measure the impact of our enforcement across a broader range of unlawful activity.²²

Severity of harm associated with unlawful activity	2015/16 (\$m)	2016/17 (\$m)
Smuggling – objectionable material	\$12.404	\$10.496
Smuggling – counterfeit goods	\$1.299	\$1.135
Attempted evasion of duty – alcohol	\$1.226	\$0.011
Attempted evasion of duty – tobacco	\$0.564	\$1.566
Smuggling – firearms or other weapons	\$0.087	\$0.193
Prescription medicines – enable Medsafe to ensure safety	\$0.014	\$0.022
Total non-drug severity	\$15.594	\$13.423
Smuggling of illicit drugs – as per 2016 Drug Harm Index	\$1,584.84	\$1,149.17
Total severity of harm	\$1,600.43	\$1,162.59

Indicators: 'Strike rate' and yield of Customs' risk-based interventions; Level of assurance over border and revenue risk²³

We are continuing (with funding provided by the Government in Budget 2016) to develop an assurance model that will ensure Customs better understands levels of compliance and non-compliance supporting data analytics and intelligence assessments of risk within each importation stream. By using statistical evidence to inform and refine Customs' intelligence, the assurance model will provide a level of confidence about our level of intervention and our targeting of interventions. It will also enable a future where Customs officers will know more about what they are looking for, and have higher strike rates. Trials were conducted in 2016/17 to help inform the method for data collection and refine the process that will help Customs to implement an efficient and effective assurance model.

BORDER MODERNISATION

This work includes Customs developing modern, enabling legislation and new technology solutions so that we deliver better public services and manage risk more effectively. It also involves working with our partners to improve our systems and processes, so that together agencies have a clearer whole-of-border view and operate more effectively.

Joint Border Management System

The Joint Border Management System (JBMS) programme was completed in 2016/17. JBMS has two components – the Trade Single Window, and additional risk and intelligence capability.

Trade Single Window

Customs (and MPI) successfully deployed the final major release of the JBMS programme in April 2017, featuring new lodgement types and expanded functionality across the system. This release completed the Trade Single Window (TSW). The TSW will support the seamless clearance of goods and craft for years to come.

Currently, clients choose to use either existing cargo reporting and clearance messages or the new electronic messages that are based on the World Customs Organization's international trade data model (WCO3). By containing the information that both Customs and MPI need, the new messages eliminate duplication and reduce compliance costs for traders. Customs and MPI will consult with industry before introducing a mandatory date for traders to adopt the WCO3 format for all messages.

²¹ The New Zealand Drug Harm Index quantifies the economic and social costs associated with illicit drugs. The harm avoided in 2016/17 (and 2015/16) has been quantified based on the Index as updated in April 2016, and the updated methamphetamine yield from precursors discussed on page 13 (footnote 3).

²² This approach was peer-reviewed by BERL (Business and Economic Research Ltd). The severity of harm is calculated based on the number of interceptions of the relevant unlawful activity at the border. The smuggling of objectionable material involves harm that has already occurred (to the victims contained in the material).

²³ The indicator 'Availability of illicit imported commodities in domestic markets' contained in the *New Zealand Customs Service Statement of Intent 2014-2017* (page 28) has not been reported on for 2016/17 as that indicator has since been replaced by this indicator – as it will enable better measurement of Customs' role, and success, in disrupting the importation of illicit goods than measuring availability, which is not driven only by Customs' interceptions at the border.

Risk and Intelligence

We delivered sophisticated risk and intelligence tools in 2015/16, including data analytic capability that enables enhanced risk profiling, modelling, and targeting by border agencies. These tools are used by the Joint Border Analytics Team to identify and target border risk (as discussed on page 21).

The delivery of further risk and intelligence tools that were originally intended to be part of the last major release was de-coupled from the JBMS programme in July 2016 to allow us to prioritise finalising the TSW for traders.

Customs, supported by MPI and MBIE, will continue to deliver these tools through a series of smaller projects over the next two years as part of business-as-usual activity, funded through JBMS.

The full benefits for risk management will be realised after two years of data from the new TSW message formats have been collected. The new formats provide richer data for analysis, enabling us to fully distinguish patterns and anomalies for risk assessment and intelligence purposes.

A new Customs and Excise Act

Following extensive consultation with business stakeholders and a period of public consultation, we developed a Customs and Excise Bill that was introduced to the House in November 2016. The new legislation reflects modern business practices and supply chains, and enables Customs to respond more flexibly to future changes in technology and business practices. The Act, and its supporting regulations, will offer benefits to industry by reducing compliance costs and creating better alignment between Customs and the other agencies operating at the border.

The Bill was considered by the Foreign Affairs, Defence and Trade Committee, which reported back to the House in May 2017. The Bill is now awaiting its second reading.

In 2016/17 Customs continued to prepare for the implementation of the new Act. This work will ensure that the necessary cultural change is embedded in our organisation, and also that stakeholders are kept informed and ready for the changes. We have been developing policies, procedures, and systems that will support the new legislation and deliver the expected benefits by simplifying processes and reducing the costs of compliance for industry.

SmartGate automated passenger processing

In 2016/17 we continued the roll-out of the SmartGate next-generation technology to airports (begun in 2015/16). We have been progressively procuring and putting in place 29 new gates as well as replacing the 22 existing gates with the new technology. By the end of 2016/17, we had installed 50 of the 51 gates.

The new technology provides an improved experience for travellers through a faster, simpler one-step process. The increased SmartGate capacity also enables Customs to redeploy staff from primary processing of passengers to other high priority areas such as profiling and secondary searches of passengers.

Operations Transformation Programme

Our Operations Transformation Programme (OTP) was undertaken to transform the way Customs works and strengthen our border management capability. Our operational workforce was reshaped, and a new deployment model developed, to deliver operational efficiencies by realigning roles to optimise resources to manage growing volumes and border risks. The OTP also benefits our staff by enriching their work and providing additional opportunities for career development.

A new multi-union collective employment agreement was concluded in August 2016. This included contractual changes that enabled Customs to implement our new people structure in 2016/17 alongside a restructured remuneration system.

Trusted trader and traveller arrangements

The Government provided funding in Budget 2016 for Border Sector agencies to scope, trial, and evaluate new arrangements for trusted traders and travellers over two years. The aim is to identify opportunities to manage low-risk, highly compliant trade and travel more efficiently and effectively, streamlining the process for those customers and resulting in an improved customer experience, while maintaining border security.

A number of improvements have been introduced in recent years, or are planned, in the wider border environment. A key requirement has been to identify what further distinct initiatives offer the most value individually, or as a system, for low-risk trade and travel. Customs worked with the other Border Sector agencies in 2016/17 to research customer and agency pain points to inform options for trials, and to develop trials.

The trusted traveller trial went live in July 2017. It is aimed at further streamlining the movement of low-risk, frequent trans-Tasman business travellers who are New Zealand citizens, with nothing to declare on arrival into New Zealand. The process being trialled involves an application process, and applicants being vetted so agencies have assurance about them having a good border compliance history. Those accepted into the trial then receive preferential treatment on arrival. The trial will collect data, insights, and evidence to evaluate the potential and viability of any long-term changes.

A range of trusted trader initiatives has been identified as potentially having value in addressing customer pain points and materially contributing to streamlining low-risk trade across the border while ensuring regulatory requirements are maintained. Consideration is being given to how these should be progressed.

We have been advancing work on a Secure Trade Lane with Australia, as discussed on page 16.

Measuring progress against our intentions

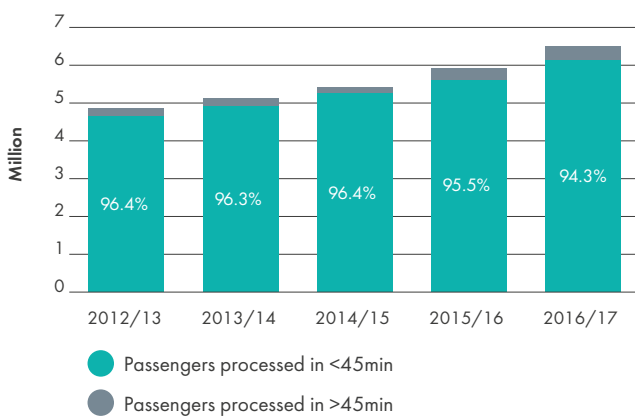
We are seeking improved efficiency and cost-effectiveness for trade and travel.

Indicator: Clearance times for passengers and trade

In 2016/17 99.9 percent of trade transactions were processed within 30 minutes. This has been relatively consistent over the last five years, with only minor variations (the yearly results are within 99.5 to 99.9 percent over that period).

We continue to process over 90 percent of arriving commercial passengers within 45 minutes of their plane arriving at its gate. This period includes disembarking from the plane, walking to the Customs hall, duty-free shopping, and queuing for and being processed through Customs primary processing. The speed of passenger processing must be balanced against the need to effectively manage risk and to allocate our resources efficiently.

Arriving commercial air passengers processed within 45 minutes

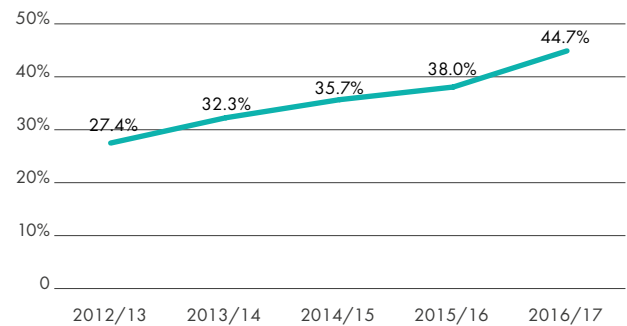


Maintaining or improving on our time-to-clear, particularly as passenger volumes continue to grow, will involve increasing the proportion of transactions we handle electronically.

Indicator: Proportion of transactions handled electronically

The increased use of SmartGate shows that the proportion of passenger processing handled electronically is increasing.

Proportion of commercial air passengers using SmartGate



In 2016/17 99.9 percent of export transactions were processed electronically (excluding those referred for compliance checks); this has been steady since 2012/13. The proportion of import transactions handled electronically has increased slightly from 95.6 percent in 2012/13 to 96.3 percent in 2016/17.

We collected 99.3 percent of revenue electronically in 2016/17. This has increased from 98.6 percent in 2012/13.

Indicator: International reputation

New Zealand’s brand and reputation are of significant importance in attracting trade and travel. While the following ratings are not direct measures of Customs’ impact, they are indicative of the relative quality of New Zealand’s border administration.

Measures of international reputation	2014/15	2015/16	2016/17
Security rating from Economist Intelligence Unit risk briefing	7 out of 100 ²⁴ (12 th equal/180 countries)	4 out of 100 (2 nd equal/179 countries)	6 out of 100 (3 rd equal/180 countries)
World Bank’s Doing Business Survey – cost to export goods	Not comparable – methodology changed ²⁵	86 th /187 countries (\$404)	68 th /180 countries (\$404)
World Bank’s Doing Business Survey – cost to import goods		79 th /187 countries (\$447)	55 th /171 countries (\$447)
World Economic Forum’s Enabling Trade Index – efficiency of border administration	No study undertaken	No study undertaken	23 rd /136 countries

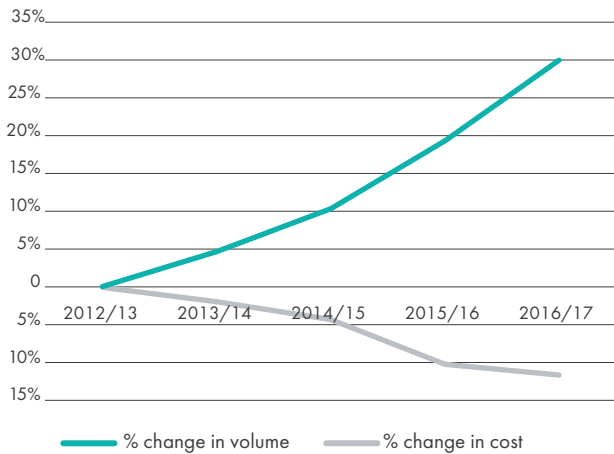
²⁴ 100 = most risky

²⁵ Costs are reported in US dollars. The 2015/16 and 2016/17 results are not comparable to the results from the 2014/15 survey (including those reported for 2014/15 in our 2014/15 Annual Report) as there were substantial changes to the methodology – for example, the earlier survey and results included costs such as charges imposed by ports in the overall cost, and resulting ranking.

Indicator: Unit costs for travel and trade processing

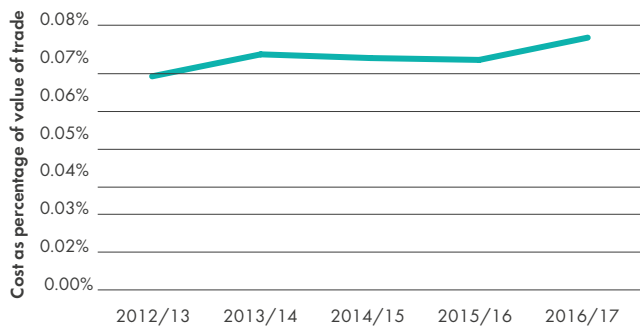
Since 2012/13, the volume of travellers has increased by 30.2 percent, while the cost of processing each traveller has decreased by 11.9 percent.²⁶

Change in traveller volumes and processing cost



The total cost of goods processing as a percentage of the value of trade²⁷ was 0.0762 percent in 2016/17, an increase from the 2015/16 cost of 0.0697 percent. The appropriation for 2016/17 was higher than that for 2015/16 (resulting in the increased goods processing cost for 2016/17 despite the higher trade value in 2016/17), at least in part due to the new employment agreement with higher remuneration (discussed on page 23).

Cost-effectiveness of goods clearance and enforcement



CUSTOMER FOCUS

Our aim is to proactively connect and engage with our customers, and to create easier, more cost-effective, and more efficient experiences for those travellers and traders who pose a low risk to New Zealand’s safety, revenue, and economy.

Customs’ Service Charter and Service Standards, introduced in August 2015, set out what customers can expect from us and what we expect of them.

Our key strategic objective of making compliance easy to do and hard to avoid involves both delivering an improved service experience for those customers who want to comply and try to do so, and providing more targeted and cost-effective intervention to deal with non-compliance.

Segmenting our customer base will provide a profile of our customers, who they are, what they need to easily comply, and how we will listen to and communicate with them. We completed work in 2016/17 to identify how we can better serve the needs of our two broad customer groups – traders and travellers. The focus has been on separating the types of service and support needed to ensure each group receives high-quality and tailored services, and is confident using them.

