



Environmental  
Protection Authority  
Te Mana Rauhi Taiao

Statement of  
Performance  
Expectations  
2018/19

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**Environmental Protection Authority  
Statement of Performance  
Expectations 2018/19**

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Prepared in accordance with section 149 of the  
Crown Entities Act 2004

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# Foreword from the Chair

**The prospect of a new year is always exciting. There are new projects to launch, existing ones to consolidate, and perhaps a few that have reached full maturity and can be pensioned off. It's a time for looking back at what has been achieved, then projecting forward to what more is possible.**

What's behind is known, what's ahead is less certain, but full of possibility.

The Environmental Protection Authority enters 2018/19 grounded on a foundation of solid operational performance across a wide range of activity. Our core business is managing hazardous substances and new organisms, considering Exclusive Economic Zone and Resource Management Act applications, operating the Emissions Trading Scheme register and exercising oversight of hazardous substance risks to New Zealanders' health and the environment. We have also undertaken a number of other activities, including:

- engaging with the community to champion our role, our decisions, and their scientific foundation
- developing a mātauranga Māori work programme, which includes a proposed decision-making framework for use across the EPA and beyond, weaving mātauranga Māori and conventional science to create a uniquely New Zealand way of addressing environmental issues
- launching a hazardous substances reassessment programme, designed to amend controls and change the approval status of substances, if the risks have increased
- developing a new precautionary tool – the Red Alert – to raise awareness about the dangers arising from use of particular hazardous substances
- developing an Exclusive Economic Zone compliance programme to prioritise activity according to risk, focused initially on measuring produced water discharges, the main source of potential pollution from offshore oil and gas facilities
- providing information for consumers about the safe use of products such as cleaners, toiletries, cosmetics, fuels, and garden products.

These – and many other activities – are the bedrock on which the EPA's reputation rests. We have many highly-qualified staff members who are often commended in international circles and within New Zealand. But we have an enduring purpose that goes beyond day-to-day activity. Our vision of

*An environment protected, enhancing our way of life and the economy cannot be achieved in a year, or indeed over many years. It is unattainable, because the challenges to the environment are ever-changing. Addressing them requires us to be flexible, adaptable, and innovative.*

This, in turn, relies on the EPA having high-quality systems, an exceptional staff, and a commitment to working in new ways. For those reasons we value:

- independence, which is essential to maintain public trust in our integrity
- transparency, which means we are open to challenge
- proactivity, which requires us to listen to, and engage with, stakeholders
- communication, using various channels to influence and network with others.

**These values will infuse our work in the coming year. So 2018/19 will not bring more of the same.**

It will likely be, as Allen Curnow described Abel Tasman's first experience of Aotearoa, "*... something different, something nobody counted on.*"<sup>1</sup>



**Kerry Prendergast**  
Chair  
Environmental Protection Authority  
14 June 2018

<sup>1</sup>*Landfall in Unknown Seas, 1942.*

# Foreword from the Chief Executive

**A year ago, I noted the Environmental Protection Authority would be focusing its activity on new opportunities and ways of working that we believe will make significant and substantial positive impacts on New Zealand and New Zealanders.**

## **Key priorities to progress would include:**

- being a proactive regulator
- modernising chemical management and reforming the hazardous substances regime
- incorporating mātauranga Māori into our decision making
- acting as One EPA
- being a champion for science, and actively sharing more information publicly.

## **So how have we done with these ambitious initiatives?**

The EPA wants to manage risk effectively, relying on sound evidence and intelligence. Regulation can enable, rather than merely set rules.

With this in mind, we have developed a set of principles as a rubric for our proactive regulator role. We aspire to be:

- anticipatory, not reactive, in our regulatory design, interventions and monitoring
- transparent in our operations and decisions
- helpful, working in partnership with customers, rather than being directive

- connected and aligned with national and international regulatory players
- evidence-driven in our decision making and planning, with our actions being proportionate to the level of risk
- confident in our activities, and less risk averse, focusing on outcomes rather than being narrow or defensive.

We have started discussing these concepts across the organisation, and are analysing existing examples of proactive regulatory practice. Staff are being encouraged to apply the principles in their day-to-day work, and to adopt them as an on-going mind set, so they become “the way we do things around here.”

For the year ahead, all our projects will have a proactive regulatory dimension. It will be reflected through every regulatory interaction we have, every document we produce, and every decision we make.

This work will significantly contribute to, and influence, our aspiration to act as One EPA. Proactive regulation requires us to be joined-up, and to speak with a single, authoritative voice. It requires internal connection, bringing skills and insights from across the business to bear on particular regulatory issues.



We need to be, and to appear to be, a coherent, single entity. Our refreshed web presence and brand identity exemplify that aspiration. We have a bold, vibrant, visual identity that lends itself to direct, clear expression. It also portrays the beauty of New Zealand's natural environment, reminding us daily of what we strive to protect and enhance. As an organisation, and as individuals, we want to be full of life, ideas, and energy.

Decisions we make today about chemicals will have effects far into the future, just as we – and the environment – are living today with the impacts of decisions taken a generation or more ago. New Zealand requires development of a contemporary chemical management system as a foundation for decision-making processes.

We have initiated a work programme to modernise how chemicals are regulated. Our aim is to deliver a modern, innovative, and fit-for-purpose regulatory and compliance system. We want to understand our customers and their needs, and to make well-informed decisions in the public interest.

Our areas of focus will include updating management of hazardous substances applications, aligning our processes and priorities with those of our regulatory partners, and placing greater emphasis on compliance and monitoring, through improved processes and systems.

For example, we are investigating how routine applications for hazardous substances approvals may be managed using on-line tools and overseas determinations. This will produce time savings, releasing staff time and funds for reassessing controls placed on such substances, to see if they should be changed and/or phased-out in New Zealand.

The EPA has compiled a list of approximately 300 internationally-designated "chemicals of interest". We are developing sophisticated tools to screen and prioritise these chemicals for EPA Chief-Executive-initiated reassessment. We have established a dedicated team to give momentum to this work. This will significantly improve human safety and environmental protection from chemical exposure. We aspire to reassess as many chemicals as possible, and will be working with our international counterparts, who are addressing the same issues.

We are seeking to weave mātauranga Māori and conventional science to create a uniquely New Zealand way of addressing environmental issues. The huge body of Māori knowledge about our flora, fauna, land, waters, and sky is based on centuries of observation, experience, and testing. This is very similar to what we call the scientific method, but has extra spiritual and cultural dimensions. Marrying the two involves addressing issues of evidence, risk, law, and belief.

Our Kaupapa Kura Taiao team has developed a mātauranga Māori work programme, which includes a proposed decision-making framework for use across the EPA, and beyond. While Kaupapa Kura Taiao is leading this work, we will educate and empower all staff to be confident users of what will be an exciting new paradigm.

Facts, data and science underpin EPA decision making across the whole range of our work. But ...

**... science influence requires us to be engaged externally, explaining and championing our role, our decisions and their scientific foundation ...**

... as well as addressing criticisms that may arise about how we have discharged our functions.

