



NEW ZEALAND  
**CUSTOMS SERVICE**  
TE MANA ĀRAI O AOTEAROA

B.24 AR (2018)  
B.14 (Vote Customs)

# Annual Report 2018



# Protecting New Zealand

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





# Promoting and facilitating trade and travel

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





# Collecting revenue

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



NEW ZEALAND  
CUSTOMS SERVICE

Te Mana Arai o Aotearoa

# Chief executive's overview

Our role at Customs is to protect New Zealand's border from risks and threats, while helping our economy grow.

We operate in an environment of increasing trade and travel volumes, diversity of risk, and service expectations. Continuing to adapt to these changes and challenges, by improving and modernising the way we do business at the border, has remained a priority in the 12 months to 30 June 2018.

The passing into law of our new Customs and Excise Act was a significant milestone for Customs in 2017/18, and one which will greatly assist us to respond to our changing environment. It is the most significant revision of our core legislation for 20 years. The new Act comes into effect on 1 October 2018 and brings us into line with modern business practice and technology. It will also help the travelling public and businesses trading internationally to better meet their requirements and obligations.

In 2017/18, we efficiently processed 14 million international travellers, as well as 16 million trade transactions. We remained vigilant to the increasing sophistication and globalisation of border-related crime and security risks at the border. Illicit drugs are a key focus for Customs and during 2017/18 we seized significantly larger amounts of methamphetamine and cocaine than in the previous year.

We also continued to enhance our intelligence-led strategy of intercepting illicit drugs before they reach our border, and in 2017/18 more than 90 interceptions of illicit drugs destined for New Zealand were seized offshore. These seizures are as a result of our relationships with our international enforcement partners and our overseas presence. Having Customs staff located overseas improves both the exchange of information and intelligence, and joint investigative and operational activities.

In 2017/18 we saw the benefits of the two additional liaison officer roles added in Hong Kong and Washington D.C. in 2017 in intercepting drugs coming from Asia and the Americas.

While preventing illicit drugs reaching our shores and causing harm to New Zealand is a critical part of what we do, during 2017/18 we also seized more than 100,000 objectionable publications relating to child sexual exploitation and abuse.

Customs' role in facilitating and promoting New Zealand's international trade contributes to economic growth and the prosperity of New Zealand. This includes the work we undertake in negotiating Free Trade Agreements and developing Mutual Recognition Arrangements. Mutual Recognition Arrangements enable customs administrations in different countries to formally recognise each other's risk management processes. This provides the 126 approved companies in our Secure Exports Scheme with faster cargo clearance, reduced document checks, and lower examination rates, all of which reduce the costs to New Zealand exporters and enable them to get their goods into overseas markets as quickly as possible.

In 2017/18, we participated in the negotiations to upgrade New Zealand's existing Free Trade Agreement with China and we signed a Mutual Recognition Arrangement with Hong Kong. Customs now has arrangements in place with six countries – the United States, Japan, Korea, Australia, Hong Kong, and China.

Customs' responsibility for collecting Crown revenue also helps to strengthen New Zealand's economy. We seek to encourage and improve voluntary

compliance by traders on the amount of money they owe and we continually review our trade compliance programme. We have noticed an increase in revenue evasion through illicit tobacco smuggling and, during 2017/18, we invested more resource into targeting those responsible for these behaviours. We collected \$14.4 billion in 2017/18, which represents around 18 percent of the Crown's total core tax revenue. After Inland Revenue, we are the second-largest collector of taxes.

Most importantly, Customs continued to invest in our greatest asset during 2017/18 – our people. We further embedded health and safety into our organisational culture and we continued to undertake initiatives to close the gender pay gap. The ongoing implementation of our diversity and inclusion strategy will help to make Customs a more desirable place to work. We continued to consult regularly with all of our staff. This included involving them in the development of a new organisational strategy to take us beyond 2020.

Throughout 2017/18 I was very impressed by the professionalism, dedication, and commitment of the people whom I have the honour to lead. Customs staff exemplify the Spirit of Service – placing New Zealand and New Zealanders at the front and centre of how the public service thinks, organises itself, and operates. Our people make Customs the great organisation that it is, and New Zealanders can continue to have confidence in and be proud of the work it undertakes on their behalf.

**Christine Stevenson**  
Acting Comptroller of Customs




# The year at a glance

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## Protection

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**\$345**  
  
**million**

street value of illicit drugs intercepted

**100**  
thousand+

objectionable publications relating to child exploitation and abuse seized

**\$205** million+  



potential social and economic harm to New Zealand avoided by overseas drug interceptions

## Travel

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**14** million  


international passengers risk-assessed and processed

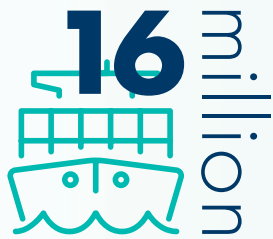
**96%**  


of commercial air passengers processed within 45 minutes of their plane arriving

**100%**  
increase

in the nationalities eligible to use eGate, which is now available to citizens of 10 countries

## Trade



**16** million  
import and export  
transactions  
processed

**99.8%**  
of trade  
transactions  
processed within  
30 minutes

March  
**2018**  
agreed a Customs  
Cooperation  
Agreement with the  
European Union

## Revenue

**\$14.4**  
**billion**

collected by  
Customs on behalf  
of the Crown



**\$367**  
**million**  
collected at  
border for other  
agencies

**99.4%**

of revenue collected  
electronically

# What we do

## 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.

## Our services

The services we provide include:

- facilitating the flow of people, goods, and craft across our border
- protecting New Zealand from external risks and threats such as illicit drug smuggling
- promoting and facilitating secure and efficient trade and travel
- enforcing relevant law, which includes identifying and seizing prohibited imports and exports
- providing information, intelligence, and risk assessment products to external customers, and also to support Customs' frontline
- collecting Crown revenue
- 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.

## Contribution to Ministerial priorities

Prior to the 2017 general election, we agreed with the then Minister of Customs, Hon Nicky Wagner, three priorities to be progressed in 2017/18:

- a new Customs and Excise Act
- streamlining the border experience
- extending assurance at the border.

Following the election, five new priorities were agreed with the new Minister of Customs, Hon Meka Whaitiri:

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

## Our Customs 2020 strategy

### Purpose

Our purpose is 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.

### Philosophy

Our focus is on the people essential to fulfil our purpose, and we operate with a spirit of service excellence. We focus on our staff, our customers, our partners, and our stakeholders. We work hard to uphold our reputation for service excellence.

## Key objective

Our key objective is to make compliance easy to do and hard to avoid. We 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.

## Focus

Our daily focus is to provide high assurance with a light touch. This ensures that traders and travellers who present risks are identified and appropriately managed, with the minimum possible adverse impacts on legitimate trade and travellers.

## Strategic transformation

In 2017/18 we continued to progress the implementation of our *Customs 2020* strategy. We have looked to improve risk management at the border, while enhancing the border experience for customers and reducing their compliance burden.

Our *Customs 2020* strategy focuses on four areas:

- be intelligence-led
- modernise the border
- enhance services with a customer focus
- support development of our people and enhance our culture.

This annual report details our operations in the 12 months to 30 June 2018, as well as our progress in each of the above strategic areas.

# Our strategic framework

**Purpose**

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

**Key objective**

**Compliance is easy to do and hard to avoid**

## Customs 2020 streams



## 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

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

## Output classes

- Clearance and enforcement services related to passengers and crew
- Clearance and enforcement services related to goods
- Clearance and enforcement services related to craft

- Information and intelligent services
- Revenue collection

- Policy advice
- International services and ministerial servicing



# Our Operations in 2017/18

In 2017/18 Customs responded effectively to:

- increased service demands, including the continuing growth in trade and travel volumes and the diversity of our customers
- increasingly complex cross-border crime and security risks, and more organised and sophisticated trans-national criminal offending, particularly relating to illicit drugs.

## Protection

Customs continues to focus on protecting New Zealand from risks and threats at the border. We use an intelligence-led, risk-based approach to facilitate the flow of people, goods, and craft across the border while also identifying and addressing the associated law enforcement, security, and revenue risks.

We assess all people, goods, and craft to determine which will be subject to additional interaction. We aim to effectively target our interventions to risk to minimise our interaction with those complying with border requirements. We must identify and address new and evolving risks, particularly given the increasingly diverse source countries for trade and travel to New Zealand.

We use our Intelligent Enforcement Strategy (introduced in 2017) to guide how Customs approaches risks and threats, applying four key principles:

1. Prevention – minimising harm to New Zealand by having a greater effect 'upstream' or offshore
2. Intelligence-led – using all available information and resources to enable us to know what is 'normal' and target what is abnormal
3. Prioritisation – prioritising and targeting resources to have impact when and where it matters
4. Partnerships – engaging and collaborating with partners in New Zealand and overseas to provide assurance risks and threats are being addressed, and prevent harm to New Zealand.

## Illicit drugs

We are seeing increases in the number and type of transnational organised crime groups involved in smuggling illicit drugs into New Zealand. This is likely to reflect New Zealand's 'street prices' for methamphetamine: they are still among the highest in the world, making us an attractive and lucrative market for domestic and international crime groups.

**Significant seizures of illicit drugs by Customs in 2017/18, and examples of smugglers' various concealment methods, include:**

- 1.7 kilograms of cocaine hidden in wooden ornaments in the suitcase of a Brazilian man arriving in Auckland on a transit stop-over in August 2017. He was sentenced to seven years and eight months' jail in May 2018.
- Nearly 220 kilograms of methamphetamine hidden in outdoor umbrella stands made of a mix of methamphetamine and gypsum, disguised as concrete, in August-September 2017. This was part of a joint operation with New Zealand Police, who seized an additional 40 kilograms. Seven overseas nationals were arrested.
- 2.6 kilograms of cocaine hidden in the lining of two suitcases belonging to a Portuguese national arriving in Auckland from Chile in October 2017. He was sentenced to eight years and three months' jail in February 2018.
- 24 kilograms of cocaine in Paihia in December 2017 from a French national travelling on a cruise ship.
- Around 18 kilograms of methamphetamine hidden in a consignment of printer toner cartridges in March 2018. A Canadian man was sentenced to eight and a half years' jail in September 2018.



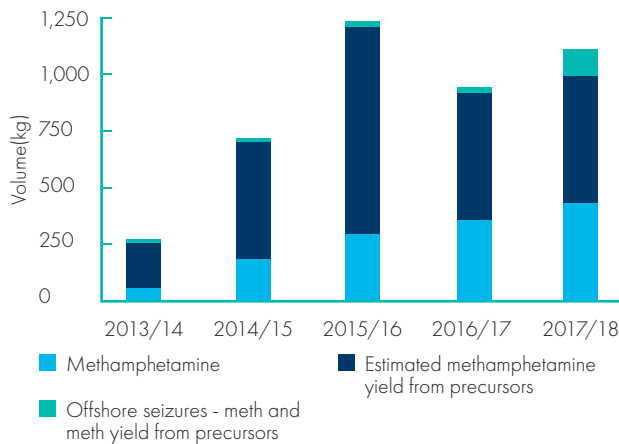
In 2017/18 Customs seized a total of 435.2 kilograms<sup>1</sup> of methamphetamine at the border, an increase of 20.5 percent on the 361.1 kilograms seized in 2016/17. The volume of methamphetamine precursors seized increased slightly, from 748.8 kilograms (with an estimated yield of 561.1 kilograms of methamphetamine) in 2016/17 to 752.2 kilograms in 2017/18 (with an estimated methamphetamine yield of 563.0 kilograms).

A key part of our strategy to protect New Zealand is, through our relationships with our international partners and our staff located overseas, disrupting drug networks offshore and stopping illicit drugs before they reach our border (as discussed on page 16). The offshore seizures<sup>2</sup> in 2017/18 included 109.8 kilograms of methamphetamine and 7 kilograms of precursors (with an estimated methamphetamine yield of 5.3 kilograms).

involved in its supply. We seized 62.7 kilograms of cocaine in 2017/18,<sup>3</sup> a significant increase from 5.3 kilograms in 2016/17.<sup>4</sup> Our overseas partners seized offshore an additional 27.7 kilograms of cocaine headed for New Zealand. We also continued to intercept other illicit drugs such as synthetic cannabinoids and MDMA (Ecstasy) at the border.

In our fight against illicit drugs – particularly methamphetamine and its precursors – we work closely with the New Zealand Police (NZ Police), including the National Organised Crime Group (previously the Organised and Financial Crime Agency New Zealand). This includes constantly improving the intelligence picture, and our proactive targeting of criminal networks through joint operations.

**Methamphetamine seizures**



While methamphetamine continues to be New Zealand's most popular Class A drug among users, we are seeing efforts to create a larger market for cocaine – and Mexican cartels

<sup>1</sup> All of the 2017/18 drug totals in this report (including precursor totals), and the associated drug harm figures based on those totals, are provisional figures based on our initial weighing and recording of interceptions. These figures may change; for example, quantities may be updated after substances are further tested and/or the drugs are reweighed as an investigation progresses. The 2016/17 totals are slightly different from those reported in the *New Zealand Customs Service Annual Report 2017* as those were provisional and the 2016/17 totals have now been finalised.

<sup>2</sup> The offshore seizures for 2013/14, 2014/15, and 2015/16 contained in the graph are based on data from a World Customs Organization database in which overseas agencies recorded interceptions. Customs' system was updated to more effectively track offshore seizures from 2016/17.

<sup>3</sup> This total does not include the approximately 45 kilograms of cocaine seized from an address in Tauranga in November 2017, after being imported into New Zealand in a hidden compartment in the exterior of the hull of a commercial ship (this amount is included in the New Zealand Police seizure total). That seizure followed a joint operation with Police (started by Customs after an investigation into smaller methamphetamine seizures, resulting in several arrests, identified persons of interest believed to be involved in smuggling and distributing Class A drugs and money laundering). Customs joined forces with Police to build intelligence and carry out investigative work, establishing that a cocaine shipment would be offloaded from a commercial ship near Tauranga.



**435.2  
KG**

**of methamphetamine  
seized at the  
border**

Agencies are using a range of measures to understand the New Zealand illicit drug market. These include the 'Wastewater Monitoring Programme' undertaken by the National Drug Intelligence Bureau (NDIB).<sup>5</sup> This analyses wastewater (rather than surveying drug users) to provide an objective measure of drug consumption levels in New Zealand; this information then informs enforcement and treatment strategies by relevant agencies. In 2017/18 wastewater collected in Auckland, Christchurch, and Whangarei indicated that the drugs being used in New Zealand reflect the drugs we are seizing at the border – methamphetamine, cocaine, and MDMA.

### Preventing financial crime

We continue to work with other agencies to prevent financial crime through disrupting criminal resources and money laundering, and identifying people who enter the country intending to carry out fraudulent activity such as credit-card skimming.

Increasing controls on and mandatory reporting of electronic financial transactions have made cross-border cash transfers and trade-based money laundering more attractive to organised criminal groups that are seeking to move the profits of their activities out of New Zealand, and make those profits appear legitimate. One of Customs' roles is to ensure that money crossing the border is being carried for legitimate purposes.<sup>6</sup>

Our dual-trained detector dogs (who can detect cash as well as illicit drugs) are valuable tools in this. In 2017/18 they detected the equivalent of NZ\$4.06 million in undeclared currency at the border, plus a further \$0.73 million located when searching houses or vehicles under a Customs or NZ Police search warrant (most of this was on one search warrant where the dog detected \$0.71 million in concealed currency

as well as around 5 kilograms of cocaine). Of the total detected, \$1.04 million was concealed – through the person deliberately hiding the cash and not being forthcoming when questioned. The remaining \$3.75 million was presented by the relevant person upon questioning.

**In June 2018 Customs searched a Romanian national arriving at Auckland airport and found a credit card skimmer and 46 blank cards hidden in his suitcase. He was arrested and charged with importing a prohibited good – preventing potential fraud and the resulting losses for banks.**

<sup>4</sup> We seized 35.2 kilograms in 2015/16, of which 35 kilograms was found in a horsehead sculpture from Mexico in May 2016.

<sup>5</sup> The NDIB is a joint operation headquartered at NZ Police that includes representatives from Customs and the Ministry of Health. It is responsible for producing intelligence reports that provide assessments of the state of the illicit drugs scene in New Zealand.

<sup>6</sup> Travellers must declare cash in any currency or form if it is equivalent to 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.

## Combatting objectionable material

In 2017/18 we continued our work on combatting 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 people carrying images and videos across New Zealand's physical border, and people accessing and uploading them online across our virtual border.

We seized just over 100,000 objectionable publications relating to child sexual exploitation/abuse in 2017/18, as well as around 200 objectionable publications containing sexual violence or terrorism/extreme violence.<sup>7</sup>

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

People arrested in 2017/18 as a result of Customs investigations included:

- A Dunedin man in February 2018 who had sent child exploitation material through a social messaging app. A search of his home and forensic examination of his devices found child sexual abuse material and other objectionable publications. He pleaded guilty to all charges in June.
- A Taranaki man in April 2018 who had uploaded child exploitation material to a social networking site. Customs' investigators identified the offender and executed a search warrant at his address. He pleaded guilty to all charges in May.
- A Timaru man in May 2018, when we found an importation containing a child sex doll. After a search of his home, he was charged with importing a prohibited good (the doll) and possessing objectionable publications involving the sexual exploitation of children.

<sup>7</sup> Totals are not yet final as we continue to examine and categorise some material seized in 2017/18. All of the seized publications were electronic files except for three hard-copy magazines.

