



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

B.24 AR (2019)

B.14 (Vote Customs)

Annual Report 2019



Protecting New Zealand

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



A large blue and red cargo ship is docked at a pier. In the foreground, a yellow tugboat with black circular markings is visible. The background shows a coastal town and hills under a clear blue sky. The text is overlaid on the left side of the image.

Promoting and facilitating trade and travel

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



OMS

Collecting revenue

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





CUSTOMS

Chief executive's overview

We are here to protect New Zealand across borders.

Customs continued to focus on eliminating our country's border and revenue risk in the 12 months to 30 June 2019. We did this using both long-standing and established methods and more modern, innovative techniques – everything from physical searches, inspections, and audits to risk-based, intelligence-led assessments, and forensic electronic data analysis.

Customs work no longer relates to one, single, physical land border. Customs organisations must increasingly focus on their cyber borders and also work collaboratively with overseas partners to prevent risk from reaching their shores.

The change from traditional to modern border management has resulted in new legislation, and from 1 October 2018 we have operated under the Customs and Excise Act 2018. It has been more than 20 years since Customs had a new Act and, pleasingly, its implementation was a success.

The concept of multiple borders, and our role to protect New Zealand across them, is reflected in our new Customs Strategy – *Rautaki Mana Ārai*. Launched in 2018/19, the strategy identifies four strategic priorities: protection, travel, trade, and revenue. These priorities provide a focus for both our planning and reporting.

As a result of our focus on protecting New Zealand, by preventing risk reaching our border, we seized more than 1,960 kilograms of illicit drugs at our border in 2018/19, prevented \$520 million of potential social and economic harm by working with overseas partners to seize drugs overseas, and investigated more than 305,000 objectionable publications. We also detected \$8.5 million in undeclared currency in the 12 months to 30 June 2019.

Our focus on ensuring New Zealand's trade flows efficiently across borders saw Customs process 16.7 million import and export transactions in 2018/19. We also established a new London-based Customs Counsellor to help New Zealand exporters as they prepare for the United Kingdom's departure from the European Union. In June 2019 we signed Mutual Recognition Arrangements with Canada and Singapore to secure and guarantee overseas market access for New Zealand businesses.

Providing a streamlined experience for travellers across borders resulted in 14.5 million international passengers being assessed for risk and processed in 2018/19, almost all of whom complied with our country's border entry requirements. Pleasingly, 96.0% of commercial air passengers were processed within 45 minutes of their plane arriving. We also processed 58.1% of air passengers using eGates, which are available to citizens of 11 countries.

Customs has an important role in helping to collect all revenue due to the New Zealand Government. In 2018/19, we collected \$15.5 billion – about 18% of core tax revenue – and 99.5% of the revenue collected was done so electronically. Our revenue focus prevented 4.6 million cigarettes and 642 kilograms of loose tobacco from being smuggled into New Zealand in 2018/19. We also identified \$51 million in additional revenue owing to Customs through verifying data entered by importers, exporters, licensed manufacturers of excisable goods; voluntary disclosures by traders; and audit activity.

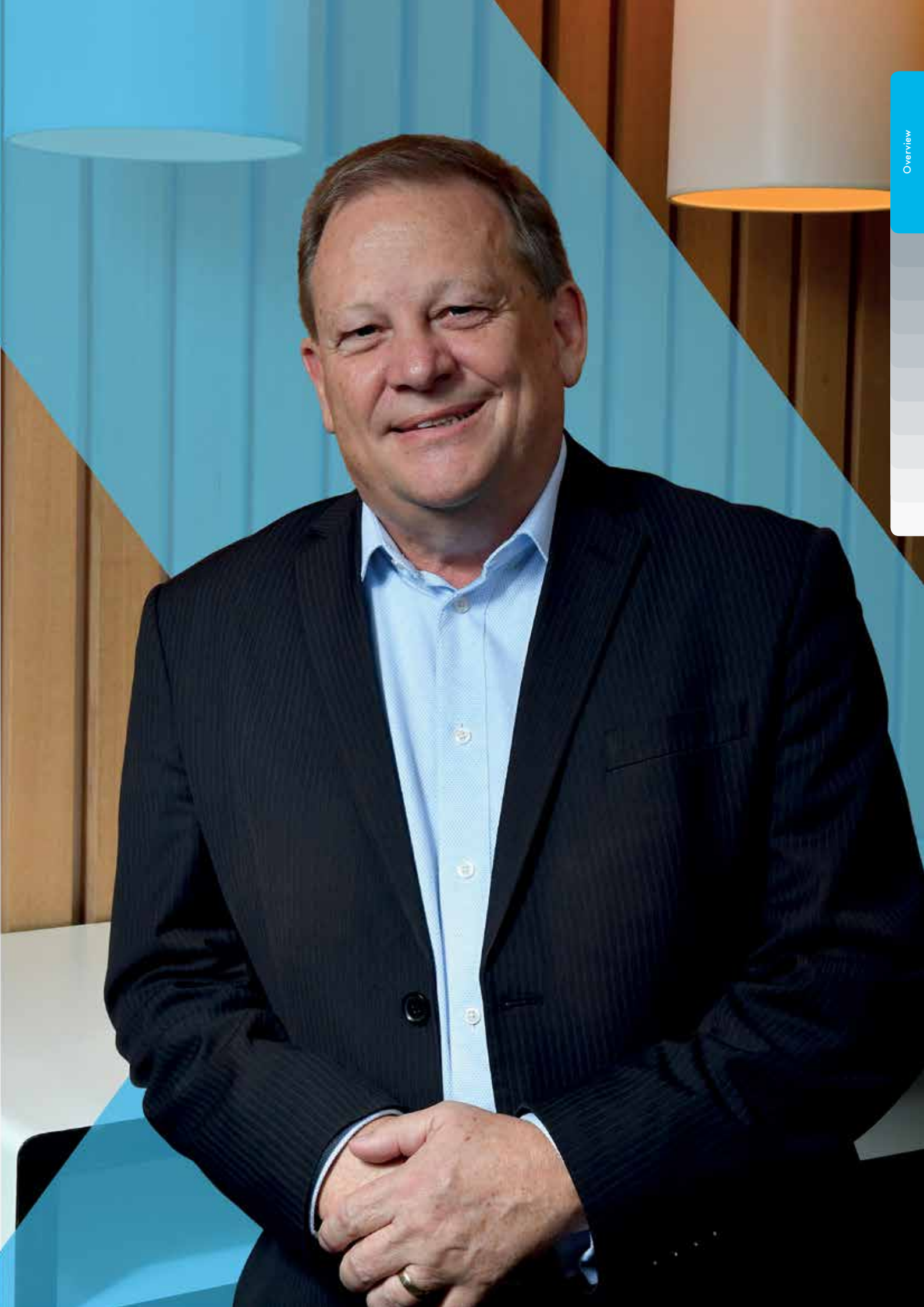
Importantly, our four strategic priorities – protection, trade, travel, and revenue – are underpinned by four key values: we do what's right – *te ara tika*; we are guardians – *kaitiakitanga*; we value people – *he tāngata*; we look forward – *pae tawhiti*. These values were selected by Customs employees because they resonate with them.

As Acting chief executive and Comptroller of Customs, I am honoured to lead a team of hard-working and committed professionals. Our people continued to exemplify the Spirit of Service for which the New Zealand public service is known. Their service is recognised annually by presenting the New Zealand Customs Service Medal and Clasps, and long service awards. In 2018/19, we recognised 235 staff in this way. The service of our Customs team was especially evident following the March 2019 attack on the Christchurch mosques, when we increased our primary border protection role and supported other government agencies.

The importance of investing in our staff saw a strong focus on leadership and governance, integrity and managing risks, and training our most important assets – our people.



Bill Perry
Acting Comptroller of Customs



The year at a glance

Protection

more than
1,960

kilograms
of illicit drugs seized
at our border

305
thousand+
objectionable
publications
investigated

\$520 million

of potential social
and economic harm
prevented by seizing
drugs overseas

Travel

14.5 million

international
passengers
assessed for risk
and processed

96%

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

58.1%
of air passengers
processed using
eGates

Trade

16.7 million

 import and export transactions processed

June 2019
 signed Mutual Recognition Arrangements with Canada and Singapore


New Customs Counsellor based in




January 2019
 in preparation for Brexit

Revenue

\$15.5 billion
 collected on behalf of the Crown

4.6 million

 cigarettes and **642 kilograms** of loose tobacco stopped from being smuggled into New Zealand

99.5%

 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 to and from New Zealand
- Collecting Crown revenue.

Our services

The services we provide include:

- facilitating the flow of people, goods, and craft across our border
- protecting New Zealand from external risks and threats such as illicit drug smuggling
- promoting and facilitating secure and efficient trade and travel
- enforcing relevant law, which includes identifying and seizing prohibited imports and exports
- providing intelligence and risk assessment information to external customers, and also to Customs' frontline officers
- collecting Crown revenue
- monitoring whether traders and travellers are complying with border requirements, and providing assurance over trade security and the border revenue system
- participating in the global customs community by 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
- providing policy advice to Ministers on border and revenue management issues.

Our legislative authority

Customs' functions and services are mandated by the Customs and Excise Act 2018. This new Act (and supporting

Regulations and Rules) came into force from 1 October 2018, replacing the Customs and Excise Act 1996. It gives Customs and our customers modern legislation that is easier to understand, and enables Customs to respond more flexibly to changing risks, technology, and business practices.

The Act also offers new services to customers that deliver time and cost savings, such as the ability to apply to store business records overseas or in the cloud, and certain importers being able to declare provisional values for their goods at the time of importation.

In the lead-up to 1 October, Customs had a comprehensive implementation programme to ensure our staff, customers, and key stakeholders knew and understood the new services, obligations, and procedures created by the Act. The programme supported our customers to make the necessary changes to enable them to comply with their new obligations, and to use the new services provided by the legislation.

As a result of the process and plans put in place to assist both staff and customers to make the transition to the new Act, the changeover was smooth and issue-free, both on 1 October 2018 and in the following months.

Contribution to Ministerial and Government priorities

In 2018/19 we progressed five priorities that had been agreed, following the 2017 general election, with the then Minister of Customs for the Customs portfolio for the current parliamentary term:

- 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
- passage and implementation of the Customs and Excise Bill (this priority was achieved in 2018/19)

- eliminating the gender pay gap, paying the Living Wage, and increasing diversity in Customs' workforce
- co-design of future border systems.

Customs is contributing to the Government's priorities by helping to build the economy, improve wellbeing, and make New Zealand proud.

Rautaki Mana Ārai – the Customs Strategy

Rautaki Mana Ārai, the refreshed strategy Customs adopted in early 2019, is driving our planning to deliver our aspiration to eliminate border and revenue risk. The refresh builds on what we set out and achieved through our previous strategy, *Customs 2020*.

Four values underpin all that we do at Customs. They are: we do what's right – te ara tika; we are guardians – kaitiakitanga; we value people – he tāngata; we look forward – pae tawhiti.

The Treaty of Waitangi principles of partnership (kotahitanga), protection (kaitiakitanga), and participation (manaakitanga) provide the foundations for what we do – our Te Pou Tokomanawa.¹ Integrating these principles into our strategy enables us to strengthen our relationships with iwi to improve the protection of, and help foster Māori participation in, our society.

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

This annual report details our operations in the 12 months to 30 June 2019 and our progress in delivering on our strategic intentions in each of those four strategic areas.

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

Our strategic framework

Government priorities

Building an economy that is growing and working for us all

Improving the wellbeing of New Zealanders and their families

Making New Zealand proud

Ministerial priorities

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

Strengthening New Zealand's trading links to support exporters

Passage and implementation of the Customs and Excise Bill

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

Co-designing future border systems

We are here to

protect and promote New Zealand across borders

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

Our Values — Whanonga Pono

WE DO WHAT'S RIGHT
Te Ara Tika

WE ARE GUARDIANS
Kaitiakitanga

WE VALUE PEOPLE
He Tāngata

WE LOOK FORWARD
Pae Tawhiti

We aspire to

eliminate border and revenue risk

Te whakakore tūraru rohe me ngā mahi kohinga tāka

We aim to achieve

Protection
Prevent risk reaching our borders
Whakahaumarū

Trade
New Zealand's trade flows efficiently across borders
Hokohoko

Travel
A streamlined experience for travellers across borders
Tāroi

Revenue
Collect all due revenue
Kohinga tāka

Te Pou Tokomanawa — The Foundations

Kotahitanga
Partnership

Kaitiakitanga
Protection

Manaakitanga
Participation

Output classes

Clearance and enforcement services related to passengers and crew

Clearance and enforcement services related to goods

Clearance and enforcement services related to craft

Information and intelligence services

Revenue collection

Policy advice

International services and ministerial servicing



Progress Against Our Strategy

Customs aims to be an agile organisation that can respond to the challenges and opportunities of the dynamic global and border environment to deliver services that protect and promote New Zealand across borders. This enhances New Zealand's reputation as a trusted, safe, and secure place to travel to and trade with, and contributes to the growth of the economy and the wellbeing of New Zealanders and their families.

We recognise that the vast majority of people comply with their customs obligations. Much of our work focuses on ensuring that compliant trade and travel is cleared with minimal intervention by Customs, by utilising our risk management systems and through increasing use of our automated service delivery processes. In 2018/19 we facilitated increased trade and travel volumes and continued to experience high levels of compliance.

Our role in protecting New Zealand from the harms associated with prohibited goods and people remained a strong focus of our work in 2018/19 as we experienced continued growth in the volume and sophistication of criminal offending and associated threats to the border. This was reflected in the increases in the volume of drugs seized, both by Customs at the border and our overseas partners offshore, and in the level of harm to New Zealanders prevented as a consequence.

Protection

Customs continues to protect New Zealand by identifying and managing a variety of risks and threats at the border in an increasingly complex and challenging environment. Our intelligence-led risk management approach enables us to focus on the minority of people, goods, and craft likely to present risks to our border or revenue.

Illicit drugs

Overseas-based organised crime groups are influencing and exploiting the New Zealand illicit drug market because of the money to be made here. New Zealand's 'street prices' for illicit drugs are among the highest in the world, meaning greater profit margins for them compared with most markets globally.

Customs must respond as criminals continue to become more sophisticated, globally connected, and innovative, and use a wider variety of smuggling methods. The suspected involvement of larger, influential organised crime groups in smuggling illicit drugs to New Zealand also means we are seeing sizeable quantities in some individual shipments.

We seized a total of 1,962.2 kilograms and 220.9 litres of illicit drugs² at the border in 2018/19.

Significant seizures of illicit drugs by Customs in 2018/19, and examples of smugglers' various concealment methods, include the following.

- The record 190 kilogram seizure of cocaine found by Customs in August 2018 in a shipment of bananas on a vessel from Panama. This was as a result of information from, and cooperation with, Australian law enforcement and led to the arrest of a man in Australia.
- 110 kilograms of methamphetamine (and two loaded handguns) hidden in batteries inside golf carts imported from the United States in January 2019. A Chinese national and a Taiwanese national were arrested.
- Almost 1 kilogram of cocaine smuggled by a Brazilian woman arriving at Auckland Airport in September 2018. The cocaine was hidden on her body and in pellets she swallowed.
- Around 15 kilograms of methamphetamine found in the four suitcases of two Canadian women arriving at Auckland Airport from Hong Kong in May 2019.
- Over 90 seizures of MDMA (ecstasy) of over 2 kilograms in weight, mainly at the International Mail Centre. This included seizing more MDMA in the first 12 days of January 2019 than in all of 2018.

² This includes all drug seizures with a weight in grams (the majority of these seizures are in powder and crystal form) or litres (including 197.5 litres of GBL and 6.1 litres of methamphetamine). These totals exclude other seizures, most of which are pills/capsules and seeds.



