Public Trust Statement of Intent

For the financial years ending 30 June 2014 to 30 June 2016

with you for generations to come

Public Trust

Statement of Intent 2014-2016

Set up in 1873, Public Trust is New Zealand's largest and oldest trustee organisation.

Public Trust provides comprehensive, enduring trustee and estate management services.

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, and
- be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates.

We present the 2014-2016 Statement of Intent (SOI) for Public Trust.

This SOI meets the requirements of section 139 of the Crown Entities Act 2004. It is for the financial years ending 30 June 2014, 2015 and 2016. The SOI sets out the scope of activities and overall operating intentions of Public Trust during this three-year period.

On behalf of the Board of Public Trust:

Sarah Roberts
Chair-elect
20 June 2013

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Public Trust – Back to the Future

Public Trust's direction for 2013/14 and beyond is to focus on our core responsibilities of providing trustee and estate management services to New Zealanders, to enable prudent, efficient and effective inter-generational wealth transfer.

The prevailing conditions of recent years have been challenging for Public Trust as an entity, and for many of our customers. Our own performance has not been optimal in terms of servicing our customers well, and our overall financial results have been disappointing.

Following the Global Financial Crisis (GFC) we strategically reduced our risk appetite and the size of our balance sheet. This required us to adopt a deeply conservative, low yield, risk strategy, which has led to a significant reduction in Common Fund revenue.

The legacies of previous investment and lending strategies, combined with the lingering effects of the GFC and its aftershocks, continue to impact our financial viability and capital position. We still hold certain assets with potential inherent risks that could adversely affect our profits. The retention of these assets requires us to hold additional capital under the Non-Bank Deposit Takers' (NBDT) regime.

While none of these issues is new, the debilitating effect on our performance has continued longer than may have previously been anticipated.

And, as we have been actively managing the challenges associated with these issues, we have also undertaken full and careful appraisal of the factors impacting our day-to-day operating performance.

Through this analysis, we have recognised the compelling need to concentrate on our core competencies. We now better understand that we have to focus on comprehensive, enduring trustee and estate management services – prudently, efficiently and effectively.

Quite simply, the reality is that Public Trust is going back to its roots: the provision of trustee and estate management services. This is our role as stated in the Public Trust Act 2001. So, dedication to our core activities and responsibilities – and doing them properly – is the essence of this SOI and the Business Plan that underpins it.

The SOI produced last year for the 2013-2015 period described the start of this strategic shift, coupled with streamlining our internal processes. We commenced a series of projects to identify what we need to address to ensure Public Trust is a sharply focused, efficient and lean business.

This emphasis on our operating procedures has resulted in successful cost containment (holding at around 2007/08 levels), but has not yet translated into significant cost reductions. The level of costs remains too high in relation to Public Trust's core business size and revenue streams.

We need to do more, and we need to get on with it now.

Our commercial success will depend on:

- a simplified and focused business, committed to a modern customer service in our core competencies
- a cultural shift in the way we source and service customers; moving from an order-taking approach to a business development ethos
- streamlined processes to improve efficiencies and drive non-value-adding costs out of the business
- substantial investment in IT and systems to allow more mobile and flexible service delivery.

The IT and systems spend is central to the success of our Business Plan, and in the delivery of the goals within this SOI. However, it is also critical in terms of our business continuity. Money must be spent without further delay in order to mitigate the risks associated with our current systems. Key components of our systems infrastructure are either at their end of life, or are unsupported, overly complex and burdensome. In addition to the risk factors, this situation is a barrier to efficiency and profitability.

All of these factors adversely impact our capital adequacy ratio and we will have to address the structure of our balance sheet, including decisions on legacy asset holdings and the existing loan portfolio.

In summary, therefore, we are committing to fundamental changes in our customer focus and how we do our business. Through the period of this SOI, we will:

- modernise and reinvigorate our customer service capabilities
- focus on our core competencies of comprehensive, enduring trustee and estate management services
- increasingly conduct our business through mobile and online engagement
- invest substantially to provide more resilient and relevant IT and systems capabilities
- drive significant operating improvements
- simplify processes by removing unnecessary steps and transactions
- invest in developing and training our people to optimise service delivery
- support a shift in skill sets to enable this new approach to a customer-centric business.