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

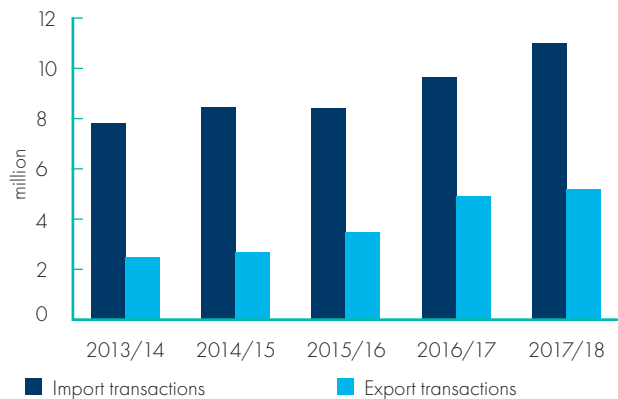
<sup>9</sup> Export transactions include export entries, drawback entries, and export ECI's – but exclude export mail items.

## Trade

Customs plays an important role in facilitating and promoting trade and in doing so contributing to New Zealand's economic competitiveness and growth.

In 2017/18 we processed 10.855 million import transactions,<sup>8</sup> an increase of 13.6 percent from the 2016/17 total. The continued growth in recent years has largely been due to online shopping and the resulting increase in imports of low-value goods. We also processed 5.148 million export transactions, an increase of 6.8 percent from 2016/17.<sup>9</sup>

### Trade transactions cleared



### Promoting and facilitating trade and addressing customs-related barriers

Through our work in promoting and facilitating secure and efficient trade, Customs aims to ensure that low-risk trade flows with the minimum of disruption (in time and money) to traders. We develop agreements to improve cooperation between customs administrations, negotiate and support Free Trade Agreements (FTAs), and provide support for traders so that they can benefit from those agreements.

#### Agreements with other customs administrations

Customs maintains relationships with other customs administrations around the world. We have worked with a number of those to develop Customs Cooperation Arrangements (CCAs) and Mutual Recognition Arrangements (MRAs), and seek to develop more.

CCAs are typically the first formal agreement we negotiate, helping to build relationships and trust between customs administrations and facilitate the subsequent negotiation of MRAs and/or FTAs. In March 2018 we agreed a CCA with the European Union, which enables cooperation in customs procedures, supply chain security and risk management, mutual administrative assistance, and information exchanges. This CCA came into force on 1 May 2018.

An MRA is a formal arrangement between customs administrations through which each country recognises exports from members of the other country's supply chain security programme as posing low security risk. An MRA means legitimate trade can flow more smoothly due to streamlined customs procedures, and greater assurance that risks will be managed appropriately. This provides facilitation benefits for supply chain security programme members, including those in New Zealand's Secure Exports Scheme (SES). We have several MRAs in place, and signed an MRA with Hong Kong in June 2018.

**Free Trade Agreements**

FTAs make it easier for trade to flow by providing the FTA parties with favourable tariff rates and reduced trade barriers.

Customs leads the negotiation of the customs-related aspects of New Zealand's FTAs. In 2017/18 we took part in the negotiations of the Regional Comprehensive Economic Partnership and the Pacific Alliance, as well as the upgrade of New Zealand's existing FTA with China.

**Supporting traders**

To maximise the benefits of these agreements when concluded, we proactively promote them to exporters. Through our outreach programme, we engage with exporters across New Zealand to inform them of the benefits of FTAs and being an SES member.

**Maintaining a network of offshore posts**

In July 2017 we added Indonesia to our network of offshore posts to support the growth of trade with the ASEAN region.

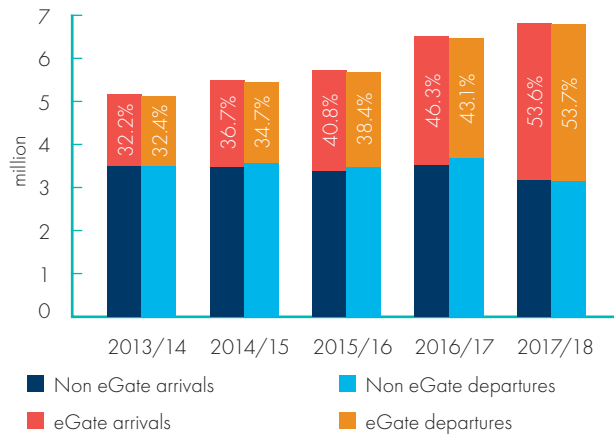
Our liaison officers at this and other posts round the world help to reduce the risk of disruption to trade through the strengthened relationships they develop with local customs administrations. This enables us to call on them to help resolve barriers to trade for New Zealand exporters quickly and effectively.

**Travel**

Travel volumes continue to rise each year. In 2017/18 Customs processed a record 13.977 million international passengers,<sup>10</sup> an increase of 5.3 percent from the 2016/17 total of 13.273 million.

Most travellers are arriving and departing air passengers (13.538 million in 2017/18). Our processing of the growing numbers of these passengers is assisted by the increasing proportion using eGate (previously known as SmartGate).

Air passenger arrivals and departures



**eGate automated passenger processing technology**

A total of 7.251 million arriving and departing passengers used eGate in 2017/18, a 25.8 percent increase from 2016/17. On 31 May 2018 we reached a new milestone, with the 30 millionth passenger to use eGate since it was introduced in New Zealand airports in 2009.

Following trials, in November 2017 eligibility to use eGate was formally extended to arriving and departing electronic passport (ePassport) holders from China, and in December 2017 to ePassport holders from France, Germany, the Netherlands, and Ireland. This increased the number of nationalities able to use eGate from five to 10.

Together with the Ministry of Business, Innovation and Employment (MBIE – Immigration NZ) we continue to look to expand eligibility further, with nationalities prioritised based on both traveller volumes and risk levels.

In late 2017/18 we started a trial to test eGate's ability to process passport holders aged 10 and 11, as this would enable more efficient processing and a larger number of families to use eGate. Analysis of the data collected during the trial was being undertaken in early 2018/19 to determine whether or not the age of eligibility would be reduced.

<sup>10</sup> This includes all people arriving in and departing New Zealand by air or sea excluding crew (crew amounted to a further approximately 0.76 million).



**\$14.379**  
billion  
in revenue on behalf  
of the Crown

**Processing of cruise ship passengers**

In early 2018 we trialed a process in which we used advance data on low-risk cruise ship passengers<sup>11</sup> travelling from an Australian port to undertake risk assessment of those passengers before they arrived in New Zealand. This meant these passengers did not need to go through immigration processing on arrival (like the remaining passengers) other than presenting their arrival cards to a Customs officer for checking any declarations.

The trial significantly improved processing times and the overall experience for passengers while freeing up our resources to focus on risk-related activity. As a result, a permanent change in processes was being implemented from October 2018.

<sup>11</sup> Australians, New Zealanders, and those travelling on visa waiver passports – representing over 95 percent of passengers on these vessels. The advance data is the departure data captured by the Australian Border Force.

<sup>12</sup> This includes MPI's portion of the Border Clearance Levy, which we collect on behalf of MPI.

<sup>13</sup> Self-assessment allows trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

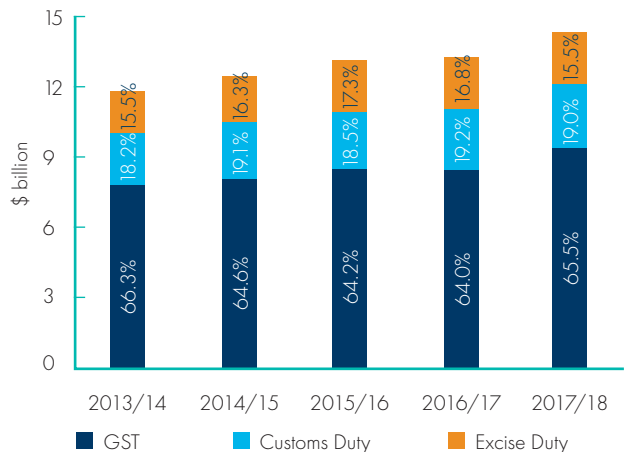
<sup>14</sup> Currently no GST or tariff duty is collected on goods if the total duty owing is under \$60, which generally equates to a goods value of \$400.

**Revenue**

Customs collects revenue on behalf of the Crown 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.

In doing so we contribute to the Government's accounts by collecting around 18 percent of core Crown tax revenue each year. In 2017/18 we collected a record total of \$14.379 billion in revenue on behalf of the Crown, an increase of 8.4 percent on the 2016/17 total of \$13.270 billion.

Crown revenue collected by Customs



We also collect revenue at the border on behalf of other agencies – a total of \$367.3 million in 2017/18.<sup>12</sup>



Our collection of revenue is based on traders (importers, exporters, and licensed manufacturers of excisable goods) undertaking self-assessments of their duty liability and complying voluntarily, and is reinforced by our assurance activity.<sup>13</sup> As a result, our focus is on increasing their voluntary compliance with revenue obligations and improving our revenue risk management. This includes 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. It is an effective approach: in 2017/18 over 50 percent of the additional revenue identified through our trade compliance programme (see page 52) was as a result of voluntary disclosures by our customers.

We continually revise and improve 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 recover the resulting outstanding revenue.

In 2017/18 we continued to undertake intelligence-led, risk-based audits to ensure that traders complied with legislation and paid the correct revenue. We also carried out random verifications of trader-entered data using a wider range of transactions – where we find a trader has not complied with requirements, our response ranges from working with the trader to encourage voluntary compliance, to auditing them.

### Undertaking fraud investigations

Customs maintains a strong focus on identifying and addressing serious fraud-related offending. We have noticed an increase in revenue evasion through illicit tobacco smuggling, particularly via mail, and are starting to see drug smuggling methods being applied to tobacco. In 2017/18 we responded by increasing our proactive and reactive investigations targeting these groups.

In 2017/18 our fraud investigations resulted in:

- A 36-year-old businessman being sentenced to three and a half years' jail in October 2017 for evading \$4 million of duty and GST on imports of soju (Korean alcohol) in a four-year period. The offender used double invoices to show a lower value and declare shipments as beer (which has a lower duty rate), and our search of containers found that the front row of each box contained beer, but the remaining bottles were soju.
- A Chinese student being sentenced to two years and eight months' jail in July 2018 for facilitating unlawful imports of cigarettes. He used a false passport to open 15 post office boxes to receive the imports and evade \$0.53 million in duty.

### Collecting duty on low-value goods

Customs and other agencies continued to explore ways to more effectively and efficiently collect duty and GST on low-value imported goods, and the threshold under which revenue is not collected.<sup>14</sup> In December 2017, the Government asked the Tax Working Group to consider these topics and officials from Customs, Inland Revenue, and the Treasury provided advice and support.

Following a recommendation from the Tax Working Group, in April 2018 the Government decided to implement an 'Offshore Supplier Registration' system in which offshore suppliers of low-value goods to New Zealand consumers collect and remit GST on those goods. A Discussion Document was released on 1 May 2018 seeking public feedback on the system's design details. Customs, and other agencies, will continue to provide advice to Ministers during 2018/19.



# Progress Against Our Strategic Intentions

Our *Customs 2020* strategy aims to ensure that we are well-placed to respond to increasing and changing demands at the border, while building our capability to deliver world-class border management.

## Intelligence-led

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

We use intelligence to understand and identify risk, and focus our efforts. We aim to continually enhance our risk-targeting methodologies and capabilities, and deliver greater assurance at the border.

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

While we will continue to focus on targeting and seizing illicit drugs at our border, we recognise that the most effective way of preventing harm to New Zealand is to disrupt drug supply chains offshore and intercept drugs 'upstream' before they reach our border.

With this in mind we continue to strengthen our relationships with overseas enforcement partners, including through our increased offshore presence.<sup>15</sup> This facilitates the exchange of information and intelligence, resulting in better-targeted risk management, and joint investigative and operational activity to disrupt supply chains for illicit drugs and dismantle transnational criminal syndicates.

This has allowed Customs and our partners to proactively develop actionable intelligence on threats to the border, and prevent drugs coming to New Zealand.

Working with our international partners, in 2017/18 there were more than 90 interceptions offshore of illicit drugs (mainly methamphetamine and cocaine) destined for New Zealand, as discussed on page 9. Based on the New Zealand Drug Harm Index, which quantifies the social and economic costs associated with illicit drugs, those interceptions avoided potential harm to New Zealand of over \$205 million. Most of the interceptions, and harm avoided, were of drugs coming from the Americas.

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



<sup>15</sup> We added (to our existing overseas posts) a Customs Consul in Hong Kong in February 2017 and liaison officer at the International Targeting Center in Washington D.C. in May 2017. These new roles were funded for two years under the Criminal Proceeds (Recovery) Act 2009. Funding was provided in Budget 2018 to fund these positions on an ongoing basis.

Customs received additional funding in Budget 2018 to further enhance our capabilities to protect our communities by disrupting drug-smuggling networks as early as possible in the supply chain. This will include additional staff positions both in New Zealand and overseas that, through international engagement and operations, will contribute to the offshore disruption of transnational crime groups.

### Border analytics

Staff from Customs, the Ministry for Primary Industries (MPI), and MBIE form the Joint Border Analytics team. The team was established so the three agencies could combine data, expertise, and tools to identify trends and anomalies, and build predictive models. This enables us to better identify border risk and target our interventions more effectively.

In 2017/18 Joint Border Analytics continued to assess non-compliance risk of arriving air passengers and develop risk-based models. The team also continued work on other projects: identifying underpaid revenue in trade transactions; targeting imports of methamphetamine and its precursors in the air cargo stream; and delivering insights on the international Darknet drug market (which will help us see emerging trends in illicit markets before they reach New Zealand).

In addition, the team completed the build of its offline analytics environment and continued to develop and refine the governance processes and legal and privacy framework that apply to the use of data for analytics. This work will continue in 2018/19 with the development of an Approved Information Sharing Agreement that will enable data to be shared between the three agencies.

### Using Passenger Name Record information to assess risk

Advance information enabling Customs to risk-assess travellers before they arrive in or depart New Zealand helps us to identify those with whom we need to intervene at the border. Passenger Name Record (PNR) information is the record in an airline's computer reservation system and contains data such as the passenger's itinerary, ticket information, and means of payment. This information assists in Customs' risk assessment.

Since a successful trial with selected airlines in 2015/16, we have been working with airlines to add them to a system through which PNR information is 'pushed'<sup>16</sup> to Customs by airlines automatically providing the information – and for the first time, this included data on departing passengers.<sup>17</sup> The proportion of passengers risk-assessed using PNR data grew considerably in 2017/18, and by March 2018 all airlines<sup>18</sup> were connected and pushing PNR data to Customs.

Passengers risk-assessed using PNR	2016/17	2017/18
Arriving	81.2%	96.4%
Departing	55.7%	96.5%
Total	68.5%	96.4%

### Measuring progress against our intentions

#### Indicator: Level of harm avoided

Customs' seizures at our border of illicit drugs in 2017/18 avoided up to \$1.336 billion in harm to New Zealand (in social and economic costs, based on the New Zealand Drug Harm Index<sup>19</sup>), compared with \$1.184 billion in avoided harm in 2016/17.<sup>20</sup> Methamphetamine and the expected methamphetamine yield from its precursors accounted for over 92 percent (\$1.237 billion) of the 2017/18 drug harm total.

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.<sup>21</sup>

Severity of harm associated with unlawful activity	2016/17 (\$m)	2017/18 (\$m)
Smuggling – objectionable material	\$10.496	\$16.220
Smuggling – counterfeit goods	\$1.135	\$0.749
Attempted evasion of duty – alcohol	\$0.011	\$0.014
Attempted evasion of duty – tobacco	\$1.566	\$3.541

<sup>16</sup> 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 the way they provide PNR data to border agencies.

<sup>17</sup> 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.

<sup>18</sup> This excludes Air Nauru, which has one flight per week and a minute percentage of total arriving passengers (with low risk).

<sup>19</sup> The New Zealand Drug Harm Index quantifies the economic and social costs associated with illicit drugs.

Smuggling – firearms	\$0.193	\$0.209
Prescription medicines – enable Medsafe to ensure safety	\$0.022	\$0.020
<b>Total non-drug severity</b>	<b>\$13.423</b>	<b>\$20.753</b>
Smuggling of illicit drugs – as per 2016 Drug Harm Index	\$1,183.89	\$1,336.09
<b>Total severity of harm</b>	<b>\$1,197.31</b>	<b>\$1,356.84</b>

**Indicators: ‘Strike rate’ and yield of Customs’ risk-based interventions; Level of assurance over border and revenue risk**

We are continuing (with funding provided in Budget 2016) to develop an assurance model that will inform and refine our intelligence through the use of randomised sampling across the various import channels. This will help us to better understand levels of compliance and non-compliance. This work will support data analytics and intelligence assessments of risk in each channel and provide us with a level of confidence about our intervention rate and our targeting of interventions. It will also help inform decisions in the future about the allocation of our resources to address risk effectively.

In 2017/18 we began sampling in the air passenger, mail, and fast freight (courier) channels. Early results show high compliance levels, with no major drug detections and non-compliance mainly related to misdeclaration and undervaluation. This work continues in 2018/19, and in early 2018/19 we are focusing on sampling development in the more complex import channel of sea cargo.

## Border Modernisation

This work includes Customs developing modern legislation and new technology solutions that will enable us to deliver our services and manage risk more efficiently and effectively. It also involves working with other agencies at the border to improve our systems and processes.

### Joint Border Management System

The Joint Border Management System (JBMS) programme, a joint initiative by Customs and MPI, had 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, completing the Trade Single Window (TSW) – and since then we have continued to enhance TSW to improve the user experience for industry.

Clients had been able to choose to provide information via the pre-existing cargo reporting and clearance messages or via the new electronic messages based on the World Customs Organization’s international trade data model (WCO3). Following consultation with industry in 2017/18, Customs and MPI confirmed a mandatory date of 1 July 2018 for traders to adopt the WCO3 format for cargo reporting and clearance messages (except the Inward Cargo Report, which was still being piloted and is to become mandatory in 2018/19). Clients can also now use TSW to submit automated (rather than manual) excise entries.