We also lead by influencing and networking with partners such as, industry organisations, research institutes, and universities, both in New Zealand and overseas. Using this web of connections, we articulate science theory, especially regulatory science theory and practice, to build trust and confidence among influential stakeholders.

### Conclusion

The EPA is gathering momentum. The new approaches outlined above in my foreword, and throughout this report, will change how we work. They open a broader horizon. I am sure that in a year's time we will have travelled a long way. But even though we may travel towards the horizon, we know we can never reach it. There will always remain more to do, further to travel.



**Dr Allan Freeth**  
Chief Executive  
Environmental Protection Authority  
14 June 2018

# Statement of Responsibility

**The structure and content of this Statement of Performance Expectations follow the general requirements set out in the Crown Entities Act 2004.**

The Board members and the management of the EPA are responsible for maintaining systems and processes that support robust, objective decision making and compliance with rules, and for providing reasonable assurance about the integrity and reliability of financial reporting.

The Board acknowledges responsibility for the preparation of this Statement of Performance Expectations, which reflects the forecast performance and the financial position of the EPA for the financial year 1 July 2018 to 30 June 2019.



**Kerry Prendergast**  
Chair  
Environmental Protection Authority  
14 June 2018



**Dr Kevin Thompson**  
Deputy Chair  
Environmental Protection Authority  
14 June 2018



# Introduction

01

# The Statement of Performance Expectations of the Environmental Protection Authority (EPA) sets out what we are committed to delivering during the 2018/19 financial year, the financial resources we will use to deliver these services, and how we intend to measure our performance.

The EPA is a Crown agent for the purposes of the Crown Entities Act 2004. It was established under the Environmental Protection Authority Act 2011. Our objective, as set out in this Act, is to undertake our functions in a way that:

- contributes to the efficient, effective, and transparent management of New Zealand's environment, and natural and physical resources
- enables New Zealand to meet its international obligations.

We have specific functions under the following environmental legislation:

- Climate Change Response Act 2002
- Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 (EEZ Act)
- Hazardous Substances and New Organisms Act 1996
- Imports and Exports (Restrictions) Act 1988 and Prohibition Order (No 2) 2004
- Ozone Layer Protection Act 1996
- Resource Management Act 1991.

We report to the Minister for the Environment, the Minister for Climate Change, and the Associate Minister for the Environment on issues relevant to their respective portfolios and delegations.

The EPA Board has between six and eight members. It is responsible for governance, setting strategic direction, and monitoring performance.

Ngā Kaihautū Tikanga Taiao, our statutory Māori Advisory Committee, has up to eight members who are appointed by the Board. It advises the Board on policy, process and decision making.

Our Hazardous Substances and New Organisms Committee is a statutory committee, with delegated decision-making powers relating to applications made under the Hazardous Substances and New Organisms Act.

We also appoint decision-making committees from time to time to consider applications under the EEZ Act.

In addition, we provide support to Boards of Inquiry established to consider respectively Nationally Significant Proposals under the Resource Management Act, and certain marine consent applications under the EEZ Act.

The Ministry for the Environment (MfE) is the agency responsible for monitoring our activity, and is the Government's principal advisor on environmental policy and legislation.

## What we do

- Make decisions about whether or not to approve new hazardous substances, including pesticides, dangerous goods, and household chemicals. We also undertake reassessments of these substances, monitor compliance, and enforce the rules, together with WorkSafe New Zealand, territorial authorities, and other agencies.
- Issue EPA Notices, which set the rules relating to the classification, labelling, packaging, information requirements, controls that apply outside of the workplace, and disposal of pesticides, dangerous goods, household chemicals and other hazardous substances.

- Issue permits, and undertake compliance activity, for ozone-depleting substances and certain chemicals, and the import and export of hazardous waste (controlled by international environmental agreements), in accordance with our international obligations.
- Make decisions on new organisms (living things new to New Zealand), which include genetically modified organisms and organisms which were not in New Zealand before 29 July 1998.
- Administer the New Zealand Emissions Trading Scheme (ETS) and maintain the New Zealand Emissions Trading Register (NZETR). This includes making decisions and ensuring compliance with the ETS rules, enabling the holding and transfer of climate change units, and meeting statutory and inventory reporting requirements under the Climate Change Response Act.
- Regulate certain activities within the Exclusive Economic Zone (EEZ) and continental shelf, for example effects on the seabed, discharges of harmful substances, and dumping of waste. This includes determining some applications for marine consents and managing permitted activities, with the purpose of promoting sustainable management of the EEZ's natural resources.
- Support Boards of Inquiry appointed to consider certain marine consent applications under the EEZ Act.
- Monitor compliance with marine consent conditions and EEZ Act and regulations, and take enforcement action as necessary.
- Administer Nationally Significant Proposals, and Water Conservation Order applications, under the Resource Management Act, which includes providing support for Boards of Inquiry and Special Tribunals.
- Provide information on subjects such as the safe use and handling of chemicals, when approvals and consents are needed, how to apply for them, and how to participate in the publicly-notified consent and approval application processes we manage.
- Contribute to national science leadership on environmental issues, and provide advice on the implementation of government policy, environmental legislation and regulations. This includes advising the Ministry of Foreign Affairs and Trade on environmental impact assessments for activities in Antarctica. We participate, and help to represent New Zealand's interests, in the work of international bodies dealing with climate change, chemicals regulation, chemicals and ozone-depleting substances governed by international conventions, and the regulation of hazardous substances, hazardous waste, and new organisms.

## Government priorities

As a Crown entity, our planning is guided by the annual letter of expectations from Ministers. Our 2018/19 letter from the Minister for the Environment and the Associate Minister for the Environment sets out several high-level priorities for the EPA, and operational expectations.

### Attaining financial sustainability and progressing revised cost recovery

The financial position of the EPA is a key area of interest for the Ministers. They recognise that over the past several years the EPA has worked to strengthen its financial management. The Ministers support the EPA continuing to build and maintain a high level of financial capability, with the goal of achieving a financially sustainable entity. They see an element of achieving financial sustainability is progressing our work on revising cost-recovery levels under the Hazardous Substances and New Organisms Act. The Government expects that we set fees that recover a fair and reasonable proportion of the costs of providing services under the Hazardous Substances and New Organisms Act. The Ministers have also asked that we work with the Ministry for the Environment on exploring, and progressing, regulatory reforms to consider other cost-recovery options where parties benefit from EPA services that are currently funded by taxpayers.

### Providing a trusted and reliable customer experience

The Ministers have endorsed the importance the EPA places on maintaining the trust and confidence of customers and the wider public when undertaking its work. They have also commended our commitment to keeping tikanga Māori integrated throughout our business and decision-making processes under our He Whetū Mārama framework (see page 14). They have expressed a particular interest in our mātauranga Māori work.

### Demonstrating the EPA's contribution to positive environmental outcomes

The Ministers recognise the importance of the EPA's work on environmental outcomes. They have asked that we progress work on demonstrating how the EPA is having a positive impact on environmental outcomes and protection.

## Operational expectations

With respect to hazardous substances and new organisms, the Ministers strongly support progressing chemical reassessment work as funding allows and without compromising other core statutory functions. They see working with others as critical to progressing our hazardous substances modernisation programme. This includes that they would like to see a continuation of our proactive work with territorial authorities and regional councils on hazardous substances compliance. They have also asked that the EPA continue to work with the interagency working group on new organisms.