We have phased these changes over three years to ensure we can significantly enhance our customer service.

We know the shift we are making demands ground-level culture and competency changes as well as significant technology investment – and a single-minded approach.

We have a clear direction (illustrated in Figure 1) and we know what we need to do to ensure Public Trust is a relevant and vigorous business with a sustainable future.

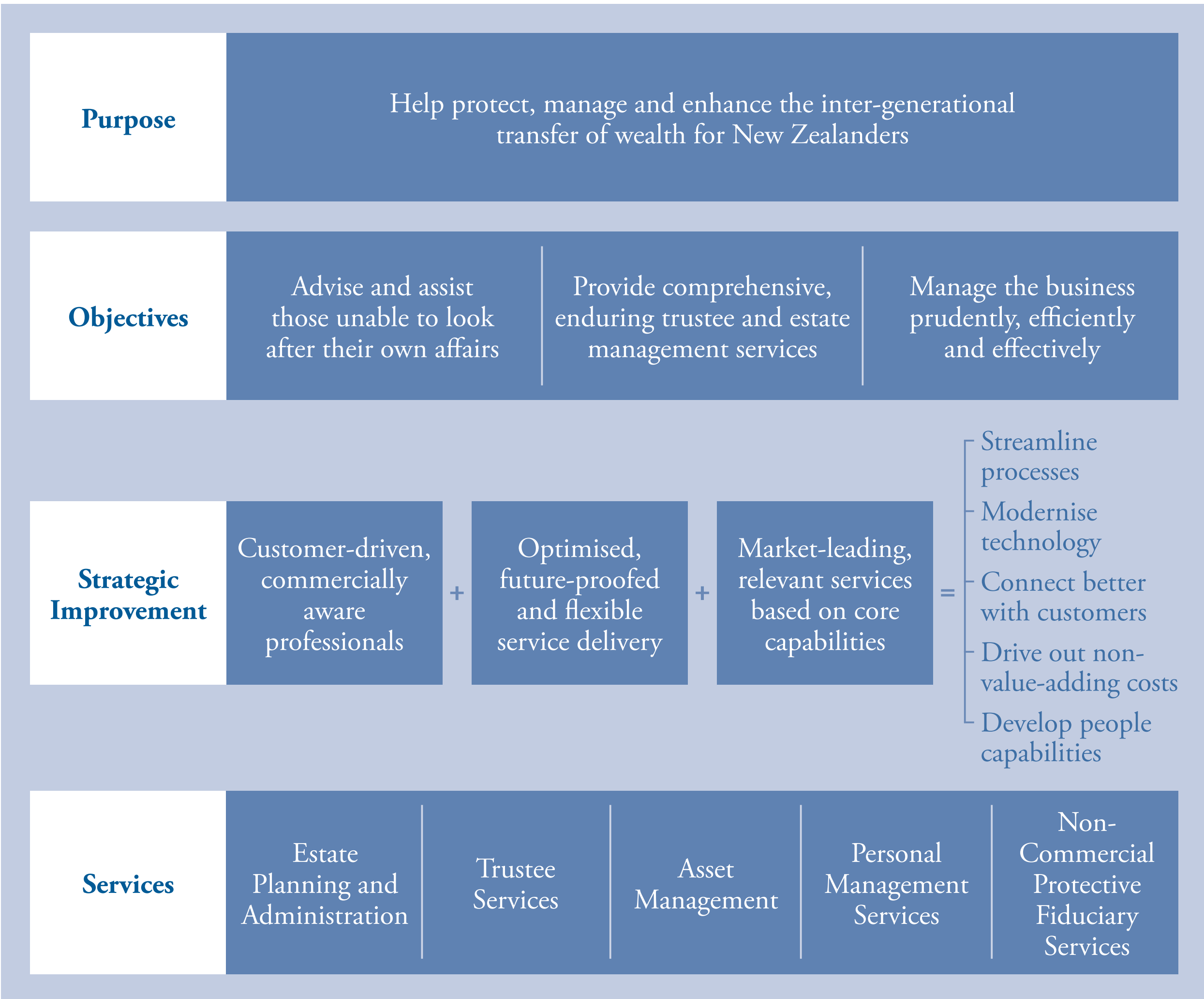

Figure 1: Public Trust's Strategic Direction

Our vision for the future

Public Trust's Business Plan sets out a series of visions relating to the key components of the strategic change programme. These are:

Operating model: We will operate cross-functional teams with a focus on service delivery and meeting customer expectations. This will enable a consistent, one-best-way to do the job across all core services to deliver an enhanced customer experience in a prudent, effective, efficient and timely manner.