By containing the information that both Customs and MPI need, the new WCO3 messages eliminate duplication and reduce compliance costs for traders. They also contain more comprehensive information, which provides agencies with richer data for analysis – especially over time as the data from these messages accrues, so we can identify patterns and anomalies for risk assessment and intelligence purposes.

<sup>20</sup> This total differs from the \$1.149 billion total reported in the New Zealand Customs Service Annual Report 2017 – that total was based on the provisional totals for drugs seized in that year (as noted in footnote 1 on page 9) whereas the updated harm avoided reflects the finalised drug totals seized in 2016/17.

<sup>21</sup> 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 and the value of the harm of that activity at the time the Harm Model was developed in 2015. The smuggling of objectionable material involves harm that has already occurred (to the victims contained in the material). The significant increase in the harm associated with tobacco in 2017/18 reflects the increase in the amount of tobacco seized or abandoned at the border.



### Risk and Intelligence

Customs and MPI have been working on the additional risk and intelligence (R&I) functionality through a series of small projects.

In 2017/18 we worked towards the first release of R&I functionality, which was launched in August 2018. It enables agencies to identify trade, craft, and travel transactions they have an interest in and apply their own risk assessment and workflow processing. The programme of work to deliver the further tools continues in 2018/19.

### Border management systems modernisation

We are undertaking a border systems modernisation programme to improve the resilience and reliability of our border management systems, increase workforce mobility via new modern tools, and support better information sharing with partner agencies.

In 2017/18 we progressed work on the first phase (of a two-phase programme), which will re-platform the CusMod system (through migration to an All-of-Government infrastructure) and deliver a modern technology foundation. This will enable the subsequent delivery of new functionality to border management systems more efficiently and reliably than our current technology and tools allow.

### A new Customs and Excise Act

The Customs and Excise Act 2018 received Royal assent on 29 March 2018, and comes into effect on 1 October 2018, replacing the Customs and Excise Act 1996. The new Act is modernised legislation that is easier to understand, more flexible, and better meets the needs of individuals and industry.

To ensure that our stakeholders and customers know about and understand the new legislation, we have implemented a comprehensive communications and education programme.

It supports customers to make the necessary changes to enable them to comply with their new obligations and to use the new services. Customs worked with industry to develop the new processes, procedures, and systems to support commencement of the legislation.

### Operations Transformation Programme

We undertook our Operations Transformation Programme (OTP) to future-proof our workforce and ensure operational sustainability. Our operational workforce was reshaped and a new staff deployment model implemented, to deliver operational efficiencies by realigning roles to make the best use of our resources as we manage growing trade and travel volumes and border risks. The OTP also delivered benefits to our staff through enriching their work and providing additional opportunities for career development.

We reviewed the OTP a year after its implementation to ensure its design principles were followed and that the benefits of the transformation had been realised. We consulted with staff for this review, which was completed in late 2017/18. There was general consensus the OTP is heading in the right direction and delivering on the main principles, although continued work was required to support the ongoing operation of the deployment model and deliver longer-term benefits. We continue in 2018/19 to address the review findings.

### Trusted trader and traveller arrangements

Budget 2016 provided border agencies with two years of funding to scope, trial, and evaluate new arrangements to streamline border processing for low-risk travellers and traders.

In 2017/18 Customs and MPI undertook a proof-of-concept 'streamlined travel trial' involving around 400 New Zealand passport-holders who frequently travelled on business from



Australia into Auckland. These participants had been vetted to determine their past compliance with border requirements, and were expected to present a low risk to New Zealand's border security, safety, and biosecurity. The trial provided an opportunity to obtain data in several areas, including the operation of technology, the traveller experience, and traveller compliance with both trial and regulatory requirements. The trial gathered and analysed data, information, and evidence to help inform the value and viability of this kind of concept in the future.

Initiatives to support trusted traders and streamline the process for low risk trade and traders, improve the customer experience, and reduce compliance costs were also explored in 2017/18. Research, including customer insight, determined the best way to deliver on the goals of a potential trusted trader scheme was to use existing agency initiatives to address specific customer pain points, rather than creating a bespoke scheme. A series of principles identified through the research will continue to inform future agency initiatives for trade and traders.

The trade initiatives being advanced by Customs include the Secure Trade Lane and eCommerce Green Lane with Australia.

### Streamlining trans-Tasman trade

A trans-Tasman Secure Trade Lane would streamline border processes, and make low-risk trade between New Zealand and Australia more efficient and cost-effective for authorised traders, while maintaining the security of supply chains. Customs and the Australian Department of Home Affairs undertook a successful proof-of-concept trial in late 2017, and are preparing for a digital trial in 2019.

Customs has also been working with MPI, New Zealand Post, and Australia to test an eCommerce Green Lane to streamline border clearance of the growing volumes of low-risk goods travelling by mail between Australia and New Zealand. We trialled a proof-of-concept model in September 2017.

### Measuring progress against our intentions

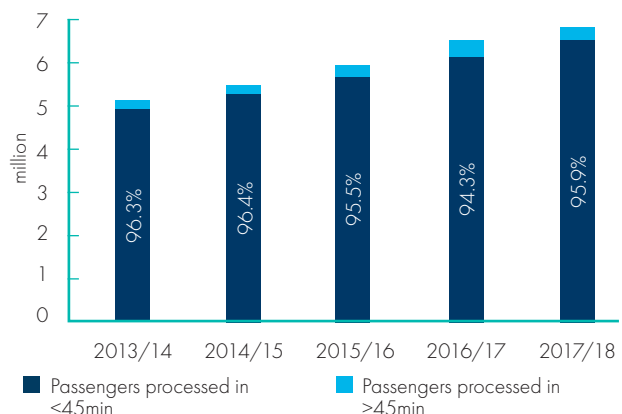
We are seeking improved efficiency and cost-effectiveness for trade and travel.

#### Indicator: Clearance times for passengers and trade

In 2017/18 99.8 percent of trade transactions were processed within 30 minutes. This has been steady over the last five years, with the yearly results being between 99.6 percent and 99.9 percent over that period.

We continue to process over 90 percent of arriving passengers on commercial aircraft 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

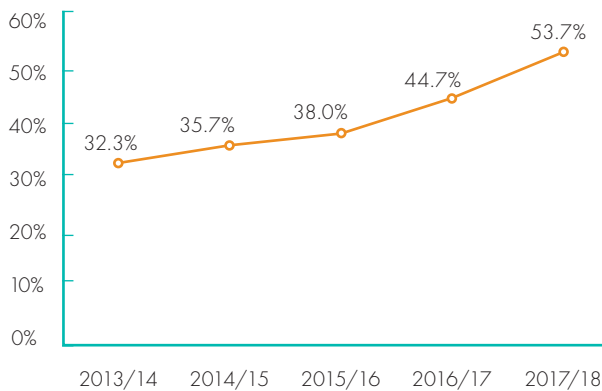


Maintaining or improving on our time-to-clear, particularly as passenger volumes continue to grow, involves increasing the proportion of transactions we carry out electronically.

**Indicator: Proportion of transactions handled electronically**

The increased use of eGate shows that the proportion of passengers processed electronically is increasing.

Proportion of commercial air passengers using eGate



In 2017/18 99.9 percent of export transactions were processed electronically; this has been steady since 2013/14. The proportion of import transactions handled electronically in 2017/18 was 96.3 percent – this has been steady over the last five years, with the yearly results being between 96.0 percent and 96.3 percent.

We collected 99.4 percent of revenue electronically in 2017/18. This has increased from 99.1 percent in 2013/14.

**Indicator: International reputation**

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

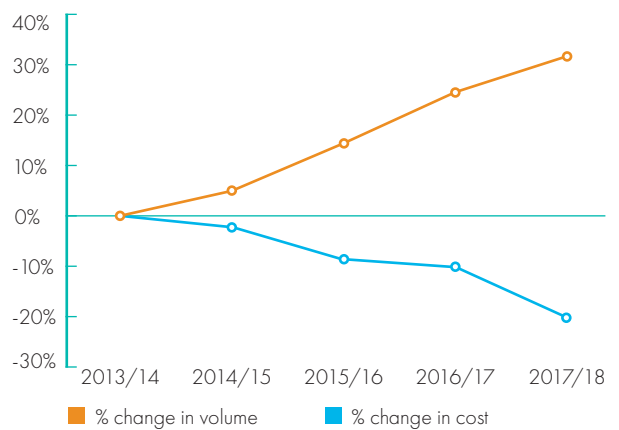
In addition, The Economist Intelligence Unit released its *The Global Illicit Trade Environment Index* in June 2018. The Index is based on a model developed in 2016 and measures the extent to which economies enable (or inhibit) illicit trade through their policies and initiatives.

New Zealand was the top-ranked economy in the Asia-Pacific region and the fourth-ranked economy in the worldwide Index (out of 84 economies) for creating a comprehensive environment for preventing illicit trade (with a score of 82.3 out of 100). One of the four categories in those overall results relates to the ‘customs environment’ and how an economy’s customs administration facilitates legitimate trade – New Zealand ranked 11<sup>th</sup> worldwide and second in the Asia-Pacific (with a score of 87.1 out of 100) due to high scores in automation of procedures, an effective customs record system, and having an Authorised Economic Operator programme (our Secure Exports Scheme).

**Indicator: Unit costs for travel and trade processing**

Since 2013/14 the volume of travellers has increased by 31.7 percent, while the cost of processing each traveller has decreased by 19.8 percent.<sup>22</sup>

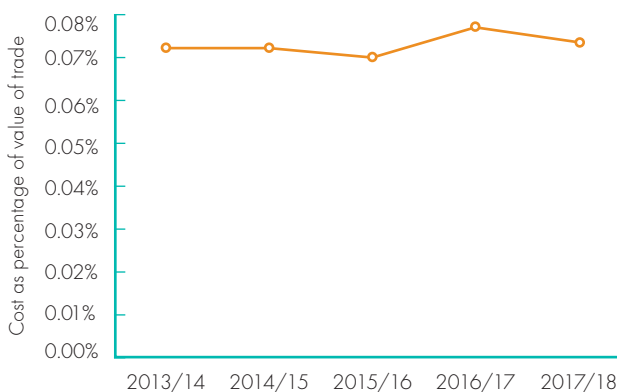
Change in traveller volumes and processing cost



Measures of international reputation	2015 /16	2016 /17	2017 /18
Security rating from The Economist Intelligence Unit risk briefing	4 out of 100 (2nd equal/179 countries)	6 out of 100 (3rd equal/180 countries)	6 out of 100 (3rd equal/180 countries)
World Economic Forum’s Enabling Trade Index – efficiency of border administration	No study undertaken	23rd/136 countries	18th/136 countries

The total cost of goods processing as a percentage of the value of trade<sup>23</sup> was 0.0738 percent in 2017/18, a decrease from the 2016/17 cost of 0.0775 percent.

#### Cost-effectiveness of goods clearance and enforcement



## Customer Focus

Customs' 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 intervention to deal with non-compliance.

Our aim is to create easier, more cost-effective, and more efficient experiences for travellers and traders who pose a low risk to New Zealand's safety, revenue, and economy. A number of the initiatives discussed in the 'Border Modernisation' stream of our *Customs 2020* strategy (page 18) are focused on improving the customer experience.

We continue to focus on continuous improvement, service design, and customer insight, both in our own organisation and in collaboration with other agencies in the Border Sector<sup>24</sup> and industry. For example, in 2017/18 we began using virtual reality as a new way to understand how we can improve the customer experience.

As well as consulting with staff and surveying travellers on the redesign of the departures area at Christchurch International Airport in late 2017, we had a designer create a 3D model of the area and three different 'virtual' layout designs.

Virtual reality proved an excellent alternative to practical testing of options, as it enabled us to understand passenger behaviour (through their 'walking through' the layout designs) without having to move infrastructure and disrupt passenger flows. We intend to continue testing a virtual reality capability in 2018/19 to determine its viability, use, and cost benefits.

We introduced a new Continuous Improvement Framework in September 2017. This provides structure for the growing continuous improvement capability at Customs, through which we aim to enhance our efficiency and customer service.

#### New Customs website

Part of the funding in Budget 2016 for implementing the new Customs and Excise Act was to redevelop the Customs website. The new website was launched in November 2017.

It provides customers with the information they need to comply with our requirements, including any changes affecting them as a result of the new legislation. It is easier to navigate and more responsive for users, and has improved search functionality. The new website platform also enables us to develop new capabilities over time to make it easier for customers to comply, including online forms and self-service features.

#### Social media

Social media is a useful tool to connect with our customers and the public, tell our story, and deliver key messages. Our communities continue to grow, with our Facebook followers increasing from 4,352 in June 2017 to 6,597 in June 2018. Our Twitter followers rose to 2,040 in June 2018 compared to 1,540 in June 2017. We have also seen a huge increase in engagement on Facebook, with our highest monthly engagement numbers in the 2017/18 financial year reaching 76,310 in December 2017, compared with a high of 46,363 in 2016/17 (June 2017). The number of Twitter impressions (times our tweets are seen) in a single month also rose from a high of 25,600 in 2016/17 (February 2017) to 61,100 in 2017/18 (January 2018).

We continue to explore new ways of connecting with our customers online, with even more visual content and collaborations with our partner agencies. In 2017/18 we also started promoting our LinkedIn account as a source of career advice and news for our business and industry customers.

#### New Zealand Business Number

By assigning a unique identifier to a business, the New Zealand Business Number (NZBN) enables the delivery of

<sup>22</sup> 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.

<sup>23</sup> This is the total appropriation spend for the Clearance and enforcement services related to goods output class divided by the total value of goods imports and exports (based on Stats NZ data). As a result, it does not directly relate to the level of Customs activity in relation to trade.

<sup>24</sup> The Border Sector is composed of government agencies providing services at the border – Customs, MPI, MBIE (Immigration NZ), the Ministry of Transport, the Department of Internal Affairs, and the Aviation Security Service. Border Sector agencies work together to deliver a more integrated, responsive, and efficient border management system that best serves New Zealand's interests. The Border Sector Governance Group provides stewardship and governance for Border Sector work.

integrated services for business across government. Customs is subject to Cabinet Office Circular CO (16) 3, which sets out the requirements for implementing the NZBN.<sup>25</sup>

In January 2018 the NZBN (which had already been added to the database and registration forms in April 2017) became a searchable field in Trade Single Window, our key customer facing system. It was also added to our other relevant databases.

In 2018/19 we intend to integrate with the NZBN API (application programming interface). As well as meeting the 2020 deadline (for requirements 2–6), this will enable us to benefit from the API's functionality and streamline businesses' registration processes with border agencies.

**Measuring progress against our intentions**

We work to improve service experiences for traders and travellers, with the aim of higher levels of voluntary compliance and fewer interactions with compliant trade and travellers.

**Indicator: Compliance levels**

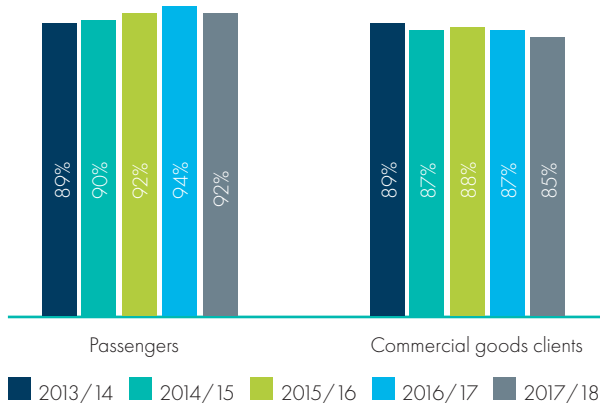
In 2017/18 99.5 percent of arriving international air passengers were processed without further intervention by Customs.<sup>26</sup> This increased from 99.2 percent in 2013/14 as we improved our risk assessment and the targeting of our interventions.

In 2017/18 98.8 percent of import transactions and 99.8 percent of export transactions were processed without further intervention. These proportions have increased over the last five years: the 2013/14 figures were 97.3 percent for import transactions and 99.5 percent for export transactions.

**Indicator: Trust in Customs**

Trust in Customs is an important factor in voluntary compliance. In June 2018 a survey undertaken on our behalf by UMR Research found that the public's perceived level of trust in Customs was 71 percent. Feedback from customers through our own stakeholder surveys has found that, based on their direct experiences with Customs, their trust levels are higher still.<sup>27</sup>

**Trust in Customs**

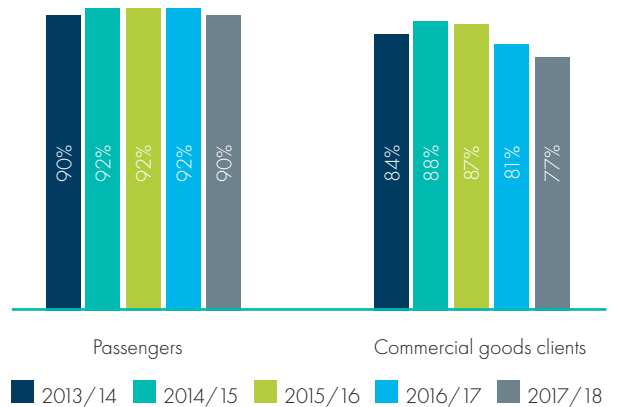


In 2018 Customs was again rated highly by the public in the Colmar Brunton Public Sector Reputation Index,<sup>28</sup> which identified us as having a strong reputation.

**Satisfaction with Customs' services**

While our 2017/18 stakeholder surveys indicated that Customs continues to have high levels of customer satisfaction from passengers, satisfaction among our commercial goods clients continued to drop. This result in part reflects increased service expectations from customers. While we have looked to continually improve our services, we recognise that customers now expect higher-quality online services and more immediate responses to queries. We are progressing further work to make compliance easier for customers through electronic and digital channels.

