Statement of Intent

For the financial years ending 30 June 2013 to 30 June 2015

June 2012

with you for
generations
to come

Public Trust

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Chair's Foreword

We present the 2013–2015 Statement of Intent (SOI) for Public Trust.

During the period of the SOI, our operating environment will continue to be difficult, affected by the impacts of the Global Financial Crisis, an underperforming domestic economy and growing regulatory and compliance requirements.

We are confident, however, that our plans will position us well to meet these challenges, improve performance and return positive results – our ultimate goal is to grow shareholder value and provide a return to the Crown.

A platform for financial sustainability

We have made progress in recent years towards building an organisation that can achieve a position of long-term financial sustainability and financial resilience.

This work has helped provide a stronger platform to make the step change needed to achieve financial sustainability. We have implemented initiatives to improve the customer experience, grow revenues and control costs, despite a subdued market environment.

Moody's Investors Service (Moody's) has affirmed Public Trust's Issuer *Credit Rating* of *Aa3* and issued a long-term deposit rating of *Aaa* for deposits held in the Common Fund. Moody's also assessed the Ratings Outlook as *Stable*. The ratings reflect the organisation's established trustee franchise, funding profile, sound strategic direction and ongoing support provided by the Crown.

We have completed extensive work to restore our business operations in Christchurch following the Canterbury earthquakes, including new premises for the Christchurch Customer Centre, Contact Centre and Service Centre, and also supported our employees and customers during this time. The earthquakes significantly impacted Public Trust's people, our customers, our revenue and our costs. The recovery has been speedy and operational capability has now been mostly restored. A comprehensive national review of all premises tenanted by Public Trust is underway to ensure the safety of our people and customers.

Public Trust needs to be a credible employment choice in the private sector environment. This requires ongoing investment in our people and culture to develop a productive, professional, capable and engaged workforce that is well supported to adapt to and deliver change. We continue to invest in leadership and management development, talent and succession management, and training and recruitment programmes to address the capability needs of the business.

Managing and mitigating risks remains a focus across the business. The Board has recently reviewed its risk appetite statement to reflect the environment we operate in and the need to continue to ensure responsible stewardship.

Our current performance

External market forces and the economic environment continue to impact our performance. Despite this, we continue to grow fee revenues year-on-year (averaging +6% over the past three years). Public Trust customer satisfaction levels continue to improve and we are achieving a high level of customer advocacy as measured by the net promoter score.

Public Trust reported a $5.6 million profit after tax for the six months to December 2011, $5.9 million ahead of plan and well ahead of last year's result of $0.4 million. The main contributor to the improved result was the reversal of previously recorded unrealised investment losses. Common Fund interest income for the first half of 2011/12 was, however, $2.2 million lower than last year reflecting the changed investment risk position, lower interest rates, and competition for retail deposits. Productivity levels, as measured by fee revenue per FTE, improved by 12%.

Public Trust's overall equity position strengthened over the first half of 2011/12, increasing from $21.7 million to $27.1 million (a 25% increase). We are focused on building adequate capital to ensure Public Trust complies with the Reserve Bank of New Zealand's Non-Bank Deposit Takers' (NBDT) regime once our current exemption ends on 1 December 2013. In order to absorb potential financial shocks, the majority of banks and other NBDTs are now maintaining a level of capital above strict minimum requirements. We are targeting a ratio of 11%, which is consistent with the approach taken by other organisations.

Our strategy and plans

To ensure we stay true to our vision to *be the leader in the trustee services market* – and to remain well placed to *help all New Zealanders grow and protect the important things in their lives* – we have explored how we can best leverage our core strengths and expertise to improve our performance.

2013–2015 will see an acceleration of our change programme; a shift in how Public Trust will operate. We will use the platform we have built over the past few years to step up our focus on cost reduction and fee revenue growth. We plan to significantly change our service delivery and enabling architectures, and to advance growth opportunities. Our plans are built on improving the profitability of Public Trust's core business. We will improve the alignment of our resources to achieve efficiencies and lift overall service quality through a refresh of our existing channels, development of on-line channels and a rationalisation of our product set.

Several ongoing projects support the intent and implementation of this business improvement programme. Key initiatives, both new and continuing, include transforming our end-to-end business processes, right-sizing our enabling (supporting) services, strengthening our information technology capability and implementing solutions to support productivity growth and improve our culture.

Outlook

During 2013–2015, we will continue to improve core operating performance by investing in our business improvement programme. We also expect further reversals of unrealised Common Fund investment losses, growth in core trustee revenues and a continued focus on managing operating costs.

This period will also be characterised by significant regulatory control and reform. The level of regulatory change is substantial and brings with it greater complexity, additional compliance obligations and cost, and increased risk.

We expect, therefore, that 2012/13 performance will be impacted by the cost impact of regulatory change and costs relating to the business change programme.

Over the period of this SOI, the improvement programme will deliver significant cost efficiencies, customer service improvements and revenue gains, ensuring Public Trust is strongly positioned for the future.

On behalf of the Board

Trevor D Janes
Chair
30 June 2012

Context

Public Trust is New Zealand's largest and oldest trustee organisation, set up in 1873 with a unique mandate to protect the future of New Zealanders. Public Trust offers independent, professional advice and a wide range of legal and financial services to New Zealanders at different stages of their lives, including carrying out their wishes after they have died.

Our purpose

Public Trust's primary purpose is:

> ***To help all New Zealanders grow and protect the important things in their lives.***

In fulfilling the functions that support its purpose, Public Trust is required under the Public Trust Act 2001, to have the principal objective of operating as an effective business, and, to this end:

- Be as efficient as comparable businesses that are not owned by the Crown
- Prudently manage its assets and liabilities
- Maintain financial viability in the long term
- Be a good employer
- Be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates.

Vision

Public Trust's vision is to be the leader in the trustee services market.

Values

Public Trust's success depends on adherence to the following values:

- **Understanding** – through understanding and empathy we put our customers first.
- **Dependable** – we will always be there, doing what we say we will do.
- **Proactive** – we constantly look for new ideas and ways to help.
- **United** – we are one team supporting each other.
- **Commercial** – we act commercially with a heart.

Who we are

Public Trust has 447 employees, 28 customer centres, and 12 part-time offices located throughout New Zealand. (Please see map on page 39.) Public Trust is a statutory corporation under the Public Trust Act 2001 (the Act) and is deemed to be a statutory entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989. Public Trust is governed by a Board, appointed by the Minister of Justice acting with the agreement of the Minister of Finance (together, the responsible Ministers).

The Act specifies that Public Trust is to have the principal objective of operating as an effective business, while at the same time exhibiting a sense of social responsibility having regard to the interests of the communities in which it operates. To meet this objective, the professional skills and qualifications of Public Trust staff cover a range of disciplines, including trustee specialists, administrators, lawyers, accountants, and sales and service personnel.

Public Trust and its principal subsidiary, New Zealand Permanent Trustees Limited, comprise the Public Trust group for the purposes of this Statement of Intent. New Zealand Permanent Trustees Limited operates within the legislative framework governing companies, and is required to comply with the New Zealand Permanent Trustees Limited Act 1991.

Public Trust's principal functions and objectives as set out in the Act are outlined in Appendix A.

What we do

Public Trust is best known for providing Wills, and carrying out estate planning and administration services. We currently hold over 250,000 Wills and we prepare or revise around 20,000 Wills each year. These volumes mean we are the single largest provider of Wills in New Zealand. We administer more estates than any other organisation in New Zealand with around 2,000 new estates each year.

Other services include providing advice and support for managing matters relating to personal finances, investment management, tax, family trusts and property, and setting up enduring powers of attorney. We provide home loans and conveyancing to customers for whom Public Trust is acting or is named as an executor or attorney, trustee or agent.

We work with a range of customers, including charitable trusts and term estates, managing their funds, or acting as an independent trustee for other investment schemes (for example, through our Corporate Trustee Services business). We also safeguard student fees on behalf of private training establishments through our *Fee Protect* offering.

Public Trust Act 2001 obligations

In addition to these products and services, under the Public Trust Act, we must ensure that access is maintained for all New Zealanders to effective and efficient *last resort* fiduciary protective services. (This is covered further under *Contribution to Crown Outcome*,page 15.) In this role, we have the following responsibilities:

- **Act as Trustee of Last Resort** – various statutes require us to provide fiduciary services when there is no other provider, or other providers are deemed not to be appropriate.
- **Assistance** – assist individuals who are not in a position to look after their own affairs. There are 15 statutory Acts where we act on behalf of those unable to look after their own affairs. In many cases Public Trust is the sole designated provider.
- **Protective Fiduciary Services** – provide services to those who otherwise could not afford them. Protective fiduciary services are focused on funded services for customers with low liquid assets or low value estates where the value is insufficient to sustain normal commercial charges.
- **Protect Personal Property Rights** – help to define and protect personal property rights. We act to minimise costs associated with ill-defined property rights.