People capability: We will have the people with the right capabilities to deliver to our plan and ensure our future. The Public Trust culture will be collaborative, focused, forward looking and vibrant.

Customer: We will understand our customer groups and provide a service offering that is relevant and attractive to them.

Process improvements: The customer will benefit from processes that have the appropriate mix of empathy and efficiency. Our processes will assist our professionals to meet the needs of the customer prudently, quickly and simply, and keep interested parties informed.

Services and pricing: We will reduce cost and lower complexity through having complete clarity about this business and what we offer our customers. We will be a focused trustee and estate management business. Our customers, through estate planning, will be able to protect, manage and transfer their wealth for generations to come.

Technology: We will have a fit-for-purpose, well-integrated and stable IT infrastructure. Our systems will be future proof and will allow us to provide the channels that the customers want, and support excellent customer service delivery.

Our strategic change programme has been phased to take three years, and we have established a business improvement implementation role in our Executive team to oversee and drive through the changes required.

Scope of Activity

We offer customers a comprehensive set of services and an extensive depth of knowledge and experience.

Estate planning and administration

We are best known for carrying out estate planning and administration services. We administer more estates than any other organisation in New Zealand with around 2,000 new estates each year. We are the single largest provider of Wills in New Zealand; in 2012/13 we will prepare or revise about 12,000 Wills and we will also set up about 6,500 enduring powers of attorney in the 2012/13 year.

During the period of this SOI we will be concentrating on ensuring that our customers, through estate planning, are able to protect, manage and transfer their wealth for generations to come. Writing and updating Wills is an integral component of this, not an end in itself.

In 2012 we introduced charges for most of the Wills we prepare and update. This was part of a move towards a more commercially sound direction for Public Trust and recognises the value of the specialist skills we provide.

The improvements we are making to our customer service and business infrastructure will mean our delivery will become more flexible and mobile, including through online channels. This will allow our customers to do business with us when, where and how it is convenient for them.

Trustee services

As a long-established organisation, we can ensure permanency surrounding the provision of trustee services. We offer a variety of trustee services to our personal customers that safeguard assets and ensure there are plans in place to protect future generations.

We work with business and corporate customers, including charitable trusts and term estates, to manage their funds. We also act as independent trustee for other investment schemes, through our Corporate Trustee Services business.

We safeguard student fees on behalf of private training establishments through our 'Fee Protect' offering.

We are streamlining our processes and aligning activity across the business to ensure we provide the most efficient delivery of quality services.

Investment and asset management services

We provide investment management services for a range of customers. We are currently developing our future investment management strategy to ensure our customers can access the most effective and appropriate investment service.

The Public Trust Common Fund is government guaranteed. Strict investment guidelines apply to our management of this fund.

Our term deposit customers now have the option of investing externally with higher returns or retaining their investment in our Common Fund.

Public Trust actively manages 26 farms across 17,000 hectares including Smedley Station, New Zealand's largest training farm. We are reviewing how we administer these farms to ensure our oversight is as effective as possible.

Personal management services

Our personal management services are tailored to help people manage their financial and property matters. This could include, for example, paying bills, managing bank accounts, buying or selling assets, arranging home repairs and applying for pensions.

These arrangements could continue for a short period of time, such as for overseas trips, or over the long term for those who require ongoing support.

Other related services

In the course of providing services to our customers, we also perform a number of related services such as conveyancing and tax management. We expect to continue to provide a complementary range of services for our customers.

In order to focus on our core capabilities, we will no longer provide insurance services or new mortgage lending. Conveyancing is provided where we are acting (or named) as an executor, attorney, trustee or agent or have provided another relevant product or service.