**Satisfaction with Customs' services**



<sup>25</sup> 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. Requirement 1 has been satisfied by Customs.

<sup>26</sup> As recorded on page 42, some are deemed compliant based on risk assessment and so are facilitated without further intervention.

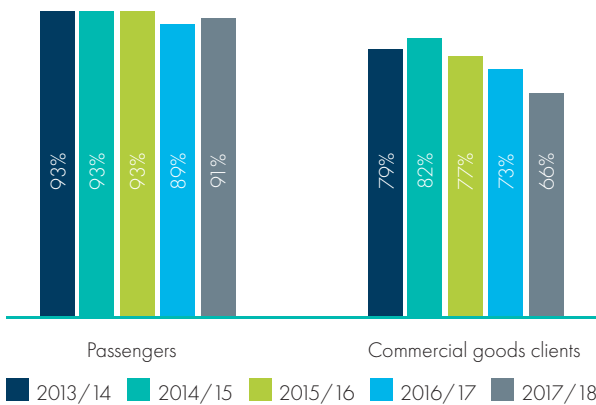
<sup>27</sup> These surveys use the Common Measurements Tool, a set of survey questions and scales advocated by the State Services Commission that allows organisations to measure client satisfaction.

<sup>28</sup> 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: Ease of compliance**

Ratings for ease of compliance declined for commercial goods clients in 2017/18, but increased for passengers.

**Ease of compliance**



The high-level survey results show more respondents in the 2018 survey of commercial goods clients used TSW than in previous years. As this was the biggest change to our cargo clearance system in 30 years, the result is in part due to clients' initial reactions to adapting to the new information requirements (that enable better risk management by agencies). Some system problems (since resolved) in the month of the survey would also likely have influenced responses.

We continue efforts to make compliance easier. In 2018/19 we are analysing the goods client survey feedback in depth to identify the main drivers behind the 'satisfaction' and 'ease of compliance' results. This will help us identify any additional actions needed to make compliance easier and improve 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, trade transactions, and mail items that we process.

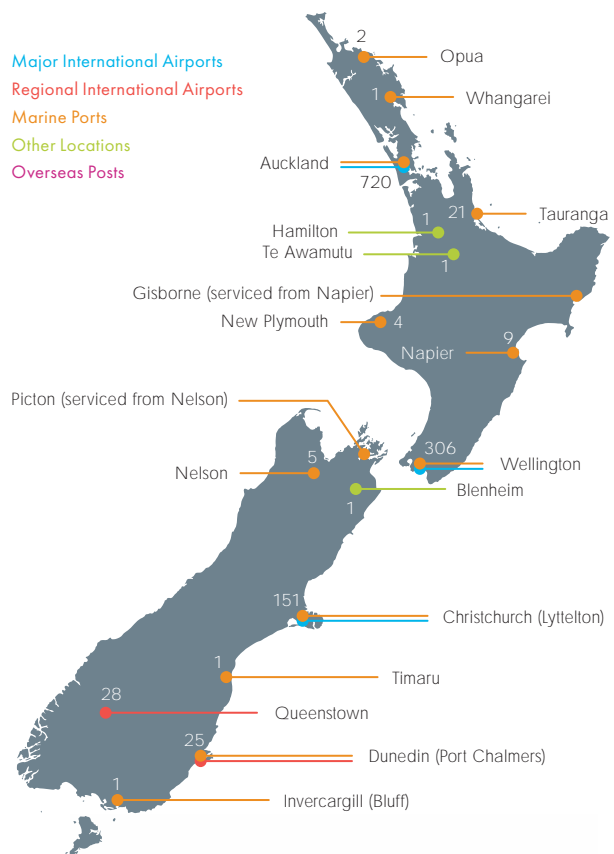
2013/14	2014/15	2015/16	2016/17	2017/18
186	209	161	168	93

**People and Culture**

Customs aims to provide a great place to work by valuing our people and helping them to meet current and future challenges. Our people need to be responsive to changes in volume-driven demand, changing risks, and demographic and technological change. We value diversity and inclusion in our workforce and are committed to keeping our people safe and healthy.

Customs staff are located around the country, with most working in operational areas in ports and international airports. We also have staff stationed around the world to support our work programme overseas.

**Location and staff numbers (as at 30 June 2018)**



## Workforce profile

Financial year	Headcount	Full-time equivalents (FTEs)	Average age (years)	Unplanned turnover	Total turnover	Average length of service (years)
2017/18	1,287	1,230.3	44.1	7.3%	8.9%	12.0
2016/17	1,222	1,166.3	44.3	9.0%	12.3%	12.3
2015/16	1,135	1,078.4	44.7	9.4%	11.8%	13.6
2014/15	1,122	1,066.4	44.5	9.0%	13.3%	13.7
2013/14	1,134	1,071.4	44.1	6.4%	10.9%	13.4

All information is as at 30 June – except turnover, which is annualised<sup>29</sup>

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

Staff retention at Customs remained high in 2017/18, as shown by the unplanned turnover rate and average length of service.

The unplanned turnover rate for Customs staff with less than four years' service has dropped to 11.2 percent as at 30 June 2018 (compared to 11.9 percent as at 30 June 2017). Reducing the turnover of operational staff with less than four years' service has been an area of focus and was a key aim of the Operations Transformation Programme. Turnover of those staff dropped further to 8.0 percent as at 30 June 2018 from 8.7 percent at 30 June 2017 and 11.2 percent at 30 June 2016.

### Learning and development

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

We have a flexible, 'blended learning' approach, combining traditional classroom-based and 'on-the-job' learning with online education opportunities.

Our online learning management system has a wide range of learner-centric content and resources, which can be tailored to meet the learning requirements of a particular role or work area. The categories of learning available include: On the Job Training; Operational Technical; Border and Sector Qualifications; Leadership and Management; Safety and Wellbeing; Language, Culture and Diversity; Personal Effectiveness; and (new in 2018) the Customs and Excise Act 2018.

The following table shows the mix in learning methods by Customs staff. The increase in blended training sessions in 2017/18 is mainly due to the uptake of the on-the-job learning assessments for new and redeployed Customs Officers (under the new staff deployment model discussed on page 19):

Type of training session	2015/16	2016/17	2017/18
Blended	1,111	919	4,770
eLearning	1,246	2,288	3,440
Classroom	4,931	5,176	6,003
Total	7,288	8,383	14,213

In March 2018 we began piloting a new approach to training our Customs Officers and Assistant Customs Officers, in which classroom learning is followed by on-the-job experience and training (with a support system in place) before the trainees formally graduate. The new system was developed to help support the deployment model, and is in line with standard adult-learning theories. Its success, and future, will be assessed in 2018/19.

<sup>29</sup> The turnover figures are consistent with the turnover definitions supplied by the State Services Commission – unplanned turnover includes resignations, retirements, dismissals and deaths, while total turnover includes planned turnover such as fixed-term contracts ending.

In May 2017 Customs introduced an eLearning module, Dealing with Workplace Bullying. In August 2017 it won second place in the eLearnz eLearning Awards and was 'Highly Commended' by judges for providing a training aid that addressed an issue many organisations were avoiding with a simple but elegant solution that made the learners think about the many aspects of workplace bullying and harassment.

#### **Indicator: Number of training agreements**

In 2017/18 Customs started moving from the National Certificate in Border Management (NCBM) qualification to the new Government Regulatory Compliance qualifications (delivering transferable skills and capabilities recognised across government regulatory agencies). As a result, we did not actively encourage new staff to undertake the NCBM, and then did not accept any new enrolments or renew expired training agreements.

The training agreements in 2018/19 will be for the new qualifications – the New Zealand Certificate in Regulatory Compliance (Core Knowledge) Level 3; Certificate in Regulatory Compliance (Operational Knowledge) Level 4; and Certificate in Regulatory Compliance (Operational Practice) Level 4.

#### **Developing our leadership**

Customs has an expectation of excellence in leadership at all levels.

Our Leadership Framework recognises the importance of people leadership and thought leadership, and the skills and values delivered by technical and operational specialists.

We provide a number of leadership development opportunities for staff. This includes the Aspiring Leaders programme, which targets those who aspire to be leaders to help them build their leadership skills. Our Leading Teams development programme supports leaders to further develop in their role. In 2017/18 we provided 30 additional workshops on a range of leadership development topics such as Collaboration for Results, Performance and Development Conversations, and Systems Thinking.

The Operations Transformation Programme 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 continues to enable upskilling and progression for those better suited to technical roles in our Operations workforce.

#### **Indicator: Employee engagement**

We adopted a new survey tool to measure staff engagement in 2017 – the Gallup 'Q12', an established international engagement model. We conducted our 2018 staff survey in June. The overall engagement score was 3.77 (out of 5). While this is lower than the New Zealand benchmark of 3.94, it is an improvement of 0.13 on the engagement score in our June 2017 survey. This is considered a statistically significant increase for an organisation our size.

The survey revealed an increase in the proportion of staff who were engaged from 26 percent in 2017 to 33 percent in 2018. This compares favourably with the proportion of actively disengaged staff at 14 percent, down from 17 percent in 2017.

We have seen significant improvements in most areas covered by the survey. Our key strengths are staff's connection with our mission and purpose, and the positive relationships within the organisation. Areas we need to focus on are ensuring that everyone has the tools and resources they need to be effective, providing clarity of expectations, and providing opportunities for people to use their strengths.

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

The 2018 engagement survey did not include questions used in previous years on how our staff rate Customs' leadership, and on their attitudes towards innovation and continuous improvement.

We intend running pulse surveys in 2018/19 to support the June 2018 Gallup Q12 survey; these might include questions on those areas.

#### **Health and safety, and wellbeing**

Customs is committed to promoting a safe and healthy workplace and encouraging the positive wellbeing of our people. We also take all reasonably practicable steps to prevent harm to any contractors or members of the public as a consequence of our operations.

Management and staff have responsibilities under our health and safety policy and procedures. We continue to improve our practices and are focused on driving engagement and capability from the ground up. Following the 2016/17 implementation of a new approach to electing Customs health and safety representatives (HSRs), during 2017/18 they were upskilled to Level 2 of HSR Training.

Customs continues to engage with our staff and management to promote a culture of safe work practices. We remain committed to ensure best practice is followed at every stage of our operations with health, safety, and wellbeing at the forefront. We continue to develop our expertise and increase the focus on wellbeing so that it is an inherent part

of our culture. The Customs Executive Board (CEB) leads the work on strengthening our approach to the management and governance of safety and wellbeing. In 2017/18 CEB appointed risk-cluster owners and sponsors, and continued to receive regular reports on incidents and near misses and corrective actions taken.

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

We had a total of 149 accidents reported in 2017/18, most of a minor nature. Customs monitors lost productivity due to accidents (at work and outside work)<sup>30</sup> and sickness. The significant majority of productivity lost<sup>31</sup> as a result of accidents is due to non-work accidents – with lost productivity from work accidents being only 0.06 percent in 2017/18.

**Lost productivity due to accidents and sickness**



Customs has a low number of work injuries.<sup>32</sup> In 2017/18 there were 18 work injuries, a decrease from 27 in 2016/17 (compared to 39 in 2015/16, 36 in 2014/15, and 64 in 2013/14).

We had 74 preventive reports of near misses and hazards in 2017/18. These are important indicators of what could injure or seriously harm our people if not addressed and of safety awareness among staff.

<sup>30</sup> Recognised as an accident by ACC – this includes lost productivity due to work and non-work accidents.

<sup>31</sup> 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.

<sup>32</sup> 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.

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

An independent ACC WSMP audit undertaken in October 2016<sup>33</sup> saw 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.

**Embracing diversity and inclusion**

Customs recognises that a diverse and inclusive workplace and culture delivers important benefits, including increased employee engagement and organisational performance, higher-quality innovation, and better relationships with customers. We strive to be an organisation that reflects and responds to the community we serve, and where all staff feel safe, included, and valued.

Customs has a Diversity and Inclusion Strategy, delivery of which is led by our Diversity and Inclusion Council. The Council refreshes its membership regularly to ensure it comprises people with diverse experiences and perspectives, and sources of new ideas. There was a change in membership in 2017/18.

By reflecting and understanding diversity within the community, we can better meet our customers' increasingly diverse needs and improve their experience of dealing with Customs. To enhance our frontline capabilities, we continue to focus on recruiting Assistant Customs Officer and Customs Officer trainees from a wide range of ethnicities and with diverse backgrounds, experiences, and skill-sets.

We are committed to ensuring that everyone has equal opportunities for recruitment, development, and promotion regardless of differences such as ethnicity, age, gender, gender identity, sexual orientation, disability, or family status. We value the differences that our staff bring to our workforce.

Customs' ethnic diversity has been increasing in recent years (staff may self-identify as more than one ethnicity).

<sup>33</sup> 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).

Ethnicity	2014	2015	2016	2017	2018
NZ Māori	9.1%	8.2%	8.9%	9.1%	9.5%
NZ European/Pakeha	63.9%	65.0%	65.8%	62.8%	62.6%
Other European	17.1%	16.9%	16.1%	15.3%	14.6%
Pacific peoples	7.1%	7.9%	7.8%	9.3%	10.4%
Asian	11.2%	11.5%	11.1%	14.0%	14.3%
Other ethnic group	7.8%	7.8%	7.0%	6.6%	6.4%

Each year's information is at 30 June

The increased percentages of Māori, Asian, and Pasifika staff within the workforce at Customs in June 2018 are evidence of our efforts to increase our diversity and have our workforce reflect our community.

Customs is committed to meeting our obligations under the Treaty of Waitangi and advancing Crown-Māori relations. We work to ensure that our policies and actions reflect the interests of Māori – whether as employees or users of our services. As part of this, we continue to value and build our Māori capability, including through our active Māori network for staff, and to develop our relationships with iwi, hapū, and Māori businesses.

We have a Pasifika Network and a (newly-formed in 2017/18) joint Customs-MPI Asian Network. We also have a growing number of women's networks at our ports around New Zealand. These networks support staff, while delivering benefits to Customs by helping staff in their progression, and identifying and delivering on opportunities to engage with the community.

Females made up 47.8 percent of our staff at 30 June 2018, an increase from 46.3 percent at 30 June 2017. The proportion of management roles at Customs filled by women at 30 June 2018 was unchanged at 29.3 percent (compared to 30 June 2017 – although this was an increase from 24.2 percent as at 30 June 2016). Of the six members of the CEB as at 30 June 2018, two were women.

#### Indicator: Awareness of diversity

In our 2018 staff engagement survey we included a question on diversity, and 61 percent of staff agreed or strongly agreed with the statement *Customs has a positive and inclusive culture that supports the diversity of our workplace*. This question will be repeated in future surveys so that we can track our staff's views. A Diversity and Inclusion Survey will also be run in 2018/19 to collect staff feedback on how diversity and inclusion is progressing at Customs; this will be used to inform a refreshed Customs Diversity and Inclusion Strategy.

#### Addressing the gender pay gap

Customs' mean gender pay gap at 30 June 2018 was 14.6 percent. This compares with a mean pay gap as at 30 June 2017 of 13.6 percent, and our average in 2017/18 of 14.3 percent. Our aim is to eliminate the gender pay gap entirely, with our immediate focus being to reduce the gap by a third by 2020.

We conducted considerable analysis in 2017/18 to understand what contributes to our gender pay gap. We started some new initiatives, and continued others, to reduce the gap and enable more women to progress in their careers. These include speed mentoring events; encouraging women to take up permanent and temporary leadership roles via their career development conversations; tailoring leadership and other development programmes so those on parental leave and those working part-time can participate; promoting flexible working; mixed-gender selection panels; and unconscious bias training. All of our initiatives align with the Government's Gender Pay Principles and 2018-2020 Action Plan.

To further add to our knowledge, and inform our continued actions to address the gap, in June 2018 we commissioned UMR Research to examine the experiences of our staff, and their thoughts about the nature of the drivers of the gap.



# Organisational Health and Capability

## Leadership and governance

Customs has a layered approach to our governance and management committees.

The Customs Executive Board (CEB) is our main governance body, consisting of members of Customs' upper-level management. As well as providing leadership and maintaining Customs' management environment, the CEB is future-focused: it looks at Customs' role in the government and industry sectors, and at the stewardship of the organisation, with the goal of making Customs a more sustainable organisation. The CEB members as at 30 June 2018 were:

- Christine Stevenson, Acting Comptroller of Customs
- Bill Perry, Deputy Comptroller Operations
- Kevin Martin, Chief Financial Officer/Group Manager Finance, Strategy and Performance
- David Soper, Acting Group Manager Policy, Legal and Governance
- Murray Young, Chief Information Officer
- Jacinda Funnell, Acting Group Manager People and Capability.

In September 2017 CEB decided that it needed to give more focus to decision-making on financial management and determining Customs' future direction. As a result, the five existing governance sub-committees were disbanded, and replaced by two new sub-committees – a Strategy Development Committee to take responsibility for the development and delivery of Customs' organisational strategies (including *Customs 2020* and the longer-term strategy being developed), and a Finance Committee to oversee Customs' finances, financial performance, investments, and the health of our financial management and control systems.

The CEB is also supported by a number of other bodies – both standing and project-related – to ensure effective performance and risk management, and to provide advice to the CEB.

## Managing risks

We regularly review our risk management policy, framework, and procedures to ensure that they remain effective and continue to align with appropriate standards and best practice. Customs' Risk Management Framework 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 that significant risks are identified and mitigated. It consists of external members, including an independent Chair, and members of Customs' senior management also attend meetings depending on the specific agenda items.

### Customs Audit and Risk Committee Report for the year ended 30 June 2018

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

The ARC comprises four independent members. During the year one member resigned and a new member was appointed. The ARC thanks Ross Hughson for his time and input. The ARC brings considerable relevant experience and knowledge to Customs with members who have worked in industry, alongside Customs, or in other government agencies involved in financial and enforcement related activities.