Our customers

Our services are tailored to meet the requirements of three key market segments:

- **Personal** – services for individual clients, with a focus on protection of assets and personal rights, and wealth transfer
- **Business** – services for commercial entities such as charitable trusts, non-government organisations and the government sector, with a focus on complex trusteeship and administration
- **Corporate** – services for the corporate and business market, with a full range of corporate trustee services across a range of products, covering over 200 appointments in the securities and financial markets.

The value we add

We have an extensive depth of knowledge and experience in specialist trustee advice, asset management and administration. We have skilled people who provide independent advice where there might be perceived or potential conflicts between the interests of commercial trustee services providers and clients, or lack of impartiality.

As a well-established organisation, we can ensure permanency surrounding the provision of administration and trustee services. Through our national distribution of customer centres and our contact centre, we are able to ensure access across the country, to all New Zealanders.

We provide our customers access to on-call accounts and term deposits, with the option of investment in Public Trust's Common Fund, which is covered by a Government Guarantee.

Most of our products and services are provided to customers on a commercial basis and we compete against a wide range of other providers such as lawyers and trustee services companies.

We differ from our competitors because we have certain public and social responsibilities, such as providing non-commercial, protective fiduciary services. (Please refer to *Contribution to Crown Outcome*, page 15.) We ensure that people have access to professional trustee and administration services in situations where they might otherwise not be able to obtain them. This includes situations where individuals cannot afford services provided by the industry, or where an individual's circumstances (for example, mental incapacity) mean they are not well placed to make their own arrangements. We often support people in times of considerable emotional distress.

In addition, Public Trust may be appointed by the Courts to act as *Trustee of Last Resort* and provide trustee services where required. In providing these products and services, Public Trust helps reduce the demand on Crown resources. For example, managing the affairs of incapacitated individuals reduces the burden on the social welfare system. Details of Crown funding for non-commercial services in 2012/13 are set out in the *Forecast Statement of Service Performance* (page 17).

Following proposed changes in Crown funding, Public Trust will move to a commercial operating model for the provision of Wills from 1 July 2012.

Our operating environment

The global and domestic economies

The global economic outlook remains subdued, particularly for the early period of this SOI. The debt crisis in Europe persists and US recovery is timid. Global policy will continue to play a key role in influencing New Zealand interest rates.

Similarly, the domestic economy is likely to remain soft, at least for the first half of the period covered by this SOI. Activity is expected to accelerate somewhat in 2013 as the Canterbury rebuild gets underway, with associated labour market improvements.

Consumers are looking for value for money, trust and transparency. Following a series of finance company defaults, and as a result of the global financial crisis, public confidence in the finance sector remains cautious and subdued.

Demographic and social trends

New Zealand's population continues to age and life expectancy and retirement age have increased. However, our ageing population is more active, better informed and increasingly technologically savvy.

Growth in internet use continues to be strong, and is expected to increase with improved broadband accessibility and performance. There has been a marked upswing in the use of smart phone technology and social media. Increasingly, New Zealanders expect to conduct their affairs electronically and Public Trust is responding to this. However, there are sensitive aspects to the nature of our business that require a more intimate and often face-to-face relationship with customers.

A changing regulatory environment

Public Trust operates in an environment that is subject to significant regulatory control and reform. The level of regulatory change has been substantial and will continue to be, with new legislation, regulations, guidance notes and amendments to existing legislation. The level of change brings greater complexity, additional compliance obligations and cost, and increased risk.

The Financial Markets Conduct Bill is expected to result in changes to how we offer some of our financial products to the public and we must ensure compliance with the Anti-Money Laundering and Countering Financing of Terrorism Act. We are monitoring the Law Commission's review of trusts.

We continue to comply with the risk management and credit rating requirements for non-bank deposit takers (NBDT) under the Reserve Bank of New Zealand Act 1989 (RBNZ Act). We were granted a three-year period to progressively meet NBDT capital ratio requirements. This period ends on 1 December 2013. The half-year profit result has further strengthened our ability to achieve this and full compliance remains a priority.

We continually monitor and assess the impact regulatory change has on the organisation and engage directly with officials and through industry groups.

Operating Intentions

Strategic direction and framework

Reviewing our direction

Public Trust has explored how it can best leverage its core strengths and expertise to lift performance, particularly given the forecast continuation of tough market conditions. Ensuring financial sustainability and resilience so we can continue to meet customer needs and ultimately deliver a return to the Crown are key priorities for us.

In late 2011, we conducted a comprehensive review of our business to assess the options available to enhance achievement of our goals. The review captured insights about Public Trust's business that have helped us clarify Public Trust's direction.

During the SOI period we will effect substantial changes to our business architecture to concentrate focus on our core capabilities, streamline and align our activities, and better leverage technology for improved service delivery and efficiency.

Our transformational work over recent years has helped provide a platform to make this step change. We have successfully implemented initiatives to control costs, focus on customer needs and lift revenue, despite the demands of our environment and a subdued market environment.

The programme to be delivered is a strong cost response. It involves a programme built around re-defining the business architecture (comprising the service delivery architecture and enabling services architecture). It looks at the quality and effectiveness of customer service delivery, the channels we use, and reviews the make-up of our product set and customer base. The customer experience remains key.

A major, parallel, focus remains the ongoing development of a high-performing, highly engaged workforce where all employees set and demand high standards. This will deliver outstanding customer service, help lift revenue and perpetuate success. We recognise that a continued focus on people and culture is a critical success factor for delivery of our strategy.

The *Strategic Framework* (page 10) reflects these priorities.

Strategies and initiatives

Our delivery strategies encompass a compelling brand proposition that is effectively targeted and communicated, market-leading products and services, and an optimised delivery model. All of these elements are centred on our core strengths, expertise and the heritage of our brand.

We have identified initiatives (both new and continuing) that focus on brand position and profile, improving service delivery standards and efficiencies, and lifting the profitability of products. There is also a continuation of the Corporate Trustee Services mid-level growth strategy.

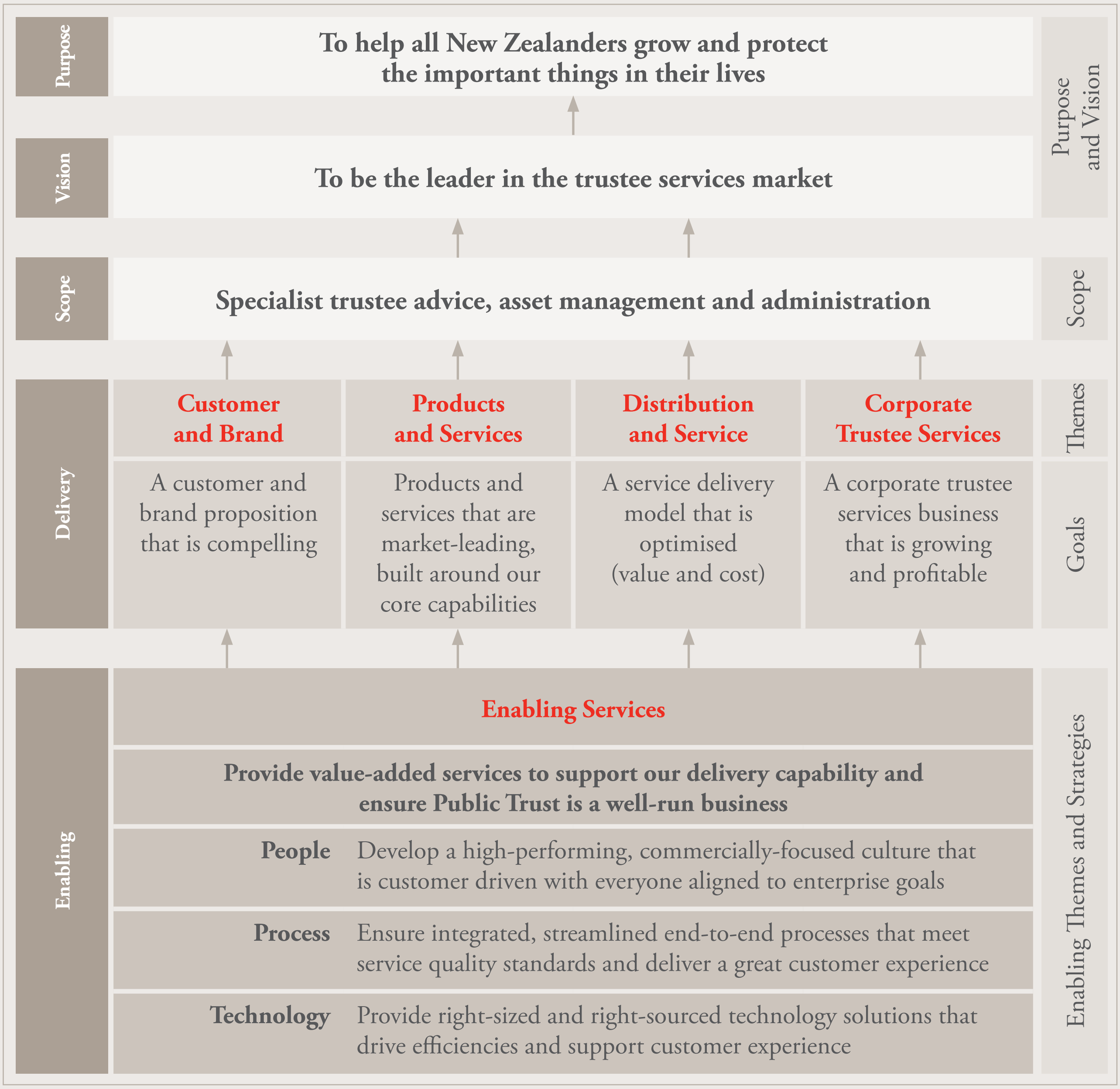
Our enabling strategies – people, process and technology – are directed at ensuring a great customer experience through high performance, internal alignment, consistent quality, and efficiencies. Key initiatives (both new and continuing) include transforming our end-to-end business processes, right-sizing our enabling services architecture, strengthening our IT capability and implementing solutions to improve productivity. They also include a number of initiatives that continue our programme of improving performance and culture, such as talent and succession management, skills retention and capability development (leadership, commercial and technical skills).