Non-commercial protective fiduciary services

Most of our services are provided to customers on a commercial basis. The Public Trust Act 2001 requires us to be as efficient as comparable businesses that are not owned by the Crown. However, we also provide services for the Ministry of Justice. These are known as non-commercial protective fiduciary services.

Under the Act, we are required to exhibit a sense of social responsibility in undertaking our activities. Our obligations in this regard go deeper than behaving in a socially responsible manner. We contribute to Government and social objectives. 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.

We ensure that people have access to professional trustee and administration services in situations where they might not otherwise be able to obtain them. This includes situations where individuals cannot afford the services, or where an individual's circumstances (e.g. mental incapacity) mean they cannot make their own arrangements.

In providing these services, we help reduce the burden 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 2013/14 are set out in the Forecast Statement of Service Performance (page 15).

From 1 July 2013, the Ministry of Justice will cease providing funding for all Wills. We will provide Wills on a commercial basis only.

Operating Environment

The global and domestic economies

We have been in existence for 140 years. Throughout this history we have carried out our principal role of providing comprehensive and enduring estate and trustee management services despite fluctuations of economic expansion and contraction, and through periods of war and other hardships.

Although the most recent financial crisis peaked in 2009, the after-effects are lingering and continue to prove challenging. Consequently, the global economic outlook remains subdued, with the debt crisis in Europe persisting. The US recovery is still sporadic and lacks any real momentum.

The recovery of the domestic economy is uneven, although the Canterbury rebuild and growth in Auckland are expected to provide some uplift. Global policies will continue to play a key role in influencing New Zealand interest rates.

As a result of finance company defaults, the GFC and other confidence-sapping events, the public's appetite for risk remains guarded. Consumers are looking for an organisation that delivers value for money, and transparency - and, most importantly, is trustworthy.

Demographic and social trends

New Zealand's population continues to age and life expectancy and the retirement age have increased. However, our ageing population is more active, better informed and increasingly technologically savvy. Growth in internet use is strong, and will increase with improved broadband accessibility and performance.

Increasingly, New Zealanders expect to conduct their affairs electronically and that service providers will offer greater flexibility.

We are responding to these changing expectations. At the same time, there are sensitive aspects to the nature of our business that will continue to require intimate and often face-to-face relationships with customers. We will be flexible in our approach to accommodate these needs.

Regulatory environment

We operate 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.

We must comply with the Reserve Bank of New Zealand's Non-Bank Deposit Takers' (NBDT) regime. We have an exemption that expires on 1 December 2013. As at that date, our minimum required capital ratio will be 8%. Without an extension of our exemption, we will only meet that ratio through a restructure of our balance sheet.

The Financial Markets Conduct Bill is expected to result in changes to how we offer some of our financial services 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.

Organisational Health and Capability

Our human resource policies contain provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment.

Through our programmes and practices, we are committed to ensuring our employees are valued and are given the opportunity to pursue career development opportunities.

During 2013/14 we will:

- review the organisation's structure to improve internal processes and customer service
- develop the specific skills and capability required for the revised structure and approach
- develop our leaders' skills to ensure improvements are delivered across the organisation
- continue to develop a culture that supports our strategic direction – customer focused, commercially driven, self-managing and proactive.

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.

Key identified risks for this SOI period are Public Trust's ability to achieve financial sustainability, ability to achieve the required capital ratio, ability to achieve benefits from the change programme and ability to transform the culture and ensure the organisation has the requisite people capabilities to reshape the business.

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 we operate is a key obligation for us under our Act.

The nature of the services we provide requires the highest standards of professional ethics. Our success depends upon values that include putting the interests of customers first and being trustworthy. We have an Ethics Framework that supports and enforces these values.

In addition, we have a Corporate Social Responsibility (CSR) strategy to operate the business in a responsible and sustainable manner. CSR involves taking accountability for the impact of Public Trust on social and environmental outcomes, and the impacts on stakeholders, including our own employees.

When Public Trust is acting as principal, it has as one of its objectives to invest in a manner that is consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community. To achieve this objective, the investment policy of the Common Fund prohibits direct investment in companies that are involved in the:

- manufacture of cluster munitions
- testing of nuclear explosive devices
- manufacture of anti-personnel mines
- manufacture of tobacco
- processing of whale meat.