The ARC has met four times over the year with the active involvement of the Acting Comptroller of Customs and has been well supported by other senior managers who have been available and prepared to discuss key risks, issues and opportunities facing Customs.

The ARC 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 ARC has focused on offering thoughts and guidance on the status and management of:

- Customs and Excise Act progress and implementation
- Health and safety governance
- Customs' risk framework and Strategic Risk Profile
- Customs' internal assurance functions and audit work programme
- Integrity, and trust and confidence issues
- Customs' significant projects implementation and review
- Customs' Four Year Plan, Long Term Investment Plan and the Investor Confidence Report
- Customs' governance frameworks and processes.

In 2018/19 the ARC intends to build on the progress made in the past year and continue to fulfil its charter obligations. The ARC plays an essential role in supporting the Comptroller and Customs senior management in their understanding and effective management of risk.

It recognises the effort that goes into maintaining Customs' enviable reputation and the high levels of trust it enjoys from key stakeholders and the New Zealand public.

**Geoff Vazey**  
Chair  
New Zealand Customs Service Audit and Risk Committee

### Maintaining integrity

If we are to maintain our reputation and deliver our mandate effectively, we must have public trust and confidence in Customs, especially as we rely on the vast majority of customers and those we interact with to comply voluntarily with our requirements. We recognise that integrity – doing what's right – is fundamental to maintaining that trust and confidence. Our solid reputation depends on the way we act and the way we use our powers to protect and promote New Zealand through world-class border management.

During 2017/18, we progressed our programme of initiatives to continue to safeguard integrity and prevent corruption. This included: facilitating workshops to promote integrity and speaking up about wrongdoing, raise awareness, and generate conversation; reviewing and refining our integrity triage process and disciplinary policy and procedure; developing a secondary employment policy, conflict of interest policy, and e-learning tools; focusing on personnel security, information security and security policy development; presenting at international integrity forums; and continuing to strengthen our networks with other key agencies and administrations on integrity and security matters.

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

### Code of Conduct

Our Code of Conduct applies to all our employees and all those we engage as contractors and consultants. It outlines the expected behaviour under four standards – *fair*, *impartial*, *responsible*, and *trustworthy*. This is in keeping with the State Services Commissioner's Standards of Integrity and Conduct. 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. In addition to the IAC, Customs has a disciplinary policy and procedures for addressing unacceptable behaviour.

The following table shows the outcomes of the investigations concluded in 2017/18 into allegations of unacceptable behaviour by Customs staff and contractors/consultants engaged by Customs:

Upheld	Not upheld	Withdrawn	Relevant person left Customs*	Did not meet threshold for misconduct
11	4	3	4	5

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

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

Unacceptable behaviour alleged	Upheld	Not upheld
Actions that bring Customs into disrepute	1	–
Inappropriate use of, or access to, Customs' systems	5	–
Inappropriate behaviour at work	2	1
Knowingly making a false declaration	1	–
Conflict of interest	1	1
Attendance	1	1
Failure to follow procedures	–	1

When misconduct occurs and it is determined that disciplinary measures are necessary, these are meant to be corrective rather than punitive. In some cases termination is justified and appropriate. The following table provides statistics on disciplinary action or sanctions in 2017/18:

Formal warning <sup>34</sup>	Termination (with or without notice)
10	1

The termination was of an employee who made a false declaration. Of the 10 warnings issued, six were classified as final written warnings. While we consider one incident is one incident too many, these numbers need to be understood in the context of a workforce of nearly 1,300 employees.

Customs records all this information, giving us the opportunity to identify issues, trends, and lessons, and enabling the CEB and Audit and Risk Committee to consider broader integrity, ethical, or cultural matters.

## Privacy

Our goal is to be a privacy-aware organisation that treats personal information with care, respect, and transparency to promote trust and confidence from customers, employees, and stakeholders. Our mission is to be 'transparent to the public, trustworthy by design'.

Being privacy-aware requires that we are clear when we collect, use, enrich, disclose, and dispose of personal information. We regard compliance with the Privacy Act as a great responsibility, and we work hard to protect every individual's personal information by embedding privacy protections and transparency into all of our activities.

<sup>34</sup> 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.

Customs has a dedicated team managing privacy. It is supported in its operational oversight and governance by a Privacy Working Group (comprising representatives from all of the business), and the team provides quarterly reports on notable actions and metrics to the CEB. In 2017/18 Customs looked into 23 privacy incidents, including near-misses, reported by staff. All these incidents were investigated and closed. There were no complaints to, or referred from, the Office of the Privacy Commissioner concerning our handling of information or our response to Privacy Act requests.

During 2017/18, we undertook several initiatives to progress our privacy work programme. We developed and implemented a number of policies and processes, including those related to managing privacy incidents and privacy-related complaints. We refreshed our privacy learning module, which is mandatory for every new staff member, and further embedded 'privacy by design' through privacy threshold and privacy impact assessments. We also surveyed staff to assess our privacy confidence and competence, the results of which demonstrated a healthy respect for and sound level of maturity in the management of personal information.

## People

People are critical to what we do. This is reflected in 'People and Culture' being one of the areas through which Customs is delivering on our strategic direction. Our organisational health and capability in this area is discussed on pages 24–28.

## Financial sustainability

A sustainable way of funding our border clearance activity is essential to ensuring Customs is able to effectively respond to the increasing demands on our services – particularly as trade and travel volumes, and the associated risks, continue to grow.

Customs and MPI recover the costs of processing travellers at the border from the users of those services through the Border Clearance Levy. In 2017/18 the levy rates payable to Customs

were reviewed for the first time, and new rates calculated based on updated border processing costs, forecasts of future traveller volumes, and reducing the surplus in the memorandum account (discussed on page 84). The new rates applied from 1 July 2018.

Customs currently recovers the costs of some of our goods clearance activity from third parties. In 2017/18 we continued our review of the cost recovery arrangements for this activity to ensure that importers and exporters are making a fair contribution to the costs we incur in processing their goods. We are developing an activity-based costing model to improve our understanding of the true costs of providing our services, along with a cost recovery framework to guide decisions about setting charges. These will inform the review. Any proposed changes to goods clearance cost recovery would be subject to public consultation.

## Asset performance indicators

### Asset portfolios

Assets have been grouped into the following Asset Portfolios for reporting:

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

Other assets have been excluded for reporting due to their lesser significance (criticality) to delivering our core services.

### Asset performance

#### Property asset performance measures

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

As Customs' Asset Management Plan for property was under development, some of the measures and targets were not finalised in 2017/18. The following measures can be reported for 2017/18:

Measure	Indicator	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual
m <sup>2</sup> per office person	Utilisation	≤16m <sup>2</sup>	17.66m <sup>2</sup>	≤16m <sup>2</sup>	17.95m <sup>2</sup>
Percentage of buildings that adhere to security requirements	Functionality	100%	100%	100%	100%

Customs is working towards the target of 16m<sup>2</sup> and is expecting to close the gap over the next two years as staff numbers increase (particularly as a result of the Budget 2018 funding discussed on page 17) and through a review of options for relocation as leases come up for renewal or expiry.

### ICT asset performance measures

The following measures relate to Customs' key ICT systems.<sup>35</sup> The measures are used in our Asset Management Plans and were agreed at the Executive level.

Measure	Indicator	2016/17 Target	2016/17 Actual	2017/18 Target	2017/18 Actual
Percentage of time systems available	Availability	100%	99.27%	100%	99.40%
Percentage of priority one incidents resolved within agreed support and maintenance service levels	Functionality	100%	86.2%	100%	86.4%
Percentage of ICT assets fully supported by vendor	Condition	100%	80%	100%	60%
Percentage of commercial air passengers using eGate	Utilisation	N/A	44.7%	N/A <sup>36</sup>	53.7%
Percentage of revenue collected electronically	Utilisation	>95%	99.3%	>95%	99.2%
Percentage of trade lodgements processed electronically	Utilisation	N/A <sup>37</sup>	97.2%	N/A <sup>37</sup>	97.2%

#### Explanation for variances from 2017/18 standard

Availability: if planned outages are excluded, availability was 99.78 percent. Planned outages are scheduled for times that have the minimum possible impact on business operations (including least disruption to our customers).

Functionality: the result is based on 19 of 22 incidents being resolved within agreed support levels.

Condition: our FMIS is no longer fully supported and is currently being replaced. Nexus is also no longer fully supported and is being upgraded to address this. While both systems remain fully functional, their unsupported status presents risk to business continuity in the event of failure.

<sup>35</sup> Joint Border Management System/Trade Single Window (TSW); CusMod border management system; Nexus data warehouse; eGate for passenger processing; Financial Management Information System (FMIS).

<sup>36</sup> The standard for this measure for 2018/19 is >55%, as discussed on page 42. This measures utilisation by all passengers whereas the measures reported for 2017/18 on page 42 relate only to eligible New Zealand and Australian passengers.

<sup>37</sup> The working target is 97%. This will be reviewed in 2018/19.

# Statement of Responsibility

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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 1989, whether or not that information is included in this annual report
- the accuracy of any end-of-year performance information prepared by the New Zealand Customs Service, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the New Zealand Customs Service as at 30 June 2018 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 2019 and its operations for the financial year ended on that date.



**Christine Stevenson**

Acting Comptroller of Customs  
28 September 2018

# Independent Auditor's Report

## TO THE READERS OF THE NEW ZEALAND CUSTOMS SERVICE'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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

- the financial statements of the Department on pages 62 to 85, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, the statement of comprehensive revenue and expense, statement of 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 2018 on pages 8 to 24 and 40 to 57;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2018 on pages 59 and 60;
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 88 to 94 and 66 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2018;
  - the schedules of expenses; and revenue for the year ended 30 June 2018;
  - the schedule of trust monies for the year ended 30 June 2018; and
  - the notes to the schedules that include accounting policies and other explanatory information.

### Opinion

In our opinion:

- the financial statements of the Department on pages 62 to 85:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.
- the performance information of the Department on pages 8 to 24 and 40 to 57:
  - presents fairly, in all material respects, for the year ended 30 June 2018:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Department on pages 59 and 60 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 88 to 94 and 66 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 2018;
  - expenses; and revenue for the year ended 30 June 2018; and
  - the schedule of trust monies for the year ended 30 June 2018.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Acting Comptroller 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 for the information to be audited**

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

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

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

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

The Acting Comptroller's responsibilities arise from the Public Finance Act 1989.

### **Responsibilities of the auditor for the information to be audited**

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

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

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the relevant Estimates and Supplementary Estimates of Appropriations 2017/18 and the 2017/18 forecast financial figures included in the Department's 2016/17 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.
- 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 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 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 is responsible for the other information. The other information comprises the information included on pages 1 to 6, 24 to 35 and 95 to 98, but does not include the information we audited, and our auditor's report thereon.

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

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

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

### Independence

We are independent of the Department in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (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.



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



# Performance Information: Report Against Appropriations

For the year ended 30 June 2018

This section of our annual report contains end-of-year performance information for the 2017/18 financial year for the output class appropriations and departmental capital expenditure appropriation contained in *The Estimates of Appropriations 2017/18 for Vote Customs*. Collectively, these output classes support the achievement of the outcomes and priorities discussed on pages 5–6.

## Summary of output performance measures achieved

Output class			
Clearance and enforcement services related to passengers and crew	8/10 Achieved	Revenue collection	5/5 Achieved
Clearance and enforcement services related to goods	11/15 Achieved	Policy advice	2/3 Achieved
Clearance and enforcement services related to craft	2/3 Achieved	International services and ministerial servicing	3/3 Achieved
Information and intelligence services	1/4 Achieved	Total	32/43 Achieved

The end-of-year performance information in this section (the "Actual" results for 2017/18) is audited.

The "Budget" figures are those included in *The Estimates of Appropriations 2017/18*. The "Revised Budget" figures are those from *The Supplementary Estimates of Appropriations 2017/18*. This information is unaudited.

If a performance measure was in place in the prior 2016/17 financial year, comparative performance information for 2016/17 has been included. To provide further context for the 2017/18 results, we have also included the standards set for the output performance measures for 2018/19, together with the new output performance measures for 2018/19 (as contained in *The Estimates of Appropriations 2018/19 for Vote Customs*). For any new measures for 2018/19, we have not reported results for 2016/17 or 2017/18. 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
<i>Revenue</i>				
5,819	Crown	1,007	1,007	3,465
68,196	Other	72,670	64,129	64,606
74,015	Total revenue	73,677	65,136	68,071
66,225	Expenses before remeasurements	64,866	65,136	68,071
7,790	Surplus/(Deficit)	8,811	-	-

### Performance

#### Processing of air passengers

Reflecting the continuing growth in traveller volumes, Customs processed a record 7.0 million arriving international air passengers and crew in 2017/18, at the top of the expected range of 6.2–7.0 million.

As discussed on page 12, Customs' processing of the rising air passenger volumes is assisted by increasing use of eGate (SmartGate) by passengers. The performance measures for 2017/18 relate only to use by Australian and New Zealand passengers. As eGate is now used by a number of nationalities, for 2018/19 these two measures have been replaced by one for the percentage of all commercial air passengers using eGate.

#### Risk management

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

<sup>38</sup> We undertook two rounds for the survey of arriving international air passengers' satisfaction in 2017/18 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 12,879 passengers, and we received a total of 1,663 responses. This survey had a margin of error of 2.30%.

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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) <sup>38</sup>	82.7%	85%	78.8%	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) <sup>38</sup>	85.7%	85%	86.0%	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) <sup>38</sup>	82.7%	85%	85.5%	85%
Minimum percentage of arriving international air passengers who trust Customs (as measured by Customs' stakeholder survey) <sup>38</sup>	94.0%	85%	91.9%	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	99.5%	98%	99.5%	98%
Minimum percentage of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival	94.3%	90%	95.9%	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	0.5%	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	44.4%	45–55%	56.4%	45–55%
<i>Passenger processing output: Passengers can complete their transactions with government easily in a digital environment</i>				
Minimum percentage of eligible arriving New Zealand and Australian international air passengers who use SmartGate	75.8%	70%	83.0%	Measure replaced (see below)
Minimum percentage of eligible departing New Zealand and Australian international air passengers who use SmartGate	67.0%	65%	75.3%	
Minimum percentage of commercial air passengers using eGate	N/A	N/A	N/A	55%

### Explanation of variances for standards not achieved

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

The overall results from the passenger survey were positive and this is the only measure that did not meet the standard. Comments from passengers suggest that a key reason was the ongoing renovation work that is taking place at Auckland International Airport. This has had an impact on passenger processing.

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

While below the standard, those our risk assessment identified for additional intervention were interacted with in our secondary areas. Enhanced risk assessment and better targeting of interventions to risk has resulted in lower levels of interaction with compliant passengers.

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
<i>Revenue</i>				
19,995	Crown	18,909	18,909	19,497
61,803	Other	64,759	65,731	59,942
81,798	Total revenue	83,668	84,640	79,439
78,801	Expenses before remeasurements	83,618	84,640	79,439
2,997	Surplus/(Deficit)	50	-	-

## Performance

### Trade transactions

In 2017/18 Customs expected to process an estimated 8.5–9.5 million import transactions, 4.0–5.0 million export transactions, and 3,600–4,200 excise returns. We processed 10.86 million import transactions, 5.15 million export transactions, and 4,710 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 8–11 and pages 16–18. That includes information on the volumes of drugs seized by Customs at the border in 2018/19 (page 8), which led to the results for the measures on page 45 relating to the harm avoided through seizures and the street value of those drugs being considerably above the standards.

### Checks on compliance

Customs undertakes risk audit activity to ensure that importers, exporters, and licensed manufacturers of excisable goods are compliant with legislation and that the correct duties and taxes are paid. The number of audits undertaken depends on identified risks and the complexity of the audits undertaken. For 2018/19 we have shifted from a measure relating to the minimum number of audit activities undertaken to one for the percentage of scheduled audit activities undertaken. Scheduled audit activity is based on identified risk priorities.

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

### Investigations

We commenced 120 investigation cases in 2017/18, within the 100–300 estimate. In recent years, Customs' investigations have become increasingly strategic with a focus on disrupting supply chains and criminal organisations. These cases are usually more complex and require longer investigation times and greater commitment of resources. As a result, the standard for the measure for finalising cases within 12 months of commencement has been changed for 2018/19 from a minimum of 90% to between 70%–85%.

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	Actual	Standard	Actual	Standard
<i>Trade</i>				
<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) <sup>39</sup>	80.9%	85%	77.5%	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) <sup>39</sup>	72.7%	85%	65.9%	85%
Maximum percentage of X-ray inspections undertaken on Secure Exports Scheme (SES) containers <sup>40</sup>	0.02%	0.05%	0.02%	0.05%
Minimum percentage of X-ray inspections undertaken on non-SES containers <sup>40</sup>	0.5%	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	99.9%	95%	99.8%	95%
Minimum percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention <sup>41</sup>	98.5%	95%	98.8%	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	88.7%	90%	90.3%	90%
Minimum number of risk-based trade compliance audit activities undertaken	339	400	354	Measure replaced (see below)
Percentage of scheduled audit activities conducted	N/A	N/A	N/A	100%
<i>Protection</i>				
<i>Protection intermediate outcome: The New Zealand public is protected through the interception of harm and potential harm</i>				
Minimum value of harm (NZ\$) avoided through Customs' drug seizures, as measured by indicative data from the New Zealand Drug Harm Index	\$1.149 billion <sup>42</sup>	\$500 million	\$1.336 billion	\$500 million
Minimum losses (NZ\$) incurred by importers of illegal goods through seizure of illicit drugs and proceeds of crime	\$329.3 million <sup>42</sup>	\$250 million	\$345.4 million <sup>43</sup>	\$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	53.2%	50%	51.5% <sup>44</sup>	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	0.03%	0.02%	0.04%	0.03%
<i>Investigations output: Goods that show risk are subject to further intervention</i>				
Minimum percentage of investigation cases finalised within 12 months of commencement	85.5%	90%	64.2%	70%–85%
Minimum percentage of serious investigation cases <sup>45</sup> that lead to punitive action <sup>46</sup>	96.3%	90%	92.7%	90%

## Explanation of variances for standards not achieved

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

The result reflects in part increased customer expectations that Customs will provide immediate and effortless services for customers, including higher-quality online services and more immediate responses to queries. We continue to progress work to make compliance easier for customers through electronic and digital channels.