With respect to our work under the Resource Management Act, the Government recognises the important role of the EPA as the national environmental regulator. The Ministers have indicated that it is the Government's intention that the EPA's mandate and functions under the Resource Management Act will increase.

With respect to regulatory and decision-making duties under the EEZ Act, the Ministers encourage the EPA to continue to find operational efficiencies, and also to explore opportunities with the Ministry for the Environment for new cost-recovery solutions.

Our work in 2018/19 will achieve the Ministers' priorities through projects and programmes, as outlined in the following pages.

## Our strategy

Our strategy to 2020 was agreed in 2016, and still remains relevant. The expectations that the Ministers have provided us are consistent with this strategy. However, the Ministers have indicated that they would like the EPA to work on a refreshed strategic plan to come into effect from mid-2019. We are commencing this work.

Our strategic framework is made up of four important elements. They are:

- four strategic goals – what we will achieve
- four strategic pillars – our approach to our work
- four strategic intentions – the shift we seek to make in the medium term, and where we are focusing our efforts each year.

The table below shows how these elements align.

Strategic goal What we will achieve	Pillar How we will achieve it	Strategic intentions 2016–2020 The shift we will make
People have trust and confidence in our work	<b>One EPA</b> Many experts, one authoritative voice, supported by evidence and science	Increase the trust of the nation, Māori, and business through decision making based on science, evidence, mātauranga, and risk assessment
Delivery of the right decisions, cost effectively	<b>Customer-centric</b> Approaching our work from the start to the finish with the customer front of mind	Improve operational performance, including through enhanced EPA systems, and customer experiences
Protection of people and the environment in partnership with businesses, Māori, and the community	<b>Partnership plus</b> Working collaboratively for success	Contribute effectively to the government environmental, wellbeing, and economic outcomes and results
A confident EPA with highly capable and engaged people working collaboratively for optimum results	<b>People potential</b> Harnessing our people and their potential for success	Build depth and breadth of leadership and technical expertise to ensure we have the capability and capacity to respond to stakeholder and customer demand

We work as One EPA, championing our vision:

***An environment protected,  
enhancing our way of life  
and the economy***

Our vision shows us balancing the complex relationships between the environment, its vital role in our way of life, and the Government's specific priority work.

Our vision is supported by our wawata:

***Ka whai mōhio ā Te Mana Rauhi Taiao whakatau i te hononga ake, i te hononga motuhake a Ngāi Māori ki te Taiao – the unique relationship of Māori to the environment informs EPA decision making.***

The wawata reflects the important contribution to our work of Ngā Kaihautū Tikanga Taiao, our Māori Advisory Committee, and our commitment to fulfilling our responsibilities to the Treaty of Waitangi.

This commitment is also reflected in our He Whetū Mārama framework that guides the undertaking of our statutory and other obligations to Māori. It is guided by four Treaty of Waitangi principles:

- Waka Hourua, the principle of partnership.
- Tiakitanga, the principle of active protection.
- Whai wāhi, the principle of participation.
- Pito mata, the principle of potential.

The outcomes of He Whetū Mārama will be informed decision making, in which our policy, process and decision making are fully and effectively informed by Māori perspectives; and productive relationships, whereby we maintain relationships that ensure Māori are productively involved in decision making and associated activities.



*Kauri trees are our visual emblem for our vision and associated strategy, representing partnership, strength, growth, and the New Zealand environment.*



# How our strategic intentions contribute to the Government's priorities in 2018/19

## One EPA: Increase the trust of the nation, Māori, and business through decision making based on science, evidence, mātauranga Māori, and risk assessment

This year, we have four main work streams that we will progress:

- Hazardous substances modernisation
- Mātauranga Māori and decision making
- The EPA as a proactive regulator, including Project Open Book
- Customer engagement.

These four work streams align with the expectations outlined by our Ministers. The work streams will all contribute to the One EPA strategic intention.

### Hazardous substances modernisation

The hazardous substances modernisation programme of work is one of the EPA's biggest and most important goals and is key to our strategic vision. It's a huge and very exciting project, set to run over several years. It will be a game-changer for New Zealand: creating a world-class chemical management system.

The aim is to revolutionise the way chemicals are managed and regulated in New Zealand, by developing a modern and innovative approach to support the ongoing safety and sustainability of our unique environment, our economy and New Zealanders, well into the future. It will involve several streams of work, from updating and streamlining our processes, aligning our technologies with international partners, to developing and growing the concept of a chemical map of New Zealand.

By successfully modernising New Zealand's chemical management regime, we will leave a legacy for the future.

### Integration of mātauranga Māori into our work

In our decision making, the EPA takes into consideration the relationship of Māori culture and traditions with land, water, valued flora and fauna, wāhi tapu and other taonga. We, however, consider more can be done through developing our understanding of mātauranga Māori. To this end, we commenced a three-year Mātauranga Māori Programme in 2017, looking at how we could weave and fuse mātauranga Māori into the EPA's decision-making processes. We aspire to establish it as a cultural norm across the EPA.

Ngā Kaihautū Tikanga Taiao, our Māori Advisory Committee, is taking a key role in advising on this work, and assisting its progress.

Mātauranga Māori, is viewed by Ngā Kaihautū Tikanga Taiao member Dr Daniel Hikuroa as the pursuit and application of knowledge and understanding of Te Taiao (the environment), following a systematic methodology based on evidence, incorporating culture, values and world view.

### The EPA as a proactive regulator

We are committed to being a more proactive regulator, based on six principles that provide a default way of working for the organisation: anticipatory, transparent, assisting, connected, evidence-driven, and confident. Our immediate focus is improving transparency through an 'Open Book' initiative, where we will strive to make all our decisions and supporting information public unless there is a very good reason not to. Through greater transparency, we want to increase the trust and confidence that stakeholders have in our activities, improve compliance, and contribute to improved human safety and environmental protection.

### Customer engagement

Trust and confidence in our work demands that we engage with New Zealanders at all levels of our work. All New Zealanders are our customers. We will continue our work raising awareness about, and promoting the safe use of, hazardous substances, such as household cleaning, decorating, and gardening products, which are used around the home. We are committed to making our information on the website more understandable and accessible for all users – businesses, iwi, compliance agencies, and the public. Our new website launched late 2017 will assist with this.

Our science team works with experts across government and beyond to facilitate the use and understanding of science in professional and public contexts. One of our key science projects for the next financial year will involve working to address public concern surrounding our approvals of particular hazardous substances, such as neonicotinoids. These strategies will include focus on transparency, effective science communication, and community engagement, and will further contribute to maintaining and enhancing New Zealand's trust in the EPA as an environmental regulator.

### **Customer-centricity: Improve operational performance, including through enhanced EPA systems, and customer experiences**

The four main work streams for 2018/19 – notably the EPA as a proactive regulator, Project Open Book, customer relationship system upgrade, and customer engagement activities – contribute to this strategic intention.