A number of the initiatives discussed in the ‘Border Modernisation’ stream of our *Customs 2020* strategy (page 22) are focused on improving the customer experience. We continue to focus on continuous improvement, service design, accelerated innovation, and customer insight, both across Customs and in collaboration with other agencies in the Border Sector (as discussed further on page 35).

Customs website

We received funding in Budget 2016 to redevelop the Customs website (as part of the funding for implementing the new Customs and Excise Act). The aim is for users to be able to navigate it more easily and for it to provide our customers with the information they need to comply with Customs’ requirements. We started work on this redevelopment in 2016/17, with the work continuing into 2017/18. In the design and build process, we have been seeking input from customers.

We will continue to engage with our customers and stakeholders to ensure we continue to respond to their changing needs and expectations, and make it easy for them to comply.

Social media

Social media is an increasingly useful way of engaging with our customers and delivering our key compliance messages to them. Our total likes on Facebook rose from 2,799 in June 2016 to 4,352 in June 2017, and the average weekly reach of our Facebook account has almost doubled (8,290 in 2016/17 compared to 4,802 in 2015/16). The number of Twitter impressions (times our tweets are seen) rose from 19,100 in June 2016 to 25,500 in June 2017.

²⁶ This is based on the total appropriation spend for the Clearance and enforcement services related to passengers and crew output class divided by the total number of passengers and crew processed. The cost is also adjusted using the Reserve Bank’s wage inflation calculator.

²⁷ This is the total appropriation spend for the Clearance and enforcement services related to goods output class divided by the total value of imports and exports (based on Statistics NZ data). As a result, it does not directly relate to the level of Customs activity in relation to trade.

New Zealand Business Number

The New Zealand Business Number (NZBN) is a key enabler for delivering integrated services for business across government, and so a fundamental initiative for Better Public Services Result 9. Customs is subject to Cabinet Office Circular CO (16) 3, which sets out the requirements for implementing the NZBN.²⁸

Customs progressed implementation of the NZBN in 2016/17. In April 2017, the NZBN identifier field was added to the registration forms and database of the Trade Single Window (TSW), our key customer-facing system.

In 2017/18 we will further enhance the usability of the NZBN in TSW for both Customs (and MPI) and our customers, and progress the implementation of the NZBN for our finance and procurement systems.

Better Public Services

Customs contributed to the Government’s Better Public Services (BPS) 2012–2017 transformation programme in 2016/17, and we continue to contribute to the updated version of BPS introduced in May 2017 (BPS 2.0).

Our strategic objective of making compliance easy to do and hard to avoid, while also building a stronger customer focus into how we deliver our services, is aligned with the goal for Results 9 and 10 of improving interaction with government for New Zealand businesses and the public.

Result 9: New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business (to 2017)/Business gains value from easy and seamless dealings with government (BPS 2.0)

The Trade Single Window (see page 22) contributes to Result 9 by providing an electronic channel for traders to transact directly with government and complete border requirements.

Customs actively seeks to collaborate and interact more closely with the business community in developing customer-centric products and services. We participate as a member agency within the Result 9 ‘Better for Business’ programme. An initiative was identified through this process in 2016/17 that Customs has worked on with other agencies – the development of an all-of-government approach to tackling non-tariff barriers through a single point of contact and online portal for New Zealand exporters.

Result 10: New Zealanders can complete their transactions with government easily in a digital environment/People have easy access to public services, which are designed around them, when they need them (BPS 2.0)

Use of SmartGate automated passenger processing technology is one of the public services measured under Result 10. As discussed on page 16, uptake by passengers continues to increase; this will contribute to achievement of the updated 2021 target.

Measuring progress against our intentions

We are continuously improving service experiences for traders and travellers, with the aim of having fewer interactions with compliant trade and travellers and achieving higher levels of voluntary compliance.

Indicator: Compliance levels

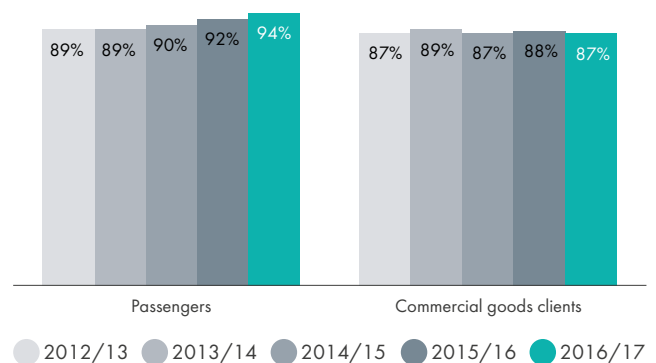
In 2016/17 99.5 percent of arriving international air passengers were processed without further intervention by Customs.²⁹ This proportion has slowly increased from 99.2 percent in 2012/13, as we have improved our risk assessment and the targeting of our interventions.

In 2016/17 98.5 percent of import transactions and 99.8 percent of export transactions were processed without further intervention. These proportions have increased slightly over the last five years: the 2012/13 figures were 97.0 percent for import transactions and 99.4 percent for export transactions.

Indicator: Trust in Customs

Trust in Customs is an important factor in voluntary compliance. In May 2017 we commissioned UMR to conduct a survey of the public to gauge levels of trust in Customs. This survey found that the perceived level of trust in Customs was 77 percent. Feedback from customers through our own stakeholder surveys has found that levels of trust based on their direct experiences with Customs are higher still.³⁰

Trust in Customs



In 2017 Customs was again rated highly by the public in the Colmar Brunton Public Sector Reputation Index.³¹ The Index identified us as having a strong reputation.

28 www.dpmc.govt.nz/publications/co-16-3-new-zealand-business-number-implementation-requirements – as a Tier One agency, Customs must give effect to requirement 1 and be able to identify an entity by the NZBN in key business customer-facing systems by 31 December 2017, and in respect of finance and procurement systems by 31 December 2018; and give effect to requirements 2–6 by 31 December 2020. We have adopted the two-phased approach to implementation – to deliver requirement 1 by the specified dates, and requirements 2–6 by December 2020.

29 As recorded on pages 43 and 44, some are deemed compliant based on risk assessment and so are facilitated without further intervention.

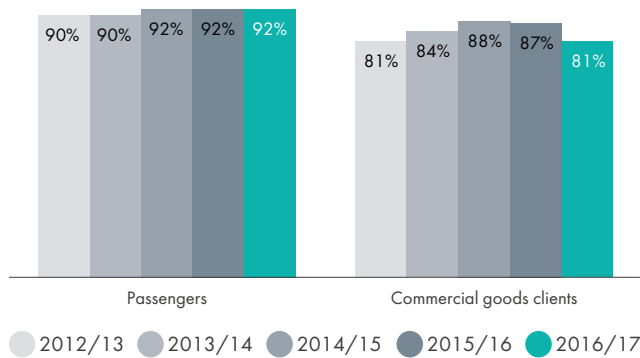
30 These surveys use the Common Measurements Tool (CMT), a set of survey questions and scales advocated by the State Services Commission that allows organisations to measure client satisfaction.

31 The Colmar Brunton Public Sector Reputation Index is based on the global RepZ framework, which was developed by Colmar Brunton’s parent company, Millward Brown, and is used in 40 countries. RepZ measures each entity’s reputation indexed against the others.

Indicator: Satisfaction with Customs’ services

Customs continues to have high levels of customer satisfaction in the passenger stream. In the commercial goods client stream, however, we have recorded a drop in satisfaction from the 2015/16 result. The high-level survey results indicate teething issues for users with the Trade Single Window (TSW), with the majority of the unsatisfied commercial clients experiencing issues in using TSW. With ongoing upgrades of TSW being delivered and other fixes to teething issues being addressed, we would expect to see the level of satisfaction improve.

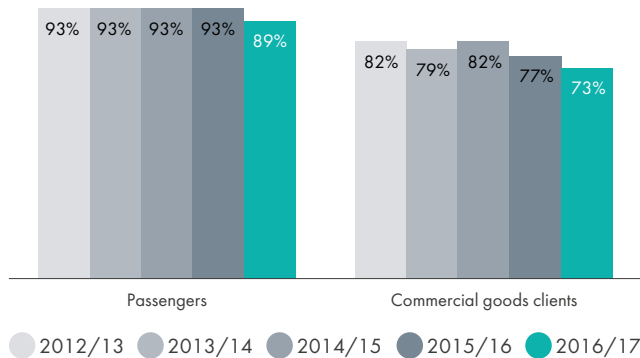
Satisfaction with Customs’ service



Indicator: Ease of compliance

Ratings for ease of compliance have declined this year in both the passenger and goods clients streams. The rating for passengers remained relatively high at 89 percent, but for commercial goods clients the rating decreased for the second consecutive year.

Ease of compliance



The lower result for passengers finding it easy to comply in 2016/17 is at least partly due to them considering they do not have sufficient information to comply – which has been affected by elements of the overall border clearance process that do not relate to Customs (as discussed on page 44).

We continue to look to make compliance easier. This includes the work we are doing to redevelop Customs’ website (discussed on page 25). We are also exploring the potential and requirements for goods clients to view account balances and payments online.

We will carry out a more in-depth analysis of the goods client survey feedback in 2017/18 (the survey closed in July 2017) to clearly identify the main drivers behind the satisfaction and ease of compliance results. This will help us identify any additional action needed to make compliance easier and increase customer satisfaction.

Indicator: Customer complaints

Customs monitors the formal complaints we receive. The number continues to be extremely low when seen as a percentage of the total numbers of passengers and trade transactions that we process:

2012/13	2013/14	2014/15	2015/16	2016/17
155	186	209	161	168

PEOPLE AND CULTURE

Customs aims 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. Our *New Zealand Customs Service Workforce Strategy 2016-2020* supports and enables the *Customs 2020* strategy and change programme.

Leadership development

The new organisation structure implemented through the Operations Transformation Programme (OTP – see page 23) supports Customs’ priority of developing a culture that gives our people opportunities to learn, thrive, and develop. Customs’ Leadership Framework recognises the importance of both people leadership and thought leadership, and the skills and values delivered by both technical and operational specialists.

The OTP revised and refocused many of the leadership roles in Customs, and introduced a new career pathway for technical specialist leadership (in addition to the people leadership path). The new pathway allows upskilling and progression for those better suited to technical roles within our Operations workforce.

To achieve this significant change and support these leaders, we have been investing in their development. In 2016/17 this included several leadership forums, a range of workshops to increase leadership skills and practice, and our Leading Teams development programme. Leading Teams supports leaders to further develop the core competencies of their role, and to contribute to achieving the leadership outcomes in our Leadership Framework.

We also continued to focus on developing our new leaders through our Aspiring Leaders programme in 2016/17. The programme targets those who aspire to be leaders, and helps them share their perspectives and experiences and apply theory to build their leadership skills. The programme is delivered in a cross-agency style with participants from Customs, MPI, and MBIE.

Learning and development

We recognise the importance of education and training in making Customs a great place to work and in ensuring that we have effective leadership and a capable and flexible workforce.

A self-driven learning culture is part of our strategy. We have a flexible approach to training, combining traditional classroom-based learning with online education. Our learning management system, the Learning Room (launched in July 2015), delivers a wide range of online learning content and resources in a learner-centric way, and can be tailored to meet the requirements of a particular role or work area. The mix in learning is shown in the following table:

Type of training session	2014/15	2015/16	2016/17
Blended	228	1,111	919
E-Learning	160	1,246	2,288
Classroom	4,323	4,931	5,176
Total	4,711	7,288	8,383

Our new 'My Road Map' training portal went live in March 2017, enabling staff to take control of their career development path. This new tool also provides essential support for the new OTP workforce model as our people redeploy into new work areas.

Health and safety, and wellbeing

Customs remains committed to ensuring that appropriate systems and processes are in place to maintain and promote a safe and healthy workplace, and to encourage 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 policies and procedures, and we continue to focus on improving our practices. Our Health, Safety and Wellbeing Working Group brings together a wide range of expertise and practical knowledge from across Customs, and develops key initiatives. Developments at Customs in 2016/17 included the implementation of a new structure and process for nominating and appointing Customs Safety Officers for work groups (to be Health and Safety Representatives under the Health and Safety at Work Act). The roles of our Safety Officers have been refocused on three main areas of responsibility: fulfilment of defined safety tasks; advocacy and representation; and promoting wellbeing. We also introduced a new Bullying, Harassment, and Discrimination Prevention Policy.

As we want safety and wellbeing to become a core ingredient of Customs' culture, we are continuing to develop our existing expertise and to increase the focus on wellbeing. The Customs Executive Board (CEB – see page 34) is leading the work on maturing and deepening Customs' approach to the management and governance of safety and wellbeing. This work continues in 2017/18.

Diversity and inclusion

Customs recognises that having a diverse and inclusive workplace and culture generates valuable benefits, including increased organisational performance, improved employee engagement and motivation, higher-quality innovation, and better relationships with customers.

We continue to focus on ways to improve how we recruit, develop, promote, and support the diverse range of skills, thinking styles, and experience we need to realise, and take advantage of, these benefits as we work towards our goals.

Having a workforce that reflects the range of ethnicities in the community and at the border enables us to better understand and meet our customers' increasingly diverse needs and improve their experience of dealing with Customs. We recruit Customs officer trainees with diverse backgrounds, experiences, and skill-sets to enhance our frontline capabilities.

Customs has a Diversity and Inclusion Strategy, delivery of which is led by our Diversity and Inclusion Council. The Council Chair reports progress regularly, and advises on issues and opportunities across Customs. The Diversity and Inclusion Council refreshes its membership regularly to ensure it has diversity of experience and perspectives from across the organisation, and sources of new ideas. All Council members act as change agents, mentors, educators, and champions of diversity and inclusion programmes and services across Customs.

One of our priorities is identifying barriers to, and strategies to improve, gender balance in leadership. We reviewed our policy in recent years to support more flexible working, changed our practices to enable part-time people leaders, and actively encouraged part-time staff to apply for roles. The placement of the majority of leaders within new broader remuneration ranges (as a result of the OTP and the new collective employment agreement in place from 2016/17) provides the opportunity for progress up pay bands based on performance and will lessen the proportion who have reached the top of bands through longevity.

These initiatives, combined with active encouragement for women to take up leadership roles, are actions already in place to address the gender pay gap at Customs (13.7 percent as at June 2017). We continue work in 2017/18 to analyse what is driving our gender pay gap, to help inform the active measures we will take to reduce the gap. We are also working on identifying any ethnic minority pay gaps to allow us to develop strategies to close those.