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

A greater proportion of survey respondents used Trade Single Window (TSW), so the result is in part due to initial reactions to adapting to the new information requirements that enable better risk management, in addition to issues customers might have experienced in using TSW during 2017/18. We continue to enhance TSW to improve the user experience.

### 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 require more in-depth investigation and a longer time commitment to finalise the case.

<sup>39</sup> 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 15,000 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 4,700 were invalid addresses or bounced back due to security restrictions on the account. We received 1,643 complete responses, of which 1,027 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 2.32% (calculated at 95% confidence level).

<sup>40</sup> 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.

<sup>41</sup> 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.

<sup>42</sup> This is the result reported in the *New Zealand Customs Service Annual Report 2017* based on the provisional totals for drugs seized in that year.

<sup>43</sup> The illicit drugs seized by Customs in 2017/18 had an estimated street value of \$345.3 million, calculated using drug prices sourced from National Drug Intelligence Bureau (NDIB) Illicit Drug Prices May 2018. Those prices have dropped since the calculation of the street value of the drugs seized in 2016/17 (based on the NDIB April 2017 prices). The balance of the result for this measure is the cash seized at the border by Customs in 2017/18, under the Anti-Money Laundering and Countering Financing of Terrorism Act, totalling \$0.102 million.

<sup>44</sup> This result is an average of the survey's results that Customs protects against: people coming into or leaving New Zealand illegally (53.8%); and illicit drugs (49.5%), people with criminal or terrorist intent (55.5%), protected New Zealand objects (cultural and heritage items) (44.8%), and restricted or prohibited goods (endangered species and flora and fauna, illegal and stolen goods, and indecent materials) (53.9%) entering or leaving New Zealand.

<sup>45</sup> 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.

<sup>46</sup> 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.

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
	Revenue			
9,395	Crown	8,890	8,890	9,675
211	Other	65	65	221
<b>9,606</b>	<b>Total revenue</b>	<b>8,955</b>	<b>8,955</b>	<b>9,896</b>
9,530	Expenses before remeasurements	8,926	8,955	9,896
<b>76</b>	<b>Surplus/(Deficit)</b>	<b>29</b>	<b>-</b>	<b>-</b>

### Performance

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

All small craft are to be boarded while arriving commercial craft will be boarded if there is an identified need – such as craft showing a high risk or visiting New Zealand for the first time. This helps to effectively mitigate border risks, and ensure compliance with Customs legislation, policy, and procedures. We boarded all 631 (within the expected range of 600–700) arriving small marine craft in 2017/18.

All 493 arriving commercial marine craft showing high risk or requiring administrative process (below the 750–900 forecast – this total has been decreased to 400-500 for 2018/19) were boarded. A proportion of the commercial craft with a lower risk rating is also subject to secondary interaction – this encourages and maintains high levels of voluntary compliance, and acts as a check on Customs' risk assessments (while the information collected feeds into future assessments).

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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%	99.8%	100%
Percentage of arriving commercial marine craft (including cruise ships) showing high risk or requiring administrative process that are boarded while in a New Zealand port	100%	100%	100%	100%
<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	8.5%	5%	7.9%	5%

### Explanation of variances for standards not achieved

#### Small marine craft that are boarded as soon as practicable after arrival in a New Zealand port

One arriving small craft was not boarded – it had departed New Zealand (from Napier) then broke a sail so arrived in Gisborne for repairs. An agent attended the vessel in Gisborne to issue clearance and the vessel was assessed as low-risk.

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
	Revenue			
11,026	Crown	13,277	13,277	12,928
2,003	Other	882	826	1,508
13,029	Total revenue	14,159	14,103	14,436
12,837	Expenses before remeasurements	13,689	14,103	14,436
192	Surplus/(Deficit)	470	–	–

### Performance

#### Services for other agencies

In 2017/18 we disseminated 638 intelligence and risk products, just above the expected 500–600. 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 risk management.

Agencies provide Customs with information about people or goods that are of interest to them. Our border management system electronically screens data for matches, enabling Customs to notify the other agency if the person or goods arrive at the border. We managed 77,742 of these alerts created by other agencies in 2017/18, below the forecast of 85,000–90,000. These alerts were created by MBIE (54.2% of the total), the Ministry of Justice (29.5%), Inland Revenue (9.7%), NZ Police (5.8%), and other agencies (0.8%). MBIE remains the largest proportion due to Immigration NZ alerts created on behalf of the Department of Corrections.

#### National Maritime Coordination Centre (NMCC)

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

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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%	60% <sup>47</sup>	80%
Minimum percentage of external clients who are satisfied with Customs' management of alerts created by their agency	100%	80%	100% <sup>48</sup>	80%
Minimum percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's coordination of tasking	80%	80%	75% <sup>49</sup>	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	74.5%	80%	77.9%	80%

### Explanation of variances for standards not achieved

The standards for three of the four measures in this output class appropriation were not met – the results for two of those were affected by the low number of respondents to the relevant surveys, while the result for the other was just below the standard.

#### External clients who are satisfied with intelligence and risk products disseminated by Customs

Of the five responses, three were satisfied and two were “neither satisfied nor dissatisfied”. As some of the products are designed for Customs' internal use and then disseminated to external clients for their information, these are not able to be directly operationalised by those clients. In 2018/19 we are refreshing our suite of products.

#### Requesting agencies and assets providers satisfied with NMCC's coordination of tasking

We received responses from four agencies; three respondents were satisfied or very satisfied, one respondent was dissatisfied. The dissatisfied respondent felt that communication between the NMCC, requesting agencies, and asset providers could be improved. The NMCC will explore how this might be 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 completed.

<sup>47</sup> We sought feedback (by inviting agencies to complete an online survey) from 11 external clients and received responses from five.

<sup>48</sup> We sought feedback (by inviting agencies to complete an online survey) from five agencies for which we managed alerts and received responses from three of those agencies.

<sup>49</sup> We sought feedback from seven agencies and received responses on this measure from four of those agencies. The survey responses were a mix of written and verbal (by phone).

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
<i>Revenue</i>				
8,346	Crown	9,697	9,697	8,216
478	Other	613	600	481
8,824	Total revenue	10,310	10,297	8,697
8,322	Expenses before remeasurements	10,121	10,297	8,697
502	Surplus/(Deficit)	189	-	-

### Performance

A net total of \$44.56 million in additional revenue owing was identified, significantly exceeding the target of a minimum of \$15 million. This additional revenue is identified through undertaking verifications of data entered by importers, exporters, and licensed manufacturers of excisable goods; voluntary disclosures by traders; and audit activity. There is a high degree of variability in the total collected year-to-year as it is frequently affected by a small number of high-value collections.

Customs' contribution to the Revenue outcome is discussed on pages 13–14.

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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 <sup>50</sup>	99.3%	95%	99.4%	95%
Minimum number of clients that meet credit criteria and have access to the deferred payment scheme	8,965	9,000	9,257 <sup>51</sup>	9,000
<i>Revenue output: Due revenue is collected</i>				
Minimum percentage of revenue that is collected by the due date	99.3%	98%	99.5% <sup>52</sup>	98%
<i>Revenue output: Revenue clients' compliance is monitored</i>				
Debt write-offs as a maximum percentage of total Crown revenue collected	0.00%	0.06%	0.057%	0.06%
Minimum additional revenue (NZ\$) owed that is identified through the trade compliance programme	\$140.08 million	\$15 million	\$44.56 million	\$15 million

<sup>50</sup> 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 0.6% of the total revenue collected in 2017/18).

<sup>51</sup> This is an average of the 12 monthly totals. As at 30 June 2018, the total number of clients was 9,421.

<sup>52</sup> 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 99.5% for 2017/18).

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
	Revenue			
4,471	Crown	5,186	5,186	4,736
–	Other	32	20	–
4,471	Total revenue	5,218	5,206	4,736
4,158	Expenses before remeasurements	4,919	5,206	4,736
313	Surplus/(Deficit)	299	–	–

### Performance

Customs provided policy advice to the Minister of Customs in 2017/18 on a range of topics related to border management, including:

- the review of the Customs and Excise Act 1996, and the passage of the Customs and Excise Act 2018
- methods of collecting GST on imported low-value goods and implications for the *de minimis* threshold
- the response to drugs and transnational organised crime, including the development of the Maritime Powers Extension Bill
- the regulation 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.

To monitor the quality of our policy advice, in addition to our internal quality assurance, Customs seeks the Minister of Customs' assessment of her 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 2017/18, 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. NZIER commented on how challenging it was for agencies to maintain a high standard as we have done. They mentioned that there were some extremely good papers in the sample and a vast array of good practice on display. It was noted our papers showed clearly well-developed frameworks, good data, an awareness of stakeholder views, and excellent knowledge of Cabinet and Parliamentary processes.

## Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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)	– <sup>53</sup>	75% <sup>54</sup>	77.5% <sup>55</sup>	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%	75%	75%	75%	75%
<i>Policy advice: cost-effectiveness</i>				
Maximum total cost (NZ\$) of professional staff per hour of producing outputs	\$105.7	\$107	\$108.3	\$120

### 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; the development of advice on the collection of duty and GST on low-value goods; and work on goods cost recovery.

<sup>53</sup> There was a change in the Minister of Customs in May 2017. The new Minister considered he had not been in the role long enough to develop an informed opinion relating to the 2016/17 financial year.

<sup>54</sup> A score of 70% corresponds to "meets expectations".

<sup>55</sup> This result relates to the period from when the new (following the 2017 general election) Minister of Customs became Minister on 26 October 2017 to the end of the 2017/18 financial year.

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
<i>Revenue</i>				
7,524	Crown	8,753	8,753	6,019
875	Other	1,180	1,285	2,013
<b>8,399</b>	<b>Total revenue</b>	<b>9,933</b>	<b>10,038</b>	<b>8,032</b>
8,085	Expenses before remeasurements	9,798	10,038	8,032
314	Surplus/(Deficit)	135	-	-

## Performance

### International services

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

A key contribution by Customs in this area relates to FTAs (as discussed on page 12).

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

- World Customs Organization (WCO) – Customs is one of the Asia/Pacific Region's representatives on the WCO Policy Commission, which sets the policy direction for the WCO. In 2017/18 Customs prepared a paper on border risks with cruise ships, which received significant support at the 2018 WCO Regional Heads annual meeting, and has resulted in the WCO progressing the issue. We were also successful in becoming the Customs Co-Chair of the Universal Postal Union/WCO Contact Committee, which is looking at the harmonisation of clearance and pre-clearance systems in the postal stream
- Border Five (B5) – Being a member of the B5 enables us to extend our reach, knowledge and expertise, and to move forward on key issues facing New Zealand individually and as a bloc
- Oceania Customs Organisation – Customs is a key member of this Pacific organisation, and is on the finance steering group. We contribute expertise and advice on a regular basis, particularly in relation to information sharing, border management practices, and the implementation of the Pacific Agreement on Closer Economic Relations (PACER Plus).

Customs also runs a full bilateral programme. In June 2018, Customs signed a Mutual Recognition Arrangement (MRA) with Hong Kong (as discussed on page 12).

China is an important partner for New Zealand, in both trade and enforcement. To enhance our relationship and discuss areas of mutual interest, we launched annual Customs to Customs Talks, with the inaugural meeting taking place between senior executives of New Zealand Customs and the General Administration of China Customs in China in August 2017.

Customs has a network of liaison officers located in offshore posts who support our work programme overseas and help to build better relationships and trust with our overseas partners. These posts provide additional policy and operational capability that support our trade, security, and enforcement objectives.

Customs is delivering a five-year border-management development programme for the Pacific, funded (NZ\$4.5 million) by the Ministry of Foreign Affairs and Trade through a Partnership Arrangement, that 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.

### 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 2017/18 we provided 44 draft replies to ministerial correspondence, within the expected 40–70 range. We expected to provide 30–60 draft responses to written parliamentary questions to the Minister. The Minister (former and current) was asked a total of 168 written questions in 2017/18. While the majority of these were sent to Customs to provide draft responses, some were prepared directly by the Minister's office.

### Performance measures and standards

Measure	2016/17	2017/18		2018/19
	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	– <sup>53</sup>	Meets expectations	Meets and sometimes exceeds expectations <sup>55</sup>	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 or as agreed with the Minister	93.1%	90%	90.9%	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% <sup>56</sup>	100%

<sup>53</sup> This result does not include two written questions lodged (on 16 August 2017) with only three working days available to provide the answer before the dissolution of the 51st Parliament. These have not been included as the Standing Orders provide that the "reply to a written question must be lodged no later than the sixth working day following the day on which the question is published" – Customs provided the answers within that timeframe but these were not able to be lodged at Parliament due to the dissolution.

<sup>56</sup> This result does not include two written questions lodged (on 16 August 2017) with only three working days available to provide the answer before the dissolution of the 51st Parliament. These have not been included as the Standing Orders provide that the "reply to a written question must be lodged no later than the sixth working day following the day on which the question is published" – Customs provided the answers within that timeframe but these were not able to be lodged at Parliament due to the dissolution.

## 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

2016/17		2017/18		
ACTUAL		ACTUAL	UNAUDITED REVISED BUDGET	UNAUDITED BUDGET
\$000		\$000	\$000	\$000
9,009	Property, plant and equipment	9,103	7,456	7,456
(3,855)	Intangibles	6,617	7,375	7,375
-	Other	-	-	-
5,154	<b>Total Appropriation</b>	<b>15,720</b>	<b>14,831</b>	<b>14,831</b>

Although capital expenditure exceeded the Revised Budget, expenditure was within the permanent legislative authority granted by section 24(1) of the Public Finance Act.

### Performance measures and standards

Measure	2016/17	2017/18		2018/19
	Actual	Standard	Actual	Standard
Expenditure is in accordance with the department's intention to renew and replace computer equipment and software, furniture and fittings, leasehold improvements, motor vehicles and office equipment and plant	Achieved	Achieved	Achieved	Achieved



## APPROPRIATION STATEMENTS

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the New Zealand Customs Service for the year ended 30 June 2018.

### STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE INCURRED AGAINST APPROPRIATIONS For the year ended 30 June 2018

Annual and permanent appropriations for Vote Customs

2016/17		2017/18			
EXPENDITURE AFTER REEASUREMENTS \$000		EXPENDITURE AFTER REEASUREMENTS \$000	REEASUREMENTS* \$000	EXPENDITURE BEFORE REEASUREMENTS \$000	APPROVED APPROPRIATION 2018** \$000
	<i>Departmental output expenses</i>				
66,175	Clearance and enforcement services related to passengers and crew	64,875	9	64,866	65,136
78,764	Clearance and enforcement services related to goods	83,627	9	83,618	84,640
9,523	Clearance and enforcement services related to craft	8,927	1	8,926	8,955
12,831	Information and intelligence services	13,691	2	13,689	14,103
8,316	Revenue collection	10,123	2	10,121	10,297
4,156	Policy advice	4,920	1	4,919	5,206
8,081	International services and ministerial servicing	9,799	1	9,798	10,038
<b>187,846</b>	<b>Total departmental output expenses</b>	<b>195,962</b>	<b>25</b>	<b>195,937</b>	<b>198,375</b>
	<i>Departmental capital expenditure</i>				
5,154	New Zealand Customs Service – capital expenditure (Permanent Legislative Authority under section 24(1) of the Public Finance Act)	15,720	–	15,720	14,831
	<i>Non-departmental other expenses</i>				
59	World Customs Organization	60	–	60	60
4,516	Change in doubtful debt provision	2,385	–	2,385	8,000
4,575	<b>Total non-departmental other expenses</b>	<b>2,445</b>	<b>–</b>	<b>2,445</b>	<b>8,060</b>
<b>197,575</b>	<b>Total annual and permanent appropriations</b>	<b>214,127</b>	<b>25</b>	<b>214,102</b>	<b>221,266</b>

\* Remeasurements are the movement brought about by the change in the discount rate applied to non-current employee entitlements (see Note 12, page 78)

\*\* These are the appropriations from *The Supplementary Estimates of Appropriations 2017/18*

The 2017/18 end-of-year performance information for each departmental appropriation is reported in this annual report. The 2017/18 end-of-year performance information for the non-departmental appropriations is in a report by the Minister of Customs appended to this annual report.

In the 2017/18 financial year, the New Zealand Customs Service did not incur any:

- expenses or capital expenditure in excess of appropriation (2016/17 financial year: nil)
- expenses or capital expenditure without appropriation or other authority, or outside the scope or period of the appropriation (2016/17 financial year: nil).

## STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS For the year ended 30 June 2018

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	Vote Customs	
4,249	New Zealand Customs Service – capital injection	–

The New Zealand Customs Service has not received any capital injections during the year without, or in excess of, authority (2016/17 financial year: nil).