We have made a significant commitment in our strategy to improving the experience customers have when dealing with us – for example, our major commitment to the hazardous substances modernisation programme. In addition, we will continue to improve how we use customer survey information to inform the way we work. We have identified projects that will be initiated to improve customer satisfaction, for example, hazardous substance customer engagement initiatives and further development of our customer segmentation tool.

Under this strategic intention, we are progressing work on revised fees under the Hazardous Substances and New Organisms (HSNO) Act, and work reviewing our cost recovery for services across our functions. This is in line with the expectations from our Ministers. We are also committed to continuous improvement of our operations under all the environmental Acts we manage.

### **Partnership plus: Contribute effectively to the Government's environmental, wellbeing, and economic outcomes and results**

Our workstreams for hazardous substances modernisation, and mātauranga Māori and decision making also contribute to this strategic intention.

As a proactive regulator, we will continue to work in partnership across government.

Key initiatives that we will progress over the next year under this strategic intention are:

- **Modernise and reform the regulatory regime** – we will continue work to improve the current hazardous substance regulatory regime and approval standards, to ensure that users have a full understanding of their responsibilities, and that the EPA has a clear voice across HSNO regulatory messaging. We will also address chemicals of concern in an improved framework for reassessments, and continue to work with territorial authorities on hazardous substance compliance.
- **Review of Emissions Trading Scheme** – we will continue to provide operational and technical expertise to the ongoing work on the ETS and the New Zealand Emissions Trading Register. We will continue to lead work to improve and modernise the current compliance framework and support the integrity of the ETS.

### **People potential: Build depth and breadth of leadership and technical expertise to ensure we have the capability and capacity to respond to stakeholder and customer demand**

This strategic intention also addresses the Ministers' expectations that our work focuses on achieving environmental outcomes for New Zealanders.

**Priority capability areas** – we will continue to focus on, and invest in, the development of five priority capability areas in order to build the depth and breadth of leadership and technical expertise required to respond to stakeholder and customer demands:

- Leadership.
- Māori capability.
- Customer-centricity and partnership engagement.
- Regulatory and technical expertise.
- Strategic agility.

Our aim is to have talented and capable staff, able to facilitate our environmental goals.

**Leadership and people management** – the current development programme for our senior leaders and managers will continue, using skills assessment, targeted development plans, coaching, and training opportunities. An increased focus will be given to developing team leaders. The growth of our technical and aspiring leaders will continue in a similar form.

Increasing people management capability will be another key focus, in particular around recruitment and selection, performance management, staff development, and unconscious bias skills.

**Organisation-wide learning and development** – opportunities for all staff will focus on increasing Māori capability, customer centricity and partnership engagement, regulatory expertise, and strategic agility.

**Transforming people management through technology** – the roll out of Te Rito, the new HR system, over 2018 will enable managers and staff to digitise current manual processes, moving the focus to excellence in leadership and management. The information-rich system will provide on-tap data allowing managers to see trends, which will help to improve staff engagement.

# 02

**Reportable  
outputs**

## Statement of appropriations 2018/19

The EPA is funded through a mix of Crown funding and third-party revenue. Crown funding is provided through the three appropriations in Vote Environment as displayed below and in Table 1:

- EPA Decision-making Functions
- EPA Monitoring and Enforcement Functions
- Emissions Trading Scheme.

Table 1:

Appropriation (GST exclusive)	Estimated Actual 2017/18 \$000	Forecast 2018/19 \$000
EPA Decision-making Functions	12,383	12,383
EPA Monitoring and Enforcement Functions	6,594	6,442
Emissions Trading Scheme	6,392	6,392
<b>TOTAL CROWN FUNDING</b>	<b>25,369</b>	<b>25,217</b>

## Forecast statement of expenditure funded by Crown, fees and other revenue and interest, 2018/19

The EPA has three streams of operating revenue: Crown funding, revenue-generating activities, and other business revenue. Table 2 shows the total costs covered by our revenue-generating activities (fees and charges) and other business revenue (primarily interest). In 2018/19, we plan to run a 'deficit budget operating model' of \$2.985 million to cover our

systems and business improvement initiatives under our programme of work. We are also shifting from investing in capital infrastructure to operational investment in cloud-based systems. This contributes to a deficit budget. Implementation costs for cloud based solutions are expensed, rather than being capitalised. In other words, we will be funding our 2018/19 programme of work from our reserves accumulated from previous years. However, the accumulated reserves are not substantial, and are likely to be significantly depleted within a few years unless improved financial sustainability is achieved. From a financial reporting perspective, the impact of using accumulated reserves to fund the costs of our programme of work will be reflected in a 'net deficit' position for each of our appropriation classes. The EPA's Statement of recognised surplus and deficit will report a net deficit.

**Table 2:**

2018/19 year Description	Total Output Expenditure	Expenses funded by Fees	Expenses funded by Interest and Other Revenue	Expenses funded by Crown	Net Surplus/ (Deficit)*
	\$000	\$000	\$000	\$000	\$000
EPA Decision- making Functions	20,851	5,447	103	12,383	(2,918)
EPA Monitoring and Enforcement Functions	6,665	105	54	6,442	(64)
Emissions Trading Scheme	6,448	—	53	6,392	(3)
<b>TOTAL COST</b>	<b>33,964</b>	<b>5,552</b>	<b>210</b>	<b>25,217</b>	<b>(2,985)</b>

\* Net deficit will be funded from accumulated reserves

### Third-party funding

We implement cost recovery for a number of activities. The legislation that the EPA implements only provides for cost recovery for some activities, and only partial cost recovery in others.

Items that are cost recovered include:

- processing applications under the EEZ Act
- processing nationally significant proposals under the Resource Management Act.

Items that are partially cost recovered include:

- monitoring consents and permitted activities (other than foreign scientific research, costs associated with permitted submarine cables, and Crown-funded research) in the EEZ
- processing applications under the Hazardous Substances and New Organisms Act
- making rulings under the Climate Change Response Act.

Other areas are Crown funded, with the exception of any business improvement projects under our programme of work, which are funded through the use of accumulated reserves if approved by the Board.

# Appropriation: EPA Decision-making Functions

Table 3:

	2017/18 \$000	2018/19 \$000	Change \$000
Revenue Crown	12,383	12,383	—
Revenue Other	3,768	5,550	1,782
Expenses	18,747	20,851	(2,104)
<b>NET SURPLUS/(DEFICIT)*</b>	<b>(2,596)</b>	<b>(2,918)</b>	<b>(322)</b>

\* Net deficit will be funded from accumulated reserves

Our work under this appropriation is intended to achieve the objectives of environmental legislation, as follows:

- preventing and/or managing the adverse effects of hazardous substances or new organisms
- fulfilling New Zealand's international obligations regarding the import, export and use of ozone-depleting substances and the trans-boundary movement of hazardous waste of international concern
- managing sustainably natural and physical resources with respect to projects of national significance
- managing sustainably natural resources of New Zealand's EEZ and the continental shelf.

In making decisions we seek to ensure robust, objective, transparent and efficient decision-making processes for approvals, permits or consents. An important aspect of the decision-making process for some approvals and consents is the receipt and consideration of submissions, and recognising the unique relationship of Māori to the environment in our decision making.