We continued to deliver training in 2016/17 on unconscious knowledge and bias to reduce the subtle barriers to achieving gender balance and diversity in our leadership roles. As a result of this learning, 92 percent of attendees felt they were more aware of their biases and 80 percent felt it changed their thinking.

Measuring Customs' progress on diversity and inclusion is critical to the successful implementation of our strategy. We are developing measures to assess effectiveness, which will be introduced in 2017/18.

Customs aims to achieve the following objectives in four key areas:

Educate

- We understand what diversity and inclusion mean, and can articulate why they are important to Customs.
- We understand that our attitudes, beliefs, and past experiences may create unconscious bias that can affect our interactions with others.
- We are aware of the potential barriers faced by non-dominant groups in the workplace, in the community, and at our border.
- We are aware of the impacts that the changes to our population, and increases in travel and trade, have on the way we need to work and deliver our services.

Embrace

- Customs supports and celebrates the diversity that makes up our community, our customers, and our workforce.
- Leaders are seen as champions of diversity, and role model inclusive practices as key enablers of organisational performance.
- We recognise, accept, and value the diversity of our colleagues and act in a way that is inclusive of all, regardless of differences.
- We utilise the diversity of our colleagues to better achieve team and workgroup goals and deliver on our purpose of protecting and promoting New Zealand.

Empower

- Customs identifies and removes barriers that inhibit particular individuals or groups from reaching their full potential.
- We feel that we are provided with equal opportunities for recruitment, development, and promotion regardless of differences such as (but not limited to) ethnic background, culture, age, gender, or family status.
- We feel safe to speak out against intimidation, bullying, harassment, and inappropriate language and behaviour.

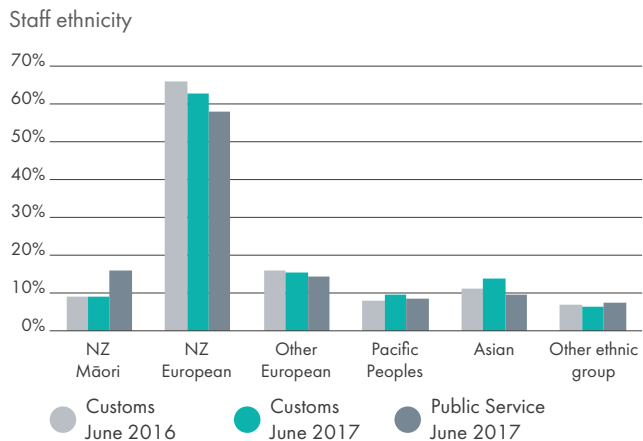
Embed

- Diversity and inclusion principles are fully integrated into all Customs’ infrastructure and systems, leadership practices, and communications.
- Customs regularly measures, monitors, and updates our strategy and diversity and inclusion initiatives.
- We can credit specific accomplishments of our Diversity and Inclusion Strategy for contributing to overall organisational objectives.
- Customs’ approach to diversity and inclusion contributes to it being a role model for other organisations and an employer of choice within the New Zealand public sector.

Measuring progress against our intentions

Indicator: Awareness of diversity

The composition of our staff by ethnicity is shown in the accompanying graph (staff may self-identify as more than one ethnicity).



Customs compares favourably to the public sector in the percentage of Asian and Pasifika staff within the workforce. The increased percentages at Customs in June 2017 (compared to June 2016) are evidence of our efforts to increase our diversity and have our workforce reflect our customers.³² The percentage of Māori staff is lower than the average across the public service; that gap, and its implications for representation within leadership, is recognised in Customs’ planning for responsiveness to Māori.

At 46.3 percent, the proportion of female staff as at 30 June 2017 has increased (from 44.8 percent as at 30 June 2016). The proportion of management roles at Customs filled by women had risen to 29.3 percent – an increase from 24.2 percent as at 30 June 2016.

As noted on page 28, further measures relating to diversity and inclusion are being developed, and will be implemented in 2017/18.

Indicator: Employee engagement

We used a new survey tool to measure staff engagement in 2016/17. The survey was conducted in June 2017 using the Gallup ‘Q12’, an established international engagement model. Customs wanted to use a tool that would encourage team discussion and ownership for creating a great work environment, and the Gallup tool was identified as providing us with that opportunity.

Since our last survey in October 2015, we have been addressing a number of issues raised by our people. We expected those initiatives to improve the level of staff engagement and, despite the different survey measures, we have seen a positive shift in the proportion of those who are engaged compared to those who are actively disengaged.

The overall engagement score from that survey was 3.64 (out of 5). Our biggest strengths continue to be in how we work effectively in our teams and with our immediate managers, with ‘people’ continuing to feature as the best thing about working at Customs. Other areas of strength were how committed our people are to Customs’ mission and purpose; development being encouraged; and working in a caring and supportive environment. Areas for development include providing clarity of expectations; having the materials and equipment to do the job; and having an opportunity to utilise strengths.

³² In January 2017 Customs reinvigorated our Pasifika network. Reflecting the role of our existing Māori network, it aims to support Pasifika staff members through networking and events.

Indicator: Ratings on leadership, and attitudes towards innovation and continuous improvement in workplace safety outcomes

As noted, we used a new shorter engagement survey in 2016/17, which did not include questions used in previous years on how our staff rate Customs’ leadership, and our staff’s attitude towards innovation and continuous improvement.

We intend to run pulse surveys in 2017/18 to support the June 2017 Gallup survey (discussed on page 29), and these could include questions on those areas.

Indicators: Retention of staff; staff turnover for those with less than four years’ service

Staff retention at Customs remained high in 2016/17. As at 30 June 2017 the average length of service was 12.4 years and the unplanned annual turnover rate was 9.0 percent – the former is above the 2017 public sector average (of 9.3 years) and the latter is below.

The unplanned turnover rate for all Customs staff with less than four years’ service has remained steady at 11.9 percent as at 30 June 2017 (compared to 11.7 percent as at 30 June 2016). With the focus of the Operations Transformation Programme on our operational workforce (see page 23), a key indicator of success was reducing the turnover of operational staff with less than four years’ service; that turnover dropped to 8.7 percent as at 30 June 2017 from 11.2 percent as at 30 June 2016.

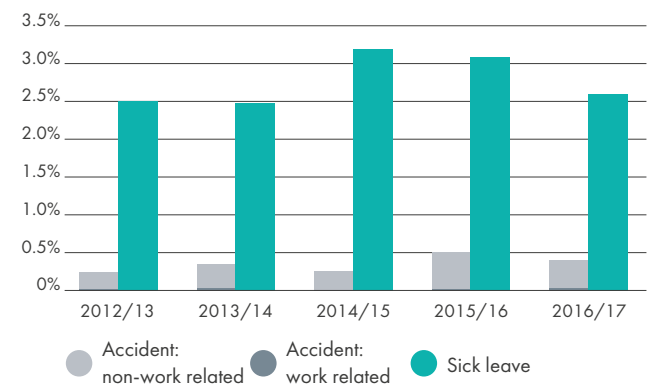
Indicator: Maintained tertiary status through Workplace Safety Management Practices (WSMP)

An independent ACC WSMP audit undertaken in October 2016³³ resulted in Customs retaining our tertiary status, the highest level of accreditation. This confirmed that we had shown best practice and a commitment to continuous improvement in workplace health and safety.

Indicators: Lost time due to accident and sickness; number of injuries

Customs monitors lost productivity due to accidents (at work and outside work)³⁴ and sickness. The increased lost productivity due to sick leave³⁵ in 2014/15 and 2015/16 likely reflects the lower levels of staff engagement in those years. We also introduced a technology upgrade in 2013 that enabled better recording of sick leave. The significant majority of productivity lost as a result of accidents is due to non-work accidents – with lost productivity from work accidents being only 0.04 percent in 2016/17.

Lost productivity due to accidents and sickness



Customs has a low number of work injuries.³⁶ In 2016/17 there were only 27 work injuries, a decrease from 39 in 2015/16 (and compared to 36 in 2014/15, and 64 in 2013/14).

Indicator: Number of training agreements

Customs works with The Skills Organisation to deliver training for National Certificate in Border Management (NCBM) qualifications.

Year	Number of training agreements
2012/13	50
2013/14	50
2014/15	87
2015/16	88
2016/17	57

The lower number of training agreements in 2016/17 reflects the fact that we did not actively encourage new staff to undertake the existing NCBM programme, as it will expire towards the end of 2017. Customs’ border qualifications are being incorporated into the new Government Regulatory Compliance qualifications, and when these are launched (in 2018) our new staff who have not enrolled in a border qualification will be invited to complete this new qualification.³⁷

³³ WSMP recognises medium to large businesses (more than 10 employees) that have implemented effective health and safety systems and practices in their workplaces. It consists of 55 audit standards, which are aligned with the Australia/New Zealand Standard for Occupational Health and Safety Management Systems (AS/NZS 4801:2001).

³⁴ Recognised as an accident by ACC – this includes lost productivity due to work and non-work accidents.

³⁵ The 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.

³⁶ Injuries requiring medical treatment, or resulting in restricted work, lost time, or death (definition used by the Business Leaders’ Health & Safety Forum). It includes injuries to Customs staff (which may lead to lost productivity due to resulting absence but often does not) and to people other than staff. Medical treatment includes a visit to a doctor, physiotherapist, or other external treatment provider. It excludes situations where no treatment is required or where only first aid treatment is required; it also excludes non-physical harm.

³⁷ The Government Regulatory Compliance qualifications, while still containing a practical component specific to Customs, will deliver transferable skills and capabilities recognised across government regulatory agencies.



ORGANISATIONAL HEALTH AND CAPABILITY



Integrity

In order to maintain our reputation and deliver our mandate effectively, we must maintain public trust and confidence in Customs, especially as we expect – and rely on – the significant majority of customers to comply voluntarily with border requirements. We recognise that integrity is fundamental to maintaining that trust and confidence. Customs' solid reputation lies in the integrity of our actions and the way we use our powers as we protect and promote New Zealand through world class border management.

During 2016/17, we progressed our ongoing programme of initiatives to continue to safeguard integrity and prevent corruption. We facilitated workshops to promote integrity and to raise integrity and security awareness; reviewed and revised our integrity framework, fraud and corruption risk profile, and workplace bullying, harassment and discrimination prevention policy; focused on personnel security, information security and security policy development; presented at international integrity forums; and continued to strengthen our networking with other key agencies and administrations on integrity and security matters. Our Integrity Assessment Committee continued to independently assess allegations of breaches of integrity.

Code of Conduct

Our Code of Conduct applies to all Customs employees and all those we engage as contractors and consultants. The behaviour required falls under four standards – *fair, impartial, responsible, and trustworthy*. This is in keeping with the State Service Commissioner's Standards of Integrity and Conduct. Customs' employees are responsible for upholding these standards and complying with the Code of Conduct.

We take alleged breaches of integrity very seriously and manage them professionally. We do not allow or tolerate any acts of corruption.

Customs has Disciplinary Policy and Procedures for addressing unacceptable behaviour. The following table shows the outcomes of the investigations into allegations of unacceptable behaviour by Customs staff and contractors/consultants engaged by Customs that were concluded in 2016/17:

Upheld	Not upheld	Withdrawn	Relevant person left Customs*	Did not meet threshold for misconduct
12	4	0	2	4

*The employee or contractor/consultant left Customs before the investigation was concluded

Where misconduct was found, the particular types of unacceptable behaviour alleged are shown in the following table:

Unacceptable behaviour alleged	Upheld	Not upheld
Inappropriate use of, or access to, Customs' systems	2	0
Inappropriate behaviour at work	2	0
Inappropriate behaviour outside work	2	0
Inappropriate access to controlled area	1	1
Failure to follow the usual processing procedures	1	0
Customs' material on social media	2	0
Attendance	2*	1
Inappropriate associates	0	1
Building security breach	0	1

*One employee, two incidents (and investigations)

When misconduct occurs and it is determined that disciplinary measures are necessary, these are meant to be corrective in nature rather than punitive. In some cases termination is justified and appropriate. The following table provides statistics³⁸ on disciplinary action or sanctions in 2016/17:

Formal warning ³⁹	Termination (with or without notice)*
10	2

* The terminations relate to those who inappropriately accessed and/or used Customs' systems

³⁸ While one incident is one incident too many, these numbers need to be understood in the context of a workforce of over 1,200 employees.

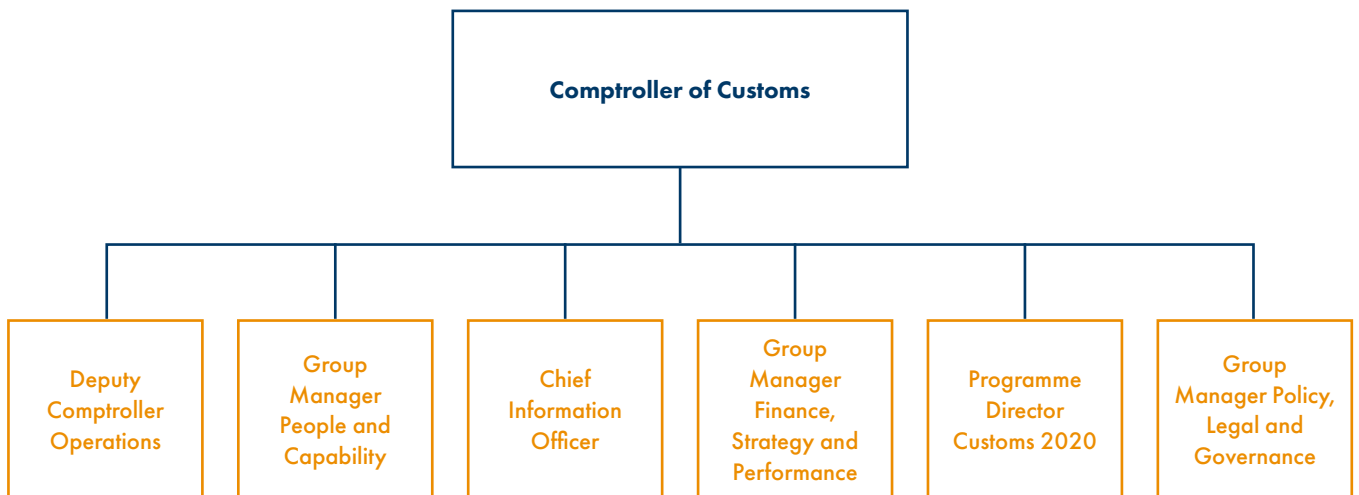
³⁹ A formal warning could also include one or a combination of the following: referral to Employee Assistance Programme or other professional assistance; removal of delegated powers; removal of privileges; transfer; demotion; non-eligibility for merit remuneration increase or one-off payment; change of reporting time or hours of work; or such other penalty decided by the Chief Executive.