Strategic framework

Figure 1 depicts our strategic framework. It shows how our delivery and enabling strategies work together and play to our strengths to achieve Public Trust's purpose. The goal statements associated with each strategic theme reflect our strategic direction.

The framework reinforces our core capability in specialist trustee advice, asset management and administration. All Public Trust activity is aligned to this framework and contributes to growing shareholder value and providing a return to the Crown.

Figure 1 – Strategic Framework



Organisational health and capability

Good employer

Public Trust operates with human resource policies that contain provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment. These policies cover:

- The provision of good and safe working conditions
- An equal employment opportunities programme
- Impartial and transparent recruitment and selection practices
- Recognition of the aims, employment requirements and involvement of Māori
- Opportunities for the enhancement of individual employees' abilities
- Recognition of the aims, employment requirements and involvement of ethnic or minority groups
- The employment requirements of people with disabilities.

As part of our Annual Report, we will continue to report its achievement against the outcomes relating to the fair and proper treatment of its employees.

Our people and culture strategy is noted on page 8. It is a critical component in achieving our goals.

Risk management

Risk management and mitigation will remain a core focus across the wider business. We have a comprehensive risk management framework in place that covers credit, liquidity, market and operational risk. Key performance indicators are employed to provide signs of potential business risks and issues. Strategies and processes are in place to identify and promptly act upon any potential performance issues.

The Board regularly monitors risks and reviews its risk appetite and makes adjustments as appropriate.

Corporate social responsibility

Acting in a socially responsible manner by having regard to the interests of the communities in which it operates is a key obligation for Public Trust under its Act.

The nature of the services Public Trust provides requires the highest standards of professional ethics. Public Trust's success depends upon values that include putting the interests of customers first and being trustworthy. Public Trust has an Ethics Framework that supports and enforces these values.

In addition, Public Trust has a Corporate Social Responsibility (CSR) strategy to operate the business in a responsible and sustainable manner. CSR includes taking a leadership position in community, investment and social issues relevant to our business. It involves taking accountability for the impact of Public Trust on social and environmental outcomes, and the impacts on stakeholders, including our own employees.

Performance

Key performance indicators

We have established a set of key performance indicators (KPIs) that reflects and is consistent with our strategic framework and supports achievement of our goal to grow shareholder value. The measures focus on the quality, quantity and cost of our products, services and operations. Our high-level KPIs are shown in Table 1. Actual performance in relation to these measures will be reported in the Annual Report. In order to align the many different parts of Public Trust, these KPIs are cascaded through the organisation and are reflected in business plans and individual performance plans.

Non-commercial performance measures are provided in the Forecast Statement of Service Performance.

Table 1 – Key Performance Indicators

	Actual Results		Forecast			
Key Performance Indicators	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Ownership perspective						
Profit (Loss) after Tax for the Year	$4.8m	$0.6m	$6.7m	**$2.9m**	$3.6m	$8.5m
Return on Equity[1]	n/a	2.8%	29.2%	**10.3%**	10.6%	21.2%
Distributions to Crown	Nil	Nil	Nil	**Nil**	Nil	Nil
Efficiency and effectiveness perspective						
Cost to Income Ratio[2]	94.6%	97.0%	96.1%	**88.7%**	87.9%	83.0%
Capability perspective						
Employee Engagement[3]	41%	39%	40%	**45%**	50%	55%
Customer and market perspective						
Market Shares/Key Market Segments:[4]						
Wills Market Share	15.0%	14.0%	15.1%	**15.2%**	15.3%	15.3%
Estates Market Share	13.9%	14.2%	14.2%	**14.3%**	14.4%	14.4%
Customer Satisfaction[5]	7.0	8.1	8.0	**7.9**	8.0	8.2
Net Promoter Score[6]	n/a	23	15	**10**	15	18

Notes:

1. Return on Equity (ROE) is calculated as surplus/(deficit) (including investment gains/losses, after tax divided by the average of opening and closing equity. ROE for 2009/10 is not calculated due to the negative equity position at 30 June 2009. The forecast ROE % for 2012/13 through 2014/15 reflects the utilisation of cumulative tax losses. Forecast ROE excluding the benefit of cumulative tax losses and including a notional tax charge (28%) are 7.4% for 2012/13, 7.6% for 2013/14 and 15.2% for 2014/15.
2. The ratio is calculated as Total Expenses (excluding change and restructuring costs and mortgage losses)/Revenue (excluding investment gains/losses).
3. Independent annual survey of employee engagement (2009 global benchmark = 34%, 2012 New Zealand benchmark = 36.5%).
4. Market share targets in key market segments will be updated after the introduction of a new customer segmentation model. Baselined market share of our new segments will be established in 2012/13 to ensure we have accurate information to set targets. Pending determination of targets, we continue to track market share of Wills and Estates.
5. Independently conducted survey of customer satisfaction (range: 1=poor, 10=excellent). This is measured monthly through independent survey by AC Nielsen, with an average of 1,000 respondents.
6. The Net Promoter Score is derived from asking our customers the question "Would you recommend Public Trust to family and friends?" The score is the number of people who gave us a 9-10 (10 being extremely positive), minus those who gave us a score of 5 or less (being unlikely or negative). We have forecast a dip in year 1 of this SOI period to reflect the initial impact of moving to commercial charging for Wills.

Capital position

Public Trust must meet the capital adequacy requirements of the NBDT regime when the current capital ratio exemption expires (1 December 2013). A number of initiatives is underway to ensure compliance with the regime when the current exemption expires. These include improving underlying profitability and restructuring the balance sheet to reduce risk-weighted exposure.

Further, the Board has determined that an additional 3% 'capital headroom' above the 8% regulatory requirement should be held. This reflects the market and operational risk borne by Public Trust, ensures continuing compliance with the regime and is consistent with the approach being taken by other organisations.

We expect to exceed the 8% minimum regulatory requirement by June 2013 and the target level of 11% by June 2015.

Customer experience

We have improved the customer experience through building productive relationships with customers, delivering services and experiences that enhance loyalty and advocacy and ensuring our customers' needs are addressed. Improvements to our processes mean they are designed and delivered in a way that better supports efficient service delivery, quality services and a great customer experience.

We also continue to measure customer awareness, satisfaction and advocacy as part of our KPIs and output measures (see page 17). Internally, we use our tailored customer feedback channel, *Voice of the Customer*, as a constant barometer of our performance from the customer perspective and use the results to improve our service.

Consultation and reporting

Consultation

Public Trust will comply with the *no surprises* policy for Crown entities, including proactively communicating with responsible Ministers about issues and decisions that fall outside normal operations and which would have a material effect on its financial position.

Our policies on consultation are set out in Appendix C.

Reporting

Public Trust has a number of requirements regarding formal reporting, and these are set out in Appendix C.

Reports will contain sufficient information to enable an informed assessment to be made of the operations and performance of Public Trust for the relevant period.

Further to these reports, Public Trust is also required to report three times a year to the Ministry of Justice on the performance results of the outputs agreed with the Ministry each year (see *Contribution to Crown Outcome*, page 15 and *Forecast Statement of Service Performance*, page 17). This reporting includes assessment of the actual performance against the performance criteria set for each output and commentary on how the output is contributing to desired outcomes.

Commercial Valuation

The Board's estimate of the current commercial value of the Crown's investment in Public Trust is $31.3 million. The valuation was calculated on a *value in use* basis, as at 27 April 2012. The *value in use* basis does not necessarily represent what a 'willing buyer' would pay, since a buyer may need to consider the need for additional capital to meet NBDT capital ratio requirements and any implications relating to the availability of the Government Guarantee on Common Fund investments.

The discounted cash flow methodology was used to calculate a net present value of the Public Trust Group, including all subsidiaries, on an after-tax basis.