Our work under this appropriation contributes towards achieving our strategic goals:

- people have trust and confidence in our work
- delivery of the right decisions, cost-effectively
- protection of people and the environment in partnership with businesses, Māori, and the community
- a confident EPA with highly capable and engaged people working collaboratively for optimum results.

Our activities under this appropriation relate to the following areas.

## Hazardous substances, new organisms, ozone-depleting substances and hazardous waste decision making (HSNO decision making)

- Assessing and deciding applications for hazardous substances and new organisms under the Hazardous Substances and New Organisms Act.
- Issuing import or export permits for hazardous waste under the Imports and Exports (Restrictions) Act and the Imports and Exports (Restrictions) Prohibition Order (No 2).
- Issuing import or export permits for ozone-depleting substances under the Ozone Layer Protection Act.

## Resource management decision making

- Managing the process for applications that are considered to be of national significance, or other national level decision-making processes under the Resource Management Act.

## Exclusive Economic Zone decision making

- Assessing and deciding applications for marine consents and rulings under the EEZ Act, including decisions on dumping and discharge activities subject to marine consent.

# Appropriation: EPA Monitoring and Enforcement Functions

Table 4:

	2017/18 \$000	2018/19 \$000	Change \$000
Revenue Crown	6,594	6,442	(152)
Revenue Other	115	159	44
Expenses	5,332	6,665	(1,333)
<b>NET SURPLUS/(DEFICIT)*</b>	<b>1,377</b>	<b>(64)</b>	<b>(1,441)</b>

\* Net deficit will be funded from accumulated reserves

Our work under this appropriation is intended to achieve the objectives of environmental legislation, as follows:

- preventing and/or managing the adverse effects of hazardous substances or new organisms, fulfilling New Zealand's international obligations regarding the import, export and use of ozone-depleting substances and the trans-boundary movement of hazardous waste of international concern
- sustainably managing the natural resources of the exclusive economic zone and the continental shelf.

Our compliance and enforcement activity has the overall intention of promoting awareness of, and ensuring compliance with, legislation, regulations, approvals, permits and consents in relation to hazardous substances, ozone-depleting substances, hazardous waste, new organisms, and activities in the EEZ.

Work under this appropriation also contributes towards achieving our strategic goals.

Our activities under this appropriation relate to the following areas – EEZ compliance, hazardous substances and new organisms, and stewardship of the regulatory framework.

## Exclusive Economic Zone compliance monitoring and enforcement

- Monitoring and enforcing compliance under the EEZ Act with the requirements of regulations and any conditions of marine consents.

## Hazardous substances, new organisms, ozone-depleting substances and hazardous waste compliance monitoring and enforcement

- Compliance monitoring and enforcement under the Hazardous Substances and New Organisms Act, the Ozone Layer Protection Act, the Imports and Exports (Restrictions) Act, the Imports and Exports (Restrictions) Prohibition Order (No 2), and the Imports and Exports (Asbestos-containing Products) Prohibition Order 2016. Some monitoring and compliance is exercised jointly with other agencies (for example, the New Zealand Customs Service).



## Maintaining the regulatory framework and regulatory stewardship

- Reviewing and maintaining EPA-administered regulatory instruments (such as core hazardous substances controls, the classification of hazardous substances, EPA Notices and cost recovery) to ensure they are efficient and up to date.
- Facilitating Māori involvement in our regulatory activities.
- Contributing to the review, maintenance and development of regulatory instruments that relate to our responsibilities.
- Supporting effective regulation, including access to science, knowledge and information, public information and education, and partnerships.
- Contributing to New Zealand's involvement in international agreements and protocols relating to areas of regulation that we are responsible for implementing. These include: the Rotterdam Convention (covering trans-boundary trade in specified hazardous chemicals); the Basel Convention and Waigani Convention (both covering hazardous waste); the Cartagena Protocol (covering trade in living modified organisms); the Montreal Protocol (covering the phasing out of ozone-depleting substances); the Stockholm Convention (covering the phasing out of persistent organic pollutants); the United Nations Framework Convention on Climate Change; and the London Convention (on dumping at sea).
- Providing input into wider Government environmental stewardship.

## Appropriation: Emissions Trading Scheme

Table 5:

	2017/18 \$000	2018/19 \$000	Change \$000
Revenue Crown	6,392	6,392	—
Revenue Other	51	53	2
Expenses	6,186	6,448	(262)
<b>NET SURPLUS/(DEFICIT)*</b>	<b>257</b>	<b>(3)</b>	<b>(260)</b>

\* Net deficit will be funded from accumulated reserves

This appropriation is intended to achieve the efficient and effective administration of the New Zealand Emissions Trading Scheme (ETS) and the operation of the New Zealand Emissions Trading Register (NZETR) to ensure that the allocation and trading of emission units are recorded accurately and in a timely manner.

These activities allow the carbon market to operate. Our role is to make decisions and ensure compliance with the rules relating to the administration of the ETS and maintenance of the NZETR, to enable the holding and transfer of climate change units, and to meet statutory and inventory reporting requirements under the Climate Change Response Act. This includes decisions on, and activities to support, registration, the administration of non-forestry allocation, entitlements and obligations, and the synthetic greenhouse gas provisions under the Climate Change Response Act. It also provides the services, information and facility for the transfer and holding of units.

We work with the other administrative partners (Ministry for the Environment, Ministry for Primary Industries, the New Zealand Transport Agency, and the New Zealand Customs Service) to operate the ETS and the synthetic greenhouse gas provisions of the Climate Change Response Act. We also work with international partners (mainly other registries) and carbon-market participants to ensure any cross-border transactions operate effectively.

Our work under this appropriation contributes towards achieving our strategic goals.

## Our performance

Our performance framework links our activities with longer-term outcomes relating to the EPA's Strategy. Our performance measures relate to our three appropriations. They are grouped under the strategic goals and strategic intentions of the EPA, as outlined in the following tables. They have been designed to cover the outcomes desired across our work and the strategic shifts the EPA is making. Note, for consistency, results are from the EPA's most recent Annual Report, in this case 2016/17.

### Goal: People have trust and confidence in our work.

**Strategic Intention:** Increase the trust of the nation, Māori, and business through decision making based on science, evidence, mātauranga Māori, and risk assessment.