Leadership and governance

Customs has arrangements in place to help the overall monitoring and direction of our organisation, in order to ensure effective business performance and governance. We have a layered approach to our governance and management committees.

The Customs Executive Board (CEB) is our main governance body, consisting of members of Customs’ senior management. As well as providing leadership and maintaining Customs’ management environment, the CEB is future-focused: it looks at Customs’ role in the wider government and industry sector, and at the stewardship of the organisation, with the goal of making Customs a more sustainable organisation.

Customs Executive Board



Supporting the CEB in 2016/17 were four governance sub-committees; a sub-committee for each of the Intelligence-led, Border Modernisation, Customer Focus, and People and Culture streams. The role of the sub-committees was to take a ‘whole-of-organisation’ perspective to approving and prioritising work with a clear connection to Customs’ strategic direction, and to monitor the progress and results of projects within the relevant stream.

Also supporting the CEB is a number of other committees – both standing and project-related – to ensure effective performance and risk management by Customs, and to provide upstream advice to the CEB.

As the Joint Border Management System was a major project (for Customs and MPI), it had its own specific governance arrangements, including a Programme Delivery Board to manage technology delivery, and a Joint Executive Board to focus on delivering the programme and realising its benefits. In addition, there was an Assurance Plan overseen by the Government Chief Information Officer, which included the management of risks and issues. After the JBMS programme was completed in April 2017 (see page 22), these arrangements were replaced by joint Customs and MPI governance groups focused on the ongoing enhancement of the shared systems.

Risk management

We regularly review our risk management policy, framework, and procedures to ensure that they remain effective and continue to be aligned with appropriate standards and best practice. The most recent review produced Customs’ Risk Management Framework introduced in June 2016, which sets out the principles on which risk will be embedded in all of Customs’ practices and business processes. We are committed to managing and, where possible, reducing risks at all levels to ensure we achieve our objectives and the Government’s priorities. The Framework helps staff to identify and manage risk in a structured way, recognising our shared and individual responsibility in this area. It ensures that risks are identified, assessed, and mitigated at a strategic, organisational, and operational level.

Customs’ Audit and Risk Committee is a key governance body. It provides advice to ensure that Customs has an effective and comprehensive framework for corporate governance, and to ensure that significant risks are being identified and mitigated. It consists of external members only, including an independent Chair, although members of Customs’ senior management may also attend meetings depending on the specific agenda items.

CUSTOMS AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 30 JUNE 2017

The Customs Audit and Risk Committee exists to provide independent advice to the Comptroller.

The Committee comprises four independent members. During the year two members resigned and two new members were appointed. The Committee brings considerable relevant experience from members who have worked in and alongside Customs and other government agencies involved in border, information management, enforcement and revenue collection.

The Committee has met four times over the year and has been well supported by the Comptroller of Customs and other senior managers who have been available and prepared for discussion on key risks, issues and opportunities facing Customs.

The Committee has met with Audit New Zealand (Customs' Auditor) and discussed their view of the control environment and Customs' performance.

I attended the Auditor-General's forum for audit committee chairs which discussed the focus, structure and development of public sector audit and risk committees and provided the latest guidance from the Office of the Auditor-General.

During the year, the Committee has focused on the status and management of:

- Health and safety governance
- Customs' Strategic Risk Profile
- Customs' Security, including a Security Enterprise Architecture review
- Customs' organisational change programme
- The Joint Border Management System implementation
- Integrity, including a performance and maturity assessment
- Customs' governance structure
- Customs and Excise Act implementation
- The Border Clearance Levy
- Four Year Plan, Long Term Investment Plan and the Investor Confidence Report.

In 2017/18 the Committee will build on the progress made in the past year with the aim of continuing to fulfil its charter obligations and enabling Customs to continue to understand and effectively manage risk while at the same time maintaining its enviable reputation and high levels of trust with key stakeholders and the New Zealand public.

Geoff Vazey

Chair

New Zealand Customs Service Audit and Risk Committee

People

People are critical to what we do, as reflected in 'People and Culture' being one of the areas through which we are delivering on our strategic direction. Our organisational health and capability in this area is discussed on page 27.

Collaboration with other agencies

Customs continues to develop our collaborative working relationships with other agencies.

We regularly engage and collaborate with the Border Sector to identify ways to deliver more integrated operational processes, and to work more collaboratively at the border to improve efficiency, reduce duplication for traders and travellers, and provide a more

seamless service for customers. The Border Sector is committed to the Business Growth Agenda (BGA) Export Markets goal of New Zealand operating the world's most efficient and cost-effective border management system to support trade and people flows. In 2016/17 Customs contributed to the work of the Border Sector on developing a new strategy and vision out to 2025; this includes adopting a customer-centric approach, involving the sector working with key stakeholders and industry to create more opportunities to achieve border objectives, – while continuing to support the BGA goal. This work will be completed in 2017/18.

Customs cooperates with other agencies, both locally and internationally, to build our intelligence picture, share information on drug trafficking trends and enforcement techniques, and disrupt supply chains for illicit goods (as discussed on page 21).

Border management systems

Customs' work relies heavily on our border management IT systems, particularly for facilitating trade and travel, collecting revenue, and managing the associated risks. Given that these systems need to be available 24/7, their reliability and capability is vital. We do, however, have business continuity plans and processes for when they are unavailable.

The key systems for 2016/17 were the Joint Border Management System/Trade Single Window (TSW), CusMod, Nexus, SmartGate, and the Financial Management Information System (FMIS):

- TSW (used primarily for trade) was available for 98.90 percent of 2016/17. The majority of the time that TSW was unavailable was due to planned outages for new releases as part of the phased implementation of JBMS (see page 22). These outages are scheduled for when they will provide the least disruption to industry. Excluding planned outages, TSW was available for 99.86 percent of 2016/17.
- The CusMod border management system (used primarily for passenger processing and legacy trade transactions) was available for 99.79 percent of 2016/17.⁴⁰
- Nexus⁴¹ is Customs' data warehouse for the information recorded in CusMod and TSW. This enables managed reporting, analysis, and ad hoc queries. Nexus was available for 99.75 percent of 2016/17.
- SmartGate assists in the processing of air passengers by offering a self-service option (see page 16). This technology was available for 99.75 percent of 2016/17.⁴²
- FMIS (through which Customs collects revenue, and undertakes our departmental financial transaction processing and reporting requirements) was available for 99.86 percent of 2016/17.

Resilience

The November 2016 Kaikoura earthquake necessitated repairs to our Wellington Customhouse, resulting in relevant staff being relocated to alternate premises until completion of the building works. Those works had not been completed as at the end of the 2016/17 year. As a result of the earthquake, we accelerated our mobility programme so that Wellington staff could continue to work from alternative locations using mobile devices.

Customs began reviewing and updating our business continuity plans in 2016/17 (with the work continuing into 2017/18). This incorporated lessons from managing the impacts of the earthquake. We have also been contributing to the whole-of-government work on disaster recovery planning.

⁴⁰ This does not include planned outages for restarts. CusMod is restarted every 24 hours, but this is done overnight and has no impact on business operations. Upgrades and application modifications are also scheduled for times that have the minimum possible impact on business operations.

⁴¹ Developed by Cognos® and distributed in New Zealand by CDP Ltd.

⁴² This does not include planned outages for restarts. SmartGate is restarted every 24 hours, but this is done overnight and has no impact on business operations.

STATEMENT OF RESPONSIBILITY

I am responsible, as Acting Comptroller of Customs and Chief Executive of the New Zealand Customs Service, 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, 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 2017 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 2018 and its operations for the financial year ended on that date.

Signed by:



Christine Stevenson
Acting Comptroller of Customs
29 September 2017

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

TO THE READERS OF THE NEW ZEALAND CUSTOMS SERVICE'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of the New Zealand Customs Service (the Department). The Auditor-General has appointed me, Stephen Lucy, 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 58 to 61 and 63 to 80, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and assets as at 30 June 2017, the statement of comprehensive revenue and expense, statement of change in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Department for the year ended 30 June 2017 on pages 13 to 27 and 43 to 54;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2017 on pages 55 and 56;
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 82 to 88 and 62 that comprise:
 - » the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017;
 - » the schedules of expenditure; and revenue for the year ended 30 June 2017;
 - » the notes to the schedules that include accounting policies and other explanatory information; and
 - » the schedule of trust monies for the year ended 30 June 2017.

Opinion

In our opinion:

- the financial statements of the Department on pages 58 to 61 and 63 to 80:
 - » present fairly, in all material respects:
 - › its financial position as at 30 June 2017; and
 - › its financial performance and cash flows for the year ended on that date; and
 - » comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.
- the performance information of the Department on pages 13 to 27 and 43 to 54:
 - » presents fairly, in all material respects, for the year ended 30 June 2017:
 - › what has been achieved with the appropriation; and
 - › the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - » complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Department on pages 55 and 56 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 82 to 88 and 62 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 2017;
 - » expenses; and revenue for the year ended 30 June 2017; and
 - » the schedule of trust monies for the year ended 30 June 2017.

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

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Acting Comptroller of Customs and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our opinion

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

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

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

Responsibilities of the Acting Comptroller of Customs for the information to be audited

The Acting Comptroller of Customs 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 Acting Comptroller of Customs 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 Acting Comptroller of Customs is responsible on behalf of the Department for assessing the Department's ability to continue as a going concern. The Acting Comptroller of Customs 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 Acting Comptroller of Customs' 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 relevant Estimates and Supplementary Estimates of Appropriations 2016/17, and the 2016/17 forecast financial figures included in the Department's 2015/16 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 Acting Comptroller of Customs.
- 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 Acting Comptroller of Customs 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 Acting Comptroller of Customs 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 Acting Comptroller of Customs is responsible for the other information. The other information comprises the information included on pages 2 to 10, 27 to 37 and 89 to 90, 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 Report of Minister of Customs 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 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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



S B Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand



PERFORMANCE INFORMATION: REPORT AGAINST APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2017

Dues



HI-VIZ VEST
MUST BE WORN
IN THIS AREA



This contains end-of-year performance information for the 2016/17 financial year for the output class appropriations and departmental capital expenditure appropriation contained in *The Estimates of Appropriations 2016/17* for Vote Customs. Collectively, these output classes support the achievement of the outcomes and priorities discussed on page 7. This end-of-year performance information is audited.

The “Budget” figures are those included in *The Estimates of Appropriations 2016/17*. The “Revised Budget” figures are those from *The Supplementary Estimates of Appropriations 2016/17*. This information is unaudited.

If a performance measure was in place in the prior 2015/16 financial year, comparative performance information for 2015/16 has been included. To provide further context for the 2016/17 results, we have also included the standards set for the output performance measures for 2017/18 (as contained in *The Estimates of Appropriations 2017/18* for Vote Customs). This information is unaudited.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
45,825	Crown	5,819	5,819	17,613
19,580	Border Clearance Levy	67,434	51,337	47,182
1,953	Other	762	9,638	3,369
67,358	Total revenue	74,015	66,794	68,164
60,998	Expenses before remeasurements	66,225	66,794	68,164
6,360	Surplus/(Deficit)	7,790	-	-

Performance

Processing of air passengers

Reflecting the continuing growth in traveller volumes, Customs processed a record 6.679 million arriving international air passengers and crew in 2016/17, above the expected range of 5.5–6.1 million.

As discussed on page 16, Customs’ processing of the rising air passenger volumes is assisted by increasing use of SmartGate by passengers. The relevant performance measures relate only to use by eligible Australian and New Zealand passengers.⁴³ A total of 4.849 million of those passengers used SmartGate in 2016/17.

Risk management

We profile and 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.

⁴³ Australians and New Zealanders who have an ePassport, are at least 12 years old, and are arriving at or departing from the airports that have SmartGate (Auckland, Wellington, and Christchurch, and Queenstown). For the additional nationalities eligible to use SmartGate in 2016/17 (US, UK, Canada), we cannot determine which passengers have ePassports and so are eligible to use SmartGate.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>Travel intermediate outcome: Travellers are satisfied with the service received during immigration processing</i>				
Minimum percentage of arriving international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently (as measured by Customs' stakeholder survey) ⁴⁴	85.7%	77%	82.7%	85%
Minimum percentage of arriving international air passengers satisfied or very satisfied that Customs provides a friendly welcome to New Zealand (as measured by Customs' stakeholder survey) ⁴⁴	86.8%	80%	85.7%	85%
<i>Travel intermediate outcome: Travellers feel encouraged and assisted to comply</i>				
Minimum percentage of arriving international air passengers that find the information provided by Customs helpful (as measured by Customs' stakeholder survey) ⁴⁴	88.1%	85%	82.7%	85%
Minimum percentage of arriving international air passengers who trust Customs (as measured by Customs' stakeholder survey) ⁴⁴	92.2%	85%	94.0%	85%
<i>Passenger processing output: Legitimate travellers cross the border with minimal intervention</i>				
Minimum percentage of arriving international air passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention ⁴⁵	99.4%	98%	99.5%	98%
Minimum percentage of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival	95.5%	90%	94.3%	90%
<i>Passenger processing output: Passengers who show risk are subject to further intervention</i>				
Percentage of arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas	0.6%	0.6%–1.0%	0.5%	0.6%–1.0%
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	31.8%	20%–30%	44.4%	45%–55%
<i>Passenger processing output: Passengers can complete their transactions with government easily in a digital environment</i>				
Minimum percentage of eligible ⁴³ arriving New Zealand and Australian international air passengers who use SmartGate	68.8%	70%	75.8%	70%
Minimum percentage of eligible ⁴³ departing New Zealand and Australian international air passengers who use SmartGate	61.4%	65%	67.0%	65%

Explanation of variances for standards not achieved

Arriving international air passengers that find the information provided by Customs helpful

Contributing to this result is the composition of the survey sample, which was primarily composed of manually-processed passengers⁴⁶ – who generally experience longer waiting times than those using SmartGate, and a significant proportion of whom are non-English speakers. Feedback from passengers also suggests dissatisfaction with parts of the process that do not relate to Customs, including the information provided around food items allowed in the country, and long queues for biosecurity screening of baggage.

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

Enhanced risk assessment and better targeting of interventions to risk has resulted in lower levels of interaction with compliant passengers.