NZ/AU Passports  
Something to declare

その他すべてのパスポート

STAFF ONLY  
THRU 2/27



Passports

All other Passports

All other Passports



# Financial Statements

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE For the year ended 30 June 2018

2016/17			2017/18		2018/19
ACTUAL		Note	UNAUDITED BUDGET \$000	UNAUDITED SUPPS \$000	ACTUAL UNAUDITED FORECAST \$000
\$000			\$000	\$000	\$000
<i>Revenue</i>					
66,576	Crown (Non-exchange)	2	64,536	65,719	65,719
133,566	Exchange revenue	2	128,771	132,656	140,201
<b>200,142</b>	<b>Total revenue</b>		<b>193,307</b>	<b>198,375</b>	<b>205,920</b>
<i>Expenses</i>					
99,949	Personnel costs	3	105,357	107,225	106,399
63,441	Operating costs	4	61,007	64,923	63,271
15,054	Depreciation and amortisation expense	5	18,386	17,321	17,386
9,402	Capital charge	6	8,557	8,906	8,906
<b>187,846</b>	<b>Total expenses</b>		<b>193,307</b>	<b>198,375</b>	<b>195,962</b>
<b>12,296</b>	<b>Total comprehensive revenue and expense</b>		<b>-</b>	<b>-</b>	<b>9,958</b>

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

## STATEMENT OF CHANGE IN EQUITY For the year ended 30 June 2018

2016/17			2017/18		2018/19
ACTUAL		Note	UNAUDITED BUDGET \$000	UNAUDITED SUPPS \$000	ACTUAL UNAUDITED FORECAST \$000
\$000			\$000	\$000	\$000
146,656	Taxpayers' funds as at 1 July		150,906	157,984	157,984
12,296	Total comprehensive revenue and expense for the year		-	-	9,958
-	Capital withdrawals		-	-	-
4,249	Capital injections		-	-	-
(5,218)	Provision for return of surplus	11	-	-	(1,156)
<b>157,983</b>	<b>Taxpayers' funds as at 30 June</b>		<b>150,906</b>	<b>157,984</b>	<b>166,786</b>

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

## STATEMENT OF FINANCIAL POSITION

### As at 30 June 2018

2016/17			2017/18		2018/19
ACTUAL		Note	UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL
\$000			\$000	\$000	\$000
	<i>Current assets</i>				
35,470	Cash and cash equivalents		32,714	6,714	27,144
4,051	Prepayments		3,194	4,313	2,494
38,773	Debtors and receivables	7	24,759	51,911	55,852
<b>78,294</b>	<b>Total current assets</b>		<b>60,667</b>	<b>62,938</b>	<b>85,490</b>
	<i>Non-current assets</i>				
31,329	Property, plant and equipment	8	28,500	40,619	31,562
88,500	Intangible assets	9	99,822	104,817	85,935
25	Receivables and advances		32	25	23
<b>119,854</b>	<b>Total non-current assets</b>		<b>128,354</b>	<b>145,461</b>	<b>117,520</b>
<b>198,148</b>	<b>Total assets</b>		<b>189,021</b>	<b>208,399</b>	<b>203,010</b>
	<i>Current liabilities</i>				
19,309	Creditors and payables	10	22,990	35,161	19,494
11,340	Employee entitlements	12	10,761	11,340	11,512
5,218	Provision for repayment of surplus to the Crown	11	-	-	1,156
452	Other short term liabilities	13	-	68	246
<b>36,319</b>	<b>Total current liabilities</b>		<b>33,751</b>	<b>46,569</b>	<b>32,408</b>
	<i>Non-current liabilities</i>				
3,596	Employee entitlements	12	4,114	3,596	3,566
250	Other long term provisions	14	250	250	250
<b>3,846</b>	<b>Total non-current liabilities</b>		<b>4,364</b>	<b>3,846</b>	<b>3,816</b>
<b>40,165</b>	<b>Total liabilities</b>		<b>38,115</b>	<b>50,415</b>	<b>36,224</b>
<b>157,983</b>	<b>Net assets</b>		<b>150,906</b>	<b>157,984</b>	<b>166,786</b>
	<i>Equity</i>				
149,432	Crown capital and retained earnings	15	149,433	149,433	149,433
8,551	Memorandum accounts (net position)	15	1,473	8,551	17,353
<b>157,983</b>	<b>Total equity as at 30 June</b>		<b>150,906</b>	<b>157,984</b>	<b>166,786</b>

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

## STATEMENT OF CASH FLOWS

### For the year ended 30 June 2018

2016/17			2017/18		2018/19
ACTUAL		Note	UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL
\$000			\$000	\$000	\$000
	<b>Cash flows – operating activities</b>				
	<i>Cash was provided from:</i>				
57,552	Crown		77,490	58,675	46,384
134,077	Other		130,971	126,483	142,446
	<i>Cash was applied to:</i>				
(97,899)	Personnel		(100,684)	(104,882)	(106,256)
(57,823)	Operating		(80,324)	(53,785)	(62,758)
(744)	net GST		183	1,811	1,416
(9,402)	Capital charge		(8,557)	(8,906)	(8,906)
<b>25,761</b>	<b>Net cash flow from operating activities</b>	20	<b>19,079</b>	<b>19,396</b>	<b>12,326</b>
	<b>Cash flows – investing activities</b>				
	<i>Cash was provided from:</i>				
112	Sale of fixed assets		2	-	285
	<i>Cash was disbursed to:</i>				
(12,504)	Purchase of fixed assets		(7,456)	(17,599)	(9,103)
3,665	Purchase of intangible assets		(7,376)	(25,335)	(6,616)
<b>(8,727)</b>	<b>Net cash flow from investing activities</b>		<b>(14,830)</b>	<b>(42,934)</b>	<b>(15,434)</b>
	<b>Cash flows – financing activities</b>				
	<i>Cash was provided from:</i>				
4,249	Capital contributions		-	-	-
	<i>Cash was disbursed to:</i>				
(4,820)	Repayment of surplus		-	(5,218)	(5,218)
<b>(571)</b>	<b>Net cash flow from financing activities</b>		<b>-</b>	<b>(5,218)</b>	<b>(5,218)</b>
<b>16,463</b>	<b>Net increase/(decrease) in cash</b>		<b>4,249</b>	<b>(28,756)</b>	<b>(8,326)</b>
19,007	Cash at the beginning of the year		28,465	35,470	35,470
<b>35,470</b>	<b>Cash at the end of the year</b>		<b>32,714</b>	<b>6,714</b>	<b>27,144</b>

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

## STATEMENT OF COMMITMENTS

### As at 30 June 2018

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Capital commitments</i>	
1,949	Property, plant and equipment	–
<b>1,949</b>	<b>Total capital commitments</b>	<b>–</b>
	<i>Non-cancellable operating lease commitments</i>	
5,967	Not later than one year	11,918
22,349	Later than one year and not later than five years	22,338
2,023	Later than five years	995
<b>30,339</b>	<b>Total non-cancellable operating commitments</b>	<b>35,251</b>
<b>32,288</b>	<b>Total commitments</b>	<b>35,251</b>

#### 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 2018 (30 June 2017: nil).

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

## STATEMENT OF DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS As at 30 June 2018

### Quantifiable contingent liabilities

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
50	Employment disputes	-
38	Legal proceedings and disputes	-
<b>88</b>	<b>Total quantifiable contingent liabilities</b>	<b>-</b>

Legal proceedings and disputes relate to the estimated associated legal costs to the New Zealand Customs Service of performing its statutory role.

As at 30 June 2018, the New Zealand Customs Service had no unquantifiable contingent liabilities (30 June 2017: nil).

### Quantifiable contingent assets

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
-	Awarded court costs awaiting finalisation of appeal	7
-	<b>Total quantifiable contingent assets</b>	<b>7</b>

As at 30 June 2018 there were no unquantifiable contingent assets (30 June 2017: nil).

## SCHEDULE OF TRUST MONIES For the year ended 30 June 2018

ACCOUNT	AS AT 01/07/2017 \$000	CONTRIBUTION \$000	DISTRIBUTION \$000	AS AT 30/06/2018 \$000
Health Promotion Agency Trust	988	13,457	13,436	1,009
Heavy Engineering Research Association Trust	187	1,777	1,777	187
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	89,051	41,086	77,952	52,185
New Zealand Customs Service Multiple Deposit Scheme Release Trust	482	78,501	78,870	113
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	2	43,245	43,241	6
<b>Total</b>	<b>90,710</b>	<b>178,066</b>	<b>215,276</b>	<b>53,500</b>

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.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the year ended 30 June 2018**

#### **Note 1: Statement of accounting policies**

##### **Reporting entity**

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

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

The financial statements are for the year ended 30 June 2018. The financial statements were authorised for issue by the Acting Comptroller of Customs on 28 September 2018.

##### **Basis of preparation**

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

##### **Statement of compliance**

The financial statements of 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 2018 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 date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Revenue and Expense.

### Operating leases

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

### Cash and cash equivalents

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

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

### Payables

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

### Equity

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

### Memorandum Accounts

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

### Commitments

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

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

### Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are recorded in the Statement of Departmental Contingent Liabilities and Assets at the point at which the contingency is 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 2017/18 "Budget" figures are for the year ended 30 June 2018 and were published in the 2016/17 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2018. The 2017/18 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2017/18*. 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 2019 forecast figures for the year ending 30 June 2019 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2018/19 year.

The 30 June 2019 forecast figures have been prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were approved for issue by the Acting Comptroller of Customs on 12 April 2018.

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

While the New Zealand Customs Service regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 will not be published.

#### *Significant assumptions used in preparing the forecast financial information*

The forecast figures in these financial statements have been compiled on the basis of existing government policies and Ministerial expectations 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 2017/18 is used as the opening position for the 2018/19 forecasts.

The actual financial results achieved for 30 June 2019 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 2018, direct costs accounted for 72% (2017: 74%) 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 2018, indirect costs accounted for 28% of the New Zealand Customs Service's costs (2017: 26%)

### 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.

2016/17		2017/18		2018/19
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
67,434	Border Clearance Levy	47,186	71,665	66,342
40,341	Import Entry Transaction Fees	39,387	41,880	42,980
14,565	Goods Cost Recovery Fees	30,041	14,798	15,677
8,522	Information processing	8,473	8,392	7,378
999	Cost recoveries – other	1,344	1,398	2,116
757	Overseas aid projects	1,481	1,084	1,898
377	Compliance activity – Officers time	315	397	370
189	Rental income	226	267	284
218	Compliance activities – other	184	237	231
164	Sale of publications	134	83	68
<b>133,566</b>	<b>Total other revenue</b>	<b>128,771</b>	<b>140,201</b>	<b>137,344</b>

### Note 3: Personnel costs

2016/17		2017/18		2018/19
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
93,413	Salaries and wages	97,973	100,416	104,260
3,093	Employer contributions to defined contribution plans	3,399	3,361	3,459
3,443	Other personnel expenses	3,985	2,622	2,464
<b>99,949</b>	<b>Total personnel costs</b>	<b>103,357</b>	<b>106,399</b>	<b>110,183</b>

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**

2016/17		2017/18		2018/19
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
11,293	Computer equipment costs	8,671	11,261	10,560
10,923	Facilities management	10,478	11,620	11,566
6,739	Operating lease rentals	7,456	6,833	7,137
7,269	Consultants fees	8,334	2,375	3,236
4,153	Occupancy costs (excluding rentals)	3,889	3,833	4,067
2,865	Communication costs	2,705	3,159	2,998
245	Fees paid to Audit NZ for the financial statement audit	243	250	245
7	Net (gain)/loss on sale of fixed assets	-	386	(3)
559	Impairment	-	-	-
-	- Bad debts written-off	-	15	-
-	- Net foreign exchange losses	-	-	2
265	Increase/(decrease) in provision for doubtful debts	320	135	-
(151)	Other operating costs recovered	(646)	(191)	(550)
19,274	Other operating costs	19,557	23,593	24,186
<b>63,441</b>	<b>Total operating costs</b>	<b>61,007</b>	<b>63,271</b>	<b>63,444</b>

**Note 5: Depreciation and amortisation**

2016/17		2017/18		2018/19
ACTUAL		UNAUDITED BUDGET	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000
	<i>Depreciation</i>			
1,470	Leasehold improvements	1,535	1,217	1,151
136	Office equipment	115	208	146
4,158	Other equipment and plant	5,807	4,189	5,097
260	Furniture and fittings	590	282	143
1,956	Computer equipment	2,902	1,816	1,648
287	Motor vehicles	575	337	358
4	Launch and watercraft	4	114	188
<b>8,271</b>	<b>Total depreciation</b>	<b>11,528</b>	<b>8,163</b>	<b>8,731</b>
	<i>Amortisation</i>			
6,783	Intangible assets – computer software	6,858	9,223	11,804
<b>15,054</b>	<b>Total depreciation and amortisation cost</b>	<b>18,386</b>	<b>17,386</b>	<b>20,535</b>

## 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 2018 was 6.0% (1 July–31 December 2016: 7.0%, 1 January–30 June 2017 6.0%).

## 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).

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
11,291	Debtor – Border Clearance Levy	10,758
2,858	Debtor – Import Entry Transaction Fee	3,004
1,735	Debtor – Goods Cost Recovery	1,836
3,233	Trade debtors	1,161
813	Receivables	1,050
<b>19,930</b>	<b>Receivables and debtors from exchange transactions</b>	<b>17,809</b>
(244)	Less: provision for doubtful debts	(379)
<b>19,686</b>	<b>Net trade debtors</b>	<b>17,430</b>
19,087	Debtor – Crown	38,422
<b>19,087</b>	<b>Receivables and debtors from non-exchange transactions</b>	<b>38,422</b>
<b>38,773</b>	<b>Total debtors and receivables</b>	<b>55,852</b>

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

	2016/17			2017/18		
	GROSS \$000	IMPAIR- MENT \$000	NET \$000	GROSS \$000	IMPAIR- MENT \$000	NET \$000
Current	17,969	–	17,969	15,942	–	15,942
Past due 1-30 days	1,546	–	1,546	1,258	–	1,258
Past due 31-60 days	124	–	124	79	–	79
Past due 61-90 days	8	–	8	143	–	143
Past due >90 days	283	(244)	39	387	(379)	8
<b>Total</b>	<b>19,930</b>	<b>(244)</b>	<b>19,686</b>	<b>17,809</b>	<b>(379)</b>	<b>17,430</b>

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

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
20	Balance at 1 July	244
224	Additional provisions made during the year	150
-	<i>Receivables written-off during the year</i>	(15)
244	Balance at 30 June	379

### 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 15 years
Computer hardware	4 to 5 years
Motor vehicles	5 years
Launch and watercraft	5 to 25 years
Leasehold improvements	5 to 24 years

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

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

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

### **Impairment of non-financial assets**

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

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

	LEASEHOLD IMPROVEMENTS \$'000	OFFICE EQUIPMENT \$'000	OTHER EQUIPMENT \$'000	FURNITURE AND FITTINGS \$'000	COMPUTER EQUIPMENT \$'000	MOTOR VEHICLES \$'000	LAUNCHES/WATERCRAFT \$'000	TOTAL \$'000
<b>Cost</b>								
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)
Work in progress movement	(209)	10	8	(13)	184	88	2,394	2,462
<b>Balance at 30 June 2017</b>	<b>20,498</b>	<b>1,436</b>	<b>53,977</b>	<b>4,384</b>	<b>18,103</b>	<b>4,788</b>	<b>3,516</b>	<b>106,702</b>
Balance of work in progress	604	10	2,548	-	1,520	88	2,394	7,164
Balance at 1 July 2017	20,498	1,436	53,977	4,384	18,103	4,788	3,516	106,702
Additions	1,018	195	4,906	415	3,525	620	4,361	15,040
Disposals	-	(3)	(18,736)	(835)	(3,873)	(767)	(1,013)	(25,227)
Work in progress movement	(598)	(10)	(1,905)	209	(1,175)	(121)	(2,387)	(5,987)
<b>Balance at 30 June 2018</b>	<b>20,918</b>	<b>1,618</b>	<b>38,242</b>	<b>4,173</b>	<b>16,580</b>	<b>4,520</b>	<b>4,477</b>	<b>90,528</b>
Balance of work in progress	6	-	643	209	345	(33)	7	1,177
<b>Accumulated depreciation and impairment losses</b>								
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
<b>Balance at 30 June 2017</b>	<b>12,109</b>	<b>992</b>	<b>40,432</b>	<b>3,957</b>	<b>14,640</b>	<b>2,381</b>	<b>862</b>	<b>75,373</b>
Balance at 1 July 2017	12,109	992	40,432	3,957	14,640	2,381	862	75,373
Depreciation expenses	1,217	208	4,189	282	1,816	337	114	8,163
Disposals	-	(3)	(18,562)	(835)	(3,855)	(552)	(763)	(24,570)
<b>Balance at 30 June 2018</b>	<b>13,326</b>	<b>1,197</b>	<b>26,059</b>	<b>3,404</b>	<b>12,601</b>	<b>2,166</b>	<b>213</b>	<b>58,966</b>
<b>Carrying amount</b>								
At 1 July 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
At 30 June 2018	7,592	421	12,183	769	3,979	2,354	4,264	31,562

## Note 9: Intangible Assets

### Software acquisition and development

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

Staff training costs are recognised as an expense when incurred.