The methodology is based on the nominal future cash flows for separate business units as set out in Public Trust's five-year Business Plan, with forward projections made for Years 6 through 10. A terminal value is calculated after normalising the cash flow in the final year of the projection period for tax and depreciation and a growth rate of 1.5% is then applied.

The Cost of Capital components have been updated and the overall discount rate for this year was calculated at 9.6%; this is the same discount rate as 2011. The valuation was prepared internally by Public Trust's Finance group and key assumptions were externally peer-reviewed, prior to approval by the Board. The valuation includes the benefit to the Crown of Public Trust's cumulative tax losses.

The commercial valuation and comparative for last year is summarised in Table 2.

Table 2 – Commercial Valuation

Commercial Value – 2012 compared to 2011 ($ millions)	**2012**	**2011**
Discount rate %	9.6%	9.6%
Commercial value[1]	$31.3	$36.0
Adjustment for change in discount rate/methodology	-	$1.1
Comparative commercial value	$31.3	$37.1
Commercial valuation	**$31.3**	**$37.1**

Note:

1. The following points should be noted in relation to the commercial valuation.
   - Cash flows used for valuation purposes assume the crown statutory guarantee on Common Fund investments.
   - The valuation does not include benefits expected to arise from the planned changes to Public Trust's business architecture.
   - The change in commercial value in 2012 compared to 2011 is driven by two key factors.
     - An increase of $1m for Public Trust's Corporate Trustee Services (CTS) business, reflecting growth in new business (which has a positive impact on CTS' free cash flows).
     - A $6.8m reduction in Public Trust's core retail businesses, which reflects a change in the basis of funding by the Ministry of Justice, reduction in future Wills volume and associated cross-sell opportunities.

Contribution to Crown Outcome

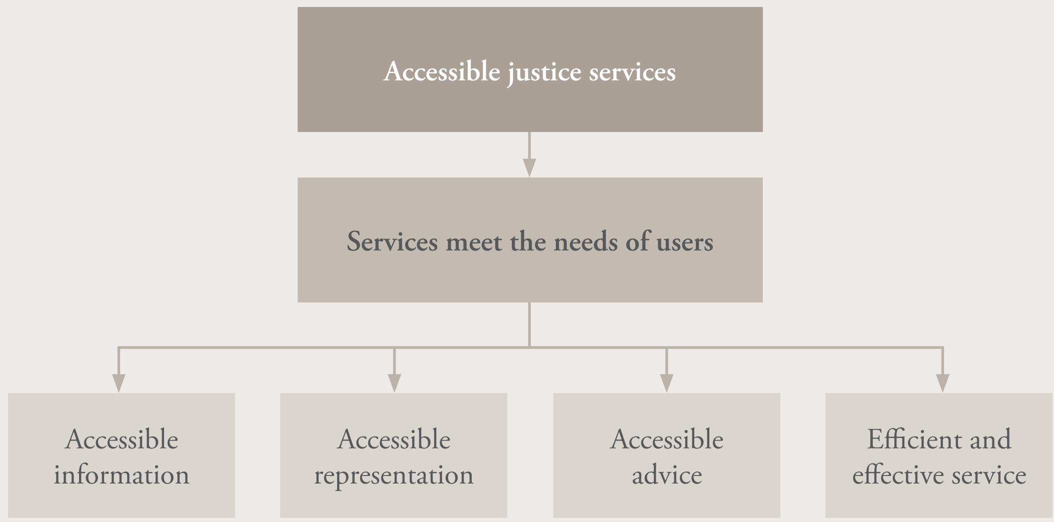
Under the Public Trust Act 2001, Public Trust is required to exhibit a sense of social responsibility in undertaking its responsibilities.

Our obligations in this regard go deeper than behaving in a socially responsible manner. Unlike our competitors, Public Trust must contribute to certain Government and social objectives. (For example, acting as *Trustee of Last Resort*, please refer to page 7). As such, the scope of our activities, and the circumstances under which we provide services, set us apart from other entities that we compete against in the marketplace.

Access to justice

Justice services that are available to all members of the public are a requirement of a fair and democratic society. To achieve the 'accessible justice services' outcome (figure 2), the services provided by Public Trust need to be available to the public and satisfy their requirements for both quality and timeliness. Public Trust must also be able to provide services in an effective and efficient manner.

Figure 2 – Accessible Justice Outcome



Source: New Zealand Justice Sector Civil and Democratic Outcomes Report (June 2009)

Public Trust's contribution

Many of the products and services provided by Public Trust contribute to the Justice sector outcome of enabling access to justice for all through providing quality protective fiduciary services.

Public Trust also provides services to people who are not well placed to look after their own affairs and/or to people who, because they have limited financial means, are unlikely to have their needs met by private sector trustee organisations.

The linkages between what Public Trust *does* (its outputs) and the outcome are shown in figure 3.

The Statement of Service Performance in the next section shows how we measure our performance against these outputs.

Figure 3 – Public Trust Outputs and Outcomes

Outputs

- Preparation of Wills for New Zealanders who meet defined income eligibility criteria
- Advice provided on behalf of incapacitated persons on matters relating to the PPPR Act
- Providing PPPR administration, audit and advice services to incapacitated persons
- Administration of small estates and trusts
- Representation, audit, review, administration of the assets and rights of missing, unknown or incapable owners

These Outputs create the following Impacts

Impacts

- Access to advice and justice services are known and available for individuals including those who otherwise may not be able to afford them
- Individuals' rights are explained and defined
- The rights of represented individuals are protected and acted upon

These Impacts contribute to the following Outcome

Outcome

Accessibility of the justice system to all who require it

Forecast Statement of Service Performance

Each year, Public Trust and the Crown (acting through the Minister of Justice) enter into an Output Agreement (referred to as the Agreement) under which the Crown purchases a range of non-commercial protective fiduciary services. Under the Agreement, non-commercial services are paid for by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. Payment of these services is managed by the Ministry of Justice on behalf of the Crown.

This statement sets out service levels for the year ending 30 June 2013.

Pursuant to section 143 (1) (a) Crown Entities Act 2004, the Minister of Finance has exempted Public Trust from a Statement of Service Performance regarding Public Trust outputs other than those specified in the Agreement.

Outcomes

The services provided by Public Trust impact: Accessible justice services.

Intermediate outcomes

The intermediate outcomes for Public Trust are:

- Access to quality justice services is known and available
- Individuals' rights are explained and defined
- The rights of represented individuals are protected and acted upon.

Outputs

The non-commercial services to be provided by Public Trust under the Output Agreement are classified as Output Class 1 *Provision of Protective Fiduciary Services*. This output class contains the following outputs:

1. Preparation of Wills for New Zealanders who meet defined income eligibility criteria.
2. Providing PPPR administration, audit, and advice services to incapacitated persons.
3. Advice provided on behalf of incapacitated persons on matters relating to the Protection of Personal Property Rights (PPPR) Act 1988.
4. Administration of small estates and trusts.
5. Representation, audit, review or administration of assets and rights of missing, unknown or incapable owners.

Further details of the key performance measures for each key impact area for the year to 30 June 2013 are set out below.

Access to quality justice services is known and available

We know that people have access to – and are aware of – quality justice services when:

- Independent surveys indicate people are aware of Public Trust and the services that it offers
- Customers are satisfied with the quality and timeliness of its outputs and Public Trust receives referrals from its customers, the Courts and other service providers
- We continue to maintain a mix of channels through which the public and others can easily access Public Trust and its services.

Measure	2010/11 actual	2011/12 objective	2012/13 objective	5-year objective
Public Trust awareness score[1]	New measure		**≥ 49%**	≥ 57%
Customer satisfaction score[1]	8.1	≥ 7.5	**≥ 7.9**	≥ 8.5
Net Promoter Score[1]	New measure		**≥ 10**	≥ 20
0800 customer line available during business hours	**< 5 hours unavailable**			
Website available 24/7	**< 40 hours downtime**			

Individuals' rights are explained and defined

It is not always easy for individuals to understand the areas of the law that Public Trust operates in. Part of our role is to explain individuals' rights to them. In many cases, this also involves having to define those rights. We know we are performing this role well when:

- Our people have the right technical/legal knowledge and can effectively apply and communicate that knowledge to our customers
- We provide the right advice
- We have the policies, systems and processes in place to support the delivery of high quality and consistent advice and our internal quality assurance processes indicate these are working as intended
- We receive enquiries from organisations and other professionals because we are recognised as being an authoritative source of advice.

Performance in these areas is monitored through Public Trust's quality control framework, internal audit programme, and tailored feedback channel, *Voice of the Customer*. Public Trust monitors that we are meeting customer requirements for quality and timely advice on individual rights through measuring customer satisfaction with our services and by meeting demand.

Public Trust is currently funded to prepare Wills for customers with limited financial means and, provide advice on matters relevant to the Protection of Personal and Property Rights (PPPR) Act 1988 or assist with PPPR agencies where the recipient cannot meet the charges of the service.

Indicators are shown under Outputs 1 and 3.