⁴⁴ We undertook two rounds for the survey of arriving international air passengers' satisfaction in 2016/17 (one in April 2017 and the other in July 2017) and all the performance measure results are the aggregate of these two rounds. The total sample size of the survey from the two rounds was 4,900 passengers, and we received a total of 587 responses. This survey had a margin of error of 4.04%. Stakeholder surveys help us to improve our service delivery at the border and our customers' experience.

⁴⁵ 'Further intervention' means action by Customs to carry out further risk assessment. This may include, but is not limited to, further questioning, an interview, or a baggage examination.

⁴⁶ The sample was randomly selected based on passenger arrival cards, which do not record whether the passenger was manually or electronically (through SmartGate) processed. The proportions in the sample (68% manually processed vs 32% using SmartGate) do not reflect the composition of the passengers processed in 2016/17 (55.3% of total air passengers manually processed and 44.7% using SmartGate, as recorded on page 24).

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
9,249	Crown	19,995	19,995	17,393
59,921	Other	61,803	60,123	57,763
69,170	Total revenue	81,798	80,118	75,156
69,525	Expenses before remeasurements	78,801	80,118	75,156
(355)	Surplus/(Deficit)	2,997	-	-

Performance

Trade transactions

In 2016/17 Customs expected to process an estimated 7.5–8.5 million import transactions, 2.5–3.5 million export transactions, and 3,600–4,200 excise returns. We processed 9.552 million import transactions, 4.822 million export transactions, and 4,036 excise returns.

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 relevant measures have been located in this output class as the majority are found in the goods stream. Our protection of New Zealand is also discussed on pages 13-15 and pages 21-22.

Checks on compliance

Customs undertakes risk audit activity to ensure that importers, exporters, and licensed manufacturers of excisable goods are compliant with relevant legislation and that the correct duties and taxes are paid.

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 112 investigation cases⁴⁷ in 2016/17, below the 400–600 estimate. Customs' investigations are increasingly strategic with a focus on disrupting criminal organisations rather than targeting resources on lower-level criminals. These cases are usually more complex and require longer investigation times and greater commitment of resources. As a result, the estimate for 2017/18 has been changed to 100–300.

⁴⁷ An investigation case is commenced when resources are assigned to investigate an offence that has been committed, or where information suggests an offence has been or may be committed, against the Customs and Excise Act 1996, the Misuse of Drugs Act 1975, or other relevant legislation. Customs conducts investigations relating to: the trafficking of illicit drugs; money laundering and financing of terrorism; trade in endangered species; intellectual property rights (IPR) infringement; objectionable material; and duty and excise fraud.

⁴⁸ Our survey of importers and exporters captures feedback from (randomly selected) individuals importing or exporting personal effects, or purchasing goods over the internet, and high-volume importers and exporters (including brokers). We sent out approximately 11,000 invitations to participate in the survey – including multiple invitations to an entity where a number of different email addresses were recorded against that entity. Of these, about 2,000 were invalid addresses or bounced back due to security restrictions on the account. We received 920 complete responses, of which 729 were from respondents who identified themselves as commercial clients (vs private importers and exporters, i.e. individuals purchasing goods through online shopping etc). The results relate to the feedback from those commercial clients (as these measures relate to the trade outcome). The survey had a margin of error of 3.2% (calculated at 95% confidence level).

⁴⁹ These measures indicate reduced intervention with export shipments where Customs can assure New Zealand's trade partners that the goods are secure. Exporters who are members of Customs' trusted trader programme, the Secure Exports Scheme, can provide that assurance through their security processes, thereby reducing the need for inspecting their goods. These measures relate to full container loads.

⁵⁰ 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.

⁵¹ This result is based on the values (social and economic costs) attributed to the categories of illicit drugs by the Drug Harm Index at the time the standard for this measure was set (in *The Estimates of Appropriations 2015/16*). The Drug Harm Index was updated in April 2016 with new values. The harm avoided in 2015/16 based on the updated Drug Harm Index and the updated calculation of the methamphetamine yield from precursors seized is \$1.585 billion (as discussed on page 22).

⁵² The illicit drugs intercepted by Customs in 2016/17 had an estimated street value of \$329.17 million (calculated using drug prices sourced from NDIB Illicit Drug Prices April 2017). Cash seized at the border by Customs in 2016/17 under the Anti-Money Laundering and Countering Financing of Terrorism Act totalled \$0.148 million. While we cannot quantify the value of the goods infringing intellectual property intercepted in 2016/17, 44,520 individual suspected counterfeit goods items were intercepted at the border.

⁵³ The result for 2015/16 (56.4%) is not directly comparable as that result was based on travellers surveyed through Customs' stakeholder survey (acting as a proxy for public confidence). For 2016/17 this was not measured through Customs' stakeholder survey but through a survey of the New Zealand public undertaken by UMR. The 2016/17 result is an average of the survey's results that Customs protects against: people coming into or leaving New Zealand illegally (58.8%); and illicit drugs (51.3%), people with criminal or terrorist intent (54.9%), cultural and heritage items (51.4%), endangered species and flora and fauna (65.3%), illegal and stolen goods (46.9%), and indecent materials (44.0%) entering or leaving New Zealand.

⁵⁴ Some mail items are selected during the primary screening process for additional interaction as a result of risk assessment – this may include a closer visual check of the external wrapping and/or declaration, physical examination without opening and examining the contents, or physical inspection (opening and examining the contents). 'Enforcement consequence' means: Customs' Activity Reports raised at the International Mail Centre; and items referred to MPI, New Zealand Post or Ministry of Health. Activity Reports are raised when non-compliant items are found, and action is taken in response. In 2016/17 12,039 mail items resulted in an enforcement consequence.

⁵⁵ 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.

⁵⁶ 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; imposition of section 223 Customs and Excise Act 1996 penalty (a fine or other penalty); an administrative penalty.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
Trade				
<i>Trade intermediate outcome: Importers and exporters are satisfied with the quality of service delivery</i>				
Minimum percentage of importers and exporters satisfied or very satisfied with the overall quality of Customs' service delivery (as measured by Customs' stakeholder survey) ⁴⁸	87.2%	85%	80.9%	85%
<i>Trade intermediate outcome: Importers and exporters feel encouraged and assisted to comply</i>				
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) ⁴⁸	76.6%	80%	72.7%	85%
Maximum percentage of X-ray inspections undertaken on Secure Exports Scheme (SES) containers ⁴⁹	N/A	0.05%	0.02%	0.05%
Minimum percentage of X-ray inspections undertaken on non-SES containers	N/A	0.5%	0.5%	0.5%
<i>Goods processing output: Legitimate goods cross the border with minimal intervention</i>				
Minimum percentage of trade transactions other than those referred for compliance checks processed (including assessment against business rules and intelligence alerts) within 30 minutes	99.8%	95%	99.9%	95%
Minimum percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention ⁵⁰	98.3%	95%	98.5%	95%
Minimum percentage of export transactions that are deemed compliant based on risk assessment and proceed without further intervention	99.8%	99%	99.8%	99%
<i>Goods processing output: Traders' compliance is monitored</i>				
Minimum percentage of a random sample of import entries that are found to be compliant through the transactional verification process	89.8%	90%	88.7%	90%
Minimum number of risk-based trade compliance audit activities undertaken	353	400	339	400
Protection				
<i>Protection intermediate outcome: The New Zealand public is protected through the interception of harm and potential harm</i>				
The value of harm (NZ\$) avoided through Customs' drug seizures, as measured by indicative data from the New Zealand Drug Harm Index	\$285.8 million ⁵¹	\$100–\$200 million	\$1.149 billion	≥\$500 million
Minimum losses (NZ\$) incurred by importers of illegal goods through seizure of illicit drugs, goods infringing intellectual property, and the associated proceeds of crime	\$417.9 million	\$10 million	\$329.3 million ⁵²	\$250 million
<i>Protection intermediate outcome: The New Zealand public is confident that Customs protects New Zealand through the interception of harm and potential harm</i>				
Minimum percentage of public confident that Customs protects New Zealand from external threats	N/A	40%	53.2% ⁵³	50%
<i>Goods processing output: Goods that show risk are subject to further intervention</i>				
Minimum percentage of total mail items that result in an enforcement consequence following risk assessment ⁵⁴	0.03%	0.02%	0.03%	0.02%
<i>Investigations output: Goods that show risk are subject to further intervention</i>				
Minimum percentage of investigation cases finalised within 12 months of commencement	95.4%	90%	85.5%	90%
Minimum percentage of serious investigation cases ⁵⁵ that lead to punitive action ⁵⁶	92.9%	90%	96.3%	90%

Explanation of variances for standards not achieved

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

This appears largely to reflect teething issues for users with Trade Single Window (TSW), with the majority of the unsatisfied commercial clients experiencing issues in using TSW.

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

We are continuing to look to make compliance easier and increase the ability of customers to use an electronic channel – including through work being undertaken to redevelop Customs' website. We are also exploring the potential and requirements for clients to view account balances and payments online.

Random sample of import entries that are found to be compliant through the transactional verification process

The result is within the normal variability of the measure and reflects the relatively high number of non-compliant entries found in July and October 2016.

Risk-based trade compliance audit activities undertaken

The standard for this measure includes planned and reactive audits. Planned audit activity is based on identified risk priorities at the point the plan for the year is developed. Reactive audits are undertaken where additional risks are identified throughout the financial year. The number of audits undertaken, therefore, varies from year to year dependent on identified risks.

Percentage of investigation cases finalised within 12 months of commencement

A higher proportion of the cases being investigated in 2016/17 required more in-depth investigation and a longer time commitment to finalise the case.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
7,919	Crown	9,395	9,395	9,205
223	Other	211	202	272
8,142	Total revenue	9,606	9,597	9,477
8,126	Expenses before remeasurements	9,530	9,597	9,477
16	Surplus/(Deficit)	76	-	-

Performance

Customs uses intelligence-based risk profiles 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.

All small craft are to be boarded while arriving commercial craft will be boarded if there is an identified need.⁵⁷ This helps to effectively mitigate border risks, and ensure compliance with Customs legislation, policy, and procedures. We boarded all 575 (slightly below the expected range of 600–700) arriving small marine craft in 2016/17. All 620 arriving commercial marine craft showing high risk or requiring administrative process (below the 750–900 forecast) were boarded. A proportion of the commercial craft with a lower risk rating is also subject to secondary interaction⁵⁸ – this encourages and maintains high levels of voluntary compliance, and acts as a check on Customs' risk assessments (while the information collected feeds into future assessments).

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>Craft output: Craft operators are encouraged to assist and comply</i>				
Percentage of small marine craft arriving that are boarded as soon as practicable after arrival in a New Zealand port	100%	100%	100%	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%
<i>Craft output: Craft operators' compliance is monitored</i>				
Minimum percentage of all arriving commercial marine craft that are not assessed as high risk that will be subject to Customs secondary interaction	7.4%	5%	8.5%	5%

⁵⁷ Boarding is required for craft showing a high (Priority 1) risk, craft visiting New Zealand for the first time, craft where information is incomplete, and craft where a visit is needed to complete an administrative process (such as immigration or bonding ships stores).

⁵⁸ Secondary interaction means any interaction undertaken by Customs over and above the initial boarding and clearance function, and may range from talking to the crew to a full rummage.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
10,318	Crown	11,026	11,026	11,375
1,695	Other	2,003	2,215	1,768
12,013	Total revenue	13,029	13,241	13,143
12,086	Expenses before remeasurements	12,837	13,241	13,143
(73)	Surplus/(Deficit)	192	-	-

Performance

Services for other agencies

In 2016/17 we disseminated 841 intelligence and risk products,⁵⁹ below the expected 900–1,100. This is due to a number of factors, including a liaison officer from a major external agency working closely with us onsite (which meant we gave fewer formal briefings, and streamlined information sharing, which required fewer products), and relevant Customs staff being temporarily redeployed to work on major projects and operations. In recent years we have also focused on increasing the quality of our intelligence reports, which has resulted in a decrease in quantity. As a result, the expected number for 2017/18 has been decreased to 500–600.

We managed 74,992 alerts⁶⁰ created by other agencies in 2016/17, above the forecast of 40,000–45,000. These alerts were created by MBIE (53.7% of the total),⁶¹ the Ministry of Justice (28.4%), Inland Revenue (11.7%), NZ Police (6.1%), and other agencies (0.1%).

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.

⁵⁹ These relate to craft, individuals, groups, events, and commodities that could present a risk that falls under the jurisdiction of other agencies. The products are developed with a focus on tactical, operational, and strategic intelligence, and provide knowledge to improve decision-making and inform risk.

⁶⁰ Agencies provide Customs with information about people or goods that are of interest to them. Our border management system electronically screens data for profile matches, enabling Customs to notify the other agency if the person or goods arrive at the border.

⁶¹ The MBIE annual total increased significantly from 2014/15 due to Immigration NZ alerts being created on behalf of the Department of Corrections as part of the response to the escape from custody and departure from New Zealand of Phillip Smith/Traynor. As this is expected to continue, the estimated number for 2017/18 has been increased to 85,000–90,000.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>Protection intermediate outcome: Users of information and intelligence products are satisfied with the service delivered</i>				
Minimum percentage of external clients who are satisfied with intelligence and risk products disseminated by Customs	100%	80%	100% ⁶²	80%
Minimum percentage of external clients who are satisfied with Customs' management of alerts created by their agency	87.5%	80%	100% ⁶³	80%
Minimum percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's coordination of tasking	N/A ⁶⁴	80%	80% ⁶⁵	80%
<i>Information and intelligence services output: Surveillance resources are allocated to areas of highest risk</i>				
Minimum percentage of accepted agency requests successfully completed	N/A ⁶⁶	80%	74.5%	80%

Explanation of variances for standards not achieved

Accepted agency requests 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 met.

⁶² We sought feedback from 14 external clients and received responses from two.

⁶³ We sought feedback from five agencies for which we managed alerts and received responses from three of those agencies.

⁶⁴ The 2015/16 result is not directly comparable as that survey measured the satisfaction of requesting agencies and assets providers with National Maritime Coordination Centre's "responsiveness, transparency, and prioritisation in coordination of tasking, and provision of the recognised maritime picture" (with each of those elements being surveyed, and the overall result being calculated from the feedback on each). The 2016/17 measure is a simpler measure that gauges overall satisfaction. To improve response rate and the quality of the feedback received from agencies, in 2016/17 we run this survey as face-to-face interviews in November-December 2016, with an update of the satisfaction result and comments on any changes run in July 2017. An average rating by agency was used to calculate the final result.

⁶⁵ We sought feedback from seven agencies and received responses from five of those agencies.