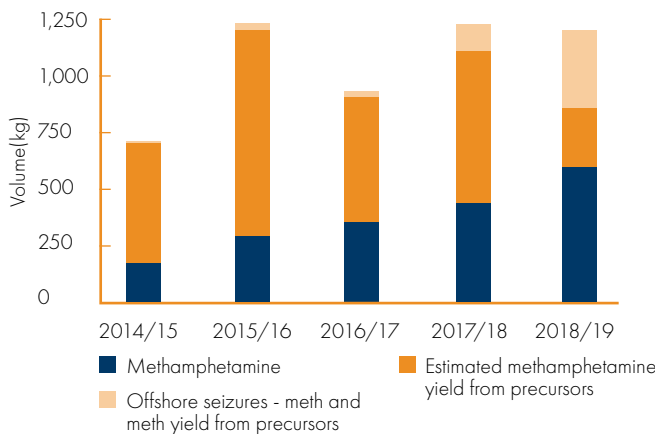
**599.9
KG**

**of methamphetamine
seized at the
border**

In 2018/19 Customs seized 599.9 kilograms³ and 6.1 litres of methamphetamine at the border, an increase in the powder/crystal weight of 35.0 percent from the 444.4 kilograms seized in 2017/18. The volume of methamphetamine precursors seized decreased by 59.6 percent from 896.0 kilograms (with an estimated yield of 672.7 kilograms of methamphetamine) in 2017/18 to 361.7 kilograms in 2018/19 (with an estimated methamphetamine yield of 270.8 kilograms). This reflects the shift to importation of the completed product.

A key part of our strategy to protect New Zealand is to disrupt drug networks offshore and stop illicit drugs before they reach our border (as discussed on page 10). We do this through our relationships with our international partners and our staff located overseas. The success of these efforts is seen in the increasing volume of drugs intercepted offshore. The offshore seizures⁴ in 2018/19 included 330.8 kilograms of methamphetamine (and 5.8 kilograms of precursors with an estimated methamphetamine yield of 4.4 kilograms).

Methamphetamine seizures



While methamphetamine continues to be New Zealand’s most commonly used drug, we saw indications in 2018/19 that organised crime groups are attempting to increase the market for cocaine and MDMA (ecstasy). Seizures of both those drugs increased significantly at the border and offshore.

Customs seized 480.2 kilograms (powder form), 7,587 tablets, and 5 litres of MDMA in 2018/19 compared with 31.6 kilograms and 4,050 tablets in 2017/18. We seized 210.8 kilograms of cocaine in 2018/19 (this includes the record 190 kilogram seizure found in a shipment of bananas), up from 58.7 kilograms in 2017/18.

In 2018/19 our overseas partners seized offshore an additional 55.6 kilograms, 2.3 litres, and 1,054 tablets of MDMA (an increase from 7.2 kilograms in 2017/18), and 31.9 kilograms of cocaine (up from 27.7 kilograms in 2017/18), headed for New Zealand.

We also continued to intercept other illicit drugs such as synthetic cannabinoids and LSD at the border.

In 2019 New Zealand Police (NZ Police) announced the results of nationwide wastewater testing in the six months from November 2018 to April 2019, providing us with an early indication of illicit drug use at a national level for the first time. While these are initial results and do not yet provide a full picture, they reflect the seizures made by Customs at the border – with methamphetamine being by far the most commonly detected illegal drug, MDMA the second most common, and then cocaine.

³ All of the 2018/19 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 2017/18 totals are different from those reported in the *New Zealand Customs Service Annual Report 2018* as those were provisional and the 2017/18 totals have now been finalised. The final total includes a significant seizure of methamphetamine precursors in 2017/18 that was not included in the provisional totals.

⁴ The offshore seizures for 2014/15 and 2015/16 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.



Strategic targeting and disruption of illicit drug supply chains offshore

We work proactively with our overseas enforcement partners to identify and seize drugs destined for New Zealand. This approach is key to Customs’ strategy of disrupting risk as early as possible in the supply chain to prevent harm and cost to New Zealand. Offshore drug disruption prevents drugs coming to New Zealand, while apprehending criminals overseas reduces the impact on our justice system.

Customs received additional funding in Budget 2018 to deliver against this strategy, which we are doing through our Source to Shore Drug Disruption Programme. Customs is using the funding to:

- Increase our overseas engagement and presence. Having Customs people engaged overseas and also stationed in some of New Zealand’s embassies and consulates strengthens relationships, the exchange of information and intelligence, and on-the-ground coordination. The first of the new posts, the Consul in Los Angeles, started in March 2019.

- Add more New Zealand-based positions in key areas to detect drug smuggling activities, gather intelligence to support targeted investigations and disruption, and proactively investigate transnational criminal networks operating offshore.
- Set up a border-related financial crime unit (discussed on page 11).
- Develop an evaluation and measurement capability that will use data to better understand illicit drug smuggling networks and focus our efforts where they will have the greatest effect.
- Bolster our maritime and frontline work by acquiring new equipment including mobile x-ray technology and a rigid-hulled inflatable boat.

Working with our international partners, in 2018/19 there were more than 200 interceptions offshore of illicit drugs destined for New Zealand, avoiding potential harm to the country of over \$520 million.⁵ Most of the interceptions, and harm avoided, related to drugs coming from the Americas.

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



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



Intercepting drugs at sea

In response to the illicit drug shipments detected in the South Pacific region in recent years, the Maritime Powers Extension Act 2018 was passed and came into force on 1 October 2018. The Act gives Customs the power to stop, board, and search ships suspected of being used for drug smuggling offences in international waters around New Zealand. Where evidence of offending is found, we are able to arrest individuals and direct the ship to New Zealand, where it may be seized.

Preventing financial crime

Cross-border cash transfers and trade-based money laundering are used by organised criminal groups looking to move the profits of criminal activity across borders and disguise the proceeds of crime. Customs is growing our capability in this area through a new financial crime unit. The unit will build intelligence and insights for trade-based money laundering and cash smuggling investigations, targeting the financial incentives for drug smuggling.

The movement of large sums of cash has been linked to illegal activities.⁶ One of Customs' roles is to ensure that money crossing our border is being carried for legitimate purposes. Our dual-trained detector dogs (that can detect cash as well as illicit drugs) are a valuable tool. In 2018/19 they detected the equivalent of NZ\$7.49 million in undeclared currency at the border, plus an additional \$0.99 million located when searching houses or vehicles under a Customs or NZ Police search warrant. Of the total undeclared currency detected, \$1.34 million was concealed through the person deliberately hiding the cash and not being forthcoming when questioned. The remaining \$7.14 million was willingly presented by the relevant person on questioning.

We also continue to look to prevent people entering the country who intend to carry out fraudulent activity such as credit card skimming.

⁶ While it is not illegal to carry large sums of money into and out of New Zealand, the law requires that travellers declare cash in any currency or form if it is equivalent to NZ\$10,000 or more, so authorities can check that the money is being carried for legitimate purposes and is not linked to illegal activities. Undeclared or misdeclared cash can be 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.



Combating objectionable material

In 2018/19 we continued our work on combating and reducing objectionable material and online offending, including that involving child sexual exploitation and abuse, and relating to terrorism or extremism. Customs' role includes identifying people carrying this material across New Zealand's physical border, and people accessing and uploading images and videos online across our cyber border.

Our work contributes to the Government's goals of 'improving the wellbeing of New Zealanders and their families', and 'making New Zealand the best place in the world to be a child'.

Customs works closely in this area with the Department of Internal Affairs and NZ Police – in 2018/19 this included supporting those agencies in relation to objectionable material connected with the attack on Christchurch mosques. Internationally we are part of a global network that aims to target offenders, reduce sexual exploitation of children through the creation and distribution of abuse imagery, and identify and rescue victims.

We captured over 305,000 objectionable publications in 2018/19,⁷ consisting of material on devices seized by Customs at the border or on search warrants, together with publications shared by New Zealand-based offenders using online, cross-border platforms. Five child victims have been identified, locally and internationally, from material we seized.

Arrests in 2018/19 as a result of Customs investigations and activity included the following people.

- An Auckland man on charges including exporting, importing, possessing, distributing, and producing child sexual abuse publications as well as entering into a commercial agreement with an underage person for sexual services (some of the publications contained evidence from a trip to the Philippines in 2016). This resulted from a Customs search of his home in August 2018.
- A Nelson man in April 2019 who had traded child exploitation material through a social messaging app. A search of his home found further evidence of the export and distribution of publications. Our investigation resulted in additional Police charges.
- A New Zealand national, who lives overseas, in April 2019. On his arrival at Auckland Airport for a short holiday, we searched his phone and located child sexual abuse images and video.
- A Hamilton man in June 2019, following Customs searching his USB storage device and tablet on arrival at Auckland Airport and finding child sexual abuse images. A later search of his home located a large number of images and videos.

⁷ This total is not yet final as we continue to examine and categorise some material seized in 2018/19 and progress investigations.



Customs received \$10.2 million in funding (over four years) in Budget 2019 for the *Combating the Sexual Exploitation of Children Across our Cyber Border* initiative. It will enable us to hire additional specialised investigators and analysts, and acquire supporting analytical and forensic tools. This will strengthen our ability to detect and prevent the cross-border trade in child sexual exploitation material, target and investigate a greater volume of material, and work more effectively with partner agencies. The additional capability will enable us to better respond to the growing threats of peer-to-peer offending, live streaming, travelling sex offenders, and the DarkNet.

Attack on Christchurch mosques

Customs participated in the response to the 15 March 2019 attack on the Christchurch mosques by supporting NZ Police to build the intelligence picture and continuously assess the real-time threat. We also increased our presence by proactively deploying more uniformed officers to all international airports while the country's threat level was high. This was to manage risk and to reassure the public that, in an otherwise uncertain and fast-moving situation not previously encountered in New Zealand, the border was a safe and secure place.

We were the lead agency in repatriating deceased loved ones (in a manner adhering to Islamic traditions), and facilitating the arrivals and departures of grieving family and friends of victims at international airports, which we sought to do with sensitivity and speed.

We are now working cooperatively with the Royal Commission of Inquiry into the Attack on Christchurch Mosques on 15 March 2019.

Firearms and other weapons

Preventing illegal firearms and weapons from entering New Zealand is an important role for Customs.

We manage the importation of lawful and restricted firearms and firearm parts subject to permits issued by NZ Police, and detain and seize any prohibited firearms or parts. Amendments to the Arms Act 1983 following the attack in Christchurch changed the ownership and import permit requirements, and we implemented relevant changes at the border.

Customs made 4,355 interceptions of a total of nearly 500 firearms and over 5,700 other weapons (such as flick knives and knuckle dusters) in 2018/19.

Assurance model

We are continuing 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. The work will provide us with a level of confidence about our intervention rate and our targeting of interventions, and inform and support data analytics and intelligence assessments of risk in each channel. It will also help inform decisions in the future about the allocation of our resources to address risk effectively.

We have been progressively developing, testing, and validating sampling methodologies in the import pathways of air passengers, mail, fast freight (courier), and sea cargo.

In 2018/19 we continued sampling in the air passenger, mail, and fast freight channels, with results showing high compliance levels by our customers – and non-compliance mainly related to misdeclaration and undervaluation. Sampling data from 1 July 2018 to 30 June 2019 indicates the following compliance levels:⁸

- air passengers: 95 percent
- mail: 91 percent
- fast freight: 91 percent.



We commenced work in 2018/19 on sampling development in sea cargo, and this continues in 2019/20 – with this import channel presenting more complexities in ensuring robust methodology and process. Preliminary development work has been undertaken on the sea passenger channel, and we are exploring the complexities and feasibility of how assurance over craft might be approached.

Infringement notice scheme

The Customs and Excise Act 2018 allowed for the creation of infringements for minor offending, issuing instant fines for breaching customs requirements.⁹ Infringement notices are an effective way of helping Customs protect New Zealand, and offer an alternative to prosecution.

The infringement notice scheme was rolled out in two phases. The first phase from 1 April 2019 included all work areas other than the International Mail Centre. In the six months before it started, we carried out an education campaign to inform the public and businesses of the new scheme. Following an assessment of the implications of issuing notices where the offender is not present and may be unknown, the scheme was introduced at the International Mail Centre from 1 July 2019.

We issued 207 notices between 1 April and 30 June 2019, mainly at international airports for a false declaration on an arrival card (usually with goods either not declared or not declared correctly).

Work with other agencies to target risk and share intelligence

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

The Joint Border Analytics team hosted by Customs comprises staff from the Ministry for Primary Industries (MPI), Ministry of Business, Innovation and Employment (MBIE – Immigration New Zealand), and Customs. This enables the three agencies to combine data, expertise, and tools to better identify border risk and target our interventions more effectively. In 2018/19 Joint Border Analytics continued to develop analytical models and border insights across the different border streams – passenger, trade, and mail – addressing a range of risk types including drugs, prohibited and restricted items, and revenue.

In 2018/19 Customs and Immigration New Zealand (Immigration NZ) looked for more opportunities to work together to manage risk and deliver efficiencies. We undertook a pilot of a Collaborative Passenger Targeting unit in Customs' Integrated Targeting and Operations Centre (ITOC) in 2019, with both agencies using the same tools and collaborating more on the risk assessment of passengers. As trial results exceeded expectations, we are considering how to continue targeting risk together effectively in the ITOC.

⁸ All results are preliminary and indicative based on raw data, and compliance rates were calculated as simple averages of sampled interventions only. Full implementation of sampling is dependent on the creation of systems-generated random selections in each stream. Systems-generated selections are being progressively delivered from early 2019/20. Until the random selection tool is built and operating in-front of the transaction, officer selection bias remains a factor that impacts the data accuracy and statistical robustness.

⁹ These are all low-level offences that are strict liability (no intent needs to be proven). Examples of offences include making a false declaration on a passenger arrival card, refusing to answer questions from a Customs officer, and importing or exporting prohibited goods. The prescribed infringement fee is \$400 for an individual and \$800 for a body corporate. Customs could issue fines for petty offences under the previous Customs and Excise Act 1996, but this was limited in how and where it was applied.



Measuring progress against our strategic intentions

Our focus is on preventing risk from reaching our borders through targeted risk management. Effective risk management and clearly enforcing the law underpin all our work in trade, travel, and revenue.

Our aim is to prevent criminals from operating across our borders while maintaining high public confidence in the performance of our protection role.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.¹⁰

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

Our efforts to protect New Zealand by preventing illicit drugs crossing our borders contributes to the country's future wellbeing by supporting healthier, safer, and more connected communities, and enabling people to fully participate in all aspects of society.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Total social harm avoided through onshore drug seizures	\$870 million	\$1.585 billion	\$1.184 billion	\$1.490 billion ¹¹	\$1.795 billion	↑	↑
Total social harm avoided through offshore drug seizures	Not measured	Not measured	\$31 million	\$205 million	\$520 million	↑	↑

¹⁰ For each indicator, the expected future trend is over the four years from 2019 to 2023.

¹¹ This total differs from the \$1.336 billion total reported in the *New Zealand Customs Service Annual Report 2018* as that total was based on the provisional totals for drugs seized in that year (as noted in footnote 3 on page 9) whereas the updated harm avoided figure reflects the finalised drug totals seized in 2017/18.



Strategic indicator: Proportion of interventions that yield the intended results

Customs' interventions aim to target, identify, and prevent harmful people and items from crossing our borders, while minimising the impact of our interventions on legitimate trade and travellers. We are looking to refine our intelligence and data management systems to help enable us to better understand the effectiveness of our interventions, and further enhance reporting against this measure in future. We expect the work being undertaken in the Source to Shore programme discussed on page 10, and the progressive implementation of the assurance model discussed on page 13 will help us to measure our effectiveness.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Proportion of interventions ¹² that resulted in the interception of drugs or prohibited goods ¹³	4.6%	3.9%	3.9%	3.7%	4.6%	↔	↑

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

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

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Overall level of public trust and confidence in Customs' performance of protection role	-	-	-	-	52.2% ¹⁴	N/A	↑

¹²Interventions relating to import entries, electronic consignments, and passengers.

¹³In 2018/19 2,551 of 54,946 interventions (4.6%) concluded in the interception of drugs or prohibited goods.

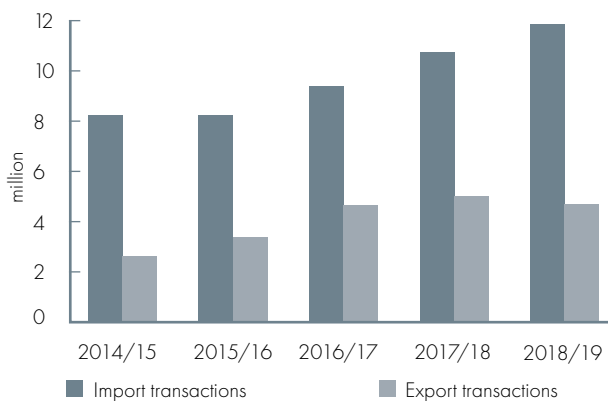
¹⁴Measured as part of a public survey undertaken on Customs' behalf by UMR Research in June 2019. This is the first year that the survey asked about the public's combined trust and confidence.