The rights of represented individuals are protected and acted upon

To ensure access to justice, Public Trust also protects the rights of customers who cannot represent themselves (for example, because they are absent, incapacitated or deceased). We know that we are having the intended impact:

- By the number of people who we protect directly and the number of hours we spend in actively protecting their rights
- By the number of people we help to protect indirectly through PPPR manager audits and providing the Courts with guidelines aimed at ensuring the quality of PPPR managers.

[1] Measured monthly via independent survey by Nielsen, with an average of 1,000 respondents. The customer satisfaction and Net Promoter Score are used to measure the quality and timeliness of service to meet the expectations of customers.

Indicators are shown below under Outputs 2, 4 and 5.

A third indicator is when the outcome of cases we are involved in helps to clarify the law relating to the protection of peoples' rights. Measurement of this will be through the development of case studies, as and when appropriate.

Output 1: Wills advice and preparation

Advice to New Zealanders on the benefits of Will-making and preparation of a Will if so requested.

Measure	2010/11 actual	2011/12 objective	2012/13 objective
Number of new eligible Wills[2]	7,855	4,150	**7,000**
Number of eligible Wills re-drafted[2]	14,938	8,350	**Nil**

Output 2: Protection of Personal and Property Rights non-commercial services

Administration, audit and advice services to incapacitated persons pursuant to the PPPR Act under orders or elections, or under Public Trust agencies, where charges to the recipient will not meet the costs of the service.

Measure	2010/11 actual	2011/12 objective	2012/13 objective
Number of PPPR individuals protected	New measure		**600**
Number of actions undertaken for PPPR individuals	6,949	6,800	**6,232**
Hours to manage PPPR actions	8,159	7,870	**7,246**

Output 3: Advice for the Protection of Personal and Property Rights (PPPR)

Advice and research by Public Trust relating to enquiries on behalf of incapacitated persons on matters relevant to the PPPR Act 1988 or under Public Trust agencies where charges to the recipient will not meet the costs of the service.

Measure	2010/11 actual	2011/12 objective	2012/13 objective
Number of PPPR enquiries	1,489	1,540	**1,442**
Hours to manage PPPR enquiries	754	700	**700**

2 The number of Crown-funded Wills reflects a change in July 2012 to target the service only to eligible customers who require a new Will.

Output 4: Small estates and trusts

Administration of small and/or complex estates and trusts for which reasonable charges do not cover costs. Providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.

Measure	2010/11 actual	2011/12 objective	2012/13 objective
Number of new estates	532	1,000	**600**
Number of continuing estates	6,052	7,000	**6,200**
Hours to manage and advise on small estates and trusts	8,356	8,650	**8,000**
Number of tax returns prepared for small estates and trusts	1,072	560	**700**

Output 5: Administration of assets and other public functions

Representation, audit, review, administration of the assets and rights of missing, unknown or incapable owners arising from Parts 7 and 8 of the Public Trust Act 2001 and several other statutes that represent a public function, for which Public Trust has no prospect of being paid or charges are insufficient to cover costs.

Measure	2010/11 actual	2011/12 objective	2012/13 objective
Number of public function contracts	83	60	**60**
Hours to manage public function contracts	50	50	**40**

Revenues and expenses

- Revenues earned: $4.5 million (GST exclusive)
- Expenses incurred: $4.5 million (GST exclusive)

Public Trust will balance the appropriation across all outputs to the maximum available appropriation. In this regard, Public Trust will apply the value of outputs above budgeted levels to outputs that are below budgeted levels.

Forecast Financial Statements

Statement of Forecast Financial Position of the Group

As at 30 June 2013

	Group Forecast 2011/12	Group Forecast 2012/13	Parent Forecast 2011/12	Parent Forecast 2012/13
Assets				
Cash and cash equivalents	32,147	32,147	32,110	32,110
Investment securities	615,482	349,559	615,482	349,507
Derivative financial instruments	2,267	2,267	2,267	2,267
Advances to clients	5,292	5,292	5,292	5,292
Trade receivables	6,174	6,174	5,533	5,533
Advances secured by mortgage	178,814	160,000	178,814	160,000
Due from subsidiary	-	-	110	110
Total financial assets	**840,176**	**555,439**	**839,608**	**554,819**
Sundry receivables	975	975	975	975
Prepayments	1,277	1,277	1,277	1,277
Current tax	228	227	227	227
Property, plant and equipment	8,547	9,247	8,548	9,247
Intangibles	2,925	2,825	420	320
Investments in subsidiaries	-	-	4,654	4,654
Total assets	**854,128**	**569,990**	**855,709**	**571,519**
Liabilities				
Liabilities to clients – at call or short term	430,263	419,763	430,263	419,763
Liabilities to clients – term deposits	381,802	105,000	381,802	105,000
Prepaid estate administration	483	435	483	435
Total liabilities to clients	**812,548**	**525,198**	**812,548**	**523,198**
Trade payables	2,391	2,391	2,310	2,310
Other payables	1,472	1,472	1,472	1,472
Derivative financial instruments	3,151	3,151	3,151	3,151
Prepaid income	232	232	8	8
Employee benefits	4,220	4,220	4,220	4,220
Provisions	1,102	1,102	1,094	1,094
Loan from subsidiary	-	-	7,437	8,048
Total liabilities	**825,116**	**537,766**	**832,240**	**545,500**
Equity				
Contributed equity	90,174	90,174	90,174	90,174
Cash flow hedging reserve	(1,247)	(947)	(1,247)	(947)
Retained earnings	(59,915)	(57,003)	(65,458)	(63,208)
Total equity	**29,012**	**32,224**	**23,469**	**26,019**
Total liabilities plus equity	**854,128**	**569,990**	**855,709**	**571,519**

Statement of Forecast Changes in Equity of the Group

For the period 1 July 2011 to 30 June 2013

	Group Forecast 2011/12	Group Forecast 2012/13	Parent Forecast 2011/12	Parent Forecast 2012/13
Opening balance	21,667	29,012	16,735	23,469
Comprehensive income				
Other comprehensive income - movement in cash flow hedging reserve	645	300	645	300
Profit (loss) after tax	6,700	2,912	6,089	2,250
Total comprehensive income	7,345	3,212	6,734	2,550
Equity at end of the year	**29,012**	**32,224**	**23,469**	**26,019**

Statement of Forecast Comprehensive Income of the Group

For the period 1 July 2011 to 30 June 2013

	Group Forecast 2011/12	Group Forecast 2012/13	Parent Forecast 2011/12	Parent Forecast 2012/13
Revenue				
Revenue from financial instruments				
Interest from interest bearing securities	24,965	25,027	24,965	25,027
Interest from advances secured by mortgage	11,653	9,244	11,653	9,244
	36,618	34,271	36,618	34,271
Less: Interest expense	23,148	20,264	23,357	20,473
	13,470	14,007	13,261	13,798
Fees and commission revenue	44,989	49,428	42,442	46,831
Less: Fees and commission expense	2,478	2,550	2,288	2,361
Other revenue	250	550	1,747	2,047
Revenue from the Crown	4,500	4,500	4,500	4,500
Revenue before expenses	**60,731**	**65,935**	**59,662**	**64,815**
Expenses				
Employee benefits	41,284	41,122	41,254	41,072
Operating lease costs	4,389	4,450	4,389	4,454
Depreciation	2,036	2,302	2,035	2,369
Amortisation of intangibles	73	175	73	175
Net losses (gains) on disposals of property, plant and equipment and intangibles	56	75	56	75
Impairment losses on advances secured by mortgages	1,067	758	1,067	758
Other expenses	16,048	16,294	15,883	16,077
Total expenses	**64,953**	**65,176**	**64,757**	**64,980**
Net gains (losses) on financial instruments	10,922	2,153	10,922	2,153
Profit before tax for the year	**6,700**	**2,912**	**5,827**	**1,988**
Tax expense (benefit)	-	-	(262)	(262)
Profit after tax for the year	**6,700**	**2,912**	**6,089**	**2,250**
Other comprehensive income				
Movement in cash flow hedging reserve	645	300	645	300
Total comprehensive income for the year	**7,345**	**3,212**	**6,734**	**2,550**

Statement of Forecast Cash Flows of the Group

For the period 1 July 2011 to 30 June 2013

	Group Forecast 2011/12	Group Forecast 2012/13	Parent Forecast 2011/12	Parent Forecast 2012/13
Cash flows from operating activities				
Fees and other revenue	49,704	54,479	48,658	53,382
Interest revenue	36,618	34,271	36,618	34,271
Payments to suppliers and employees	(66,251)	(63,716)	(65,844)	(63,244)
Interest expense	(23,148)	(20,264)	(23,357)	(20,473)
Taxation	-	-	-	-
GST	(559)	(700)	(559)	(700)
Cash flows from operating activities before changes in trading investments	**(3,636)**	**4,070**	**(4,484)**	**3,236**
Net flows from trading investments	-	-	-	-
Net cash flows from operating activities	**(3,636)**	**4,070**	**(4,484)**	**3,236**
Cash flows from investing activities				
Net flows from non-trading investments	68,685	286,434	68,686	286,485
Purchase of property, plant and equipment	(1,982)	(3,077)	(1,982)	(3,144)
Purchase of intangibles	84	(75)	84	(75)
Net cash flows from investing activities	**66,787**	**283,282**	**66,788**	**283,266**
Cash flows from financing activities				
Net receipts from clients	(56,718)	(287,352)	(55,869)	(286,502)
Net cash flows from financing activities	**(56,718)**	**(287,352)**	**(55,869)**	**(286,502)**
Net increase (decrease) in cash and cash equivalents	6,433	(0)	6,435	0
Cash and cash equivalents at beginning of the year	25,714	32,147	25,675	32,110
Cash and cash equivalents at end of year	**32,147**	**32,147**	**32,110**	**32,110**

Significant assumptions underlying the forecast financial statements

The forecast financial statements were authorised for issue on 27 April 2012 by the Public Trust Board. The Board is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other disclosures.