⁶⁶ The result for the measure relating to NMCC's allocation of resources in place for 2015/16 is not comparable as that measure was replaced for 2016/17 with one that covers all requests (both within the New Zealand EEZ – covered by the 2015/16 measure – and outside that area) managed by the NMCC, and so fully reflecting all the work of the NMCC relating to requests for, and allocation of, assets.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
8,105	Crown	8,346	8,346	10,714
236	Other	478	469	287
8,341	Total revenue	8,824	8,815	11,001
8,330	Expenses before remeasurements	8,322	8,815	11,001
11	Surplus/(Deficit)	502	–	–

Performance

A net total of \$140.08 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. In 2016/17, it also included duty liability arising from fuel blending (discussed on page 16). 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.

Customs' contribution to the Revenue outcome is discussed on pages 17-18.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>Revenue intermediate outcome: Revenue clients are encouraged and assisted to comply</i>				
Minimum percentage of revenue that is collected electronically ⁶⁷	98.9%	95%	99.3%	95%
Minimum number of clients that meet credit criteria and have access to the deferred payment scheme	8,848	8,000	8,965 ⁶⁸	9,000
<i>Revenue output: Due revenue is collected</i>				
Minimum percentage of revenue that is collected by the due date	99.3%	98%	99.3% ⁶⁹	98%
<i>Revenue output: Revenue clients' compliance is monitored</i>				
Debt write-offs as a maximum percentage of total Crown revenue collected ⁷⁰	0.005%	0.06%	0.00%	0.06%
Minimum additional revenue (NZ\$) owed that is identified through the trade compliance programme	\$68.11 million	\$15 million	\$140.08 million	\$15 million

⁶⁷ The 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 0.7% of the total revenue collected in 2016/17).

⁶⁸ This is an average of the 12 monthly totals of clients. As at 30 June 2017, the total was 9,046.

⁶⁹ This 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 99.3% for 2016/17).

⁷⁰ A total of \$0.741 million in bad debts was written off in August 2016. This sum was included in the calculation of the 2015/16 result (of 0.005%). Accordingly, it is not included in the 2016/17 result for this measure. The bad debts relating to 2016/17 will be written off in 2017/18, and will be included in the calculation of the result for this measure for the 2017/18 financial year.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
4,523	Crown	4,471	4,471	4,745
21	Other	–	–	46
4,544	Total revenue	4,471	4,471	4,791
4,523	Expenses before remeasurements	4,158	4,471	4,791
21	Surplus/(Deficit)	313	–	–

Performance

Customs provided policy advice to the Minister of Customs in 2016/17 on a range of topics related to border management, including:

- the review of the Customs and Excise Act 1996
- methods of collecting GST on imported low-value goods and implications for the *de minimis* threshold
- streamlining the collection of GST on imported goods
- the response to drugs and transnational organised crime
- the regulations of goods crossing the border, including the review and renewal of existing import and export controls and the consideration of new border controls proposed by other agencies
- input into other legislative initiatives, including the review of the Search and Surveillance Act.

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

NZIER awarded Customs a median score of 7.5 for the quality of policy papers submitted to Ministers in 2016/17, based on a review of a sample of 20 papers. This equates to a result of 75% for the median technical quality assessment score, set out in the table of performance measures below. NZIER noted that Customs had received “a very good result”, and our sample included some of “the best papers [NZIER had] seen this year”.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>Policy advice intermediate outcome: Minister's satisfaction with policy advice</i>				
Minister's satisfaction with policy advice, as measured by the common satisfaction survey (minimum percentage score)	86.7%	75% ⁷¹	– ⁷²	75%
<i>Policy advice output: Quality of policy papers</i>				
Median technical quality assessment score (percentage) for a sample of policy papers as assessed by NZIER with a robustness of at least 75%	80%	75%	75%	75%
<i>Policy advice: cost-effectiveness</i>				
Maximum total cost (NZ\$) of professional staff per hour of producing outputs	\$115.9	\$103	\$105.7	\$107

Explanation of variances for standards not achieved

Total cost of professional staff per hour of producing outputs

The total cost per hour is above the standard as a result of the additional spend on contractors to support the development and implementation of the new Customs and Excise Act, and the 2016/17 standard being set before the new employment agreement (including adjusted remuneration) was concluded (as discussed on page 23).

⁷¹ A score of 70% corresponds to “meets expectations”.

⁷² This is measured by surveying the Minister at the end of the financial year. There was a change in the Minister of Customs in May 2017, and the new Minister considered he had not been in the role long enough to develop an informed opinion.

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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
Revenue				
7,819	Crown	7,524	7,524	9,069
962	Other	875	965	163
8,781	Total revenue	8,399	8,489	9,232
8,160	Expenses before remeasurements	8,085	8,489	9,232
621	Surplus/(Deficit)	314	–	–

Performance

Ministerial servicing

The services and support that Customs provides to the Minister of Customs include preparing draft replies to ministerial correspondence and draft responses to parliamentary questions. Volumes are demand-driven. In 2016/17 we provided 29 draft replies to ministerial correspondence, below the expected 70–100, and 47 draft responses to written parliamentary questions, within the expected 20–50 range.

International services and assistance

A key contribution by Customs in this area relates to FTAs (as discussed on page 15).

Customs operates in a complex, dynamic international environment with multiple actors. We need to be able to interact with this environment to protect New Zealand's border and to facilitate legitimate trade and travel. We leverage international engagement to advance our goals and to influence the development of international standards and customs procedures to further our trade and security interests. Our international relationships are both bilateral and multilateral in nature, and our engagement activity is prioritised towards countries and regions that have the greatest influence on New Zealand's trade, security, and border settings.

To support the development and maintenance of our broader key relationships, we had Customs Counsellors in six offshore roles (and one Wellington-based) in 2016/17. The role of the Counsellors is to support our policy engagement and operational activity across trade, security, and enforcement objectives at a Customs and NZ Inc level.

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

- World Customs Organization (WCO) – in 2016/17 Customs was one of the Asia Pacific representatives on the WCO Policy Commission, which sets policy direction for the WCO. In 2016/17 Customs was asked to prepare a paper on air passenger control, which received significant support at the Policy Commission and has resulted in the WCO taking this issue forward. We were also successful in becoming a member of the Universal Postal Union/WCO Contact Group, which is looking at the harmonisation of clearance and pre-clearance systems in the postal stream
- 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 implementation of PACER Plus.

Customs also runs a very full bilateral programme. In early July 2017 Customs signed the *Agreement between the European Union and New Zealand on Cooperation and Mutual Administrative Assistance in Customs Matters*. The agreement strengthens cooperation between the relevant customs administrations on areas such as customs procedures and supply chain security and risk management, while setting some of the groundwork for forthcoming negotiations with the European Union on a possible FTA. China remains a key relationship for Customs, both in terms of trade and enforcement. We signed a Mutual Recognition Arrangement with China in 2016/17 (as discussed on page 16).

Customs is delivering a five-year NZ\$4.5 million Pacific border management development programme, funded by the Ministry of Foreign Affairs and Trade through a Partnership Arrangement, which supports the modernisation of customs administrations in the Pacific and reduces risk in the region and to New Zealand's border. The programme is delivered in partnership with the Samoa, Fiji, and Cook Islands customs administrations.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
<i>International services and ministerial servicing intermediate outcome: Minister's satisfaction</i>				
Minister's satisfaction with advice and support in relation to international services and ministerial servicing	Meets and sometimes exceeds expectations	Meets expectations	73	Meets expectations
<i>International services and ministerial servicing output: Delivery of draft responses and replies</i>				
Minimum percentage of draft replies to ministerial correspondence that are provided within 20 working days ⁷⁴ or as agreed with the Minister	96.6%	90%	93.1%	90%
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

2015/16		2016/17		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
7,627	Property, plant and equipment	9,009	11,000	7,565
11,247	Intangibles	(3,855)	11,000	7,435
-	Other	-	-	-
18,874	Total Appropriation	5,154	22,000	15,000

The increase in the Supplementary Estimates for 2016/17 was principally due to the anticipated timing and level of capital expenditure for projects such as the next-generation SmartGates and border management system modernisation. The variance between actual expenditure and the Supplementary Estimates in 2016/17 was the result of delays in the programme, in particular the final phase of JBMS, SmartGates, Border Modernisation, and the Hawk (Customs' launch) replacement. The negative actual expenditure in 2016/17 for Intangibles is due to credits received against costs previously recognised against Work in Progress.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	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

⁷³ This is measured by surveying the Minister at the end of the financial year. There was a change in the Minister of Customs in May 2017, and the new Minister considered he had not been in the role long enough to develop an informed opinion.

⁷⁴ For the purposes of this measure, "working day" means a working day as defined in the Official Information Act 1982 (and so excludes the period from 25 December to 15 January in the following year).

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 2017.

STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE INCURRED AGAINST APPROPRIATIONS For the year ended 30 June 2017

Annual and permanent appropriations for Vote Customs

2015/16		2016/17			
EXPENDITURE AFTER REMEASUREMENTS \$000		EXPENDITURE AFTER REMEASUREMENTS \$000	REMEASUREMENTS* \$000	EXPENDITURE BEFORE REMEASUREMENTS \$000	APPROVED APPROPRIATION 2017** \$000
<i>Departmental output expenses</i>					
61,137	Clearance and enforcement services related to passengers and crew	66,175	(50)	66,225	66,794
69,627	Clearance and enforcement services related to goods	78,764	(37)	78,801	80,118
8,141	Clearance and enforcement services related to craft	9,523	(7)	9,530	9,597
12,101	Information and intelligence services	12,831	(6)	12,837	13,241
8,349	Revenue collection	8,316	(6)	8,322	8,815
4,529	Policy advice	4,156	(2)	4,158	4,471
8,172	International services and ministerial servicing	8,081	(4)	8,085	8,489
172,056	Total departmental output expenses	187,846	(112)	187,958	191,525
<i>Departmental capital expenditure</i>					
18,874	New Zealand Customs Service – capital expenditure (Permanent Legislative Authority under section 24(1) of the Public Finance Act)	5,154	–	5,154	22,000
<i>Non-departmental other expenses</i>					
58	World Customs Organization	59	–	59	60
2,625	Change in doubtful debt provision	4,516	–	4,516	8,000
2,683	Total non-departmental other expenses	4,575	–	4,575	8,060
193,613	Total annual and permanent appropriations	197,575	(112)	197,687	221,585

* Remeasurements are the movement brought about by the change in the discount rate applied to non-current employee entitlements (see Note12, page 74).

** These are the appropriations from *The Supplementary Estimates of Appropriations 2016/17*.

The 2016/17 end-of-year performance information for each departmental appropriation is reported in this annual report.

The 2016/17 end-of-year performance information for the non-departmental appropriations is in a report by the Minister of Customs appended to this annual report.

STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS
For the year ended 30 June 2017

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	Vote Customs	
8,366	New Zealand Customs Service – capital injection	4,249

In the 2016/17 financial year, the New Zealand Customs Service did not incur any:

- expenses or capital expenditure in excess of appropriation (2015/16 financial year: nil)
- expenses or capital expenditure without appropriation or other authority, or outside the scope or period of the appropriation (2015/16 financial year: nil).

The New Zealand Customs Service has not received any capital injections during the year without, or in excess of, authority (2015/16 financial year: nil).

FINANCIAL STATEMENTS



STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2017

2015/16		2016/17			2017/18	
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST	
\$000	Note	\$000	\$000	\$000	\$000	
Revenue						
93,758	Crown (Non-exchange)	2	80,114	66,576	66,576	64,536
84,591	Exchange revenue	2	110,850	124,949	133,566	128,771
178,349	Total revenue		190,964	191,525	200,142	193,307
Expenses						
88,389	Personnel costs	3	105,202	98,272	98,433	103,402
58,999	Operating costs	4	55,083	66,449	64,957	62,962
13,723	Depreciation and amortisation expense	5	18,846	17,367	15,054	18,386
10,945	Capital charge	6	11,833	9,437	9,402	8,557
172,056	Total expenses		190,964	191,525	187,846	193,307
6,293	Total comprehensive revenue and expense		–	–	12,296	–

Explanations of significant variances against budget are provided in note 22.

STATEMENT OF CHANGE IN EQUITY

For the year ended 30 June 2017

2015/16		2016/17			2017/18	
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST	
\$000	Note	\$000	\$000	\$000	\$000	
136,817	Balance at 1 July		146,656	146,657	146,656	150,906
6,293	Total comprehensive revenue and expense for the year		–	–	12,296	–
8,366	Capital injections		4,249	4,249	4,249	–
(4,820)	Provision for return of surplus	11	–	–	(5,218)	–
146,656	Balance at 30 June		150,905	150,906	157,983	150,906

Explanations of significant variances against budget are provided in note 22.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

2015/16		2016/17			2017/18	
ACTUAL		UNAUDITED	UNAUDITED	ACTUAL	UNAUDITED	
\$000	Note	BUDGET	SUPPS	\$000	FORECAST	
		\$000	\$000	\$000	\$000	
<i>Current assets</i>						
19,007	Cash and cash equivalents	10,960	28,465	35,470	32,714	
3,998	Prepayments	2,131	3,194	4,051	3,194	
30,272	Debtors and receivables	27,310	24,759	38,773	24,759	
53,277	Total current assets	40,401	56,418	78,294	60,667	
<i>Non-current assets</i>						
27,734	Property, plant and equipment	29,428	32,572	31,329	28,500	
99,139	Intangible assets	99,182	99,761	88,500	99,822	
39	Receivables and advances	27	32	25	32	
126,912	Total non-current assets	128,637	132,365	119,854	128,354	
180,189	Total assets	169,038	188,783	198,148	189,021	
<i>Current liabilities</i>						
14,014	Creditors and payables	6,669	22,752	19,309	22,990	
10,289	Employee entitlements	9,133	10,761	11,340	10,761	
4,820	Provision for repayment of surplus to the Crown	–	–	5,218	–	
46	Other short term liabilities	–	–	452	–	
29,169	Total current liabilities	15,802	33,513	36,319	33,751	
<i>Non-current liabilities</i>						
4,114	Employee entitlements	3,554	4,114	3,596	4,114	
250	Other long term provisions	250	250	250	250	
4,364	Total non-current liabilities	3,804	4,364	3,846	4,364	
33,533	Total liabilities	19,606	37,877	40,165	38,115	
146,656	Net assets	149,432	150,906	157,983	150,906	
<i>Equity</i>						
145,183	Crown capital and retained earnings	149,433	150,906	149,432	150,906	
1,473	Memorandum Accounts (net position)	1,473	–	8,551	–	
146,656	Total equity as at 30 June	150,905	150,906	157,983	150,906	

Explanations of significant variances against budget are provided in note 22.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000	Note	\$000	\$000	\$000	\$000
Cash flows – operating activities					
Cash was provided from:					
83,700	Crown	65,293	69,583	57,552	77,490
72,870	Other	100,851	127,329	134,077	130,971
Cash was applied to:					
(86,672)	Personnel	(90,876)	(97,971)	(97,899)	(100,684)
(52,495)	Operating	(54,588)	(58,573)	(57,823)	(80,324)
(329)	net GST	(2)	1,098	(744)	183
(10,945)	Capital charge	(11,833)	(9,437)	(9,402)	(8,557)
6,129	Net cash flow from operating activities	8,845	32,029	25,761	19,079
Cash flows – investing activities					
Cash was provided from:					
217	Sale of fixed assets	168	–	112	2
Cash was disbursed to:					
(8,439)	Purchase of fixed assets	(7,565)	(11,000)	(12,504)	(7,456)
(12,197)	Purchase of intangible assets	(7,435)	(11,000)	3,665	(7,376)
(20,419)	Net cash flow from investing activities	(14,832)	(22,000)	(8,727)	(14,830)
Cash flows – financing activities					
Cash was provided from:					
8,366	Capital contributions	4,249	4,249	4,249	–
Cash was disbursed to:					
(532)	Repayment of surplus	–	(4,820)	(4,820)	–
7,834	Net cash flow from financing activities	4,249	(571)	(571)	–
(6,456)	Net increase/(decrease) in cash	(1,738)	9,458	16,463	4,249
25,463	Cash at the beginning of the year	12,698	19,007	19,007	28,465
19,007	Cash at the end of the year	10,960	28,465	35,470	32,714

Explanations of significant variances against budget are provided in note 22.