Trade

Customs works to ensure that goods crossing the border comply with domestic and international requirements, and legitimate trade flows across borders freely and efficiently. As a result, we contribute to New Zealand's economic competitiveness and growth.

In 2018/19 we processed 11.930 million import transactions,¹⁵ an increase of 9.9 percent from the 2017/18 total. The growth in recent years has largely been due to online shopping and the resulting increase in imports of low-value goods. We also processed 4.790 million export transactions, a decrease of 6.9 percent from 2017/18.¹⁶

Trade transactions cleared



Promoting and facilitating trade

Customs promotes and facilitates secure and efficient trade through formal agreements with other customs administrations, participating in the negotiation of Free Trade Agreements, and providing support to traders so they benefit from those agreements.

Agreements with other customs administrations

Customs continues to build and maintain effective relationships with other customs administrations around the world, including with key trading partners.

Our Secure Exports Scheme (SES) is acknowledged globally as a model of the World Customs Organization standards for securing and facilitating cargo. In 2018/19 35.4 percent of export trade was covered by the SES.

A Mutual Recognition Arrangement (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. Through MRAs, New Zealand exporters who are SES members benefit from faster cargo clearance, fewer document checks, and lower inspection rates in the partner country, as well as priority following a major adverse event that disrupts trade.

Customs already has a number of MRAs with key trading partners. Following negotiation, we signed new MRAs with Canada and Singapore in June 2019, expanding the SES benefits for members to those export markets.

The SES has applied only to sea freight, as processes for recognition of air cargo have not been fully developed in most countries. We started work in 2018/19 to extend the SES to airfreight, which would enable exporters of the time-sensitive perishable goods generally sent via airfreight to access the trade facilitation benefits offered by the SES.

Free Trade Agreements

Free Trade Agreements (FTAs) reduce trade barriers and improve access to trading partners' markets. They contribute to our economy by helping New Zealand businesses be more competitive in overseas markets.

Customs leads the negotiation of the customs-related aspects of New Zealand's FTAs. In 2018/19 we continued to take part in the negotiations of the Regional Comprehensive Economic Partnership, Pacific Alliance FTA, and New Zealand-European Union FTA, as well as the upgrade of New Zealand's existing FTA with China.

As well as our involvement in those negotiations, we worked with other agencies to develop the regulations and tariff changes necessary to support New Zealand's ratification of both the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which came into force on 30 December 2018, and the PACER Plus agreement with Pacific countries.

¹⁵ Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship Electronic Cargo Information transactions (ECIs). However, the import transactions total excludes import mail items.

¹⁶ Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items. The decrease in the total for 2018/19 is principally due to a decrease in the number of ECI (low-value) transactions representing exports to China.

Supporting traders

In 2018/19 Customs continued our outreach programme through which we engage with exporters across New Zealand to inform them of the benefits of FTAs and being a member of the SES.

Through the enhanced relationships they develop with local customs administrations and governments, our liaison officers around the world help to reduce the risk of disruption to trade.

Customs has a key role to play in New Zealand's response to Brexit given our role in facilitating trade and streamlining customs procedures. As a result, we launched a multi-faceted response to support exporters in advance of the United Kingdom's scheduled exit from the European Union.

This included posting a Customs Counsellor to London from January 2019. This role has been critical in better understanding UK border agency preparations and how they might affect New Zealand exports. Our new London and existing Brussels Counsellors have been working together to understand how border control processes and intelligence targeting in both the UK and EU will change after Brexit, which could have implications for New Zealand goods going into those markets. We negotiated a new customs-to-customs agreement with the UK, signed on 1 August 2019, to ensure we have the right cooperation frameworks in place after Brexit.

We also have a multi-channel communications strategy in place, including industry outreach and our website and social media, to provide consistent and reliable information on Brexit to our stakeholders. This has been well received by industry.

Streamlining trans-Tasman trade

In 2018/19 we continued to progress Single Economic Market initiatives to create a seamless trans-Tasman business environment.¹⁷

Secure Trade Lane

The purpose of the Secure Trade Lane (STL) initiative is to streamline border processes and make low-risk trans-Tasman trade more efficient and cost-effective for authorised traders.

The digital trial designed to test technological solutions developed for the STL originally planned for 2019 was delayed at the request of the Australian Department of Home Affairs. Australian and New Zealand officials met in April 2019 to reconsider the strategic vision of the initiative. We wanted to ensure it would provide benefits to trusted traders and government, and could be tailored to help streamline trade with our other MRA partners in the future.

The project team now plans to conduct a trans-Tasman exercise to identify 'pain points' and opportunities in the import/export process between selected ports in Australia and New Zealand. We currently expect to conduct a live digital STL trial with key industry partners in early 2020.

eCommerce Green Lane

Customs continues to work with New Zealand Post (leading the project in New Zealand), MPI, and the Australian Department of Home Affairs to develop and implement an eCommerce Green Lane. This would be a permanent arrangement streamlining border clearance of goods travelling by mail between New Zealand and Australia.

In 2018/19 both countries worked on developing the required IT capability and operational frameworks to allow mail data from eSellers to be exchanged between postal agencies, then made available electronically to border agencies. Customs is completing a project to receive Electronic Advance Data from New Zealand Post, and provide clearance directions in response (using the message standard agreed between the World Customs Organization and the Universal Postal Union). Once this capability and Australia's equivalent are in place, a live trial is expected to be conducted.

¹⁷ These initiatives, and the new MRAs discussed on page 17, are relevant to section 439 of the Customs and Excise Act 2018, requiring reporting on initiatives or steps taken to reduce the costs of complying with this Act for businesses with a strong record of compliance with the Act. This reporting is on page 101.

Measuring progress against our strategic intentions

Our focus is on enabling New Zealand's legitimate trade to flow efficiently across borders. We aim to make trade facilitation accessible and beneficial to all New Zealand businesses.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.¹⁸

Strategic indicator: Percentage of trade transactions that are compliant

We aim to achieve high levels of voluntary compliance. Trade compliance¹⁹ remains high, even as the number of lodgements has increased (as noted on page 17).

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Percentage of import transactions deemed compliant	97.6%	98.3%	98.5%	98.8%	98.8%	↔	↑
Percentage of export transactions deemed compliant	99.7%	99.8%	99.8%	99.8%	99.8%	↔	↑

Strategic indicator: Ease of compliance

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

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Commercial goods clients' ease of compliance	81.8%	76.6%	72.7%	65.9%	71.0%	↓	↑

The five-year trend reflects business customers reporting (in our annual survey of goods clients) it taking more effort to deal with Customs. The staged roll-out and increasing uptake of Trade Single Window during this period is likely contributing in part to this result, as traders adapt to the new information requirements. We have worked with industry to identify and make improvements to the user interface for clearing goods via Trade Single Window Online. We have also progressed work to make compliance easier for customers through electronic and digital channels, including updating the Customs website and reviewing the Customs 0800 contact service. We continue to work on a series of initiatives to make it easier for all businesses to work with us.

¹⁸ For each indicator, the expected future trend is over the four years from 2019 to 2023.

¹⁹ Compliance relates to trade deemed compliant based on risk assessment and for which Customs does not action further intervention. Further action may include, but is not limited to, document inspection, screening, or search.

Strategic indicator: Economic value of trade promotion and facilitation

New Zealand businesses and consumers benefit from the international relationships Customs has brokered with our key trading partners. Trading arrangements, such as MRAs and Customs Cooperation Agreements, reduce customs clearance times and enhance the flow of trade across the border, reducing the costs for business and increasing trade flows as a result. These arrangements and other trade facilitation measures have an economic impact that can be measured through a positive impact on New Zealand's Gross Domestic Product (GDP), trade balance, and consumer wellbeing.

Indicator: Benefit to New Zealand of current bilateral agreements ²⁰	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Real GDP	-	-	-	-	\$552m		
Trade balance	-	-	-	-	\$128m	N/A	↑
Consumer wellbeing	-	-	-	-	\$667m		

²⁰This is the first year of reporting this measure. Customs commissioned the New Zealand Institute of Economic Research (NZIER) in 2018/19 to assess the potential economic benefits from our MRAs, which provide benefits to SES members. The study examined the potential economic benefits of the six MRAs in place in 2018/19 (with Australia, China, Japan, Republic of Korea, the United States, and Hong Kong). This study modelled an annual impact on the New Zealand economy, in terms of GDP, trade balance, and consumer wellbeing, from the trade facilitation benefits in the MRAs and SES, compared with a base case of no MRAs or SES. We will further refine these measures in 2019/20.

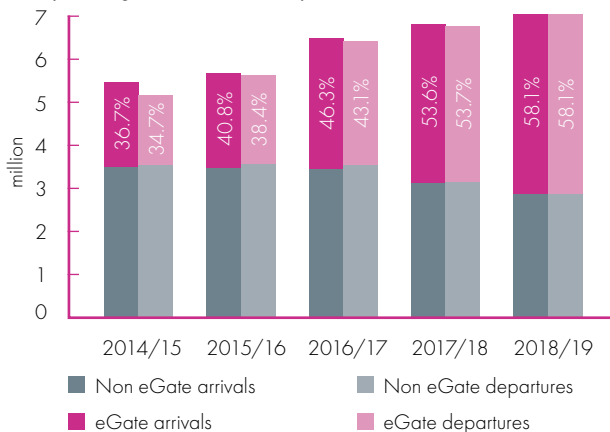
Travel

We continue to focus on limiting our interaction with, and delivering a streamlined experience for, compliant travellers while managing risk. Our work includes making compliance simple by enabling self-service and providing clear information to educate travellers on their obligations. Increasing compliance levels will enable us to better target those travellers presenting the most risk.

This is particularly valuable as travel volumes continue to grow. In 2018/19 Customs processed a record 14.464 million international passengers,²¹ an increase of 3.5 percent from the 2017/18 total of 13.977 million.

Most travellers are arriving and departing air passengers (13.950 million in 2018/19 – up from 13.538 million in 2017/18). Our processing of these passengers is assisted by the increasing proportion using eGate at our international airports.

Air passenger arrivals and departures



eGate automated passenger processing

The self-service processing option offered by eGate is taken up by an increasing proportion of passengers each year – 58.1 percent of arriving and departing commercial air passengers used eGate in 2018/19. That represented 8.095 million passengers, an 11.6 percent increase from 2017/18. eGate provides a streamlined passenger experience while enabling Customs to manage the growing volumes and focus on those travellers who might present a higher risk.

Customs works collaboratively with MBIE (Immigration NZ) to make eGate available to more nationalities. As part of the New Zealand-Singapore Enhanced Partnership, eligibility was formally extended to Singapore in February 2019. In 2018/19 we also progressed (through risk assessment and biometric performance testing of passports) extending eligibility to more nationalities.

We also continue to improve the software and systems to ensure the effective operation of eGates into the future. Customs received a Red Hat APAC Innovation Award in November 2018, recognising our two-year project to deliver open source technology to eGates, which has enabled faster and more reliable processing of passengers at the border.

Review of eGate

While eGate enables self-service by travellers, we still seek to identify and interact with those presenting risk at the border. A person of interest to another agency departed New Zealand in January 2019 through eGate using a genuine passport belonging to another person.

We undertook an internal review of our eGate processes to identify, and remediate if necessary, the issues that resulted in the person being able to depart. The review identified a number of improvement actions; we implemented most of those in 2018/19 and will complete the longer-term actions in 2019/20.²²

²¹ This includes all people arriving in and departing New Zealand by air or sea excluding crew (crew amounted to a further approximately 0.82 million).

²² The review reports are available from the Customs website at <https://www.customs.govt.nz/globalassets/documents/misc/eGateReviewReports.pdf>.

Improved processing of cruise ship passengers

Cruise passenger numbers have steadily increased in the last few years with the growing number of visits by larger cruise ships. Over 241,000 passengers (those permanently disembarking the vessel in New Zealand and those visiting on their cruise) arrived on cruise ships in 2018/19, compared to around 138,000 in 2014/15.

We are focused on making the experience for arriving cruise ship passengers who are permanently disembarking in New Zealand more like that currently experienced by air passengers. We are looking to do this through the receipt and assessment of advance passenger information to identify risk, and improving the processing experience for those passengers.

Customs worked closely with Immigration NZ, the Australian Department of Home Affairs, and the Australian Border Force in 2018/19 to enhance the arrival experience for cruise ship passengers travelling to New Zealand from Australia.

Following a successful trial in early 2018, we implemented from 23 October 2018 a new process for facilitating most passengers²³ permanently disembarking in New Zealand from a cruise ship arriving from Australia. Customs' risk assessment of those passengers is undertaken before they arrive in New Zealand by using the departure data captured by the Australian Border Force. This means passengers do not need to present their passports and go through immigration processing on arrival; they need only present their arrival cards to a Customs officer for checking any declarations.

As well as improving the passenger experience by reducing their processing time, the new process has benefits for Customs. It allows us to focus resources on those passengers who present a risk, and enables us to better manage the expected growth in cruise ship passenger numbers.

Departure card removal

Customs worked with Immigration NZ and Stats NZ on removing the departure card. This aligns with international best practice and improves the experience for travellers departing New Zealand. The requirement to fill in the card was removed from 5 November 2018.

This freed up our Customs officers from card collection and sorting, but meant we had to capture relevant information in another way and make travellers aware of their border cash reporting requirements. We installed signage in airport departure areas to make sure travellers were aware of the requirement to declare if they were carrying currency or cash to the value of NZ\$10,000 or more (as discussed on page 11). We also implemented changes to ensure we captured departing passengers' data electronically.

Improvements to arrival card

The arrival card needed to be re-issued from 1 October 2018 because of the new Customs and Excise Act 2018, so we took the opportunity to improve the customs questions to make it clearer when medicines needed to be declared. As a result, most travellers carrying their prescribed personal medications no longer have to declare they are bringing them into New Zealand. This means quicker processing for those travellers while enabling us to more effectively target those travellers carrying medicines (and other prohibited or restricted goods) of interest to us.

Customs also teamed up with MPI in 2018/19 to develop a Chinese translation of the arrival card in both a simplified and traditional version to improve the experience for Chinese travellers to New Zealand. These translations were then provided to Chinese airlines and Air New Zealand in January 2019 to start handing out with arrival cards on flights from China. The Customs/MPI Asian staff network provided the translations, illustrating the benefits to Customs of such networks (discussed on page 36).

²³ Those travelling on a New Zealand, Australian, or visa waiver-eligible passport, representing more than 98 percent of cruise passengers travelling to New Zealand from Australia.



Measuring progress against our strategic intentions

Our focus is on delivering a streamlined experience for travellers across borders. We aim to deliver high-quality border management across all modes of travel through more intergrated and automated processes.

Customs’ Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.²⁴

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

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

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Proportion of arriving international air passengers processed within 45 minutes	96.4%	95.5%	94.3%	95.9%	96.0%	↔	↔
Air passenger satisfaction	91.8%	91.9%	92.0%	90.0%	92.9%	↔	↑

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

We are continually considering the appropriateness of our risk settings and systems. The assurance model currently being developed will further inform and refine our intelligence (as discussed on page 13). Reporting against these indicators is expected to start in the 2020/21 year.

Strategic indicator: Degree of meaningful collaboration and engagement

Customs collaborates with other agencies and stakeholders to lift the quality of service provided to legitimate travellers and ensure potential risks are identified and prevented at our ports of entry. Several of our key collaborative initiatives in 2018/19 are discussed on pages 14 and 22.

²⁴For each indicator, the expected future trend is over the four years from 2019 to 2023.



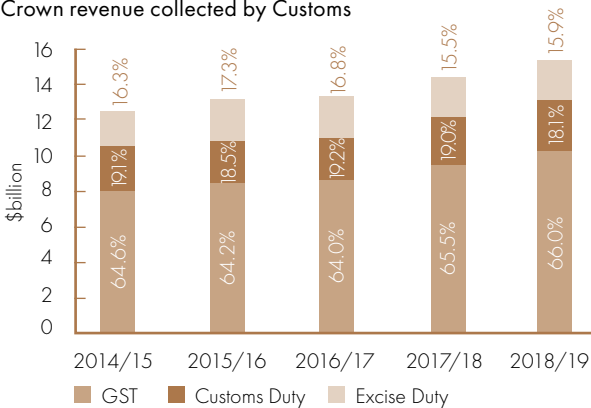
\$15.543
billion
in revenue on behalf
of the Crown

Revenue

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

In 2018/19 we collected a record total of \$15.543 billion of this revenue, an increase of 8.1 percent on the 2017/18 total of \$14.379 billion.