Measures that demonstrate achievement	Target	Latest result (2016/17) <sup>2</sup>	Desired trend	Appropriation/s
<b>New Zealanders trust the impartiality and transparency of the EPA's activities</b>				
New Zealanders have trust and confidence in the EPA	By 30 June 2019, greater than 75%	64%	▲	DM, ME, ETS <sup>3</sup>
Customers trust in the integrity and security of the NZETR and ETS systems and processes	By 30 June 2019, greater than 85%	67%	▲	ETS
Applicants and submitters (HSNO/RMA/EEZ), and Ngā Kaihautū, Te Herenga, Iwi, and Māori have trust and confidence in the EPA	By 30 June 2019, 80%	Applicants and Submitters: 56%, Māori: 47%	▲	DM
HSNO and EEZ decision-making processes are robust and objective	100% of a sample of decisions meet agreed criteria	Achieved	=	DM
Applicants and submitters agree that information on the main factors taken into account in EPA decisions made (HSNO/RMA/EEZ), and how these influenced the decisions, is clear to understand and easy to access	From 1 July 2018, 85%	Applicants: 60%, Submitters: 51% agreed that information was clear to understand and easy to access	▲	DM
<b>The EPA is regarded as contributing effectively across all-of-government or sector-specific initiatives</b>				
Positive feedback from Ministers and central and local government agencies on the EPA's leadership and contributions, to both sector-wide government work and responding to specific queries	Minimum sample of 25 contacted annually with at least 80% positive feedback	98%	=	DM, ME, ETS
<b>New Zealanders are aware of the EPA's role and purpose</b>				
New Zealanders consider they know a reasonable amount about what the EPA does	From 1 July 2018, 50%	44% (2015)	▲	DM, ME, ETS

<sup>2</sup>The EPA obtains annual data from the Research New Zealand Public Sector Trust & Confidence Survey and an annual EPA Service Satisfaction Survey.

<sup>3</sup>Key to appropriations:  
DM = Decision-making Functions  
ME = Monitoring and Enforcement Functions  
ETS = Emissions Trading Scheme

## Goal: Delivery of the right decisions cost effectively.

**Strategic Intention:** Improve operational performance, including through enhanced EPA systems, and customer experiences.

Measures that demonstrate achievement	Target	Latest result (2016/17)	Desired trend	Appropriation/s
<b>Customers are satisfied with the overall level of service provided by the EPA</b>				
A customer-centricity programme is in place and is reflected in business processes	From 1 October 2016 to 30 June 2020, implementation of milestones as defined in the programme  By 30 June 2020, evaluation of programme after 3 years' implementation	Achieved	=	DM, ME, ETS
EPA customers agree: <ul style="list-style-type: none"> <li>our overall level of service provided meets or exceeds expectations</li> <li>our information is easy or very easy to access</li> <li>our information is easy or very easy to understand</li> <li>it is easy or very easy to contact us</li> </ul>	From 1 July 2018, 85%	Average 65%	▲	DM, ME, ETS
Applicants (HSNO/RMA/EEZ) agree that the advice, information and support provided to assist their participation in the application process meets or exceeds their expectations	From 1 July 2018, 85%	57%	▲	DM
Submitters (HSNO/RMA/EEZ) agree that the information and support provided to assist their participation in the application process meets or exceeds their expectations	From 1 July 2018, 85%	63%	▲	DM
Users agree that the overall quality of ETS service delivery meets or exceeds their expectations	From 1 July 2018, 85%	67% agreed	▲	ETS
A programme of process reviews is in place to identify efficiencies	From 1 October 2016 to 30 June 2020, implementation of milestones as defined in the programme	Programme not in place	▲	DM, ME, ETS

Measures that demonstrate achievement	Target	Latest result (2016/17)	Desired trend	Appropriation/s
<b>Undertaking our obligations to Māori, statutory and other, through our He Whetū Mārama framework</b>				
<p>Māori agree:</p> <ul style="list-style-type: none"> <li>they are aware or very aware of opportunities to participate in EPA functions</li> <li>our overall level of service provided meets or exceeds expectations</li> <li>our information is easy or very easy to access</li> <li>our information is easy or very easy to understand</li> <li>it is easy or very easy to contact us</li> </ul>	From 1 July 2018, 85%	Average 59% agreed with measure statement	▲	DM, ME, ETS
<b>Customers are satisfied with the quality of online services</b>				
Customers agree that where online transactions can be made with the EPA, it is easy or very easy to carry these out	From 1 July 2018, increasing trend	54% agreed	▲	DM, ME, ETS
New Zealanders who found information that met their needs on the EPA's website, in the last 12 months	From 1 July 2018, increasing trend	55% agreed	▲	DM, ME, ETS

**Goal: Protection of people and the environment in partnership with businesses, Māori, and the community.**

**Strategic Intention:** Contribute effectively to the government environmental, wellbeing, and economic outcomes and results.

Measures that demonstrate achievement	Target	Latest result (2016/17)	Desired trend	Appropriation/s
<b>The impacts of hazardous substances on the environment are understood and reduced</b>				
A hazardous substances modernisation programme is identified and agreed	From 1 October 2016 to 30 June 2020, implementation of milestones, as defined in the programme	Not achieved	▲	DM, ME
<b>Achieve compliance with the approvals, consents, regulations, rules, and EPA Notices that we are responsible for monitoring</b>				
Hazardous substances importers and manufacturers, and EEZ compliance and enforcement programmes are identified and agreed	From 1 October 2016 to 30 June 2020, implementation of milestones, as defined in the programme	HS & EEZ programmes in place	=	ME
ETS data integrity ensures that participants and account holders are able to be contacted appropriately, they are aware of changes as they relate to the ETS or the carbon market, and they are able to undertake legitimate transactions	98% of participant registrations and account applications are accurately recorded in the NZETR within two business days of receipt of a properly completed application	98.6%	=	ETS
Voluntary agreements in place with industry on achieving environmental management systems, or similar, that are in line with modern international practices, go beyond minimum regulatory requirements, and are contributing to improved environmental outcomes	By 30 June 2019, a new voluntary agreement is in place	Agreement being developed	▲	ME
<b>With partners and stakeholders, we are contributing to reducing harm from the storage and use of hazardous substances in the home</b>				
Feedback from key agencies involved in the promotion of consumer health and safety demonstrates EPA's consumer harm reduction information is more accessible and effective	Positive feedback on whether information is more accessible and effective, with increasing trend	100%	=	ME

Measures that demonstrate achievement	Target	Latest result (2016/17)	Desired trend	Appropriation/s
<p>Agreements in place with:</p> <ul style="list-style-type: none"> <li>agencies dealing with families and the wider community, such as Plunket, Māori Women's Welfare League, Housing NZ, and</li> <li>industry,</li> </ul> <p>on joint initiatives for promoting the better use, storage and disposal of hazardous substances</p>	By 30 June 2019, a new agreement is in place	Achieved	=	ME
<b>New organisms, bio-control agents, or hazardous substances can be demonstrated to have contributed to a reduction in pests and/or weeds, and have not become a pest or weed</b>				
No incidences have been reported of EPA-approved new organisms having become a pest, weed, or disease	Zero incidents reported and trend of no change	Zero incidents	=	DM
New organisms, bio-control or hazardous substances significantly reduce pests and/or weeds	Demonstrated by available monitoring information	Weed and pest control about 10% of on-farm costs. Specific initiatives to reduce weed and pest control noted	=	DM
<b>Iwi/hapū are consistently enabled to give effect to kaitiakitanga</b>				
In collaboration with the Native Species Working Group (industry, Māori, other government), undertake re-evaluation of how native threatened species are taken into consideration in hazardous substances risk assessment	By 1 December 2018, report completed showing how consideration of our native threatened and endangered species is taken into account in hazardous substances risk assessment	No data	=	DM
Undertake shared projects with Ngā Kaihautū Tikanga Taiao, Te Herenga, and Iwi on particular areas of Māori interest in our work	At least 1 project initiated per year, and projects completed in accordance with the project plan	Achieved	=	DM, ME

**03**

**Our  
organisation  
and financials**



## Our organisation

The EPA has a further internal goal not linked to our reportable outputs. This goal enables the three appropriations to be achieved. We have included these measures here as they form an important part of our strategy and empower the EPA to deliver our work.