The forecast financial statements have been prepared to meet the requirements of the Crown Entities Act 2004 and are in accordance with the Statement of Accounting Policies outlined in Appendix B. The information in these forecasts may not be appropriate for purposes other than those described. There is no intention to update the forecast financial statements after they have been authorised for issue.

Actual financial results achieved may vary from the information presented and this variance may be material.

The forecast financial statements are based on the following 2012 Business Plan assumptions:

1. Continued growth in revenue resulting from a number of initiatives.
2. Expenses include a continued investment in change projects; including business architecture, regulatory compliance and process re-design initiatives to improve operational efficiency.
3. The 2012/13 Output Agreement between the Crown and Public Trust, funded by the Ministry of Justice, has yet to be confirmed. Funding is assumed to remain at $4.5 million for the year.
4. It is expected that a significant amount of the remaining unrealised investment losses incurred in 2007/08 and 2008/09 will reverse to profit by maturity date. However, the reversal of losses on the sub-category of mortgage backed securities is less certain as it is dependent on the future performance of the underlying mortgages.
5. The investment portfolio will be operated within approved asset allocation and risk policies.
6. No deferred tax asset has been recognised; associated tax losses are consumed in line with projected earnings.
7. Public Trust is compliant with the risk management and credit rating requirements for Non-Bank Deposit Takers under the Reserve Bank of New Zealand Act 1989 (RBNZ Act) and was granted an exemption, effective 1 December 2010, from the related party exposure and liquidity requirements of the RBNZ Act by the Reserve Bank. An exemption has been granted to Public Trust until 1 December 2013 relating to the capital requirements.
8. The Statement of Forecast Financial Position for 2012/13 reflects the impact of the introduction of an external term deposit product offering for customers.
9. Risks exist that could affect the achievement of the results in the forecast financial statements:
   - The ongoing volatility in property and investment markets continues to create a higher-than-usual degree of uncertainty for forecast financial performance. Provisions for mortgage losses included in the forecast are uncertain and downside risks exist.
   - The revenue forecasts may be affected by economic or market developments.
   - Forecast operating costs are based on assumptions about wage/salary growth and general inflation, based on current forecasts of relatively weak economic performance in the next 12-24 months. If economic recovery occurs earlier than expected, cost growth pressures may arise.
   - Public Trust is subject to claims for failure of service delivery. Provisions or contingent liabilities are forecast on best estimates and are an area of uncertainty in the forecasts.

Appendix A: Principal functions and objectives

Principal functions

Public Trust's principal functions, as defined in section 8(1) of the Public Trust Act 2001, are to:

- "develop, promote, conduct, or otherwise participate in the business of providing comprehensive estate management and administrative services, including associated legal, financial, and other services;
- carry out, perform, or otherwise fulfil functions conferred on Public Trust by this Act or any other Act;
- carry out, perform, or otherwise fulfil other functions requested by the Minister, acting in agreement with the Minister of Finance, and agreed to by Public Trust; and
- develop, promote, conduct, or otherwise participate in such other business as Public Trust determines with the approval of the Minister, acting in agreement with the Minister of Finance".

Objectives

The Act (section 9) specifies that Public Trust is "to have the principal objective of operating as an effective business", and to this end has objectives for:

- "being as efficient as comparable businesses that are not owned by the Crown;
- prudently managing its assets and liabilities;
- maintaining financial viability in the long-term;
- being a good employer; and
- being an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates".

Appendix B: Statement of accounting policies

Reporting entity and statutory basis for reporting

Public Trust, the Parent entity in the Public Trust Group, is a body corporate established in New Zealand by the Public Trust Act 2001 (the 2001 Act), and includes those liabilities defined as the Common Fund by the 2001 Act. The Public Trust Group (the Group) comprises Public Trust and its subsidiaries.

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and an issuer for the purpose of the Financial Reporting Act 1993. In accordance with the requirements of these statutes, Public Trust prepares consolidated forecast financial statements for the Group that comply with generally accepted accounting practice as defined by the Financial Reporting Act 1993.

The activities and assets of the Group Investment Funds managed by Public Trust are not included except for cash balances held in the Common Fund, and to the extent that Public Trust invests in those funds on its own account. Similarly the assets managed for individual trusts, except for liabilities to clients held in the Common Fund, are not included. These entities are not consolidated either within Public Trust's forecast financial statements or those of the consolidated Group as neither Public Trust nor the Group controls these funds and trusts so as to obtain ownership benefits.

These forecast financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for profit-oriented entities. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

Measurement basis

Historical cost and fair value accounting measurement bases are applied in the preparation of these forecast financial statements.

All transactions and balances are presented in New Zealand dollars, which is also the functional currency. All amounts are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Audit

The forecast financial statements are not audited.

Accounting policies

Basis of consolidation

The consolidated forecast financial statements include the Parent entity together with its significant subsidiary, New Zealand Permanent Trustees Limited. Consolidation entails a line-by-line aggregation of the individual entity forecast financial statements and the elimination of intra-group balances and transactions including unrealised gains and losses.

The forecast financial statements of all subsidiaries are prepared for the same reporting year as those for Public Trust and the Group. Accounting policies used are consistent across all entities in the Group.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain ownership benefits from their activities.

The purchase method of accounting is used by the Group to account for the acquisition (prior to 1 July 2009) of subsidiaries in a business combination. There was no acquisition of subsidiaries after this date.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The current carrying value of goodwill includes any post-acquisition impairment losses recognised in profit or loss.

Financial instruments

At initial recognition, financial instruments are classified into one of the following categories which then determine the accounting treatment of the instrument:

- financial assets at fair value through profit or loss;
- financial assets comprising loans and receivables;
- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and net balances reported in the Statement of Forecast Financial Position where there is a legally enforceable right to set off, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Recognition and derecognition of financial instruments

All financial instrument purchases and disposals are accounted for on a trade date basis.

Financial instruments are derecognised when the Group neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows arising from them.

Effective interest rate method

The effective interest rate method is used in accounting for certain financial instruments and the revenue derived from them. The effective interest rate is the rate, determined upon acquisition that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument.

Financial assets at fair value through profit or loss

A financial asset is designated at fair value through profit or loss if it is either:

- held for trading, having been acquired principally for the purpose of re-sale in the short term; or
- part of a group of financial instruments that are managed, including performance evaluation, on a fair value basis.

Financial instruments classified at fair value through profit or loss comprises:

- investment in interest bearing securities; and
- derivatives.

Financial assets at fair value through profit or loss are initially recognised at their fair value. This comprises their trade date transaction price and excludes any transaction costs associated with the purchase which are expensed as incurred.

After initial recognition, financial assets at fair value through profit or loss are carried at their fair values.

Unless otherwise stated, the fair value of these instruments is determined in accordance with the bid price quoted in the relevant active market or the most recent transaction price where the bid price is not available.

For financial assets not trading in an active market, prices are obtained from an independent third party using a valuation technique. The valuation technique includes the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs.

Gains and losses on these financial instruments arise where their fair value at initial recognition differs from their subsequent fair value measurement. All such gains and losses, including those arising upon sale, derecognition and foreign currency translation, are recognised in profit or loss, except for those in relation to derivatives that qualify for cash flow hedge accounting, which are recognised in an equity reserve within other comprehensive income.

For interest bearing securities and interest related derivatives, subsequent measurement is carried out in a two stage process. Firstly, the amortised cost of the instrument is calculated in accordance with the effective interest rate method. This gives rise to interest revenue or expense as the case may be. The amortised cost value is then compared to the fair value as computed and the difference is recorded as an unrealised gain or loss.

Derivative financial instruments

Derivative financial instruments are future-settled contracts whose value changes in accordance with changes in a specified underlying variable.

Derivative financial instruments including interest rate swaps, forward rate agreements, options, and combinations of these instruments are entered into by the Group for risk management purposes or for trading purposes.

Those derivative financial instruments entered into for risk management purposes are where the instruments are used to hedge exposures to interest rate risk, currency risk, price risk, credit risk and other exposures related to non-trading positions. Some of these hedged exposures qualify for hedge accounting.