Performance

Key performance indicators

We have a set of key performance indicators (KPIs) that reflects and supports our strategic direction. High-level KPIs are shown in Table 1. Actual performance in relation to these measures will be reported in our Annual Report.

Non-commercial performance measures are provided in the Forecast Statement of Service Performance (page 15).

Table 1 – Key Performance Indicators

	Actual Results		Forecast			
Key Performance Indicators	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Ownership perspective						
Profit (Loss) after Tax for the year	$0.6m	$7.1m	$(2.0)m	**$0.1m**	$1.7m	$3.6m
Return on Equity[1]	2.8%	27.9%	(7.0)%	**0.5%**	5.9%	11.5%
Capital Ratio[2]	4.1%	5.9%	6.9%	**7.8%**	8.2%	9.2%
Distributions to Crown	Nil	Nil	Nil	**Nil**	Nil	Nil
Efficiency and effectiveness perspective						
Cost to Income Ratio[3]	97%	93%	91%	**91%**	91%	92%
Capability perspective						
Employee Engagement [4]	39%	38%	25%	**35%**	50%	50%
Customer perspective						
Customer Satisfaction[5]	8.1	6.8	7.9	**8.0**	8.2	8.4

Notes:

1. Return on Equity is surplus / (deficit) (including investment gains / (losses) after tax divided by the average of opening and closing equity. This ratio includes the benefit of tax losses.
2. Capital Ratio is calculated in accordance with the Non-Bank Deposit Takers' Regulations.
3. Total Expenses (including mortgage losses and excluding strategic change costs) / Revenue (excluding investment gains/losses). The method of calculation of this ratio has changed from previous years and now includes mortgage losses.
4. Independent annual survey of employee engagement completed by Kenexa (2012 New Zealand benchmark = 72.2%). The 2010/11 survey was completed by Right Management using different methodology.
5. Independently conducted survey of customer satisfaction (1 = poor; 10 = excellent), measured by AC Nielsen, with an average of 1,000 respondents.

Capital Adequacy and the Non-Bank Deposit Takers' regime

In 2010/11 the Reserve Bank granted Public Trust a temporary exemption with respect to the capital ratio requirements of the NBDT regime. The minimum capital requirement reverts to 8% when our exemption expires on 1 December 2013.

The financial projections in this SOI are based on the existing balance sheet structure. These projections indicate that our capital ratio will be below 8% when the exemption expires, unless changes are made to the current balance sheet structure. Public Trust is consulting with the Treasury regarding our projected capital shortfall and ways to address this.

Consultation and Reporting

Consultation

Under the no surprises policy for Crown entities, we will proactively communicate with responsible Ministers about issues and decisions that fall outside normal operations and which would have a material effect on our financial position.

Our policies on consultation are set out in the Appendix to this SOI.

Reporting

We have a number of requirements regarding formal reporting, and these are set out in the Appendix. The key formal reports include the Annual Report, Statement of Intent and Business Plan.

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

Further to these reports, we are also required to report three times per year to the Ministry of Justice on the performance results of the services agreed with the Ministry (see Obligations and Contribution to Crown Outcomes, page 13 and Forecast Statement of Service Performance, page 15). This reporting includes assessment of the actual performance against the performance criteria set for each service and commentary on how the service is contributing to desired outcomes.

Obligations and Contribution to Crown Outcome

Public Trust Act 2001 obligations

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.

Under the Public Trust Act, access must be maintained for all New Zealanders to effective and efficient 'last resort' fiduciary protective services. In this role, Public Trust has the following responsibilities:

- **Act as Trustee of Last Resort** – Various statutes require Public Trust to provide fiduciary services when there is no other provider, or other providers are deemed not to be appropriate[1].
- **Assistance** – Assist individuals who are not in a position to look after their own affairs – there are 15 Statutory Acts where Public Trust acts 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.

Public Trust and its principal subsidiary, New Zealand Permanent Trustees Limited, comprise the Public Trust Group for the purposes of this SOI. 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. The principal functions and objectives of Public Trust as set out in the Act are outlined on page 18.

Crown outcome – 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 accessible to the public and satisfy their requirements on both quality and timeliness. Public Trust must also be able to provide services in an effective and efficient manner.