**Goal: A confident EPA with highly capable and engaged people working collaboratively for optimum results.**

**Strategic Intention:** Build depth and breadth of leadership and technical expertise to ensure we have the capability and capacity to respond to stakeholder and customer demand.

Measures that demonstrate achievement	Target	Latest result (2016/17)	Desired trend
<b>We have a strong learning culture that supports our ability to attract, grow and retain talent</b>			
Survey shows staff agree EPA provides learning and development opportunities	By 1 October 2017, 80% and maintained at this level <sup>4</sup>	58.1% (2017)	▲
Staff turnover	Less than 15% per year	20.83%	▼
Investment in staff training and professional development opportunities	2.75% annually	2.75%	=
Deliver a Human Resources programme of work that covers: <ul style="list-style-type: none"> <li>strengthening our capability in leadership</li> <li>strategic agility</li> <li>Māori capability</li> <li>customer-centricity and partnership engagement</li> <li>regulatory expertise</li> </ul>	By 30 June 2019 – leadership development milestones listed are successfully embedded  Demonstrate progress in achieving in the key areas of the HR programme	Achieved	=
<b>EPA staff are recognised within New Zealand and globally for their expertise</b>			
Number of staff who speak at conferences or similar events, and positive feedback received where provided	Greater than 10 per year and feedback equal to a rating of 4 out of 5 (where provided)	Achieved	=
Staff are recognised for their contributions to scientific, technical, and specialist debates and publications	Reports to Board show that we are recognised for our contributions	Achieved	=
EPA staff agree that there is a common purpose in the organisation	By 1 October 2017, 80% and maintained at this level	54% (2017)	▲

<sup>4</sup>The EPA obtains data as measured by the Kenexa Best Workplaces Survey

# How we operate as an organisation

## Financial performance measures

The following performance measures to provide an indication of our overall organisational health and capability. These measures provide information not otherwise available in the Statement of Intent 2016–2020 or this Statement of Performance Expectations.

## Forecast financial performance measures

Measure	Unit	Estimated Actual 2017/18	Forecast 2018/19
<b>Working capital</b>			
Net current assets	\$000	7,367	5,395
Current ratio	%	382	289
<b>Resource utilisation</b>			
Fixed assets as % of total assets	%	39	39
Additions as % of fixed assets	%	5	7
Fixed assets per FTE	\$000	36	29
Accommodation cost per FTE	\$000	7.5	8.1
<b>Human resources</b>			
Total FTEs	No.	175.3	179.8
Professional development as % of personnel expenses	%	2.75	2.75
Average annual leave liability as % of annual entitlement	%	57	55

# Prospective financial statements

## Prospective statement of comprehensive revenue and expenses

	Estimated Actual 2017/18 \$000	Forecast 2018/19 \$000
<b>Revenue</b>		
Revenue Crown	25,369	25,217
Interest income	203	210
Other revenue	3,731	5,552
<b>Total revenue</b>	<b>29,303</b>	<b>30,979</b>
<b>Expenses</b>		
Personnel costs	16,295	17,633
Depreciation and amortisation expenses	1,462	1,456
Other expenses	12,508	14,875
<b>Total expenses</b>	<b>30,265</b>	<b>33,964</b>
<b>Net deficit for the year</b>	<b>(962)</b>	<b>(2,985)</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSES</b>	<b>(962)</b>	<b>(2,985)</b>

## Prospective statement of financial position

	Estimated Actual 2017/18 \$'000	Forecast 2018/19 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,671	1,941
Debtors and other receivables	161	171
Prepayments	143	140
Investments	8,000	6,000
<b>Total current assets</b>	<b>9,975</b>	<b>8,252</b>
<b>Non-current assets</b>		
Property, plant and equipment	934	679
Intangible assets	5,421	4,595
<b>Total non-current assets</b>	<b>6,355</b>	<b>5,274</b>
<b>Total assets</b>	<b>16,330</b>	<b>13,526</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Creditors and other payables	1,357	1,547
Employee entitlements	1,180	1,239
Lease incentives	71	71
<b>Total current liabilities</b>	<b>2,608</b>	<b>2,857</b>
<b>Non-current liabilities</b>		
Employee entitlements	71	75
Lease incentives	140	69
<b>Total non-current liabilities</b>	<b>211</b>	<b>144</b>
<b>Total liabilities</b>	<b>2,819</b>	<b>3,001</b>
<b>Net assets</b>	<b>13,510</b>	<b>10,525</b>
<b>Equity</b>		
General funds	13,510	10,525
<b>TOTAL EQUITY</b>	<b>13,510</b>	<b>10,525</b>

## Prospective statement of changes in equity

	Estimated Actual 2017/18 \$000	Forecast 2018/19 \$000
Balance at 1 July	14,472	13,510
Net deficit for the year	(962)	(2,985)
<b>BALANCE AT 30 JUNE</b>	<b>13,510</b>	<b>10,525</b>

## Prospective statement of cash flows

	Estimated Actual 2017/18 \$000	Forecast 2018/19 \$000
<b>Cash flows from operating activities</b>		
Receipts from Crown	25,369	25,217
Interest received	203	210
Receipts from other revenue	6,356	5,542
Payments to suppliers	(13,038)	(14,785)
Payments to employees	(16,047)	(17,570)
Goods and services tax (net)	26	31
<b>Net cash flows from operating activities</b>	<b>2,869</b>	<b>(1,355)</b>
<b>Cash flows from investing activities</b>		
Receipts from sale of investments	—	2,000
Purchase of property, plant and equipment	(155)	(225)
Purchase of intangible assets	(150)	(150)
Acquisition of investments	(3,000)	—
<b>Net cash flows from investing activities</b>	<b>(3,305)</b>	<b>1,625</b>
<b>Net increase/(decrease) in cash held</b>	<b>(436)</b>	<b>270</b>
Cash and cash equivalents at the beginning of the year	2,107	1,671
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,671</b>	<b>1,941</b>

# Notes to the prospective financial statements

## Reporting entity

The EPA is a Crown Agent as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The EPA was established under the Environmental Protection Authority Act 2011. The EPA's ultimate parent is the New Zealand Crown (the 'Crown').

The EPA has responsibility for regulatory functions concerning New Zealand's environmental management. These include national consenting under the Resource Management Act, management of the New Zealand Emissions Trading Scheme and Register, regulation of hazardous substances, new organisms, ozone depleting chemicals, hazardous waste exports and imports, assessment of environmental effects in Antarctica, and managing the environmental effects of activities in the Exclusive Economic Zone and Continental Shelf.

These prospective financial statements of the EPA are for the year 1 July 2018 to 30 June 2019 and were authorised for issue by the Board on 14 June 2018.

## Cautionary note

Actual financial results achieved for the period covered are likely to vary from the information presented, and variations may be material.