Crown revenue collected by Customs



We also collected \$8.3 million for the Crown by way of the Synthetic Greenhouse Gas levy on imported goods, together with a total of \$361.1 million in levies at the border on behalf of other agencies.²⁵

Our collection of revenue is based on self-assessment of duty liability by traders (importers, exporters, and licensed manufacturers of excisable goods), reinforced by our assurance activity.²⁶ As a result, our focus is on increasing the level of voluntary compliance with revenue obligations and improving our revenue risk management. This includes ongoing engagement with, and education of, traders.

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 any outstanding revenue. In 2018/19 we continued to undertake intelligence-led, risk-based audits to ensure traders complied with legislation and paid the correct revenue. Customs also carries out random verifications of trader-entered data – 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 to assess the correct level of revenue owed, to prosecuting them.

²⁵ This includes MPI’s portion of the Border Clearance Levy, which we collect on behalf of MPI. The largest proportion annually is the Accident Compensation Corporation (ACC) levy.

²⁶ Self-assessment enables trade to flow without undue delay, but with compliance assurance checks and post-clearance audit activity to provide assurance.

Provisional values scheme

The Customs and Excise Act 2018 introduced this scheme from 1 October 2018. It allows registered importers to use a provisional value (that is a reasonable estimate of the value) on an import entry when they cannot establish the Customs value of the goods at the time of importation. The provisional value is used to calculate what is payable to Customs at the time of import.

Importers then finalise the actual value by the end of the next financial year. If the final value is more than the provisional value, the trader is not charged compensatory interest on any additional duty owed.

Customs has worked with industry around the scheme and actively encouraged importers to join. By 30 June 2019, 85 companies had been approved to use the scheme.

Investigating fraud and revenue evasion

Customs maintains a strong focus on identifying and addressing revenue evasion and fraud-related offending. Illicit tobacco is tobacco on which the required excise duty has not been paid. In 2018/19 we saw an increase in revenue evasion through illicit tobacco smuggling, particularly at the International Mail Centre, and the use of concealment methods often used for drugs.

We made 2,009 interceptions of over 4.6 million cigarettes and nearly 642 kilograms in loose tobacco in 2018/19 – preventing the evasion of payment of a total of \$6.2 million in duty and GST. This is a significant increase from the 1,368 interceptions of over 2.8 million cigarettes and almost 293 kilograms in loose tobacco in 2017/18.

With New Zealand having the second-highest tobacco price in the world (second only to Australia), there has been growth in larger interceptions of smuggled tobacco, indicating that illicit trade is increasing and new organised crime groups are getting involved.

Following a six-month Customs investigation after we identified a company suspected of smuggling cigarettes inside sea containers, four search warrants were executed in Auckland in November 2018, resulting in the seizure of 1.8 million cigarettes and over \$4 million in cash. This investigation detected what we believe to be the largest tax evasion case to date involving smuggled cigarettes, with the tax evaded being almost \$2 million. As a result of the investigation, NZ Police also restrained properties, luxury cars, and bank accounts.

Collecting duty on low-value goods

Customs and other agencies have been working jointly on how GST on low-value goods imported into New Zealand could be more efficiently collected. This has led to the Government's decision to introduce an Offshore Supplier Registration system from 1 December 2019. Under the new system, those suppliers will charge GST on low-value goods, and remit it to Inland Revenue.

Customs will collect and share data on low-value imports with Inland Revenue, enabling that agency to monitor and ensure payment. We will also continue to collect GST and other duty on all imports of alcohol and tobacco (these are not subject to the new system) and on consignments valued over \$1,000. Customs will continue to assess the risk of all imports to protect New Zealand from non-revenue risks.

Measuring progress against our strategic intentions

Our focus is on collecting all due Crown revenue through high voluntary compliance and ensuring that all non-compliance is addressed. We also aim to maintain public trust and confidence in our collection of revenue.

Customs' Statement of Intent 2019–2023 records the indicators we will monitor to measure our success in delivering on our strategic intentions over that four-year period.²⁷

Strategic indicator: Compliance rate of audited companies

Customs undertakes activity to ensure that importers, exporters, and licensed manufacturers of excisable goods comply with legislation, and the correct duties and taxes are paid. Random sampling of import entries provides assurance of compliance through the transactional verification process (as discussed on page 50). Risk audits²⁸ serve the dual purpose of identifying non-compliance and providing education to encourage future voluntary compliance.

Indicator: compliance rate	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Random sampling compliance rate (1,596 import entries)	90.0%	89.8%	88.7%	90.3%	90.9%	↔	↑
Compliance rate (428 risk audits)	–	–	–	–	37.6%	N/A	↑

The risk audit programme is developed using a combination of industry intelligence, assessed risk, trade volume, and voluntary disclosures. The expected rate of compliance therefore depends on the type and scope of audits conducted and the degree of non-compliance observed. We expect the rate of risk audit compliance to improve over time from the benchmark established in 2018/19. Most non-compliance observed in risk audits in 2018/19 (99.3 percent) was unintentional, with only two instances of deliberate non-compliance.²⁹

²⁷ For each indicator, the expected future trend is over the four years from 2019 to 2023.

²⁸ Risk audits include both comprehensive audits (all elements of a company's trading activity) and partial audits (focused on specific elements of a company's trading activity).

²⁹ One instance of deliberate non-compliance was found in each of the risk and inherent risk audit streams.

Strategic indicator: Appropriateness of response to non-compliance

The vast majority of revenue is compliant in that it was collected on time (99.1 percent, as recorded on page 58). In those rare instances where due revenue is still outstanding after standard follow-up processes, Customs responds by working with entities to agree payment plans or by pursuing debt recovery methods. In 2018/19 there were 30 such responses relating to \$4.45 million in debt. We seek to limit, and over time reduce, the amount of overdue outstanding revenue.

Indicator: amount of outstanding revenue by response ³⁰	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Payment plans (13 responses)	-	-	-	-	\$0.652m		
Statutory demands served (6)	-	-	-	-	\$0.494m	N/A	↑
Summary judgments sought (11)	-	-	-	-	\$3.103m		

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

Customs is a core Crown tax revenue collector and it is essential the New Zealand public has trust and confidence that we undertake our revenue collection role effectively.

Only 47 percent of respondents to our public stakeholder survey declared they had 'a lot' or 'a fair amount' of knowledge about Customs' revenue collection role, suggesting this function is less widely understood than our more high-profile protection role.

Indicator	Performance					Five-year trend	Expected future trend
	2014/15	2015/16	2016/17	2017/18	2018/19		
Public trust and confidence in Customs' revenue collection role ³¹	-	-	-	-	45.0%	N/A	New measure

³⁰This is the first year of reporting this measure.

³¹Trust and confidence in Customs' revenue collection role was part of our stakeholder survey in 2018/19 for the first time.





Organisational Health and Capability

Leadership and governance

Customs has a system to ensure efficient decision-making, effective business performance, and good governance. Our main governance body is the Customs Executive Board (CEB), comprising members of Customs' upper-level management. The CEB provides leadership by setting the strategic direction for Customs and driving our ongoing performance and sustainability. It also ensures we have an appropriate management and control environment in which to deliver on our functions now and into the future. The CEB members at 30 June 2019 were:

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

The CEB operated these committees in 2018/19:

- CEB Start-up – weekly meeting to share information, identify key events or activities over the next seven to 14 days, and determine any urgent issues or organisational directives
- Business Committee – focuses on decisions to help run the business including organisational performance, risk and policies
- Strategy Development Committee (renamed the Focus Committee from June 2019) – responsible for the development and delivery of organisational strategies (including *Rautaki Mana Ārai*) and providing direction on substantive matters impacting Customs now and into the future
- Finance Committee – oversees finances, financial performance, investments, and the health of our financial management and control systems
- Health, Safety and Wellbeing Governance Group – oversees health and safety performance, including monitoring critical risks from a governance perspective.

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

To achieve our strategic objectives and run our day-to-day business efficiently, we need to manage our risks actively and effectively. We aspire to a risk-aware culture where our people are encouraged and enabled to identify risks, and respond to them quickly and effectively. We regularly review our Risk Management Policy and processes to ensure they remain effective and aligned with relevant standards and international best practice.

We introduced an updated Risk Management Policy in September 2018. It sets out arrangements for ensuring active, reliable risk management throughout Customs, and reinforces that everyone must manage risk. The accompanying Risk Management Guidelines support the Policy's application and provide a practical process for staff to identify, assess, and respond to risks.

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

Customs Assurance and Risk Committee Report For The Year Ended 30 June 2019

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

Over the year, the appointment of existing external member Mark O'Connor to Chair occurred following the retirement of the current Chair. Customs and the ARC thanked outgoing Chair Geoff Vazey for his time and the invaluable experience and knowledge he brought to the Committee. Geoff provided organisational leadership and risk management over the eight-year period he was involved as a member and later as Chair. The Committee also appointed Dr Rosanne Hawarden as a new member to fill the vacancy created; Rosanne brings with her a wealth of experience across business and ICT technology, diversity and networking research as well as governance roles in several industries. She is the immediate past President of Governance NZ and a Fellow of many years standing.

A survey completed by ARC members and stakeholders to understand the effectiveness of the ARC produced a number of recommendations to the Comptroller on how the ARC could enhance its role within the Customs governance framework.

Feedback also suggested the timing was right to refresh the existing Charter. The approved revised Charter provided greater clarity on roles and functions, membership and operating arrangements and a name change to the Assurance and Risk Committee.

The ARC has continued its focus on offering thoughts and guidance on the status and management of many areas identified in the 2018 Report. Of note, it has also specifically advised on high priority areas such as:

- Joint Customs and other agency functions
- Financial processes and reporting
- Consideration of ownership and oversight of integrity related activities
- Post Customs and Excise Act Implementation review
- The Assurance Work Programme and related recommendations
- Customs strategy development
- Audit NZ report recommendations to the Comptroller
- People and Capability related matters, particularly health and safety
- Source to Shore, the Drug Smuggling Network Disruption Programme
- Cost Recovery review
- Contemporary audit and risk topics identified by the Auditor-General across the State Sector and communicated at the Audit Chairs Forum.

Finally, a key note from the feedback of the survey recognised that there has been improved reporting, health and safety, integrity and risk practices and that the regular attendance of Customs Executive members at ARC meetings is providing a level of two-way conversation that has notably enhanced deliberations.

I would like to thank the ARC members and NZ Customs' senior management for the quality of the agenda content and their diligent input at the ARC meetings over the past 12 months.



Mark O'Connor

Chair, New Zealand Customs Service Assurance and Risk Committee

Maintaining integrity

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

During 2018/19, we progressed our programme of initiatives to continue to safeguard integrity and prevent corruption. This included:

- facilitating workshops for Customs staff to promote integrity and speaking up about wrongdoing, raise awareness, and generate conversation
- reviewing and refining the disciplinary policy and procedures, our policy around using Customs systems and devices, and the policy on social media use
- revising the protected disclosures policy to ensure alignment with State Services Commission Speaking Up standards
- enhancing our personnel security vetting process and focusing on security policy development
- continuing to strengthen our networks with other key agencies and administrations on integrity, and security matters that contribute to the Government Protective Security Requirements.

We also undertook a pulse survey of staff to provide us with a view of how well we are doing in the integrity space. This found that 95 percent of staff know how to disclose a conflict of interest and 85 percent know how to report a concern about ethics and integrity. A number of verbatim comments emphasised the high level of integrity staff see in Customs. Ensuring our leaders consistently role-model the Customs values and do what's right is an area for focus and improvement.

Code of Conduct

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

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

We take alleged breaches of integrity very seriously and manage them professionally. We do not 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 2018/19 into allegations of unacceptable behaviour by Customs staff and contractors/consultants engaged by Customs.

Upheld	Not upheld	Withdrawn	Person left Customs*	Did not meet threshold for misconduct
14	3	0	1	5

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

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

Type of unacceptable behaviour alleged	Upheld	Not upheld
Actions or behaviour which did (or had the potential to) bring Customs into disrepute	1	-
Inappropriate use of, or access to, Customs systems	2	-
Inappropriate behaviour at work	7	-
Knowingly making a false declaration/dishonesty	1	-
Inappropriate behaviour outside of work	-	1
Misuse of leave/attendance issue	1	-
Misuse of drugs	1	1
Failure to follow correct procedures	1	1

When misconduct occurs and it is determined that disciplinary measures are necessary, these measures are meant to be corrective rather than punitive. In some cases termination is justified and appropriate. The following table provides statistics on disciplinary action or sanctions in 2018/19.

Formal warning ³²	Termination (with or without notice)
11	1

The termination related to the use of illegal drugs by an employee. Of the 11 formal warnings issued, one was classified as a final written warning and the remaining 10 were first written warnings. In the context of a workforce of over 1,300 employees, these numbers are not statistically significant, and have not increased year-on-year.

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

³²A 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.

Privacy

Customs collects, receives, holds, and uses personal information to carry out our functions and duties. We aim to be a privacy-aware organisation that treats personal information with care, respect, and transparency to promote trust and confidence from customers, employees, and stakeholders. Our mission is to be ‘transparent to the public, trustworthy by design’.

Being privacy-aware requires that Customs is 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. This is reflected in our Privacy Strategy, which was refreshed in 2018/19.

As part of our efforts to continue improving our transparency with the public around data use and privacy, we added a *Your Information* section to the Customs website (<https://www.customs.govt.nz/about-us/your-information/>). This discusses the types of information we collect and hold; how we use and what we do with information, including what we are doing to protect the privacy and safety of information; and how people can access their information.

Customs has a dedicated team managing privacy. The team is supported in its operational oversight and governance by a Privacy Working Group (comprising representatives from all areas of the business). Quarterly reports on notable actions and metrics are provided to the CEB.

In 2018/19 Customs looked into 33 privacy incidents, including near-misses, reported by staff. All these incidents were investigated and closed. This is an increase from 23 incidents in 2017/18. We consider this to be the result of greater privacy maturity at Customs and staff being further educated about the need to report incidents (including near-misses). In 2018/19 one complaint was referred from the Office of the Privacy Commissioner concerning our handling of information or our response to Privacy Act requests – this has also been investigated and closed.

During 2018/19, we undertook several initiatives to progress our privacy work programme. This included conducting two surveys – one to help inform our response to the Government Chief Privacy Officer’s Privacy Maturity Assessment Framework, and one to assist the Privacy team to assess Customs’ privacy confidence and capability. The results of these surveys were being analysed in early 2019/20 to identify our strengths and any areas for improvement. We also started work, which continued in 2019/20, on developing business-specific guidance around the collection, handling, and disclosure of personal information.

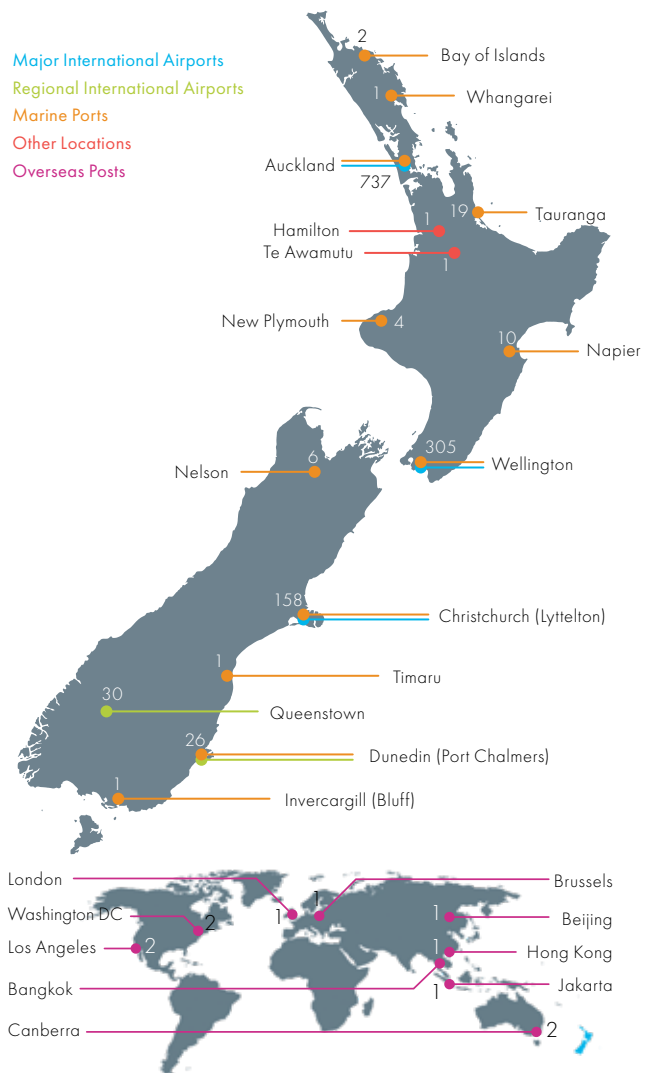
People

He aha te mea nui o te ao? He tāngata, he tāngata, he tāngata. What is the most important thing in the world? It is people, it is people, it is people.