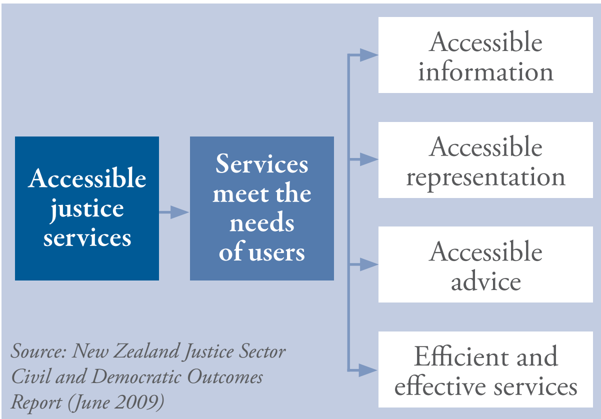

Figure 2 – Accessible Justice Outcome

[1] A recent law change (the Trustee (Public Trust) Amendment Act 2013) has amended s46 of the Trustee Act 1956, which is a "trustee of last resort" provision. The change requires certain conditions to be met before the Court may appoint Public Trust under s46 as a replacement trustee for products regulated by the Securities Act 1978. This change ensures Public Trust does not bear the financial burden of acting as a replacement trustee for such products where the trust in relation to those products has no assets. The change does not affect the ability of the Court to appoint Public Trust under s46 as a replacement trustee in other circumstances.

Public Trust's contribution

Many of the 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 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 services) and the outcome are shown in Figure 3.

The Statement of Service Performance in the next section shows how our performance is measured against these services.