## Statement of significant underlying assumptions

### Crown revenue

Year	\$000
2017/18	25,369
2018/19	25,217

## Revenue from fees

The revenue from fees is based on the following assumptions:

- the activities of our stakeholders in the past
- specific indications of applications that are expected from likely applicants
- our assessment of the impact of recent legislative changes.

## Charging policy

Charges are applied for most types of applications to the EPA:

- applications for proposals of national significance under the Resource Management Act
- applications for marine consents and rulings under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act
- applications under Parts 5 and 6 of the Hazardous Substances and New Organisms Act
- Emissions Ruling applications under the Climate Change Response Act.

There are hourly rate charges for marine consent applications and other services under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act which are set by regulation. Under the Climate Change Response Act there is a fixed initial fee plus an hourly charge, set by regulation. Charges and fees for proposals of national significance and applications under the Hazardous Substances and New Organisms Act are set by the EPA Board. The former are hourly rate charges, and the latter are, in the main, fixed fees. All the fees and charges are listed on the EPA's website under Fees, Charges and Cost Recovery.

## Statement of accounting policies for the year ended 30 June 2019

### Basis of preparation

#### Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Crown Entities Act and with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the *Public Benefit Entity (PBE) Accounting Standards* as appropriate for Tier 1 Public Sector Entities.

### **Functional and presentation currency**

The financial statements are presented in New Zealand Dollars (NZD) and all amounts have been rounded to the nearest thousand, unless otherwise indicated.

### **Summary of significant accounting policies**

There have been no changes to accounting policies and all accounting policies have been applied consistently.

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

The EPA classifies its property, plant and equipment and intangible assets as non-cash generating assets because the primary objective for the use of these assets is not to realise a commercial return.

The EPA assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the EPA estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

In determining fair value less costs to sell, the EPA may engage an independent valuer or assess market value based on the best available information. The assessment of value is determined based on valuation techniques that are appropriate for the asset.

Value in use is the present value of an asset's remaining service potential. It is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

### **Goods and services tax (GST)**

Items in the financial statements are presented exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, Inland Revenue, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

### **Income tax**

The EPA is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

### **Standards issued and not yet effective, and not early adopted**

There are no new, revised or amended standards that have been issued but not yet effective that would have a significant impact on these financial statements.

### **Use of judgements and estimates**

In preparing these prospective financial statements, management has made judgements, estimates and assumptions that affect the application of the EPA's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognised prospectively.

### **Judgements**

- Provision for impairment of receivables.
- Determining lease classification.

### **Accounting estimates and assumptions**

- Useful lives and residual value of property, plant and equipment (PP&E).
- Useful lives of software assets.
- Measuring long service leave obligations.

### **Revenue accounting policies**

#### **Revenue from exchange and non-exchange transactions**

Revenue from exchange transactions are transactions in which the EPA receives cash, and directly gives approximately equal value, normally in the form of services, to another entity in exchange. Revenue from non-exchange transactions are those where the EPA receives cash from another entity without directly exchanging approximately equal value. The EPA's significant items of revenue are as follows:

### a) Provision of services

Services provided to third parties under the Hazardous Substances and New Organisms Act in accordance with the EPA's published fees and charges schedule are treated as non-exchange transactions, as the fees and charges do not reflect the actual cost of producing the services. Services provided to third parties on commercial or full cost-recovery terms e.g. in relation to the Resource Management Act and Economic Exclusive Zone are treated as exchange transactions. Revenue from the provision of services are recognised by reference to their stage of completion.

### b) Revenue from the Crown

The EPA is primarily funded by the Crown. This funding is restricted in its use for the purpose of the EPA meeting the objectives specified in its founding legislation and the scope of the relevant Crown Appropriations. The EPA considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement. This is considered to be the start of the appropriation period to which the funding relates. The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

### c) Interest income

Interest income is recognised using the effective interest method.

### Property, plant and equipment, and intangible assets accounting policies

All property, plant and equipment, and intangible assets are stated at cost less accumulated depreciation or amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration, the asset is initially measured at its fair value. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the EPA. All other repair and maintenance costs are recognised in surplus or deficit as incurred. The costs of self-constructed assets are recognised as capital work in progress until the assets are operating in the manner intended, at which time they are transferred to property, plant and equipment, or intangible assets.

Depreciation and amortisation are recognised in surplus or deficit and are calculated to write off the cost of items of property, plant and equipment, and intangible assets less their residual values using the straight-line method over their useful lives as follows:

Type of asset	Useful life
Computer hardware	3 - 4 years
Furniture, fixtures and office equipment	6 years
Leasehold improvements	6 - 9 years
Computer software	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

### Receivables accounting policies

Receivables are initially recognised at fair value and subsequently recorded at the amount due, less any provision for impairment. A receivable is considered impaired when there is objective evidence the amount due will not be fully collected. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amount expected to be collected.

### Judgements

#### Provision for impairment of receivables

All receivables older than 30 days are considered to be past due. Management assess any objective evidence of impairment of all overdue receivables as at reporting date.

### Payables accounting policies

Creditors and other short Term payables are recorded at the amount payable.

### Employee entitlements accounting policies

#### Short-term employee entitlements

Short-term employee entitlements are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the EPA has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Employee entitlements are expected to be settled



within 12 months of the balance date and are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued to balance date, and annual leave earned but not yet taken at balance date.

A liability and an expense for performance payments are recognised where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

#### *Long-term employee entitlements*

Employee entitlements that are due to be settled beyond 12 months after the end of period in which the employee renders the related service. Long-service leave provision has 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
- the present value of the estimated future cash flows.

The risk-free discount rates and salary inflation rate are published by the Treasury for consolidation into the Government's financial statements.

#### *Defined contribution plans*

The EPA's contributions to defined benefit plans are expensed in surplus and deficit as incurred.

Annual leave and vested long-service leave are classified as current liabilities. Non-vested long-service leave expected to be settled within 12 months of balance date are classified as current liabilities. All other employee entitlements are classified as non-current liabilities.

#### *Critical accounting estimates and assumptions*

##### *Measuring long-service leave obligations*

The present value of the long-service and retirement leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability are the discount rates, and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand Government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from the Treasury.

#### **Equity**

##### *Capital management*

The EPA's equity is its general fund, represented by net assets. The EPA is subject to the financial management and accountability provisions of the Crown Entities Act, which impose restrictions on borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives. The EPA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings, to ensure the EPA effectively achieves its objectives and purpose while remaining a going concern. During the current accounting period, the EPA has complied with the above externally imposed capital requirement.

#### **Financial instruments and risk management**

##### *Financial instruments*

- *Cash and cash equivalents* comprise cash on hand, deposits held on call with banks, and other short-term deposits with maturities of three months or less.
- *Investments* comprise term deposits with banks with maturities greater than three months.
- *Payables* which are financial instruments exclude taxation liabilities owing to Inland Revenue (e.g. GST and PAYE).

##### *Operating leases accounting policies*

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the EPA are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. Lease incentives received are initially recognised as a liability and then amortised as a reduction in operating lease costs over the lease term.

## Judgements

### *Determining lease classification*

Determining whether a lease agreement is an operating or a finance lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the EPA. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognised. All lease arrangements have been assessed to be operating leases.



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