Our greatest asset is our people. Customs aims to provide a great place to work where our people feel valued and have a sense of belonging. We continue to invest in the skills and capabilities of our staff to help Customs be a customer-focused, agile organisation that can respond to the dynamic nature of the border environment and its current and future challenges and opportunities.

Due to the nature of the services we deliver, Customs staff are located around New Zealand, with most working in operational areas at ports and international airports. We also have people posted to other countries to support our work programme overseas (as discussed on pages 10 and 62).

Location and staff numbers (as at 30 June 2019)



The overseas posts map does not include four staff engaged in administration roles at posts

Workforce profile

Financial year	Headcount	Full-time equivalents (FTEs)	Average age (years)	Unplanned turnover	Total turnover	Average length of service (years)
2018/19	1,317	1,258.7	44.6	7.2%	9.5%	12.1
2017/18	1,287	1,230.3	44.1	7.3%	8.9%	12.0
2016/17	1,222	1,166.3	44.3	9.0%	12.3%	12.3
2015/16	1,135	1,078.4	44.7	9.4%	11.8%	13.6
2014/15	1,122	1,066.4	44.5	9.0%	13.3%	13.7

All information is as at 30 June – except turnover, which is annualised³³

Staff retention remained high in 2018/19, as shown by the unplanned turnover rate and average length of service.

Customs has a constructive relationship with the three unions representing our staff – the Customs Officers Association, the Public Services Association, and E ū. We negotiated a new three-year, multi-union collective employment agreement that commenced on expiry of the existing agreement on 30 April 2019 (the agreement was accepted by a large majority of union members). We then offered an agreement to non-union members to maintain consistent terms and conditions for staff across Customs.

Addressing the gender pay gap

Our aim is to eliminate the gender pay gap at Customs, with an immediate focus on reducing the gap by a third between 2018 and 2020. Eliminating the gap is part of our commitment to making sure that equality and inclusivity are a core part of our culture.

We monitor both the mean and median gender pay gap to provide a balanced overview of the pay gap at Customs.³⁴ Customs' mean gender pay gap at 30 June 2019 was 13.8 percent. This is a decrease from the gap as at 30 June 2018 of 14.6 percent but remains above the gap for the public sector of 12.2 percent as at 30 June 2018. Our median gender pay gap at 30 June 2019 was 14.8 percent, a decrease from the gap of 17.9 percent on 30 June 2018.

While the percentage of women in Customs increased slightly (by 0.3 percent to 48.1 percent) between 30 June 2018 and 30 June 2019, we are not yet seeing their representation increase consistently across all of our pay bands, particularly in leadership roles and the higher pay bands.

Customs' Gender Pay Action Plan 2018–2020, developed with our union partners, was launched in September 2018. It includes a range of strategies to affect the recruitment, promotion, career development, and pay processes for our staff.

We made good progress in implementing these actions in 2018/19 including:

- running specific development programmes for women such as speed mentoring events
- conducting initial like-for-like analyses across the managers and specialists pay bands (as these pay bands contribute the most to the gender pay gap), resulting in an update to some salaries for both men and women
- requiring recruitment selection panels to include at least one woman with responsibility for selection decisions, and that hiring managers take all reasonable steps to have at least 50 percent of their shortlists for positions be suitably-qualified female candidates.

We also participated in the flexible-work-by-default pilot initiative being run by the Gender Pay and Pay Equity Taskforce from the Ministry for Women and the State Services Commission. We conducted workshops in late 2018/19 to inform the development of flexible working options for Customs that we will focus on in 2019/20.

³³The 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.

³⁴The mean can be disproportionately influenced by a few very high or very low salary levels and large intakes of new staff.

Embracing inclusion and diversity

We recognise that a diverse and inclusive culture and workplace makes Customs stronger. It helps our staff to feel safe, included, and valued, resulting in improved employee engagement and organisational performance. Having a workforce at all levels that reflects the community we serve also enables us to better understand and meet our customers' increasingly diverse needs.

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

Ethnicity	2015	2016	2017	2018	2019
NZ Māori	8.2%	8.9%	9.1%	9.5%	9.8%
NZ European/Pakeha	65.0%	65.8%	62.8%	62.6%	62.8%
Other European	16.9%	16.1%	15.3%	14.6%	14.8%
Pacific peoples	7.9%	7.8%	9.3%	10.4%	10.9%
Asian	11.5%	11.1%	14.0%	14.3%	16.0%
Other ethnic group	7.8%	7.0%	6.6%	6.4%	6.0%

Each year's information is at 30 June

The diversity is greater in our non-management staff and frontline – we recognise there remains an underrepresentation in leadership roles of women, Asian staff, and Pacific peoples.

Customs has an active Inclusion and Diversity Council, with members who offer varied experiences and perspectives. The Council developed an updated Inclusion and Diversity Strategy 2019–2021, launched to staff in early 2019/20. The Strategy focuses particularly on issues relating to gender equity and ethnic diversity.

We conducted a survey in August 2018 to understand staff views on diversity and inclusion at Customs. The results helped refine the focus areas and actions to be incorporated in the Strategy. In late 2018/19 the Inclusion and Diversity Council ran a 'Carers' survey' to better understand the impact of caring for others on Customs staff. The results will help Customs better target flexible working initiatives and other measures to ensure we support our people.

We have updated our recruitment processes to better enable us to attract and retain diverse staff. This includes promoting our commitment to inclusion and diversity in all job advertising and recruitment tools, and requiring unconscious bias training to be undertaken by all those involved in recruitment and selection.

The percentage of Customs staff who are Māori is below the percentage in New Zealand society. We are looking at increasing Māori representation at Customs so we more accurately reflect the community we serve. Part of our changes in recruitment processes is incorporating Te Reo in all attraction tools and increasing our presence in the Māori community.

We continue to encourage and support staff networks, as these help staff to feel included and supported, and offer benefits to Customs in building connections to the relevant community. Customs has a number of established and emerging networks: Māori, Pasifika, Asian, Rainbow, and Women's. During 2018/19 a process was established for allocating funding to support initiatives undertaken by networks.

Learning and development

We recognise the importance of education and training in ensuring we have effective leadership and a workforce with the skills it needs now and in the future.

Our workforce plan has four areas of focus:

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

Customs has an extensive learning and development programme, which includes technical training and leadership development. We have a flexible approach to training, combining traditional classroom-based and 'on-the-job' learning with online education. Our learning management system offers a wide range of learning content and resources, which can be tailored to meet the learning requirements of a particular role or work area.

The following table shows the mix of learning methods by Customs staff.

Type of training session	2016/17	2017/18	2018/19
Blended	919	4,770	4,517
eLearning	2,288	3,440	8,336
Classroom	5,176	6,003	4,685
Total	8,383	14,213	17,538

Health, safety, and wellbeing

Customs continues to engage with our staff and management to promote a culture of safe work practices. We remain committed to ensuring best practice is followed at every stage of our operations with health, safety, and wellbeing at the forefront. 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. Customs progressed four main streams of activity over 2018/19: risk management, engagement, wellbeing, and assurance.

Wellbeing initiatives have included early awareness, early intervention methods for mental health, and return-to-work wrap-around services. Leader development has also been a key element of this approach.

We had a total of 136 accidents reported in 2018/19, most of a minor nature – a decrease from 149 in 2017/18.

Customs monitors lost productivity due to accidents (at work and outside work) and sickness. The significant majority of productivity lost³⁵ as a result of accidents is due to non-work accidents – lost productivity from work-related accidents was at 0.06 percent in 2018/19 (relating to 10 employees).

Lost productivity due to accidents and sickness



We had 108 preventive reports of near misses and hazards in 2018/19. These are important indicators of what could injure or seriously harm our people if not addressed and of safety awareness among staff. This is a substantial increase on the total of 74 reports for 2017/18, signalling a stronger culture and acceptance of prevention.

Random drug and alcohol testing programme

Customs' Drug and Alcohol Testing Policy was updated (following consultation with unions) from 1 November 2018 to introduce random drug and alcohol testing for staff in designated safety-sensitive roles. A total of 134 staff from across all work areas and ranks was tested in 2018/19. There were four non-negative tests, all of which were explained by medication declared by the staff members concerned. Of all samples, 20 percent were subject to testing for an extended suite of drugs; there was one positive test, again explained by declared medication.

³⁵The lost productivity percentages in the graph are the number of leave hours taken as a percentage of the maximum number of FTE hours that could have been worked in the financial year. Accidents are those recognised as an accident by ACC.

Supporting the Crown-Māori relationship

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 Customs staff or our customers. To help further build our relationships with iwi and Māori businesses, and in recognition of the importance of the Treaty of Waitangi, we incorporated the Treaty principles of kotahitanga (partnership), kaitiakitanga (protection), and manaakitanga (participation) into our new strategy, *Rautaki Mana Ārai* (discussed on page 5). In 2018/19 we updated the Customs Māori Strategy: *Te Pou Tokomanawa Māori o Te Mana Ārai* with a focus on building Māori cultural capability.

Financial sustainability

Revenue from cost recovery helps Customs maintain a sustainable financial position. It ensures we are able to respond to increasing demands on our resources to efficiently process steadily growing trade and travel volumes while continuing to manage the associated risks.

Customs is reviewing fees for clearing imported and exported goods, as current fees no longer accurately reflect the actual cost of clearing goods. In 2018/19 we developed a robust policy framework for cost recovery (based on accepted charging guidelines issued by the Treasury and the Office of the Auditor-General). The framework supports decisions about when cost recovery is appropriate, who should be charged, the types of costs that should be recovered, and how charges should be designed and managed. Customs also adopted an Activity Based Costing (ABC) methodology that has given us a better understanding of the actual cost of undertaking our activities, and the costs to be recovered.

Before final policy decisions to be made in 2019/20, we undertook public consultation in August 2019 on the proposed changes to goods clearance fees to better understand the impact of those changes on businesses and individuals.

This work is a step towards implementing full cost recovery of our relevant border clearance activities. We aim to fully align the funding of clearing imported and exported goods with our cost recovery framework over time. Customs already recovers the costs of processing travellers at the border from the users of those services through the Border Clearance Levy.

Modernising border management systems

We are undertaking a programme to modernise our border management systems to improve their stability and resilience, and be more responsive to new ways of working. The new tools will support us to increase the mobility of our workforce, take advantage of advances in passenger processing and intelligence processing technology, and enhance services for other agencies.

We completed the first phase of the programme in 2018/19. This included migrating CusMod, our core border operational system, onto an all-of-government 'Platform as a Service' infrastructure in May 2019. This modern technology foundation enables the subsequent delivery of new functionality to border management systems more efficiently and reliably than the previous technology and tools.

We also delivered a standard, future-proofed gateway (an Application Programming Interface (API) Gateway) for different applications across our systems to interface with each other, and delivered the first set of modern tools for developing, testing, and deploying new applications.

Customs continues to look to introduce better tools for our frontline staff. We completed a mobile application for capturing the results of cargo inspections, using the new API Gateway, that went live in August 2019. We plan over the rest of 2019/20 to develop mobile apps for capturing mail and passenger inspections, and the detention or seizure of goods. This will enable our officers to access information, and complete activity reports, more easily, especially when out of the office on the job – improving efficiency and data quality.

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 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.

Measure	Indicator	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual
m ² per office person	Utilisation	≤16.00m ²	17.95m ²	≤16.00m ²	16.20m ²
Building services, and other infrastructural services, provide a safe and comfortable environment for staff	Functionality	5 ³⁶	4.3	5	4.3
New Building Standard (NBS) rating is acceptable to the agency	Condition	5	4.3	5	4.3

³⁶Ratings are on a scale of 0 (never meets the criteria) to 5 (consistently meets the criteria). All ratings were conducted by an agency independent of Customs.

ICT asset performance measures

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

Measure	Indicator	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual
Percentage of time systems available	Availability	100%	99.4%	100%	99.5%
Percentage of priority one (P1) incidents resolved within agreed support and maintenance service levels	Functionality	100%	86.4%	100%	52.2%
Percentage of ICT assets fully supported by vendor	Condition	100%	60.0%	100%	60.0%
Percentage of commercial air passengers using eGate	Utilisation	N/A	53.7%	>55%	58.1%
Percentage of revenue collected electronically	Utilisation	>95%	99.4%	>95%	99.5%
Percentage of trade lodgements processed electronically	Utilisation	N/A	97.2%	97%	97.0%
Alerts in border management system	Utilisation	N/A	185,649	N/A	182,598

Explanation for variances from 2018/19 standard

Availability: if planned outages are excluded, availability was 99.8 percent. Planned outages are scheduled for times that have the minimum possible impact on business operations (including least disruption to our customers).

Functionality: 11 of 23 P1 incidents were not resolved within agreed support levels. However, most of these incidents resulted in reduced technical service rather than complete outages, and system availability remained high. Customs suffered two significant system outages; these resulted in four of the P1 incidents not resolved within agreed support levels. We are working with our suppliers to address the issues identified.

Condition: our FMIS is no longer fully supported and work is underway with a view to commence replacement of the system during 2019/20. 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.

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

Statement of Responsibility

I am responsible, as Acting Comptroller of Customs, for:

- the preparation of the New Zealand Customs Service’s financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting
- ensuring that end-of-year performance information on each appropriation administered by the New Zealand Customs Service is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report
- the accuracy of any end-of-year performance information prepared by the New Zealand Customs Service, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the New Zealand Customs Service as at 30 June 2019 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 2020 and its operations for the financial year ended on that date.



Bill Perry

Acting Comptroller of Customs
30 September 2019

Independent Auditor's Report

To the readers of the New Zealand Customs Service's annual report for the year ended 30 June 2019

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 68 to 92, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2019, 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 2019 on pages 8 to 27 and 46 to 64;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2019 on pages 65 and 66; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 94 to 100 and 72 that comprise:
 - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2019;
 - the schedules of expenses; and revenue for the year ended 30 June 2019;
 - the schedule of trust monies for the year ended 30 June 2019; 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 68 to 92:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the Department on pages 8 to 27 and 46 to 64:
 - presents fairly, in all material respects, for the year ended 30 June 2019:
 - 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 65 and 66 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 94 to 100 and 72 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 2019; and
 - expenses and revenue for the year ended 30 June 2019; and
 - the schedule of trust monies for the year ended 30 June 2019.

Our audit was completed on 30 September 2019. 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; and
- 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 2018/19 and the 2018/19 forecast financial figures included in the Department's 2017/18 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, 30 to 41 and 101 to 104, 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 2019

This section of our annual report contains end-of-year performance information for the 2018/19 financial year for the output class appropriations and departmental capital expenditure appropriation contained in *The Estimates of Appropriations 2018/19* for Vote Customs. Collectively, these output classes support the achievement of the priorities and strategic intentions discussed on page 5.

Summary of output performance measures achieved

Output class			
Clearance and enforcement services related to passengers and crew		Revenue collection	
Clearance and enforcement services related to goods		Policy advice	
Clearance and enforcement services related to craft		International services and ministerial servicing	
Information and intelligence services		Total	

The end-of-year performance information in this section (the "Actual" results for 2018/19) is audited.

The "Budget" figures are those included in *The Estimates of Appropriations 2018/19*. The "Revised Budget" figures are those from *The Supplementary Estimates of Appropriations 2018/19*. This information is unaudited.

If a performance measure was in place in the prior 2017/18 financial year, comparative performance information for 2017/18 has been included. To provide further context for the 2018/19 results, we have also included the standards set for the output performance measures for 2019/20, together with the new output performance measures for 2019/20 (as contained in *The Estimates of Appropriations 2019/20* for Vote Customs). For any new measures for 2019/20, we have not reported results for 2017/18 or 2018/19. 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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
1,007	Crown	634	634	594
72,670	Other	66,809	69,235	64,919
73,677	Total revenue	67,443	69,869	65,513
64,866	Expenses before remeasurements	71,857	71,982	65,513
8,811	Surplus/(Deficit)	(4,414)	(2,113)	–

Performance

Processing of air passengers

Reflecting the continuing growth in traveller volumes, Customs processed a record 7.26 million arriving international air passengers and crew in 2018/19, within the expected range of 7.0–7.5 million.