Derivative financial instruments entered into for trading purposes are acquired and managed in accordance with a defined investment mandate.

Derivative financial instruments are recorded on the date on which a derivative contract is entered into and they are subsequently measured to fair value.

Where derivatives form part of an effective hedge relationship, these derivatives are valued on the basis of the mid-price of the bid/offer spread for the relevant interest rates. Any related revaluation of a hedged item is valued on the same basis.

After initial recognition, gains and losses from subsequent re-measurement to fair value are recognised in profit or loss, except where the derivatives are designated and effective as hedge accounting instruments. Hedge accounting instruments are accounted for as set out below.

Where the instrument is recognised in profit or loss, that component of the change in fair value that relates to interest received or accrued in the current year is included in net interest revenue. The remainder is included in unrealised gains (losses) on financial instruments.

The proceeds from the realisation of interest rate swaps held for trading and economically hedged are split between capital value and accrued interest and recognised in realised gains (losses) and interest revenue respectively.

Derivatives designated as hedging instruments – cash flow hedges

Derivatives, whose purpose is to match the cash flows arising from interest rate changes on floating rate mortgages and liabilities to clients at call as interest rates change, are designated as cash flow hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the derivatives are recognised in other comprehensive income (the cash flow hedging reserve). Any ineffective portion is recognised in profit or loss.

When the hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remaining in the cash flow hedging reserve is transferred to profit or loss.

When the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative recognised in the cash flow hedging reserve is transferred to profit or loss.

Derivatives designated as hedging instruments – fair value hedges

Derivatives, whose purpose is to match the changes in fair value of long-dated term deposits as interest rates change, are designated as fair value hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the derivatives, together with any changes in fair value of the relevant (hedged) risk of the term deposits are recognised in profit or loss.

When the hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Group elects to revoke the hedge designation, the resulting adjustment to the carrying amount of the hedged item is amortised to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments for which market values are not quoted in an active market.

Financial assets in this category include:

- cash and cash equivalents;
- investment securities;
- advances to clients;
- trade receivables; and
- advances secured by mortgage.

Loans and receivables are initially recognised at their fair value. After initial recognition, loans and receivables are carried at their amortised cost in accordance with the effective interest rate method.

Gains and losses on these financial instruments that arise on sale, derecognition or impairment are recognised in profit or loss. Any interest revenue arising on loans and receivables is recognised in profit or loss in accordance with the associated effective interest rate.

Impairment

Loans and receivables are regularly reviewed for impairment, both individually and collectively in groups of financial instruments with similar risk profiles.

An impairment loss is recognised when there is objective evidence that future cash flows from the instrument will decline from the previous expected levels. The amount of any impairment is measured as the difference between the instrument's carrying value and the present value of the re-estimated cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial instrument through an impairment allowance account.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft) and money market deposits on call with an original maturity of three months or less. Cash and cash equivalents are recognised at their cash settlement value.

Investment securities

There are some investment securities in interest bearing securities classified as loans and receivables. The initial and subsequent recognition are as described above.

Advances to clients

Advances to clients include client overdrafts and advances to client beneficiaries. The initial and subsequent recognition are as described above.

Trade receivables

The receivable from the Crown represents sums due, but not yet received, for services which the Crown pays the Group to deliver.

Receivables of uncertain timing represent certain claims for estate administration services where payment is not due until an uncertain point in the future. The timing of the future cash flows has been based on life expectancy and discounted at a rate appropriate to the estimated point of collection.

All other trade receivables are short-term in nature, do not carry any interest and are accordingly stated at their nominal value. The initial and subsequent recognition are as described above.

Advances secured by mortgage

Advances secured by mortgage are initially recognised at cost including origination fees, plus any transaction costs that are directly attributable to the issue of the advance. Advances secured by mortgage including origination fees and transaction costs are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Amortised cost is calculated by amortising advances secured by mortgage including fees and costs to profit or loss over the expected term of the advance.

Advances secured by mortgage – impairment

Advances secured by mortgage are regularly reviewed for impairment loss. The carrying amount of the advance is reduced through the use of an impairment allowance account and the amount of the loss is recognised in profit or loss.

An impairment allowance is provided when there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the advance. The impairment allowance is an estimation of the amount and timing of future cash flows.

When an advance is uncollectible, it is written off against the carrying amount. The related impairment allowance previously provided for is reversed in profit or loss.

For the purposes of a collective evaluation of impairment, advances secured by mortgage excluding those where an individual impairment allowance has been provided are grouped together on the basis of similar risk characteristics. Future cash flows of the group are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Any collective impairment loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial instrument through a collective impairment allowance account.

Financial liabilities at fair value through profit or loss

Liabilities at fair value through profit or loss comprise solely those derivatives in a loss position which cannot be offset against a countervailing balance which form parts of a qualifying offset agreement.

Unless otherwise stated financial liabilities at fair value through profit or loss are valued applying the 'ask' value from the range of relevant interest rates.

Term deposits – subject to fair value hedges

Term deposits that are the hedged item in a fair value hedge accounting relationship are carried at amortised cost plus an adjustment to arrive at the fair value ascribed to the risk being hedged. The fair value change is recognised in profit or loss.

Other financial liabilities

Other financial liabilities comprise all financial liabilities other than term deposits subject to fair value hedge accounting and derivatives in a loss position.

These financial liabilities are initially recognised at their fair value plus any transaction costs directly attributable to their acquisition or issue.

After initial recognition, other financial liabilities are carried at their amortised cost in accordance with the effective interest rate method.

Any interest expense arising on other financial liabilities is recognised in profit or loss in accordance with the associated effective interest rate.

Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at the rate of exchange prevailing at the transaction date. At the reporting date, foreign currency monetary assets and liabilities other than those reported at fair value through profit or loss, are translated into New Zealand dollars using the exchange rate prevailing at the reporting date. Exchange differences arising on the settlement or translation of foreign currency monetary items are recognised in profit or loss.

Foreign currency investment assets

Investments in foreign currencies are carried at fair value. Changes in the fair value of these investments, including exchange differences, are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment is initially recognised at the cost necessary to bring each item to the working condition intended by management. Until the assets are in a workable condition, costs are accumulated as capital work in progress. Once the asset is capable of operation, the cost, less the asset's estimated residual value, is depreciated over its useful life using the straight-line method. The useful lives of major depreciable asset categories are as follows:

- Plant, furniture and fittings 3-10 years
- Information technology (IT) equipment and operating software 3-5 years

In cases of fixtures and fittings installed in leasehold properties, useful lives are considered to correspond to the estimated occupancy period based on the contractual terms of the relevant lease.

A review of property, plant and equipment is undertaken at each financial year-end to ensure the estimates of useful life, depreciation method and residual value remain relevant.

Computer software that is deemed integral to the operation of associated hardware is classified as property, plant and equipment; otherwise it is classified as an intangible asset.

Impairment

Items of property, plant and equipment are subject to review for impairment at each financial year-end.

After initial recognition, items of property, plant and equipment are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Any impairment losses are expensed in profit or loss.

Intangible assets

Intangible assets are recognised where they are clearly identifiable, and have probable future economic benefits controlled by entities within the Group that can be reliably measured.

Intangible assets are initially recognised at cost and subsequently carried at cost, less any accumulated amortisation and accumulated impairment losses.

Goodwill

Goodwill arising from the purchase of an entity is recognised in the Group's Statement of Forecast Financial Position. It is initially recognised at cost and subsequently carried at cost, less any accumulated impairment losses, subject to the concession to allow pre-existing goodwill to be carried at its carrying amount at the date of transition to NZ IFRS.

Goodwill impairment

Goodwill is subject to an annual recoverable amount impairment test. Any impairment is expensed to profit or loss as a permanent reduction in the carrying value.

Intangible IT assets

Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. These are classified as finite life intangible assets that are initially recognised at the cost necessary to bring the software to the condition intended for functionality. Until the intangible IT assets are at this level of functionality, costs are accumulated as capital work in progress. Once the software is capable of functionality, the cost is amortised over its estimated useful life of three to five years using the straight-line method.

Both the estimated useful life and the amortisation method are reviewed annually to ensure these remain appropriate.

Intangible IT assets impairment

Intangible IT assets that are under development and have yet to achieve functionality are subject to an annual recoverable amount impairment test. Any excess of the asset's carrying amount over its recoverable amount is expensed to profit or loss.

Intangible IT assets, other than those under development, are subject to annual review for impairment. Any impairment losses are expensed in profit or loss.

Parent investment in subsidiary

In the Parent's financial statements, investment in subsidiary is accounted for by the cost method. Under this method the cost of an acquired subsidiary is measured as the fair value of the assets given in exchange at the date of acquisition, plus costs directly attributable to the acquisition, subject to the concession to allow the acquisition to be carried at the deemed cost at the date of transition to NZ IFRS.

After acquisition, the investment in subsidiary is subject to annual review for impairment.