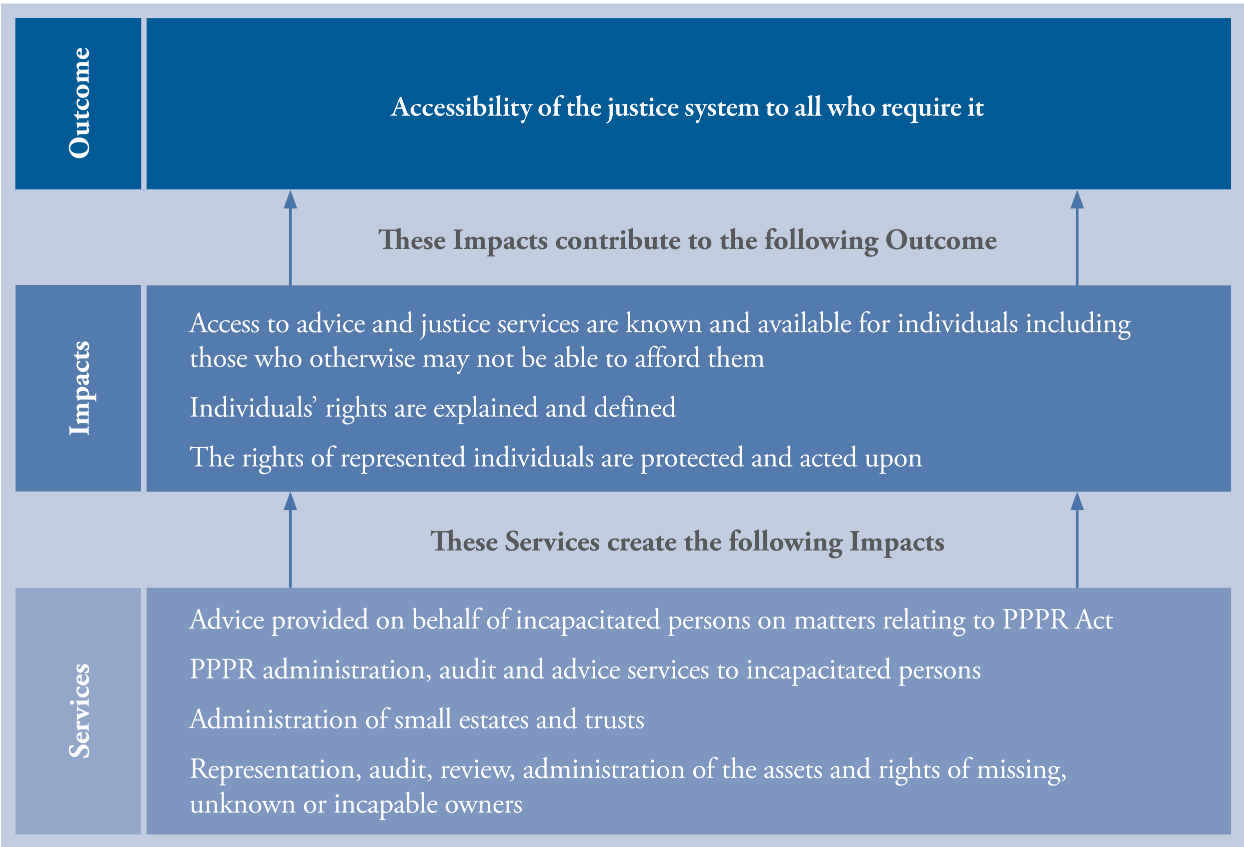

Figure 3 – Public Trust Services and Outcomes

Forecast Statement of Service Performance

Introduction

Each year, Public Trust and the Crown (acting through the Minister of Justice) enter into an Agreement under which the Crown purchases a range of non-commercial protective fiduciary services. Under the Agreement, non-commercial protective fiduciary 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.

Under the Public Trust Act 2001, Public Trust is required to operate as an effective business and to exhibit a sense of social responsibility in fulfilling its obligations. Public Trust contributes to the Justice sector outcome of enabling access to justice through providing quality protective fiduciary services. Public Trust provides services to people who are not well placed to look after their own affairs and/or to people who are unlikely to have their needs met by private sector trustee organisations.

This statement sets out the estimated service levels for the year ending 30 June 2014.

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 services other than those specified in the Agreement with the Crown.

The services provided by Public Trust align with the Crown's expected outcomes in relation to the accessibility of the justice system to all who require it.

Services

The non-commercial services to be provided by Public Trust under the Agreement are classified as:

- **Service 2:** Providing Protection of Personal Property Rights Act 1988 (PPPR Act) administration, audit and advice services to incapacitated persons, or under Public Trust agencies
- **Service 3:** Advice and research relating to inquiries provided on behalf of incapacitated persons on matters relating to the PPPR Act, or under Public Trust agencies
- **Service 4:** Administration of small and/or complex estates and trusts, including providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made
- **Service 5:** Representation, audit, review or administration of assets and rights of missing, unknown, incapable or insolvent owners and other public functions

Together these are referred to as the Services.

Service 1 (Wills advice, preparation and promotion), previously provided by Public Trust, is not one of the services to be delivered under the current Agreement.

Further details of the outcomes and key performance measures for the year to 30 June 2014 are set out below.

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.

Access to quality justice services is known and available

New Zealanders will have access to – and be aware of – quality justice services when:

- customers are satisfied with the quality and timeliness of the Services and Public Trust receives referrals from its customers, the Courts and other service providers
- Public Trust continues to maintain a mix of channels through which the public and others can easily access Public Trust and its services.

Individuals' rights are explained and defined when:

- Public Trust staff have the right technical/legal knowledge and can effectively apply and communicate that knowledge to customers
- the right advice is provided to customers
- Public Trust has the policies, systems and processes in place to support the delivery of high quality and consistent advice in respect of the Services, and Public Trust's internal quality assurance processes indicate these are working as intended
- Public Trust receives inquiries from organisations and other professionals because Public Trust is recognised as being an authoritative source of advice in respect of the Services.

The rights of represented individuals are protected and acted upon

- by the number of people who Public Trust protects directly and the number of hours spent in actively protecting their rights
- by the number of people Public Trust helps to protect indirectly through PPPR manager audits and providing the Courts with guidelines aimed at ensuring the quality of PPPR managers
- when the outcome of cases Public Trust is involved in helps to clarify the law relating to the protection of people's rights.

The service performance levels recorded in past years have been used to indicate the likely requirements for Services during the term of the current Agreement.

Service 1: Wills advice, preparation and promotion

Previously provided by Public Trust, this is not one of the services to be delivered under the current Agreement.