As discussed on page 21, Customs' processing of the rising air passenger volumes is assisted by increasing use of eGate by passengers. With the increasing number of eligible nationalities, use of eGate is now considered part of business as usual operation and not requiring a performance measure for 2019/20.

Risk management

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

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	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) ³⁸	78.8%	85%	89.8%	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) ³⁸	86.0%	85%	90.2%	N/A
<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) ³⁸	85.5%	85%	88.9%	N/A
Minimum percentage of arriving international air passengers who trust Customs (as measured by Customs' stakeholder survey) ³⁸	91.9%	85%	94.1%	N/A
<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	95.9%	90%	96.0%	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	56.4%	45%–55%	57.9%	50%–60%
<i>Passenger processing output: Passengers can complete their transactions with government easily in a digital environment</i>				
Minimum percentage of commercial air passengers using eGate	N/A	55%	58.1%	N/A

Explanation of variances for standards not achieved

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

In recent years, enhanced risk assessment and better targeting of interventions to risk along with increasing passenger volumes has resulted in lower levels of interaction with compliant passengers. While below the standard, all passengers are subject to a risk assessment process and those identified for further intervention were interacted with in the secondary area.

³⁸Our survey captures feedback from a random selection of air passengers (from New Zealand and overseas) arriving in New Zealand. The total sample size of the survey was 3,982 passengers, and we received a total of 862 responses. This survey had a margin of error of 2.95%. Stakeholder surveys help us to improve our service delivery at the border and our customers' experience.

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
18,909	Crown	21,305	21,305	17,126
64,759	Other	65,759	68,674	68,800
83,668	Total revenue	87,064	89,979	85,926
83,618	Expenses before remeasurements	87,089	89,979	85,926
50	Surplus/(Deficit)	(25)	–	–

Performance

Trade transactions

In 2018/19 Customs expected to process an estimated 9.5–10.5 million import transactions, 4.5–5.5 million export transactions, and 3,600–4,200 excise returns. We processed 11.93 million import transactions, 4.79 million export transactions, and 6,060 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 measures relating to protection have been located in this output class as the majority of illicit items are found in the goods stream. Customs' role in the protection of New Zealand is discussed on pages 8–16. 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 below relating to the harm avoided through those 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. Scheduled audit activity is based on identified risk priorities. We expected to undertake 325–375 audits in 2018/19, and conducted 428.

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 221 investigation cases in 2018/19, 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.

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	Actual	Standard	Actual	Standard
Trade				
<i>Trade intermediate outcome: Importers and exporters are satisfied with the quality of service delivery</i>				
Minimum percentage of importers and exporters satisfied or very satisfied with the overall quality of Customs' service delivery (as measured by Customs' stakeholder survey) ³⁹	77.5%	85%	74.4%	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) ³⁹	65.9%	85%	71.0%	85%
Maximum percentage of X-ray inspections undertaken on Secure Exports Scheme (SES) containers ⁴⁰	0.02%	0.05%	0.003%	N/A
Minimum percentage of X-ray inspections undertaken on non-SES containers ⁴⁰	0.5%	0.5%	0.6%	N/A
<i>Goods processing output: Legitimate goods cross the border with minimal intervention</i>				
Minimum percentage of trade transactions other than those referred for compliance checks processed (including assessment against business rules and intelligence alerts) within 30 minutes	99.8%	95%	98.9%	95%
Minimum percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention ⁴¹	98.8%	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	90.3%	90%	90.9%	90%
Percentage of scheduled audit activities conducted	N/A	100%	100%	N/A
Protection				
<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	\$1.336 billion ⁴²	\$500 million	\$1.795 billion	\$500 million
Minimum losses (NZ\$) incurred by importers of illegal goods through seizure of illicit drugs and proceeds of crime	\$345.4 million ⁴²	\$250 million	\$535.0 million ⁴³	\$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	51.5%	50%	43.2% ⁴⁴	N/A
<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	0.04%	0.03%	0.04%	N/A
<i>Investigations output: Goods that show risk are subject to further intervention</i>				
Minimum percentage of investigation cases finalised within 12 months of commencement	64.2%	70%–85%	70.6%	70%–85%
Minimum percentage of serious investigation cases ⁴⁵ that lead to punitive action ⁴⁶	92.7%	90%	95.6%	90%

Explanation of variances for standards not achieved

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

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

These results reflect that business customers are reporting it takes more effort to deal with Customs and this is especially true for small and medium-sized enterprises (SMEs). We have commenced work on a series of initiatives to make it easier for all businesses, and SMEs in particular, to work with Customs.

Percentage of public confident that Customs protects New Zealand from external threats

The results of this survey in part reflect how Customs has been described in the media, and there were a number of high-profile stories that involved Customs in 2018/19. In addition, one of the survey questions relates to confidence in our ability to stop drugs entering the country. The availability of illegal drugs in New Zealand was the most common reason given by respondents to the question asking whether they had confidence in Customs stopping illegal drugs coming into or leaving New Zealand.

³⁹Our 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 4,000 were invalid addresses or bounced back due to security restrictions on the account. We received 1,783 complete responses, of which 1,200 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 part of Customs' strategy). The survey had a margin of error of 2.12% (calculated at 95% confidence level).

⁴⁰These 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.

⁴¹Further 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.

⁴²This is the result reported in the *New Zealand Customs Service Annual Report 2018* based on the provisional totals for drugs seized in that year. As discussed on page 15, the total harm avoided based on the finalised drugs totals for 2017/18 was \$1.490 billion. Each of this total and the \$1.795 billion total for 2018/19 is the harm avoided based on drugs seized by Customs at the border (and does not include the harm avoided through offshore drug seizures discussed on page 15).

⁴³The illicit drugs seized by Customs at the border in 2018/19 had an estimated street value of \$534.3 million, calculated using drug prices sourced from National Drug Intelligence Bureau (NDIB) Illicit Drug Pricing Report November 2018. The balance of the result is the cash seized by Customs in 2018/19 as a result of investigations totalling \$0.699 million.

⁴⁴The result is an average of the survey's results that Customs protects against: people coming into or leaving New Zealand illegally (45.1%); and illicit drugs (40.7%), people with criminal or terrorist intent (39.2%), protected New Zealand objects (cultural and heritage items) (38.9%), and restricted or prohibited goods (which include weapons, indecent materials, and protected plants and animals) (52.1%) entering or leaving New Zealand.

⁴⁵A 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.

⁴⁶The 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; an administrative penalty; imposition of a section 223 Customs and Excise Act 1996 penalty (a fine or other penalty) for the period from 1 July 2018 to 30 September 2018, and issue of an infringement notice under section 400 of the Customs and Excise Act 2018 for the period from 1 October 2018 to 30 June 2019.

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
8,890	Crown	8,870	8,870	10,421
65	Other	66	109	109
8,955	Total revenue	8,936	8,979	10,530
8,926	Expenses before remeasurements	8,799	8,979	10,530
29	Surplus/(Deficit)	137	–	–

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 619 (within the expected range of 600–700) arriving small marine craft in 2018/19.

All 528 arriving commercial marine craft showing high risk or requiring administrative process (slightly above the 400–500 forecast) 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	2017/18	2018/19		2019/20
	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	99.8%	100%	100%	Measure replaced (see below)
Percentage of small marine craft arriving whose master of vessel reported to a customs officer upon first arrival in a New Zealand port	N/A	N/A	N/A	100%
Percentage of arriving commercial marine craft (including cruise ships) showing high risk or requiring administrative process that are boarded while in a New Zealand port	100%	100%	100%	100%
<i>Craft output: Craft operators' compliance is monitored</i>				
Minimum percentage of all arriving commercial marine craft that are not assessed as high risk that will be subject to Customs secondary interaction	7.9%	5%	7.2%	5%

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
13,277	Crown	12,379	12,379	14,450
882	Other	883	852	852
14,159	Total revenue	13,262	13,231	15,302
13,689	Expenses before remeasurements	13,070	13,231	15,302
470	Surplus/(Deficit)	192	–	–

Performance

Services for other agencies

In 2018/19 we disseminated 898 intelligence and risk products, 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 76,438 of these alerts created by other agencies in 2018/19, within the forecast of 75,000–80,000. These alerts were created by MBIE (59.7% of the total), the Ministry of Justice (29.4%), NZ Police (5.7%), Inland Revenue (4.6%), and other agencies (0.6%). MBIE is 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	2017/18	2018/19		2019/20
	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	60%	80%	87.5% ⁴⁷	Measure replaced (see below)
Minimum percentage of external clients who are satisfied with Customs' management of alerts created by their agency	100%	80%	100% ⁴⁸	
Percentage of external alerts processed in accordance with alert instructions	N/A	N/A	N/A	100%
Minimum percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's coordination of tasking	75%	80%	85.7% ⁴⁹	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	77.9%	80%	80.8%	80%

⁴⁷We sought feedback from eight external clients and received responses from seven. The survey responses were all obtained either in person or over the phone.

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

⁴⁹We sought feedback from eight agencies and received responses from seven of those agencies. The survey responses were all obtained either in person or over the 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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
9,697	Crown	9,682	9,682	9,447
613	Other	667	638	638
10,310	Total revenue	10,349	10,320	10,085
10,121	Expenses before remeasurements	10,016	10,320	10,085
189	Surplus/(Deficit)	333	–	–

Performance

A net total of \$50.98 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 24–27.

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	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 ⁵⁰	99.4%	95%	99.5%	95%
Minimum number of clients that meet credit criteria and have access to the deferred payment scheme	9,257	9,000	9,485 ⁵¹	N/A
<i>Revenue output: Due revenue is collected</i>				
Minimum percentage of revenue that is collected by the due date	99.5%	98%	99.1% ⁵²	98%
<i>Revenue output: Revenue clients' compliance is monitored</i>				
Debt write-offs as a maximum percentage of total Crown revenue collected	0.057%	0.06%	0.007%	0.06%
Minimum additional revenue (NZ\$) owed that is identified through the trade compliance programme	\$44.56 million	\$15 million	\$50.98 million	\$15 million

⁵⁰The 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 0.5% of the total revenue collected in 2018/19).

⁵¹This is an average of the 12 monthly totals. As at 30 June 2019, the total number of clients was 9,514.

⁵²This 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 99.1% for 2018/19).

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
5,186	Crown	3,867	3,867	5,349
32	Other	33	35	35
5,218	Total revenue	3,900	3,902	5,384
4,919	Expenses before remeasurements	3,700	3,902	5,384
299	Surplus/(Deficit)	200	–	–

Performance

Customs provided policy advice to the Minister of Customs in 2018/19 on a range of topics related to border management, including:

- 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 and supporting progress of the legislation through the House
- 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
- a review of Customs' goods clearance cost recovery approach.

To monitor the quality of our policy advice, in addition to our internal quality assurance, Customs seeks the Minister of Customs' assessment of his or 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 2018/19, based on a review of a sample of 20 papers (this equates to a result of 75% for the median technical quality assessment score measure). 95% of our papers scored a 7 or above (with 7 reflecting that quality standards were met) while 45% of papers scored 8 or above. NZIER ranks agencies according to their mean score. In 2017/18 Customs had the highest mean of agencies surveyed, with a score of 7.7. Whilst this dropped to 7.65 for 2018/19, NZIER noted that it was an impressive performance, mentioning that few other agencies had maintained top scores from one year to the next.

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	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)	77.5%	75% ⁵³	75% ⁵⁴	Measure replaced (see below)
Satisfaction of the portfolio Minister with the policy advice service	N/A	N/A	N/A	TBC ⁵⁵
<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%	Measure replaced (see below)
Assessment of the quality of a sample of the agency's policy advice papers	N/A	N/A	N/A	TBC ⁵⁵
<i>Policy advice: cost-effectiveness</i>				
Maximum total cost (NZ\$) of professional staff per hour of producing outputs	\$108.3	\$120	\$108.8	\$120

⁵³ A score of 70% corresponds to "meets expectations".

⁵⁴ This result is from the survey completed by the then Minister of Customs (Minister Kris Faafoi) for and in the period for which he was Minister in 2018/19 – 20 September 2018 to 27 June 2019.

⁵⁵ The Standard for each of these measures (based on the revised Ministerial Policy Satisfaction Survey and refreshed Policy Quality Framework, issued in June 2019 by the Department of Prime Minister and Cabinet) will be included in the Vote Customs 2019/20 Supplementary Estimates of Appropriations.

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
Revenue				
8,753	Crown	8,701	8,701	8,502
1,180	Other	1,645	1,991	1,991
9,933	Total revenue	10,346	10,692	10,493
9,798	Expenses before remeasurements	10,164	10,692	10,493
135	Surplus/(Deficit)	182	–	–

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.

We work with other agencies to shape the international environment in which New Zealand businesses engage and to support the movement of legitimate goods across borders, including through increased trade access and reduced non-tariff barriers. A key contribution by Customs in this area relates to FTAs (as discussed on page 17).

Customs plays an active role in ensuring the representation of New Zealand's interests in international customs policy and trade. We participate in a number of key international fora and groupings to advance our objectives, including:

- World Customs Organization (WCO) – Customs is one of the Asia/Pacific Region's representatives on the WCO Policy Commission, which sets the policy direction for the WCO. In 2018/19 Customs chaired a working group to ascertain members' experiences with border risks related to cruise ships. That work has now been picked up by Japan with New Zealand supporting them in the development of an issues paper for the Policy Commission. Customs is 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. We are also Co-Chair of the Small Island Economies Working Group looking at developing WCO tools and instruments more relevant to the Small Island Economies (for example those in the Pacific).
- 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 2019, Customs signed Mutual Recognition Arrangements with Canada and Singapore (as discussed on page 17).

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 supports our trade, security, and enforcement objectives. This includes gathering, sharing, and using information and intelligence to enable targeted disruption, with offshore partners willing to act on our behalf to prevent harm reaching New Zealand's borders (as discussed on page 10).

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 customs administrations in the Pacific to build capacity and develop effective border management. This enhances the Pacific region's ability to detect and disrupt organised crime, while allowing legitimate trade and travel. 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 2018/19 we provided 56 draft replies to ministerial correspondence, within the expected 40–70 range. We provided 59 draft responses to written parliamentary questions to the Minister, within the expected range of 50–80.

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	Actual	Standard	Actual	Standard
<i>International services and ministerial servicing intermediate outcome: Minister's satisfaction</i>				
Minister's satisfaction with advice and support in relation to international services and ministerial servicing	Meets and sometimes exceeds expectations	Meets expectations	Meets and sometimes exceeds expectations ⁵⁴	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	90.9%	90%	98.2%	90%
Percentage of draft responses to parliamentary questions that are provided to the Minister's office so that answers can meet the timeframe set in Parliamentary Standing Orders	100%	100%	100%	100%

⁵⁴This result is from the survey completed by the then Minister of Customs (Minister Kris Faafoi) for and in the period for which he was Minister in 2018/19 – 20 September 2018 to 27 June 2019.

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

2017/18		2018/19		
Actual		Actual	Unaudited Revised Budget	Unaudited Budget
\$000		\$000	\$000	\$000
9,103	Property, plant and equipment	10,200	12,095	7,440
6,617	Intangibles	8,788	19,776	11,900
-	Other	-	-	-
15,720	Total Appropriation	18,988	31,871	19,340

The increase in the Unaudited Revised Budget (the Supplementary Estimates of Appropriations for 2018/19) was principally due to the anticipated timing and level of capital expenditure for projects in 2018/19. Actual expenditure being below the Unaudited Revised Budget was the result of delays in the capital programme.

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	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 2019.