STATEMENT OF COMMITMENTS

As at 30 June 2017

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Capital commitments</i>	
	– Property, plant and equipment	1,949
4,631	Intangible assets	–
4,631	Total capital commitments	1,949
	<i>Non-cancellable operating lease commitments</i>	
6,498	Not later than one year	5,967
19,759	Later than one year and not later than five years	22,349
5,911	Later than five years	2,023
32,168	Total non-cancellable operating commitments	30,339
36,799	Total commitments	32,288

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 2017 (30 June 2016: \$0.29 million).

STATEMENT OF DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2017

Quantifiable contingent liabilities

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	– Legal proceedings and disputes	38
	– Employment disputes	50
	– Total quantifiable contingent liabilities	88

Legal proceedings and disputes relate to the estimated associated legal costs to the New Zealand Customs Service of performing its statutory role (30 June 2016: nil).

As at 30 June 2017, the New Zealand Customs Service had no unquantifiable contingent liabilities (30 June 2016: nil).

As at 30 June 2017 there are no contingent assets (30 June 2016: nil).

SCHEDULE OF TRUST MONIES

For the year ended 30 June 2017

ACCOUNT	AS AT			AS AT
	01/07/2016	CONTRIBUTION	DISTRIBUTION	30/06/2017
	\$000	\$000	\$000	\$000
Health Promotion Agency Trust	993	13,488	13,493	988
Heavy Engineering Research Association Trust	139	1,933	1,885	187
New Zealand Customs Service IBM MSA Trust	37,041	108	37,149	–
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	22,101	78,249	11,300	89,050
New Zealand Customs Service Multiple Deposit Scheme Release Trust	197	11,434	11,149	482
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	6	78,734	78,738	2
Total	60,477	183,946	153,714	90,709

The funds held in the Health Promotion Agency and Heavy Engineering Research Association accounts represent funds collected and held on their behalf and will be transferred to these entities at the beginning of the next financial year. The security funds held in the IBM Master Services Agreement account represent security fund deposits held in trust under a contractual agreement between IBM and the New Zealand Customs Service.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 has designated itself as 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 2017. The financial statements were authorised for issue by the Acting Comptroller of Customs on 29 September 2017.

Basis of preparation

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

Statement of compliance

The financial statements of 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.

Standards issued and not yet effective and not early adopted

There have been no new standards, amendments or interpretations this year. The New Zealand Customs Service has not early adopted any new standards in preparing the 30 June 2017 financial statements.

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 dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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 reflect the cumulative surplus/(deficit) on those departmental services provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. The balance of 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 evident.

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Goods and Services Tax (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, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

Budget figures

The 2016/17 "Budget" figures are for the year ended 30 June 2017 and were published in the 2015/16 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2017. The 2016/17 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2016/17*. 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 2018 forecast figures for the year ending 30 June 2018 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget and Economic and Fiscal Update for the 2017/18 fiscal year.

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 at the time the Main Estimates were finalised.

The significant assumptions are as follows:

- the department's activities will remain substantially the same as for the previous year
- operating costs are based on historical experience. The general historical pattern is expected to continue
- no allowances have been made for general cost and/or inflationary pressures, and
- estimated year-end information (revised budget) for 2016/17 is used as the opening position for the 2017/18 forecasts.

The actual financial results achieved for 30 June 2018 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 2017, direct costs accounted for 74% (2016: 78%) 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 2017, indirect costs accounted for 26% of the New Zealand Customs Service’s costs (2016: 22%)

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.

Exchange Revenue

All Other Revenue received is treated as exchange revenue as goods and services are provided of approximate equal value in exchange for consideration received.

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.

2015/16		2016/17		2017/18
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
19,580	Border Clearance Levy	47,182	67,434	47,186
38,519	Import Entry Transaction Fees	39,114	40,341	39,387
14,520	Goods Cost Recovery Fees	14,621	14,565	30,041
8,410	Information processing	8,307	8,522	8,473
1,723	Cost recoveries – other	659	999	1,344
939	Overseas aid projects	46	757	1,481
381	Compliance activity – Officers time	377	377	315
223	Rental Income	200	189	226
196	Compliance activities – other	190	218	184
100	Sale of publications	154	164	134
84,591	Total other revenue	110,850	133,566	128,771

NOTE 3: PERSONNEL COSTS

2015/16		2016/17		2017/18
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
85,675	Salaries and wages	102,351	95,340	100,003
2,714	Employer contributions to defined contribution plans	2,851	3,093	3,399
88,389	Total personnel costs	105,202	98,433	103,402

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

2015/16		2016/17		2017/18
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
12,645	Computer equipment costs	9,727	11,293	8,671
8,824	Facilities management	8,958	10,923	10,478
7,413	Operating lease rentals	6,922	6,739	7,456
6,686	Consultants fees	8,201	7,269	8,334
3,660	Occupancy costs (excluding rentals)	3,046	4,153	3,889
2,657	Communication costs	2,249	2,865	2,705
238	Fees paid to Audit NZ for the financial statement audit	243	245	243
84	Net (gain)/loss on sale of fixed assets	-	7	-
-	Impairment	-	559	-
34	Bad debts written-off	-	-	-
20	Net foreign exchange losses	-	-	-
-	Increase (decrease) in provision for doubtful debts	-	265	320
(470)	Other operating costs recovered	(429)	(731)	(646)
17,208	Other operating costs	16,166	21,370	21,512
58,999	Total operating costs	55,083	64,957	62,962

NOTE 5: DEPRECIATION AND AMORTISATION

2015/16		2016/17		2017/18
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
<i>Depreciation</i>				
1,432	Leasehold improvements	1,660	1,470	1,535
128	Office equipment	183	136	115
3,206	Other equipment and plant	5,364	4,158	5,807
528	Furniture and fittings	676	260	590
1,909	Computer equipment	3,076	1,956	2,902
338	Motor vehicles	369	287	575
4	Launch and watercraft	200	4	4
7,545	Total depreciation	11,528	8,271	11,528
<i>Amortisation</i>				
6,178	Intangible assets – computer software	7,318	6,783	6,858
13,723	Total depreciation and amortisation cost	18,846	15,054	18,386

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 2017 was 7.0% from 1 July 2016 to 31 December 2016 and then 6.0% from 1 January 2017 (2016 8.0 %).

NOTE 7: DEBTORS AND RECEIVABLES

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

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 amount of the impairment is the difference between the asset's carrying amount and the present value of 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 Statement of Comprehensive Revenue and Expense. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
4,421	Trade debtors	3,233
(20)	Less: provision for doubtful debts	(244)
4,401	Net trade debtors	2,989
1,650	Receivables	813
9,589	Debtor – Border Clearance Levy	11,291
2,659	Debtor – Import Entry Transaction Fee	2,858
1,915	Debtor – Goods Cost Recovery	1,735
20,214	Receivables and debtors from exchange transactions	19,686
10,058	Debtor – Crown	19,087
10,058	Receivables and debtors from non-exchange transactions	19,087
30,272	Total debtors and receivables	38,773

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

	2015/16			2016/17		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	18,125	–	18,125	17,969	–	17,969
Past due 1-30 days	1,599	–	1,599	1,546	–	1,546
Past due 31-60 days	294	–	294	124	–	124
Past due 61-90 days	64	–	64	8	–	8
Past due >90 days	152	(20)	132	283	(244)	39
Total	20,234	(20)	20,214	19,930	(244)	19,686

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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
54	Balance at 1 July	20
–	Additional provisions made during the year	224
(34)	Receivables written-off during the year	–
20	Balance at 30 June	244

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 \$2,000 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 10 years
Computer hardware	4 to 5 years
Motor vehicles	5 years
Launch and watercraft	5 to 10 years
Leasehold improvements	5 to 15 years

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	OFFICE EQUIPMENT	OTHER EQUIPMENT	FURNITURE AND FITTINGS	COMPUTER EQUIPMENT	MOTOR VEHICLES	LAUNCHES/WATERCRAFT	TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost								
Balance at 1 July 2015	19,308	1,437	43,862	4,823	18,603	4,839	1,122	93,994
Additions	299	163	1,808	80	733	572	-	3,655
Disposals	-	(4)	(83)	(77)	(381)	(1,043)	-	(1,588)
Reclassification of work in progress to asset category	564	-	2,540	13	861	(6)	-	3,972
Balance at 30 June 2016	20,170	1,596	48,127	4,839	19,816	4,362	1,122	100,032
Balance of work in progress	813	-	2,540	13	1,336	-	-	4,702
Balance at 1 July 2016	20,170	1,596	48,127	4,839	19,816	4,362	1,122	100,032
Additions	546	243	6,723	242	1,521	767	-	10,042
Disposals	(9)	(413)	(881)	(684)	(3,418)	(429)	-	(5,834)
Movement in work in progress	(209)	10	8	(13)	184	88	2,394	2,462
Balance at 30 June 2017	20,498	1,436	53,977	4,384	18,103	4,788	3,516	106,702
Balance of work in progress	604	10	2,548	-	1,520	88	2,394	7,164
Accumulated depreciation and impairment losses								
Balance at 1 July 2015	9,216	1,145	33,473	3,928	14,574	2,849	854	66,039
Depreciation Expenses	1,432	128	3,206	528	1,909	338	4	7,545
Disposals	-	(4)	(83)	(75)	(381)	(743)	-	(1,286)
Balance at 30 June 2016	10,648	1,269	36,596	4,381	16,102	2,444	858	72,298
Balance at 1 July 2016	10,648	1,269	36,596	4,381	16,102	2,444	858	72,298
Depreciation Expenses	1,469	136	4,158	260	1,956	287	4	8,270
Disposals	(8)	(413)	(881)	(684)	(3,418)	(350)	-	(5,754)
Impairment	-	-	559	-	-	-	-	559
Balance at 30 June 2017	12,109	992	40,432	3,957	14,640	2,381	862	75,373
Carrying amount								
At 1 July 2015	10,092	292	10,389	895	4,029	1,990	268	27,955
At 30 June 2016	9,522	327	11,531	458	3,714	1,918	264	27,734
At 30 June 2017	8,389	444	13,545	427	3,463	2,407	2,654	31,329

NOTE 10: CREDITORS AND PAYABLES

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Payables under exchange transactions</i>	
5,426	Trade creditors and accrued expenses	9,242
7,699	MPI – Border Clearance Levy	9,922
13,125	Total payables under exchange transactions	19,164
	<i>Payables under non-exchange transactions</i>	
889	GST payable	145
889	Total payables under non-exchange transactions	145
14,014	Total creditors and payables	19,309

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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
6,293	Net surplus/(deficit)	12,296
(1,473)	Add (surpluses)/deficits of memorandum accounts	(7,078)
4,820	Total return of operating surplus	5,218

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 2.93% (2016: 2.69%) and a salary inflation factor of 2.50% (2016: 2.50%) were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2017. 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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Current liabilities</i>	
3,350	Personnel accruals	3,946
5,663	Annual leave	6,264
1,276	Retirement and long service leave	1,130
10,289	Total current portion	11,340
	<i>Non-current liabilities</i>	
4,114	Retirement and long service leave	3,596
4,114	Total non-current portion	3,596
14,403	Total employee entitlements	14,936

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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
46	Due to Crown – sale of seized goods	452
46	Total other short term liabilities	452

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.

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
250	Lease make good provision	250
250	Total other long term provisions	250

Movement for provisions are as follows:

2015/16		2016/17
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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Crown Capital and retained earnings</i>	
136,817	Balance as at 1 July	145,183
6,293	Surplus/(deficit)	12,296
(1,473)	Transfer of memorandum account net (surplus)/deficit for the year	(7,078)
(4,820)	Return of operating surplus to the Crown	(5,218)
8,366	Capital injection	4,249
145,183	Balance as at 30 June	149,432
	<i>Memorandum accounts</i>	
–	Balance as at 1 July	1,473
1,473	Net memorandum account net surplus/(deficit) for the year	7,078
1,473	Balance as at 30 June	8,551
146,656	Total equity as at 30 June	157,983

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 2016/17 the New Zealand Customs Service had six 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
<i>2015/16</i>				
Creditors and other payables (note 10)	14,014	–	–	–
Total	14,014	–	–	–
<i>2016/17</i>				
Creditors and other payables (note 10)	19,309	–	–	–
Total	19,309	–	–	–

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.

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Loans and receivables</i>	
19,007	Cash and cash equivalents	35,470
30,272	Debtors and other receivables	38,773
49,279	Total loans and receivables	74,243
	<i>Financial liabilities measured at amortised cost</i>	
14,014	Creditors and other payables	19,309
14,014	Total financial liabilities measured at amortised cost	19,309

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.