Upon receipt of dividend payments form the subsidiary, the Parent will assess whether any indicators of impairment to the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value exceeds its recoverable amount, an impairment is recognized.

Prepaid income

The Group receives certain management fees for services to be provided over more than one financial year. The prepaid portion is carried in the Statement of Forecast Financial Position at the value of the services yet to be performed measured in accordance with the underlying contract on a straight-line basis.

Prepaid estate administration

The Group has entered into contracts, where a fee is taken in advance, for services to be delivered upon the death of the client. The liability to these clients is valued at the net present value of the estimated cost necessary to complete the contract, determined in accordance with the probabilities associated with life expectancy.

Employee benefits

Annual leave

Provision is made for annual leave in accordance with the accumulated entitlement as at the balance sheet date. This is carried at the cash amount necessary to settle the obligation.

Sick leave

The sick leave allowance is calculated by assuming each person on the relevant contract is entitled to a certain number of days sick leave in a year. An estimate is made of the likelihood of each person drawing upon an accumulated entitlement over and above the standard number of sick leave days in the forthcoming year. These surplus days are valued at the current rate of pay plus an increment to represent the pay rate at which the sick leave is likely to crystallise.

Long-service leave

Projected cash flows are estimated in accordance with both national and entity experience. The resulting projected cash flows are discounted in accordance with market yields on New Zealand Government bonds as at the reporting date.

Provisions

Restructuring

The restructuring provision relates to the termination of employment. This is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly before or at the reporting date. This provision is carried at the estimated amount of cash necessary to settle the obligation.

Vacant space

The vacant space provision represents gross rentals payable on premises no longer used for operational purposes, less an estimate of value of the right to occupy, discounted at the risk-free rate.

Remedial work and litigation

The remedial work and litigation provision relates to a number of matters where fault with the Group's service delivery has been alleged or other contractual dispute has arisen, including some matters that may take a number of years to resolve.

Where the Group assesses a present obligation exists in any such matter, a provision is recognised and is carried at the estimated amount of cash necessary to settle the obligation.

Where it is expected that some or all of a provision will be reimbursed by a third party, the reimbursement is recognised as a separate asset under sundry receivables when the reimbursement is virtually certain.

Expense

The expense relating to any provision is recognised in profit or loss net of any expected reimbursement and separately from any interest expense arising from the discounting of provision obligations.

Leases

Leases entered into by the Group where substantially all the risks and rewards of ownership do not transfer to the Group are operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the year(s) of the lease.

Lease incentives

Any lease incentives are amortised over the estimated occupancy periods and offset against lease expenditure in profit or loss. The estimated occupancy period is based on the contractual terms of the lease and is reviewed annually.

Tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the tax receivable/payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax receivable/payable in respect of previous years.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, together with any future income tax benefits arising from unutilised tax losses in the forecast financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goods and services tax

All revenues and expenses are recognised net of goods and services tax (GST). Any GST on expenses that is not recoverable is recognised in profit or loss.

Where the cost of property, plant & equipment and intangible assets includes an element of irrecoverable GST, such costs are included as part of the initial carrying amount of the relevant asset.

Receivables and payables are recognised inclusive of any applicable GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Forecast Financial Position.

Fee revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Fees

Fees from services are recognised in profit or loss in accordance with the underlying service contract. Depending on the nature of the service, this is either based on time spent or following the performance of a specific act.

Revenue from the Crown

The Crown contracts with the Parent entity, Public Trust, to deliver certain estate administration services. Fees arising from the performance of these services are recognised on completion of the relevant services.

Presentation of cash flows

Cash flows from operating activities are cash flows from the principal revenue producing activities of the Group. Operating activities also include net proceeds from investment securities and derivative financial instruments acquired specifically for resale. For the purpose of the Statement of Forecast Cash Flows this is referred to as trading investments.

Cash flows from investment activities and receipts from clients are presented net. This is because the scale of gross cash flows would give a misleading view of the scale of business activities of the Group.

Changes in accounting policies

There have been no changes in accounting policies. The accounting policies have been consistently applied throughout the periods in the forecast financial statements.

Application of accounting standards

The following new standards, amendments to standards or interpretations have been issued but are not yet effective for the year ending 30 June 2012, and have not been applied in preparing these forecast financial statements:

- NZ IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2015. This standard will initially be applied in the forecast financial statements for the year ending 30 June 2016. This standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics. The 2010 amendments retained the requirements for classification and measurement of financial liabilities and retained the recognition requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement.
- NZ IFRS 10 Consolidated Financial statements: effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard establishes a new control model. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority of voting rights may give control.

- NZ IFRS 12 Disclosure of Interests in Other Entities: effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard includes the requirements for all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint agreements, associates and structured entities and subsidiaries with non-controlling interests.
- NZ IFRS 13 Fair Value Measurement: effective for annual periods beginning on or after 1 January 2013. This standard issued in June 2011 defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The adoption of the above standards in future periods is likely to impact on recognition, measurement and disclosures. Public Trust will be undertaking work to quantify the financial impact of these new standards.

Use of judgements and estimates

The presentation of forecast financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Significant management judgements, estimates and assumptions are disclosed on page 25 of the Statement of Intent.

Supplementary information

Crown Guarantee

The capital and interest on client deposits (liabilities to clients) in Public Trust's Common Fund is Government guaranteed.

The guarantee on capital for those deposits is provided by section 52 of the Public Trust Act 2001 (the Act) and is not time-limited. The interest on client deposits is covered by a Government guarantee provided under section 65ZD of the Public Finance Act 1989.

The probability of a call being made on either guarantee to ensure clients' deposits are repaid is considered extremely remote. In the event of this occurring Public Trust would be required to record a liability to the Crown for the amount so called.

Appendix C: Consultation and reporting

Establishment of Public Trust subsidiaries

Under section 96(b) of the Crown Entities Act, Public Trust will:

a. Advise the responsible Ministers of any proposal to establish a subsidiary in New Zealand.

b. Consult the responsible Ministers on any proposal to establish a subsidiary outside New Zealand.

Consultation on other matters

Public Trust will in relation to any single or connected series of transactions consult with the responsible Ministers on items outside normal operations and having a material impact on Public Trust's financial position not contemplated in the Business Plan including:

a. Any substantial capital investment in Public Trust activities within the nature and scope of those outlined in this Statement of Intent.

b. Any requirement for substantial additions to its capital reserves.

c. The sale or other disposal of the whole or any substantial part of the business or undertaking of Public Trust or its subsidiaries.

d. The purchase or other acquisition of shares in any company or equity interests in any other organisation which are material, involving a significant overseas equity investment or are outside the nature and scope of Public Trust's activities outlined in this Statement of Intent.

e. Where Public Trust or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of Public Trust), the sale or other disposal of any shares in that company.

Public Trust will also consult with the responsible Ministers:

a. Before adopting or amending the Common Fund Investment Risk Management Manual; or

b. On specific items included in the Business Plan as agreed between it and the responsible Ministers from time to time.

Exception

Advice to or consultation with the responsible Ministers is not required in relation to the establishment of a subsidiary or the acquisition or disposal of shares, interests or assets:

a. In relation to any estate managed or administered by Public Trust; or

b. Intended to form, or forming, part of the Common Fund (in accordance with its Statement of Investment Policy and Objectives) or any group investment fund established or kept by Public Trust.

Reporting

An Annual Report will be prepared and presented to the responsible Ministers in accordance with section 150 of the Crown Entities Act 2004. The report will include forecast financial statements and an audit report, statement of responsibility and such other information required by the Crown Entities Act 2004.

The Annual Report will contain sufficient information to enable an informed assessment to be made of the operations and performance of Public Trust for the relevant financial year.

A summary of the Business Plan of Public Trust and a draft Statement of Intent will be made available to the responsible Ministers for discussion not later than one month prior to the commencement of the first financial year to which the Business Plan and Statement of Intent relate.

Public Trust will not, without consulting the responsible Ministers, amend the Statement of Investment Policy and Objectives for the Common Fund.

Public Trust will provide other information requested by responsible Ministers in accordance with section 133 of the Crown Entities Act 2004, subject to section 46 of the Public Trust Act 2001.

Where you'll find us

Full-time customer centre

By appointment customer centre

North Island

- **Whangarei**
- **Orewa**
- **Greenlane**
- **Manukau**
- **Botany**
- **Takapuna**
- **Henderson**
- **Hamilton**
- Thames
- **Tauranga**
- Papamoa
- Whakatane
- **Rotorua**
- Taupo
- **New Plymouth**
- Hawera
- **Napier**
- Gisborne
- **Hastings**
- **Whanganui**
- **Palmerston North**
- Levin
- **Kapiti**
- **Masterton**
- **Wellington**
- **Lower Hutt**
- **Upper Hutt**
- **Porirua**

South Island

- **Nelson**
- **Blenheim**
- **Greymouth**
- **Christchurch**
- **Timaru**
- Ashburton
- Oamaru
- **Dunedin**
- Alexandra
- Balclutha
- **Invercargill**
- Gore

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