Statement of Expenses and Capital Expenditure Incurred Against Appropriations

For the year ended 30 June 2019

Annual and permanent appropriations for Vote Customs

2017/18		2018/19			
Expenditure after remeasurements \$000		Expenditure after remeasurements \$000	Remeasurements ¹ \$000	Expenditure before remeasurements \$000	Approved Appropriation 2019 ² \$000
<i>Departmental output expenses</i>					
64,875	Clearance and enforcement services related to passengers and crew	71,977	120	71,857	71,982
83,627	Clearance and enforcement services related to goods	87,199	111	87,089	89,979
8,927	Clearance and enforcement services related to craft	8,811	12	8,799	8,979
13,691	Information and intelligence services	13,085	15	13,070	13,231
10,123	Revenue collection	10,034	18	10,016	10,320
4,920	Policy advice	3,706	6	3,700	3,902
9,799	International services and ministerial servicing	10,176	12	10,164	10,692
195,962	Total departmental output expenses	204,988	293	204,695	209,085
<i>Departmental capital expenditure</i>					
15,720	New Zealand Customs Service – capital expenditure PLA ³	18,988	–	18,988	31,871
<i>Non-departmental other expenses</i>					
2,385	Change in doubtful debt provision	5,687	–	5,687	8,000
–	Provision of ACC-equivalent cover for New Zealand employees working overseas PLA ³	–	–	–	5
60	World Customs Organization	67	–	67	80
2,445	Total non-departmental other expenses	5,754	–	5,754	8,085
214,127	Total annual and permanent appropriations	229,730	293	229,437	249,041

¹ Remeasurements are the movement brought about by the change in the discount rate applied to non-current employee entitlements (see Note 12, page 85)

² These are the appropriations from *The Supplementary Estimates of Appropriations 2018/19*

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

The 2018/19 end-of-year performance information for each departmental appropriation is reported in this annual report.

The 2018/19 end-of-year performance information for the non-departmental appropriations is in a report by the Minister of Customs appended to this annual report except for the ACC-equivalent cover for New Zealand employees working overseas PLA appropriation, which is exempt under section 15D(2)(b)(iii) of the Public Finance Act from the requirement to provide end-of-year performance information.

In the 2018/19 financial year, the New Zealand Customs Service did not incur any:

- expenses or capital expenditure in excess of appropriation (2017/18 financial year: nil)
- expenses or capital expenditure without appropriation or other authority, or outside the scope or period of the appropriation (2017/18 financial year: nil).

Statement of Departmental Capital Injections

For the year ended 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
	Vote Customs	
	– 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 (2017/18 financial year: nil).



CUSTOMS

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Financial Statements

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2019

2017/18			2018/19		2019/20
Actual		Note	Unaudited Budget \$000	Unaudited Supps \$000	Actual
\$000			\$000	\$000	\$000
	<i>Revenue</i>				
65,719	Crown	2	65,889	65,438	65,438
140,201	Other revenue	2	137,344	141,534	135,862
205,920	Total revenue		203,233	206,972	201,300
	<i>Expenses</i>				
106,399	Personnel costs	3	110,183	120,788	117,016
63,271	Operating costs	4	63,444	60,699	61,472
17,386	Depreciation and amortisation expense	5	20,535	18,527	17,673
8,906	Capital charge	6	9,071	9,071	8,827
195,962	Total expenses		203,233	209,085	204,988
9,958	Total comprehensive revenue and expense		-	(2,113)	(3,688)

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

Statement of Change in Equity

For the year ended 30 June 2019

2017/18			2018/19		2019/20
Actual		Note	Unaudited Budget \$000	Unaudited Supps \$000	Actual
\$000			\$000	\$000	\$000
157,984	Taxpayers' funds as at 1 July		163,244	166,786	166,786
9,958	Total comprehensive revenue and expense for the year		-	(2,113)	(3,688)
-	Capital withdrawals		-	(2,648)	(2,648)
-	Capital injections		2,742	2,742	-
(1,156)	Provision for return of surplus	11	-	-	(7,974)
166,786	Taxpayers' funds as at 30 June		165,986	164,767	152,476

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

Statement of Financial Position

As at 30 June 2019

2017/18		Note	2018/19		2019/20
			Unaudited Budget	Unaudited Supps	
Actual			\$000	\$000	Actual
\$000			\$000	\$000	\$000
	<i>Current assets</i>				
27,144	Cash and cash equivalents		34,421	13,461	19,762
2,494	Prepayments		4,314	5,266	5,702
55,852	Debtors and receivables	7	41,820	53,310	48,158
85,490	Total current assets		80,555	72,037	73,622
	<i>Non-current assets</i>				
31,562	Property, plant and equipment	8	39,683	35,145	33,255
85,935	Intangible assets	9	96,138	95,640	85,339
23	Receivables and advances		25	26	42
117,520	Total non-current assets		135,846	130,811	118,636
203,010	Total assets		216,401	202,848	192,258
	<i>Current liabilities</i>				
19,494	Creditors and payables	10	35,161	23,190	16,561
11,512	Employee entitlements	12	11,340	9,455	11,255
1,156	Provision for repayment of surplus to the Crown	11	-	-	7,974
246	Other short term liabilities	13	68	95	-
32,408	Total current liabilities		46,569	32,740	35,790
	<i>Non-current liabilities</i>				
3,566	Employee entitlements	12	3,596	5,091	3,742
250	Other long term provisions	14	250	250	250
3,816	Total non-current liabilities		3,846	5,341	3,992
36,224	Total liabilities		50,415	38,081	39,782
166,786	Net assets		165,986	164,767	152,476
	<i>Equity</i>				
149,433	Crown capital and retained earnings	15	152,175	149,527	146,785
17,353	Memorandum accounts (net position)	15	13,811	15,240	5,691
166,786	Total equity as at 30 June		165,986	164,767	152,476

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

Statement of Cash Flows

For the year ended 30 June 2019

2017/18		2018/19			2019/20
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast
\$000	Note	\$000	\$000	\$000	\$000
Cash flows – operating activities					
Cash was provided from:					
46,384	Crown	65,889	70,241	70,242	94,104
142,446	Other	137,344	139,183	136,312	140,361
Cash was applied to:					
(106,256)	Personnel	(116,693)	(115,041)	(117,097)	(117,099)
(62,758)	Operating	(58,007)	(68,320)	(67,043)	(73,685)
1,416	net GST	1,583	227	(1,110)	227
(8,906)	Capital charge	(9,071)	(5,360)	(8,827)	(5,360)
12,326	Net cash flow from operating activities	21,045	20,930	12,477	38,548
Cash flows – investing activities					
Cash was provided from:					
285	Sale of fixed assets	-	-	154	-
Cash was disbursed to:					
(9,103)	Purchase of fixed assets	(7,440)	(12,095)	(10,200)	(15,673)
(6,616)	Purchase of intangible assets	(11,900)	(19,776)	(8,657)	(26,338)
(15,434)	Net cash flow from investing activities	(19,340)	(31,871)	(18,703)	(42,011)
Cash flows – financing activities					
Cash was provided from:					
-	Capital contributions	2,742	-	-	2,603
Cash was disbursed to:					
-	Capital withdrawal	-	(2,742)	-	-
(5,218)	Repayment of surplus	(1,611)	-	(1,156)	-
(5,218)	Net cash flow from financing activities	1,131	(2,742)	(1,156)	2,603
(8,326)	Net increase/(decrease) in cash	2,836	(13,683)	(7,382)	(860)
35,470	Cash at the beginning of the year	31,585	27,144	27,144	13,461
27,144	Cash at the end of the year	34,421	13,461	19,762	12,601

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

Statement of Commitments

As at 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Capital commitments</i>	
-	Property, plant and equipment	-
-	Total capital commitments	-
	<i>Non-cancellable operating lease commitments</i>	
11,918	Not later than one year	12,426
22,338	Later than one year and not later than five years	15,778
995	Later than five years	596
35,251	Total non-cancellable operating commitments	28,800
35,251	Total commitments	28,800

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 2019 (30 June 2018: 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 2019

Quantifiable contingent liabilities

2017/18		2018/19
Actual \$000		Actual \$000
	- Employment disputes	-
	- Legal proceedings and disputes	-
	- Total quantifiable contingent liabilities	-

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 2019, the New Zealand Customs Service had no unquantifiable contingent liabilities (30 June 2018: nil).

Quantifiable contingent assets

2017/18		2018/19
Actual \$000		Actual \$000
7	Awarded court costs awaiting finalisation of appeal	-
7	Total quantifiable contingent assets	-

As at 30 June 2019 there were no unquantifiable contingent assets (30 June 2018: nil).

Schedule of Trust Monies

For the year ended 30 June 2019

Account	As at 01/07/2018 \$000	Contribution \$000	Distribution \$000	As at 30/06/2019 \$000
Health Promotion Agency Trust	1,009	13,177	13,330	856
Heavy Engineering Research Association Trust	187	1,947	1,962	172
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	52,185	13,002	10,215	54,972
New Zealand Customs Service Multiple Deposit Scheme Release Trust	113	10,302	9,937	478
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	6	13,444	13,391	59
Total	53,500	51,872	48,835	56,537

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

Notes to the Financial Statements

For the year ended 30 June 2019

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 (XRB) 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 2019. The financial statements were authorised for issue by the Acting Comptroller of Customs on 30 September 2019.

Basis of preparation

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

Statement of compliance

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

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

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

Functional and presentation currency

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

Standard early adopted

In line with the Financial Statements of the Government, the New Zealand Customs Service has elected to early adopt PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. The New Zealand Customs Service has adopted this new standard in preparing the 30 June 2019 financial statements.

Standards issued and not yet effective and not early adopted

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

Amendment to PBE IPSAS 2 Statement of Cash Flows

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

PBE IPSAS 34-38

PBE IPSAS 34-38 replace the existing standards for interests in other entities (PBE IPSAS 6-8). These new standards are effective for annual periods beginning on or after 1 January 2019. The New Zealand Customs Service will apply these new standards in preparing the 30 June 2020 financial statements. No effect is expected as a result of this change.

PBE IPSAS 41 Financial Instruments

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

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The New Zealand Customs Service has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Critical accounting estimates and assumptions

In preparing these forecast financial statements, the New Zealand Customs Service has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of:

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

Summary of significant accounting policies

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

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

Accounting for foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Revenue and Expense.

Operating leases

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

Cash and cash equivalents

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

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

Payables

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

Equity

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

Memorandum accounts

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

Commitments

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

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

Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are recorded in the Statement of Departmental Contingent Liabilities and Assets at the point at which the contingency is 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 2018/19 "Budget" figures are for the year ended 30 June 2019 and were published in the 2017/18 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2019. The 2018/19 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2018/19*. 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 2020 forecast figures for the year ending 30 June 2020 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2019/20 year.

The 30 June 2020 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 10 April 2019.

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 2020 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 2018/19 is used as the opening position for the 2019/20 forecasts.

The actual financial results achieved for 30 June 2020 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 2019, direct costs accounted for 77% (2018: 72%) 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 2019, indirect costs accounted for 23% (2018: 28%) of the New Zealand Customs Service's costs.

Changes in accounting policies

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

Comparatives

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

Note 2: Revenue

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

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

Revenue Crown

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

This treatment is based on the view that there are no use or return conditions attached to the funding from the Crown. However, the New Zealand Customs Service can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

Other Revenue

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

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

Statutory levies

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

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
71,665	Border Clearance Levy	66,342	65,869	70,012
41,880	Import Entry Transaction Fees	42,980	42,839	45,534
14,798	Goods Cost Recovery Fees	15,677	14,859	15,794
8,392	Information processing	7,378	8,395	8,923
1,398	Cost recoveries – other	2,116	1,360	1,446
1,084	Overseas aid projects	1,898	1,549	1,646
397	Compliance activity – Officers time	370	322	342
267	Rental income	284	320	340
237	Compliance activities – other	231	214	227
83	Sale of publications	68	135	144
140,201	Total other revenue	137,344	135,862	144,408

Note 3: Personnel costs

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
100,416	Salaries and wages	104,260	110,346	114,021
3,361	Employer contributions to defined contribution plans	3,459	3,695	3,972
2,622	Other personnel expenses	2,464	2,975	6,751
106,399	Total personnel costs	110,183	117,016	124,745

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

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
11,620	Facilities management	13,458	13,040	13,709
11,261	Computer equipment costs	10,519	10,192	10,716
6,833	Operating lease rentals	8,234	7,978	8,387
4,980	Travel and accommodation	5,067	4,909	5,161
3,833	Occupancy costs (excluding rentals)	4,768	4,620	4,857
5,405	Consultants and professional fees	4,080	3,953	4,156
7,520	Contractors and temporary staff	4,406	4,269	4,109
3,536	Repairs and maintenance	3,689	3,574	3,757
3,159	Communication costs	3,273	3,171	3,334
250	Fees paid to Audit NZ for the financial statement audit	267	259	273
386	Net (gain)/loss on sale of fixed assets	36	35	416
15	Bad debts written off	(118)	(114)	(120)
2	Net foreign exchange losses	8	8	8
135	Expected credit loss on financial assets	84	81	86
(191)	Other operating costs recovered	(193)	(187)	(197)
4,527	Other operating costs	5,866	5,684	5,976
63,271	Total operating costs	63,444	61,472	64,628

Note 5: Depreciation and amortisation

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
<i>Depreciation</i>				
1,217	Leasehold improvements	1,151	1,473	1,446
208	Office equipment	146	178	168
4,189	Other equipment and plant	5,097	4,027	5,876
282	Furniture and fittings	143	149	2,313
1,816	Computer equipment	1,648	1,665	1,197
337	Motor vehicles	358	573	484
114	Launch and watercraft	188	224	254
8,163	Total depreciation	8,731	8,289	11,738
<i>Amortisation</i>				
9,223	Intangible assets – computer software	11,804	9,384	10,779
17,386	Total depreciation and amortisation cost	20,535	17,673	22,517

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 2019 was 6.0% (1 July 2017–30 June 2018: 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).

2017/18		2018/19
Actual \$000		Actual \$000
10,758	Debtor – Border Clearance Levy	10,513
3,004	Debtor – Import Entry Transaction Fee	2,938
1,836	Debtor – Goods Cost Recovery	1,886
1,161	Trade debtors	1,210
1,050	Receivables	940
17,809	Receivables and debtors	17,487
(379)	Less: accumulated credit losses	(298)
17,430	Net trade debtors	17,189
38,422	Debtor – Crown	30,969
55,852	Total debtors and receivables	48,158

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

	2017/18			2018/19		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Current	15,942	–	15,942	14,821	–	14,821
Past due 1–30 days	1,258	–	1,258	1,795	–	1,795
Past due 31–60 days	79	–	79	113	–	113
Past due 61–90 days	143	–	143	338	–	338
Past due >90 days	387	(379)	8	420	(298)	122
Total	17,809	(379)	17,430	17,487	(298)	17,189

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

2017/18		2018/19
Actual \$000		Actual \$000
244	Balance at 1 July	379
150	Change in accumulated expected credit losses	(33)
(15)	Receivables written-off during the year	(48)
379	Balance at 30 June	298

Note 8: Property, plant and equipment

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

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

All property, plant and equipment costing individually \$2,700 (2018: \$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
Cost								
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)
Balance at 30 June 2018	20,918	1,618	38,242	4,173	16,580	4,520	4,477	90,528
Balance of work in progress	6	-	643	209	345	(33)	7	1,177
Balance at 1 July 2018	20,918	1,618	38,242	4,173	16,580	4,520	4,477	90,528
Additions	98	126	5,157	8	990	921	3	7,303
Disposals	-	-	-	-	(1,783)	(661)	-	(2,444)
Work in progress movement	92	119	2,540	(228)	238	134	1	2,896
Balance at 30 June 2019	21,108	1,863	45,939	3,953	16,025	4,914	4,481	98,283
Balance of work in progress	99	-	3,184	2	583	153	7	4,029
Accumulated depreciation and impairment losses								
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)
Balance at 30 June 2018	13,326	1,197	26,059	3,404	12,601	2,166	213	58,966
Balance at 1 July 2018	13,326	1,197	26,059	3,404	12,601	2,166	213	58,966
Depreciation expenses	1,473	178	4,026	149	1,680	601	224	8,332
Disposals	-	-	-	-	(1,797)	(472)	-	(2,269)
Balance at 30 June 2019	14,799	1,375	30,085	3,553	12,484	2,295	437	65,028
Carrying amount								
At 1 July 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
At 30 June 2019	6,309	489	15,854	399	3,541	2,619	4,044	33,255

Note 9: Intangible assets

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

Amortisation

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

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

Computer software 5 to 15 years

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

	Acquired Software \$000	Internally Generated Software \$000	Total \$000
Cost			
Balance at 1 July 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
Balance at 30 June 2018	27,835	112,336	140,171
Balance of work in progress	5,547	8,888	14,435
Balance at 1 July 2018	27,835	112,336	140,171
Additions	1,328	14,439	15,767
Disposals	(36)	(1,460)	(1,496)
Work in progress movement	(1,405)	(5,574)	(6,978)
Balance at 30 June 2019	27,722	119,741	147,463
Balance of work in progress	4,142	3,314	7,457
Accumulated amortisation and impairment losses			
Balance at 1 July 2017	11,567	34,289	45,856
Amortisation expenses	1,831	7,392	9,223
Disposals	(843)	-	(843)
Balance at 30 June 2018	12,555	41,681	54,236
Balance at 1 July 2018	12,555	41,681	54,236
Amortisation expenses	1,783	7,602	9,385
Disposals	(36)	(1,460)	(1,496)
Balance at 30 June 2019	14,301	47,823	62,124
Carrying amount			
At 1 July 2017	16,636	71,864	88,500
At 30 June 2018	15,280	70,655	85,935
At 30 June 2019	13,421	71,918	85,339

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

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Payables under exchange transactions</i>	
7,895	Trade creditors and accrued expenses	7,822
10,038	MPI – Border Clearance Levy	8,288
17,933	Total payables under exchange transactions	16,110
	<i>Payables under non-exchange transactions</i>	
1,561	GST payable	451
1,561	Total payables under non-exchange transactions	451
19,494	Total creditors and payables	16,561

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

2017/18		2018/19
Actual \$000		Actual \$000
9,958	Net surplus/(deficit)	(3,688)
(8,802)	Add (surpluses)/deficits of memorandum accounts	11,662
1,156	Total return of operating surplus	7,974

Note 12: Employee entitlements

Current employee entitlements

Employee entitlements that the New Zealand Customs Service expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

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

Non-current employee entitlements

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

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 1.84% (2018: 2.85%) and a salary inflation factor of 2.50% (2018: 2.50%) were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2019. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

Retirement and long service leave

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Current liabilities</i>	
3,719	Personnel accruals	2,971
6,643	Annual leave	7,154
1,150	Retirement and long service leave	1,130
11,512	Total current portion	11,255
	<i>Non-current liabilities</i>	
3,566	Retirement and long service leave	3,742
3,566	Total non-current portion	3,742
15,078	Total employee entitlements	14,997

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

2017/18		2018/19
Actual \$000		Actual \$000
247	Due to Crown – sale of seized goods	–
247	Total other short term liabilities	–

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.