2015/16		2016/17
ACTUAL		ACTUAL
<i>Leadership Team, including the Comptroller</i>		
\$3,171,000	Salaries and other short-term employee benefits	\$3,072,906
12.0	Full-time equivalent staff	11.1

The above key management personnel disclosure for the New Zealand Customs Service consists of the members of Customs' senior management. 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 2017

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
6,293	Net operating surplus/(deficit)	12,296
13,723	Depreciation and amortisation expense	15,054
13,723	Total non-cash items	15,054
	<i>Working capital movements</i>	
(22,960)	(Increase)/decrease in debtors and receivables	(8,501)
(1,878)	(Increase)/decrease in prepayments	(53)
7,352	Increase/(decrease) in creditors and payables	5,295
1,157	Increase/(decrease) in employee entitlements	1,051
37	Increase/(decrease) in other short term liabilities	405
(16,293)	Working capital movements – net	(1,803)
	<i>Movements in non-current liabilities</i>	
–	Provision for premises make good	–
560	Increase/(decrease) in employee entitlements	(518)
560	Movements in non-current liabilities	(518)
1,762	(Increase)/decrease in investing activity items	166
84	Net (gain)/loss on sale of fixed assets/impairment	566
1,846	Total investing activity items	732
6,129	Net cash from operating activities	25,761

NOTE 21: MEMORANDUM ACCOUNT

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
–	Opening balance 1 July	1,473
19,580	Revenue – Border Clearance Levy	67,434
12,071	Revenue – prepaid exemption paid by Crown	–
(30,178)	Expenses	(60,356)
1,473	Closing balance of total memorandum accounts	8,551

This account summarises financial information relating to the accumulated surplus or deficit incurred in the provision of outputs operating on a full recovery basis from third parties. 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 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).

Passenger volumes have increased at a rate above that forecasted, leading to a surplus in the Memorandum Account balance since the levy was introduced on 1 January 2016. A review of the levy rate will be undertaken in 2017/18, with any changes effective from 1 July 2018, and this will take into account any accumulated surplus or deficit.

NOTE 22: EXPLANATIONS FOR MAJOR VARIANCES FROM 2016/17 BUDGET**Statement of Comprehensive Revenue and Expense**

Crown Revenue is lower than the original budget due to the funding provided for the transition of the introduction of the Border Clearance Levy with respect to pre-paid tickets. The call on this funding was lower than provided and the unused funds were returned to Government.

Exchange Revenue increased compared to budget due to passenger volumes outstripping forecasted numbers resulting in higher collection of the Border Clearance Levy, including the increase as a result of the lower number in the pre-paid category.

Expenses have increased compared to budget mainly due to approved funding to manage the increase in volumes.

The Capital Charge variance was due to changes in the rate through the year as per Note 6.

Statement of Change in Equity

Total equity has increased compared to budget as a result of the increase in the memorandum account surplus driven by higher-than-expected growth in passenger volumes.

Statement of Financial Position

The increase in receivables is largely due to an increase in the Debtor Crown as the increased revenues relating to the Border Clearance (Customs) and Border Processing (MPI) Levies has had a positive impact on cash flow and reduced the need to draw down cash.

Intangible assets have decreased compared to budget due to reclassification of some JBMS costs in Work in Progress to Property, Plant and Equipment on capitalisation of the project.

The higher-than-forecasted level of Creditors is also impacted by the growth in passenger volumes and the associated levy we collect on behalf of the Ministry for Primary Industries. Trade creditors are also higher due to high project activity levels in June.

Statement of Cash Flows

The net cash flow from operating activities and resulting impact on the cash balance is higher than budget due to the increased revenue associated with the higher-than-forecasted growth in passenger volumes.

The net cash outflow from investing activities and financing activities has decreased compared to budget due to asset sales.

NOTE 23: 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 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000	\$000
13,179,829	Revenue	13,498,060	12,948,060	13,269,756	13,766,060
2,683	Expenses	8,060	8,060	4,575	8,060
2,128,796	Assets	2,084,915	2,179,795	2,039,595	2,211,795
16,936	Liabilities	27,348	16,936	21,024	16,936

Explanations of significant variances against budget are provided in note 5.

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000	\$000
	Revenue				
	<i>Indirect taxation</i>				
947,294	Customs and excise duty on alcohol	931,000	948,000	985,172	1,003,000
1,709,604	Customs and excise duty on tobacco products	1,687,000	1,676,000	1,676,644	1,715,000
1,934,977	Customs and excise duty on refined motor spirit	1,885,000	1,972,000	1,964,130	1,957,000
126,768	Customs duty on other imported goods	175,000	152,000	152,237	148,000
8,461,128	Goods and Services Tax	8,820,000	8,200,000	8,491,514	8,943,000
13,179,771	Total indirect taxation	13,498,000	12,948,000	13,269,697	13,766,000
	<i>Indirect non-taxation</i>				
58	World Customs Organization	60	60	59	60
–	Sale of seized goods	–	–	–	–
58	Total indirect non-taxation	60	60	59	60
13,179,829	Total revenue	13,498,060	12,948,060	13,269,756	13,766,060

SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE

As at 30 June 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000	Note	\$000	\$000	\$000	\$000
<i>Expenditure</i>					
58	World Customs Organization	60	60	59	60
2,625	Change in provision for doubtful debts	8,000	8,000	4,516	8,000
2,683	Total expenditure	8,060	8,060	4,575	8,060

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000	Note	\$000	\$000	\$000	\$000
<i>Current assets</i>					
1,162,606	Cash and cash equivalents	930,957	1,162,606	953,423	1,162,606
966,190	Receivables and other receivables	1,153,958	1,017,189	1,086,172	1,049,189
2,128,796	Total assets	2,084,915	2,179,795	2,039,595	2,211,795

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2017

2015/16		2016/17			2017/18
ACTUAL		UNAUDITED	UNAUDITED	ACTUAL	UNAUDITED
\$000	Note	BUDGET	SUPPS	\$000	FORECAST
		\$000	\$000	\$000	\$000
<i>Current liabilities</i>					
14,270	Payables and provisions	27,348	16,936	18,155	16,936
2,666	Creditor – departmental	–	–	2,869	–
16,936	Total liabilities	27,348	16,936	21,024	16,936
	3				

STATEMENT OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2017

2015/16		2016/17
ACTUAL		ACTUAL
\$000		\$000
<i>Contingent liabilities</i>		
4,728	Legal proceedings and disputes – assessed	77,918
4,728	Total contingent liabilities	77,918
<i>Contingent assets</i>		
–	Legal proceedings – non-assessed	–
–	Total contingent assets	–

Legal proceedings and disputes – assessed

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.

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

As at 30 June 2017

The New Zealand Customs Service has no Crown Commitments as at 30 June 2017 (30 June 2016: nil).

NOTES TO THE NON-DEPARTMENTAL STATEMENTS AND SCHEDULES For the year ended 30 June 2017

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

Reporting entity

These non-departmental schedules and statements present financial information on public funds managed by 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. Customs 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 Customs. Such procedures cannot be expected to identify all sources of non-compliance with tax laws. Customs is unable to estimate the amount of unreported tax.

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that 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 amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectible, 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 disclosed at the point at which the contingency is evident.

Changes in accounting policies

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

Budget figures

The 2016/17 "Budget" figures are for the year ended 30 June 2017 and were published in the 2015/16 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2017. The 2016/17 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2016/17*. 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 2018 forecast figures for the year ending 30 June 2018 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget and Economic and Fiscal Update for the 2017/18 fiscal year.

NOTE 2: DEBTORS AND OTHER RECEIVABLES

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
740,211	Crown receivables	855,042
(8,598)	Less provision for doubtful debts	(12,374)
731,613	Net Crown receivables	842,668
234,577	Accrued revenue	243,504
966,190	Total debtors and other receivables	1,086,172
	<i>Represented by:</i>	
966,190	Receivables from non-exchange transactions	1,086,172

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
847,316	Not past due	933,288
112,447	Past due 1-30 days	152,284
511	Past due 31-60 days	600
5,916	Past due 60 days	-
966,190	Total	1,086,172

Movements in the provision for doubtful debts are as follows:

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
10,558	Balance at 1 July	8,598
2,625	Additional provisions made during the year	4,516
(4,585)	Less: Bad debts written off	(740)
8,598	Balance at 30 June	12,374

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

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
14,270	Payables and accruals	18,155
2,660	Import Entry Transaction Fees payable	2,858
6	Other creditors – Departmental	11
16,936	Total creditors and other payables	21,024

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 IPSAS 30.11 categories are as follows:

2015/16		2016/17
ACTUAL \$000		ACTUAL \$000
	<i>Cash and receivables</i>	
1,162,606	Cash and cash equivalents	953,423
966,190	Debtors and other receivables	1,086,172
2,128,796	Total cash and receivables	2,039,595
	<i>Financial liabilities measured at amortised cost</i>	
16,936	Creditors and other payables	21,024
16,936	Total financial liabilities measured at amortised cost	21,024

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.

Funds must be deposited with Westpac, a registered bank.

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.

NOTE 5: MAJOR BUDGET VARIATIONS**Schedules and statements: non-departmental****Non-Departmental revenue**

Crown Revenue changes are driven by economic conditions and changes in consumer behaviour.

Non-Departmental expenses

Expenses are less than budget due to effective debt management and some significant doubtful debts not needing to be written off.

Non-Departmental assets

Assets are less than budget due to the effective collection of debt and transfer of cash held at year-end.

INFORMATION REQUIRED BY STATUTE

FOR PERIOD FROM 1 JULY TO 30 JUNE 2017

Search and Surveillance Act 2012, relating to the utilisation of powers of entry, search, and surveillance

Section 171(1)(a)

The number of occasions on which entry or search powers were exercised without a warrant: *17*

Section 171(1)(b)

The number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device: *Nil*

Section 171(1)(c)

In respect of each kind of surveillance device used without a warrant, the numbers of that kind of device used:

- (i) for a period of no more than 24 hours: *N/A*
- (ii) for a period of more than 24 hours but no more than 48 hours: *N/A*

Section 171(1)(d)

The 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: *Four*

Section 171(1)(e)

The matters set out in section 172 in relation to surveillance device warrants and declaratory orders:

- 172(a) – the number of applications for surveillance device warrants and declaratory orders granted or refused: *Six surveillance device warrants granted, nil refused. Nil applications for declaratory orders*
- 172(b) – the number of surveillance device warrants granted that authorised the use of a surveillance device, and the number in respect of each kind of surveillance device: *Six surveillance device warrants granted authorising the use of a surveillance device – two authorised the use of tracking devices and visual surveillance devices; four authorised the use of tracking devices only*
- 172(c) – the number of declaratory orders made that related to the use of a device, technique, procedure, or activity, and the number in respect of each device, technique, procedure, or activity: *Nil*
- 172(d) – the number of surveillance device warrants granted that authorised entry into private premises: *None*
- 172(e) – in respect of each kind of surveillance device authorised by a surveillance device warrant issued, the numbers of that kind of device used –
 - (i) for a period of no more than 24 hours: *Nil*
 - (ii) for a period of more than 24 hours but no more than 3 days: *Nil*
 - (iii) for a period of more than 3 days but no more than 7 days: *Four tracking devices*
 - (iv) for a period of more than 7 days but no more than 21 days: *Three tracking devices*
 - (v) for a period of more than 21 days but no more than 60 days: *14 tracking devices. An additional seven tracking devices were used for a period of more than 60 days (based on multiple warrants)*
- 172(f) – in respect of each declaratory order made, a general description of the nature of the device, technique, procedure, or activity covered by the order: *N/A*
- 172(g) – the number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities–
 - (i) under the authority of a surveillance device warrant issued: *One*
 - or
 - (ii) covered by a declaratory order made: *N/A*
- 172(h) – if a Judge has reported to the chief executive under section 61 or 62 about a breach of any of the conditions of the issue of a surveillance device warrant, or about the use of a surveillance device not authorised under section 48, the number of those reports and the details of the breaches or the lack of authorisation reported: *N/A*

Misuse of Drugs Act 1975 (Misuse of Drugs Amendment Act 1978), relating to the utilisation of powers of detention and search**Section 13M(a)**

The number of applications for detention warrants made under section 13E by any officer of Customs: *Nil*

Section 13M(b)

The number of applications for renewal of detention warrants made under section 13I by any officer of Customs: *Nil*

Section 13M(c)

The number of such applications referred to in each of the preceding paragraphs of this section that were granted and the number that were refused (i.e. sections 13E and 13I): *N/A*

Section 13M(d)

The average duration of the detention warrants (including renewals) granted on applications by officers of Customs: *N/A*

Section 13M(e)

The number of prosecutions that have been instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants granted on applications by officers of Customs, and the results of those prosecutions: *Nil*

Section 13M(f)

The number of rub-down searches and strip searches undertaken by Customs officers under section 13EA: *Nil*

REPORT OF MINISTER OF CUSTOMS

ON PERFORMANCE INFORMATION FOR
VOTE CUSTOMS NON-DEPARTMENTAL
APPROPRIATIONS 2016/17

This report contains the end-of-year performance information for the non-departmental other expenses appropriations contained in *The Estimates of Appropriations 2016/17* for Vote Customs. This performance information is not subject to audit.

The "Budget" figures are those included in *The Estimates of Appropriations 2016/17*. The "Revised Budget" figures are those from *The Supplementary Estimates of Appropriations 2016/17*.

Comparative performance information for 2015/16 has been included. To provide further context for the 2016/17 result, the standard set for the performance measure for 2017/18 (as contained in *The Estimates of Appropriations 2017/18* for Vote Customs) is also included.

CHANGE IN DOUBTFUL DEBT PROVISION

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

Statement of Budgeted and Actual Expenses Against Appropriation

2015/16		2016/17		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
2,625	Expenses	4,516	8,000	8,000
2,625	TOTAL EXPENSES	4,516	8,000	8,000

This appropriation provides for doubtful debts on the revenue collected by the New Zealand Customs Service on behalf of the Crown.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
Debt write-offs as a maximum percentage of total Crown revenue collected	0.005%	0.06%	0.00%	0.06%

WORLD CUSTOMS ORGANIZATION

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

Statement of Budgeted and Actual Expenses Against Appropriation

2015/16		2016/17		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
58	Expenses	59	60	60
58	TOTAL EXPENSES	59	60	60

This appropriation was 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.

Performance measures and standards

Measure	2015/16	2016/17		2017/18
	ACTUAL	STANDARD	ACTUAL	STANDARD
New Zealand's contribution to the operating budget of the WCO paid by the due date	Achieved	Achieved	Achieved	Achieved







TE MANA ĀRAI O AOTEAROA