### Amortisation

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

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

Computer software                      5 to 15 years

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

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	TOTAL \$000
<b>Cost</b>			
Balance at 1 July 2016	22,278	116,091	138,369
Additions	2,655	29,076	31,731
Disposals	(155)	–	(155)
Work in progress movement	3,425	(39,014)	(35,589)
<b>Balance at 30 June 2017</b>	<b>28,203</b>	<b>106,153</b>	<b>134,356</b>
Balance of work in progress	6,949	5,126	12,075
Balance at 1 July 2017	28,203	106,153	134,356
Additions	1,878	2,425	4,303
Disposals	(844)	–	(844)
Work in progress movement	(1,402)	3,758	2,356
<b>Balance at 30 June 2018</b>	<b>27,835</b>	<b>112,336</b>	<b>140,171</b>
Balance of work in progress	5,547	8,888	14,435
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2016	10,299	28,931	39,230
Amortisation expenses	1,423	5,358	6,781
Disposals	(155)	–	(155)
<b>Balance at 30 June 2017</b>	<b>11,567</b>	<b>34,289</b>	<b>45,856</b>
Balance at 1 July 2017	11,567	34,289	45,856
Amortisation expenses	1,831	7,392	9,223
Disposals	(843)	–	(843)
<b>Balance at 30 June 2018</b>	<b>12,555</b>	<b>41,681</b>	<b>54,236</b>
<b>Carrying amount</b>			
At 1 July 2016	11,979	87,160	99,139
At 30 June 2017	16,636	71,864	88,500
At 30 June 2018	15,280	70,655	85,935

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

**Note 10: Creditors and Payables**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Payables under exchange transactions</i>	
9,242	Trade creditors and accrued expenses	7,895
9,922	MPI – Border Clearance Levy	10,038
<b>19,164</b>	<b>Total payables under exchange transactions</b>	<b>17,933</b>
	<i>Payables under non-exchange transactions</i>	
145	GST payable	1,561
<b>145</b>	<b>Total payables under non-exchange transactions</b>	<b>1,561</b>
<b>19,309</b>	<b>Total creditors and payables</b>	<b>19,494</b>

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**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
12,296	Net surplus/(deficit)	9,958
(7,078)	Add (surpluses)/deficits of memorandum accounts	(8,802)
<b>5,218</b>	<b>Total return of operating surplus</b>	<b>1,156</b>

**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 2.85% (2017: 2.93%) and a salary inflation factor of 2.50% (2017: 2.50%) were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2018. 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**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Current liabilities</i>	
3,946	Personnel accruals	3,719
6,264	Annual leave	6,643
1,130	Retirement and long service leave	1,150
<b>11,340</b>	<b>Total current portion</b>	<b>11,512</b>
	<i>Non-current liabilities</i>	
3,596	Retirement and long service leave	3,566
<b>3,596</b>	<b>Total non-current portion</b>	<b>3,566</b>
<b>14,936</b>	<b>Total employee entitlements</b>	<b>15,078</b>

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**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
452	Due to Crown – sale of seized goods	247
<b>452</b>	<b>Total other short term liabilities</b>	<b>247</b>

**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.

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
250	Lease make good provision	250
<b>250</b>	<b>Total other long term provisions</b>	<b>250</b>

Movement for provisions are as follows:

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
250	Lease make good provision as at 1 July	250
-	Additional provisions made	-
<b>250</b>	<b>Lease make good provision at 30 June</b>	<b>250</b>

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

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Crown Capital and retained earnings</i>	
145,183	Balance as at 1 July	149,433
12,296	Surplus/(deficit)	9,958
(7,078)	Transfer of memorandum account net (surplus)/deficit for the year	(8,802)
(5,218)	Return of operating surplus to the Crown	(1,156)
4,249	Capital injection	-
<b>149,432</b>	<b>Balance as at 30 June</b>	<b>149,433</b>
	<i>Memorandum accounts</i>	
1,473	Balance as at 1 July	8,551
7,078	Net memorandum account net surplus/(deficit) for the year	8,802
<b>8,551</b>	<b>Balance as at 30 June</b>	<b>17,353</b>
<b>157,983</b>	<b>Total equity as at 30 June</b>	<b>166,786</b>

## 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 2017/18 the New Zealand Customs Service had seven 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
<b>2016/17</b>				
Creditors and other payables (note 10)	19,309	–	–	–
<b>Total</b>	<b>19,309</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>2017/18</b>				
Creditors and other payables (note 10)	19,493	–	–	–
<b>Total</b>	<b>19,493</b>	<b>–</b>	<b>–</b>	<b>–</b>

## 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.

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Loans and receivables</i>	
35,470	Cash and cash equivalents	27,144
38,773	Debtors and other receivables	55,852
<b>74,243</b>	<b>Total loans and receivables</b>	<b>82,996</b>
	<i>Financial liabilities measured at amortised cost</i>	
19,309	Creditors and other payables	19,494
<b>19,309</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>19,494</b>

### 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.

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<b>Leadership Team, including the Comptroller</b>	
\$1,892,223	Salaries and other short-term employee benefits	\$1,807,538
6.0	Full-time equivalent staff	6.0

The above key management personnel disclosure for the New Zealand Customs Service consists of the members of the Customs Executive Board (discussed on page 30). In the 2016/17 Annual Report the reported \$3,072,906 included an additional six members of the New Zealand Customs Service's senior management, which reflected the previous governance structure. 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 2018**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
12,296	Net operating surplus/(deficit)	9,958
15,054	Depreciation and amortisation expense	17,386
15,054	<b>Total non-cash items</b>	<b>17,386</b>
	<i>Working capital movements</i>	
(8,501)	(Increase)/decrease in debtors and receivables	(17,079)
(53)	(Increase)/decrease in prepayments	1,557
5,295	Increase/(decrease) in creditors and payables	185
1,051	Increase/(decrease) in employee entitlements	172
405	Increase/(decrease) in other short term liabilities	(205)
(1,803)	<b>Working capital movements – net</b>	<b>(15,370)</b>
	<i>Movements in non-current liabilities</i>	
–	Provision for premises make good	–
(518)	Increase/(decrease) in employee entitlements	(30)
(518)	<b>Movements in non-current liabilities</b>	<b>(30)</b>
166	(Increase)/decrease in investing activity items	(4)
566	Net (gain)/loss on sale of fixed assets/impairment	386
732	<b>Total investing activity items</b>	<b>382</b>
25,761	<b>Net cash from operating activities</b>	<b>12,326</b>

**Note 21: Memorandum Account**

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
1,473	Opening balance 1 July	8,551
67,434	Revenue – Border Clearance Levy	72,670
(60,356)	Expenses	(63,868)
8,551	<b>Closing balance of total memorandum accounts</b>	<b>17,353</b>

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 rates was undertaken in 2017/18. This resulted in new rates effective from 1 July 2018 – set based on updated border processing costs, forecast traveller volumes, and reducing the surplus.

## **Note 22: Explanations for major variances from 2017/18 Budget**

### **Statement of Comprehensive Revenue and Expense**

Exchange Revenue increased compared to budget due to passenger volumes outstripping forecasted numbers resulting in higher collection of the Border Clearance Levy. It is also due to an increase in Import Entry Transaction Fees collected resulting from a higher than forecasted volume of goods imported.

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

### **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 memorandum account surplus reduced the need to draw down cash.

Intangible assets have decreased compared to budget due to the timing of two significant projects.

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

### **Statement of Cash Flows**

The net cash flow from operating activities and resulting impact on the cash balance is lower than budget due to the management and timing of revenue drawn down from the Crown.

## **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 2018

2016/17		2017/18			2018/19
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000	\$000
13,269,756	Revenue	13,766,060	14,213,060	14,379,262	14,687,060
4,575	Expenditure	8,060	8,060	2,445	8,060
2,039,595	Assets	2,211,795	2,079,594	2,113,145	2,155,594
21,024	Liabilities	16,936	21,023	24,477	21,023

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

## SCHEDULE OF NON-DEPARTMENTAL REVENUE For the year ended 30 June 2018

2016/17		2017/18			2018/19
ACTUAL		UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000		\$000	\$000	\$000	\$000
	Revenue				
	<i>Indirect taxation</i>				
985,172	Customs and excise duty on alcohol	1,003,000	1,028,000	1,017,216	1,053,000
1,676,644	Customs and excise duty on tobacco products	1,715,000	1,753,000	1,806,552	1,741,000
1,964,130	Customs and excise duty on refined motor spirit	1,957,000	1,971,000	1,963,275	2,029,000
152,237	Customs duty on other imported goods	148,000	172,000	171,672	172,000
8,491,514	Goods and Services Tax	8,943,000	9,289,000	9,420,487	9,692,000
13,269,697	<b>Total indirect taxation</b>	13,766,000	14,213,000	14,379,202	14,687,000
	<i>Indirect non-taxation</i>				
59	World Customs Organization	60	60	60	60
-	Sale of seized goods	-	-	-	-
59	<b>Total indirect non-taxation</b>	60	60	60	60
13,269,756	<b>Total revenue</b>	13,766,060	14,213,060	14,379,262	14,687,060

## SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE As at 30 June 2018

2016/17			2017/18			2018/19
ACTUAL		Note	UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000			\$000	\$000	\$000	\$000
<i>Expenditure</i>						
59	World Customs Organization		60	60	60	60
4,516	Change in provision for doubtful debts	2	8,000	8,000	2,385	8,000
4,575	<b>Total expenditure</b>		<b>8,060</b>	<b>8,060</b>	<b>2,445</b>	<b>8,060</b>

## SCHEDULE OF NON-DEPARTMENTAL ASSETS As at 30 June 2018

2016/17			2017/18			2018/19
ACTUAL		Note	UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000			\$000	\$000	\$000	\$000
<i>Current assets</i>						
953,423	Cash and cash equivalents		1,162,606	953,422	990,390	953,422
1,086,172	Receivables and other receivables	2	1,049,189	1,126,172	1,122,755	1,202,172
2,039,595	<b>Total assets</b>		<b>2,211,795</b>	<b>2,079,594</b>	<b>2,113,145</b>	<b>2,155,594</b>

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES As at 30 June 2018

2016/17			2017/18			2018/19
ACTUAL		Note	UNAUDITED BUDGET	UNAUDITED SUPPS	ACTUAL	UNAUDITED FORECAST
\$000			\$000	\$000	\$000	\$000
<i>Current liabilities</i>						
18,155	Payables and provisions		16,936	21,023	21,456	21,023
2,869	Creditor – departmental		–	–	3,021	–
21,024	<b>Total liabilities</b>	3	<b>16,936</b>	<b>21,023</b>	<b>24,477</b>	<b>21,023</b>

## STATEMENT OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS As at 30 June 2018

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Contingent liabilities</i>	
77,918	Legal proceedings and disputes – assessed	38,041
<b>77,918</b>	<b>Total contingent liabilities</b>	<b>38,041</b>
	<i>Contingent assets</i>	
-	Legal proceedings –assessed	173
-	<b>Total contingent assets</b>	<b>173</b>

### Contingent liabilities

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

### Contingent assets

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

## SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS As at 30 June 2018

The New Zealand Customs Service has no Crown Commitments as at 30 June 2018 (30 June 2017: nil).

## NOTES TO THE NON-DEPARTMENTAL STATEMENTS AND SCHEDULES For the year ended 30 June 2018

### Note 1: Statement of accounting policies

#### Reporting entity

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

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

#### Basis of preparation

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

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

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

The following particular accounting policies have been applied.

#### Revenue

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

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

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

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

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

### Debtors and other receivables

Debtors and other receivables are 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 2017/18 "Budget" figures are for the year ended 30 June 2018 and were published in the 2016/17 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2018. The 2017/18 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2017/18*. 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 2019 forecast figures for the year ending 30 June 2019 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2018/19 year.

### Note 2: Debtors and other receivables

2016/17		2017/18
ACTUAL		ACTUAL
\$000		\$000
855,042	Crown receivables	910,449
(12,374)	Less provision for doubtful debts	(6,608)
<b>842,668</b>	<b>Net Crown receivables</b>	<b>903,841</b>
243,504	Accrued revenue	218,914
<b>1,086,172</b>	<b>Total debtors and other receivables</b>	<b>1,122,755</b>
	<i>Represented by:</i>	
<b>1,086,172</b>	Receivables from non-exchange transactions	<b>1,122,755</b>

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
933,288	Not past due	895,902
152,284	Past due 1-30 days	226,853
600	Past due 31-60 days	–
–	Past due 60 days	–
<b>1,086,172</b>	<b>Total</b>	<b>1,122,755</b>

Movements in the provision for doubtful debts are as follows:

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
8,598	Balance at 1 July	12,374
4,516	Additional provisions made during the year	2,385
(740)	Less: Bad debts written off	(8,151)
<b>12,374</b>	<b>Balance at 30 June</b>	<b>6,608</b>

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

2016/17		2017/18
ACTUAL \$000		ACTUAL \$000
18,155	Payables and accruals	21,456
2,858	Import Entry Transaction Fees payable	3,004
11	Other creditors – Departmental	17
<b>21,024</b>	<b>Total creditors and other payables</b>	<b>24,477</b>

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:

2017/18		2017/18
ACTUAL \$000		ACTUAL \$000
	<i>Cash and receivables</i>	
953,423	Cash and cash equivalents	990,390
1,086,172	Debtors and other receivables	1,122,755
2,039,595	<b>Total cash and receivables</b>	<b>2,113,145</b>
	<i>Financial liabilities measured at amortised cost</i>	
21,024	Creditors and other payables	24,477
21,024	<b>Total financial liabilities measured at amortised cost</b>	<b>24,477</b>

**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 expenditure**

Expenses are less than budget due to effective debt management.

# Information Required by Statute

For period from 1 July 2017 to 30 June 2018

## Search and Surveillance Act 2012

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

Number of occasions on which entry or search powers were exercised without a warrant	156
Number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device	Nil
In relation to any surveillance devices used without a warrant, the:	
Number of interception devices used for:	
≤24 hours	N/A
>24 hours but ≤48 hours	N/A
Number of tracking devices used for:	
≤24 hours	N/A
>24 hours but ≤48 hours	N/A
Number of visual surveillance devices used for:	
≤24 hours	N/A
>24 hours but ≤48 hours	N/A
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	16

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

Number of applications for surveillance device warrants		13
Number of applications for surveillance device warrants granted		13
Number of applications for surveillance device warrants refused		Nil
Number of surveillance device warrants granted that authorised the use of:	tracking devices only	6
	visual surveillance devices only	Nil
	interception devices only	Nil
	tracking devices and visual surveillance devices	7
Number of surveillance device warrants granted that authorised entry into private premises		Nil
Number of interception devices used (authorised by a surveillance device warrant) for:	≤24 hours	Nil
	>24 hours but ≤3 days	Nil
	>3 days but ≤7 days	Nil
	>7 days but ≤21 days	Nil
	>21 days but ≤60 days	Nil
Number of tracking devices used (authorised by a surveillance device warrant) for:	≤24 hours	1
	>24 hours but ≤3 days	1
	>3 days but ≤7 days	10
	>7 days but ≤21 days	3
	>21 days but ≤60 days	15
	> 60 days (based on multiple warrants)	5
Number of visual surveillance devices used (authorised by a surveillance device warrant)* for:	≤24 hours	2
	>24 hours but ≤3 days	2
	>3 days but ≤7 days	3
	>7 days but ≤21 days	2
	>21 days but ≤60 days	6
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities under the authority of a surveillance device warrant		5
Number of reported breaches by a Judge to the chief executive (under section 61 or 62) of any of the conditions of the issue of a surveillance device warrant		Nil
Number of reports by a Judge to the chief executive (under section 61 or 62) about the use of a surveillance device not authorised under section 48 (warrantless emergency and urgency powers)		Nil

\* Some of the visual surveillance devices deployed by the New Zealand Customs Service in 2017/18 were authorised by surveillance device warrants obtained by NZ Police – as part of joint operations.

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

Number of applications for declaratory orders		Nil
Number of applications for declaratory orders granted		N/A
Number of applications for declaratory orders refused		N/A
Number of declaratory orders made that related to the use of:	a device	N/A
	a technique	N/A
	a procedure	N/A
	an activity	N/A
General description of the nature of the:	device	N/A
	technique	N/A
	procedure	N/A
	activity	N/A
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities covered by a declaratory order made		N/A

**Misuse of Drugs Act 1975 (Misuse of Drugs Amendment Act 1978)****Section 13M – detention warrants and searches**

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

**Privacy Act 1993 (from 22 August 2017 – when the relevant part of the Act was inserted/came into force – to 30 June 2018)**

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

**New Zealand Customs Service as holder agency**

MBIE (Immigration NZ) and New Zealand Police may access an individual's identity information held by Customs for the purposes of verifying the identity of a person.

Both agencies requested information held by Customs about persons during 2017/18 (between 22 August 2017 and 30 June 2018), although not specifically requesting the information under Part 10A (other information sharing arrangements were already, and remained, in place).

The information provided by Customs in response to requests included identity information such as biographical details or a photograph or visual image of the individual from that person's use of eGate.

**New Zealand Customs Service as accessing agency**

Customs accessed information held by another agency to verify the identity of a person	Number of times
Department of Corrections	304
Department of Internal Affairs	Nil
MBIE (Immigration)	Nil
Ministry of Health and District Health Boards	Nil
New Zealand Transport Agency	Nil

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

# Report of Minister of Customs on performance information for Vote Customs non-departmental appropriations 2017/18

This report contains the end-of-year performance information for the non-departmental other expenses appropriations contained in *The Estimates of Appropriations 2017/18* for Vote Customs. This performance information is not subject to audit.

The "Budget" figures are those included in *The Estimates of Appropriations 2017/18*. The "Revised Budget" figures are those from *The Supplementary Estimates of Appropriations 2017/18*.

Comparative performance information for 2016/17 has been included. To provide further context for the 2017/18 result, the standard set for the performance measure for 2018/19 (as contained in *The Estimates of Appropriations 2018/19* 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

2016/17		2017/18		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
4,516	Expenses	2,385	8,000	8,000
4,516	TOTAL EXPENSES	2,385	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	2016/17	2017/18		2018/19
	Actual	Standard	Actual	Standard
Debt write-offs as a maximum percentage of total Crown revenue collected	0.00%	0.06%	0.057%	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

2016/17		2017/18		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
59	Expenses	60	60	60
59	<b>TOTAL EXPENSES</b>	60	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	2016/17	2017/18		2018/19
	Actual	Standard	Actual	Standard
New Zealand's contribution to the operating budget of the WCO paid by the due date	Achieved	Achieved	Achieved	Achieved





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