2017/18		2018/19
Actual \$000		Actual \$000
250	Lease make good provision	250
250	Total other long term provisions	250

Movement for provisions are as follows:

2017/18		2018/19
Actual \$000		Actual \$000
250	Lease make good provision as at 1 July	250
–	Additional provisions made	–
250	Lease make good provision at 30 June	250

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

Note 15: Equity

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Crown Capital and retained earnings</i>	
149,433	Balance as at 1 July	149,433
9,958	Surplus/(deficit)	(3,688)
(8,802)	Transfer of memorandum account net (surplus)/deficit for the year	11,662
(1,156)	Return of operating surplus to the Crown	(7,974)
-	Capital withdrawal	(2,648)
149,433	Balance as at 30 June	146,785
	<i>Memorandum accounts</i>	
8,551	Balance as at 1 July	17,353
8,802	Net memorandum account net surplus/(deficit) for the year	(11,662)
17,353	Balance as at 30 June	5,691
166,786	Total equity as at 30 June	152,476

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 2018/19 the New Zealand Customs Service had nine overseas posts and operated two foreign currency bank accounts. The New Zealand Customs Service is exposed to currency risk arising from various currency exposures, primarily with respect to the US dollars, Australian dollars, and Thailand Thai Baht. Currency risk arises from future overseas posts operation, which is denominated in a foreign currency.

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

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

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

Credit risk

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

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

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

The New Zealand Customs Service's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors (note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the New Zealand Customs Service will encounter difficulty raising liquid funds to meet commitments as they fall due.

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

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

	Less than 6 Months \$000	Between 6 Months and 1 Year \$000	Between 1 and 5 Years \$000	Over 5 Years \$000
2017/18				
Creditors and other payables (note 10)	19,494	-	-	-
Total	19,494	-	-	-
2018/19				
Creditors and other payables (note 10)	16,561	-	-	-
Total	16,561	-	-	-

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.

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Financial assets measured at amortised cost</i>	
27,144	Cash and cash equivalents	19,762
55,852	Debtors and other receivables	48,158
82,996	Total financial assets measured at amortised cost	67,920
	<i>Financial liabilities measured at amortised cost</i>	
19,494	Creditors and other payables	16,561
19,494	Total financial liabilities measured at amortised cost	16,561

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.

2017/18		2018/19
Actual \$000		Actual \$000
	Leadership Team, including the Comptroller	
\$1,807,538	Salaries and other short-term employee benefits	\$1,723,733
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). 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 2019

2017/18		2018/19
Actual \$000		Actual \$000
9,958	Net operating surplus/(deficit)	(3,688)
17,386	Depreciation and amortisation expense	17,671
17,386	Total non-cash items	17,671
	<i>Working capital movements</i>	
(17,079)	(Increase)/decrease in debtors and receivables	7,581
1,557	(Increase)/decrease in prepayments	(3,208)
185	Increase/(decrease) in creditors and payables	(5,597)
172	Increase/(decrease) in employee entitlements	(257)
(205)	Increase/(decrease) in other short term liabilities	(227)
(15,370)	Working capital movements – net	(1,708)
	<i>Movements in non-current liabilities</i>	
–	Provision for premises make good	–
(30)	Increase/(decrease) in employee entitlements	176
(30)	Movements in non-current liabilities	176
(4)	(Increase)/decrease in investing activity items	(8)
386	Net (gain)/loss on sale of fixed assets/impairment	35
382	Total investing activity items	27
12,326	Net cash from operating activities	12,477

Note 21: Memorandum Account

2017/18		2018/19
Actual \$000		Actual \$000
8,551	Opening balance 1 July	17,353
72,670	Revenue – Border Clearance Levy	66,539
(63,868)	Expenses	(78,201)
17,353	Closing balance of total memorandum accounts	5,691

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

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

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

The current levy rates, effective from 1 July 2018, were set based on forecast traveller processing costs, forecast traveller volumes, and reducing the surplus over the term of the three-year levy period. Traveller volumes and therefore levy revenue were lower than expected increasing the forecast deficit.

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

The actual cost of those services provided in clearing travellers is higher than the forecast. This, along with the lower levy revenue, results in the memorandum account surplus reducing faster than forecast.

Note 22: Explanations for major variances from 2018/19 Budget

Statement of Comprehensive Revenue and Expense

Other Revenue was lower than budget due to goods clearance volumes not meeting the level forecast.

In response to the increase in passenger volumes, Personnel costs were higher than budget, which was not adjusted for the forecast increase.

Depreciation was lower than budget due to delays in the capital programme.

Statement of Change in Equity

Total equity was lower than budget due to the deferral of the capital injection for the Drug Smuggling Networks: Strategic Disruption programme (funded in Budget 2018) and the higher expenditure going against the memorandum account for the Border Clearance Levy based on the Activity Based Costing methodology.

Statement of Financial Position

Actively managing the cash balance down resulted in Cash lower than budget.

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.

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

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

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 2019

2017/18		2018/19			2019/20
		Unaudited Budget \$000	Unaudited Supps \$000	Actual \$000	Unaudited Forecast \$000
14,379,262	Revenue	14,687,140	15,403,869	15,551,913	16,012,282
2,445	Expenditure	8,060	8,080	5,754	8,080
2,113,145	Assets	2,155,594	2,206,854	2,197,512	2,255,976
24,477	Liabilities	21,023	24,477	17,960	24,477

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

Schedule of Non-Departmental Revenue

For the year ended 30 June 2019

2017/18		2018/19			2019/20
		Unaudited Budget \$000	Unaudited Supps \$000	Actual \$000	Unaudited Forecast \$000
	Revenue				
	<i>Indirect taxation</i>				
1,017,216	Customs and excise duty on alcohol	1,053,000	1,066,000	1,085,595	1,100,000
1,806,552	Customs and excise duty on tobacco products	1,741,000	1,959,000	1,980,160	1,969,000
1,963,275	Customs and excise duty on refined motor spirit	2,029,000	2,032,000	2,048,194	2,146,000
171,672	Customs duty on other imported goods	172,000	177,000	171,991	177,000
9,420,487	Goods and Services Tax	9,692,000	10,161,000	10,257,202	10,609,000
14,379,202	Total indirect taxation	14,687,000	15,395,000	15,543,142	16,001,000
	<i>Indirect non-taxation</i>				
60	World Customs Organization	60	80	67	80
-	Sale of seized goods	80	80	275	80
-	SGG Levy	-	8,660	8,348	10,560
-	Infringement Notice	-	49	81	562
60	Total indirect non-taxation	140	8,869	8,771	11,282
14,379,262	Total revenue	14,687,140	15,403,869	15,551,913	16,012,282

Schedule of Non-Departmental Expenditure

For the year ended 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Expenditure</i>					
60	World Customs Organization		60	80	67
2,385	Expected credit loss on financial assets	2	8,000	8,000	5,687
2,445	Total expenditure		8,060	8,080	5,754
					8,080

Schedule of Non-Departmental Assets

As at 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Current assets</i>					
990,390	Cash and cash equivalents		953,422	990,390	1,109,657
1,122,755	Receivables and other receivables	2	1,202,172	1,216,464	1,087,855
2,113,145	Total assets		2,155,594	2,206,854	2,197,512
					2,255,976

Schedule of Non-Departmental Liabilities

As at 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Current liabilities</i>					
21,456	Payables and provisions		21,023	24,477	15,021
3,021	Creditor – departmental		–	–	2,939
24,477	Total liabilities	3	21,023	24,477	17,960
					24,477

Statement of Non-Departmental Contingent Liabilities and Assets

As at 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Contingent liabilities</i>	
38,041	Legal proceedings and disputes – assessed	682
38,041	Total contingent liabilities	682
	<i>Contingent assets</i>	
173	Legal proceedings – assessed	2,183
173	Total contingent assets	2,183

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 2019

The New Zealand Customs Service has no Crown Commitments as at 30 June 2019 (30 June 2018: nil).

Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2019

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 uncollectable, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

Contingent liabilities and assets

Contingent liabilities and assets are 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 2018/19 "Budget" figures are for the year ended 30 June 2019 and were published in the 2017/18 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2019. The 2018/19 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2018/19*. 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 2020 forecast figures for the year ending 30 June 2020 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2019/20 year.

Note 2: Debtors and other receivables

2017/18		2018/19
Actual \$000		Actual \$000
910,449	Crown receivables	850,696
(6,608)	Less accumulated expected credit losses	(11,132)
903,841	Net Crown receivables	839,564
218,914	Accrued revenue	248,291
1,122,755	Total debtors and other receivables	1,087,855
	Represented by:	
1,122,755	Receivables from non-exchange transactions	1,087,855

2017/18		2018/19
Actual \$000		Actual \$000
895,902	Not past due	935,244
226,853	Past due 1–30 days	152,611
–	Past due 31–60 days	–
–	Past due 60 days	–
1,122,755	Total	1,087,855

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

2017/18		2018/19
Actual \$000		Actual \$000
12,374	Balance at 1 July	6,608
2,385	Change in the accumulated expected credit losses	5,687
(8,151)	Less: Bad debts written off	(1,163)
6,608	Balance at 30 June	11,132

The expected credit losses have 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

2017/18		2018/19
Actual \$000		Actual \$000
21,456	Payables and accruals	15,021
3,004	Import Entry Transaction Fees payable	2,939
17	Other creditors – Departmental	–
24,477	Total creditors and other payables	17,960

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

Note 4: Financial instruments

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

2017/18		2018/19
Actual \$000		Actual \$000
<i>Financial assets measured at amortised cost</i>		
990,390	Cash and cash equivalents	1,109,657
1,122,755	Debtors and other receivables	1,087,855
2,113,145	Total financial assets measured at amortised cost	2,197,512
<i>Financial liabilities measured at amortised cost</i>		
24,477	Creditors and other payables	17,960
24,477	Total financial liabilities measured at amortised cost	17,960

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 2018 to 30 June 2019

Customs and Excise Act 2018 (from 1 October 2018 – when the Act came into force – to 30 June 2019)

Section 438 – electronic devices searched

Type of search	Number of devices searched
Initial search under section 228(2)(a)	671
Full search under section 228(2)(b)	47*

*Total only includes devices subject to a full search (excluding any devices that were not accessed and searched as the password/passcode was not provided and forensic tools had not been able to access the device)

As some travellers have multiple devices, the devices searched in 2018/19 were carried by a total of 364 travellers (so Customs searched the devices of 0.003% of total travellers in the nine-month period).⁵⁶

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

Initiatives or other steps taken during 2018/19 to reduce the costs of complying with this Act for businesses that have a strong record of compliance with this Act/for “trusted” traders are:

- Progressing development of a Secure Trade Lane with Australia
- Progressing development of an eCommerce Green Lane with Australia
- Entering into Mutual Recognition Arrangements with Canada and Singapore.

All of these are discussed in the “Trade” section of this Annual Report on pages 17–18.

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

- The provisional values scheme for qualifying importers (section 102)
- The deferred accounts scheme for qualifying duty payers (section 123)
- The Secure Exports Scheme (section 281)
- Remission of Excise for Approved Licensees (Customs and Excise Regulations).

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	1,305 ⁵⁷	
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	9	

⁵⁶ Some devices were subject to both an initial search and a full search so are in both totals.

⁵⁷ This total principally relates to one investigation involving the examination of over 1,000 packages under section 237 of the Customs and Excise Act 2018 (powers if goods no longer under control of Customs suspected to be involved in offences or to be forfeited goods) – with the warrantless search power being exercised in relation to each package.

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

Number of applications for surveillance device warrants		6
Number of applications for surveillance device warrants granted		6
Number of applications for surveillance device warrants refused		0
Number of surveillance device warrants granted that authorised the use of:	tracking devices only	1
	visual surveillance devices only	1
	interception devices only	N/A
	tracking devices and visual surveillance devices	4
Number of surveillance device warrants granted that authorised entry into private premises		N/A
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	4
	>3 days but ≤7 days	8
	>7 days but ≤21 days	14
	>21 days but ≤60 days	5
	>60 days (based on multiple warrants)	2
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	1
	>7 days but ≤21 days	6
	>21 days but ≤60 days	4
	>60 days (based on multiple warrants)	2
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		0
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 tracking and visual surveillance devices deployed by the New Zealand Customs Service in 2018/19 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		1
Number of applications for renewal of detention warrants made under section 13I		Nil
Number of applications under sections 13E and 13I granted		1
Number of applications under sections 13E and 13I refused		Nil
Average duration of detention warrants (including renewals) granted		7 days
Number of prosecutions instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants Result: prison sentence of 6 years, 3 months and 2 weeks		1
Number of rub-down searches and strip searches under section 13EA		2

Privacy Act 1993

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

Customs accessed information held by another agency to verify the identity of a person	Number of times
Department of Corrections	362
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 2018/19

The Minister of Customs is required under section 19B of the Public Finance Act 1989 to report the end-of-year performance information for the following non-departmental other expenses appropriations for Vote Customs for 2018/19:

- Change in Doubtful Debt Provision
- World Customs Organization.*

This performance information is not subject to audit.

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

The “Budget” figures are those included in *The Estimates of Appropriations 2018/19*. The “Revised Budget” figures are those from *The Supplementary Estimates of Appropriations 2018/19*.

Comparative performance information for 2017/18 has been included. To provide further context for the 2018/19 result, the standard set for the performance measure for 2019/20 (as contained in *The Estimates of Appropriations 2019/20* for Vote Customs) is also included.

* The Vote Customs non-departmental other expenses appropriation, Provision of ACC-equivalent cover for New Zealand employees working overseas PLA, is exempt under section 15D(2)(b)(iii) of the Public Finance Act from the requirement to provide end-of-year performance information.

Change in Doubtful Debt Provision

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

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

Statement of Budgeted and Actual Expenses Against Appropriation

2017/18		2018/19		
Actual		Actual	Revised Budget	Budget
\$000		\$000	\$000	\$000
2,385	Expenses	5,687	8,000	8,000
2,385	Total Expenses	5,687	8,000	8,000

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	Actual	Standard	Actual	Standard
Debt write-offs as a maximum percentage of total Crown revenue collected	0.057%	0.06%	0.007%	0.06%

World Customs Organization

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

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

Statement of Budgeted and Actual Expenses Against Appropriation

2017/18		2018/19		
Actual		Actual	Revised Budget	Budget
\$000		\$000	\$000	\$000
60	Expenses	67	80	60
60	Total Expenses	67	80	60

Performance measures and standards

Measure	2017/18	2018/19		2019/20
	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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