Service 2: Providing Protection of Personal Property Rights Act 1988 (PPPR Act) administration, audit and advice services to incapacitated persons, or under Public Trust agencies.

Measure	2011/12 actual	2012/13 estimate	2013/14 estimate
Number of actions undertaken for PPPR Individuals	6,684	6,232	6,232

Service 3: Advice and research relating to enquiries provided on behalf of incapacitated persons on matters relating to the PPPR Act, or under Public Trust agencies.

Measure	2011/12 actual	2012/13 estimate	2013/14 estimate
Number of PPPR inquiries	1,318	1,442	1,442

Service 4: Administration of small and/or complex estates and trusts, including providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.

Measure	2011/12 actual	2012/13 estimate	2013/14 estimate
Hours to manage and advise on small estates and trusts	8,213	8,000	8,000
Number of tax returns prepared for small estates and trusts	445	700	700

Service 5: Representation, audit, review or administration of assets and rights of missing, unknown, incapable or insolvent owners and other public functions.

Measure	2011/12 actual	2012/13 estimate	2013/14 estimate
Hours to manage public function contracts	43	40	40

Revenues and expenses

- Revenues earned $3.278 million (GST exclusive)
- Expenses incurred $3.278 million (GST exclusive)

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

Prospective Financial Information

The prospective financial statements have been prepared to meet the requirements of the Crown Entities Act 2004 and were authorised for issue by the Public Trust Board on 31 May 2013. The purpose of the prospective financial statements is to facilitate Parliament's consideration of the planned performance of Public Trust. Use of this information for other purposes may not be appropriate. There is no intention to update the prospective financial statements subsequent to the issue of this SOI.

The prospective financial statements have been prepared on the basis of assumptions as to future events that the Public Trust Board reasonably expects to occur and actions that the Public Trust Board reasonably expects to take as at the date of issue. The Public Trust Board is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other disclosures.

The forecasts, in respect of the year ending 30 June 2013, incorporate the actual financial results for the nine months to 31 March 2013.

Actual financial results are likely to vary from the forecasts presented and this variance may be material.

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:

- "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".

Prospective Statement of Financial Position

Statement of Forecast Financial Position
As at 30 June 2014

	Group Forecast 2012/13 $000	Group Forecast 2013/14 $000	Parent Forecast 2012/13 $000	Parent Forecast 2013/14 $000
Assets				
Cash and cash equivalents	61,135	61,135	61,125	61,125
Investment securities	400,123	369,483	400,123	369,483
Derivative financial instruments	1,502	1,502	1,502	1,502
Advances to clients	5,236	5,236	5,236	5,236
Trade receivables	7,711	7,711	7,259	7,259
Advances secured by mortgage	123,000	85,000	123,000	85,000
Due from subsidiary	-	-	20	20
Total financial assets	**598,707**	**530,067**	**598,265**	**529,625**
Sundry receivables	84	84	84	84
Prepayments	1,048	1,048	1,048	1,048
Current tax	240	240	240	240
Property, plant & equipment	7,500	8,200	7,500	8,200
Intangibles	4,187	3,902	1,682	1,397
Investments in subsidiaries	-	-	4,654	4,654
Total assets	**611,766**	**543,541**	**613,473**	**545,248**
Liabilities				
Liabilities to clients - at call or short term	425,000	401,500	425,000	401,500
Liabilities to clients - term deposits	145,000	100,000	145,000	100,000
Prepaid estate administration	420	420	420	420
Total liabilities to clients	**570,420**	**501,920**	**570,420**	**501,920**
Trade payables	2,398	2,398	2,279	2,278
Other payables	1,422	1,422	1,422	1,422
Derivative financial instruments	4,177	4,177	4,177	4,177
Prepaid income	791	791	579	579
Employee benefits	4,568	4,568	4,568	4,568
Provisions	672	672	672	672
Loan from subsidiary	-	-	8,208	8,819
Total liabilities	**584,448**	**515,948**	**592,325**	**524,435**
Equity				
Contributed equity	90,174	90,174	90,174	90,174
Cash flow hedging reserve	(1,345)	(1,212)	(1,345)	(1,212)
Retained earnings	(61,511)	(61,369)	(67,681)	(68,149)
Total equity	**27,318**	**27,593**	**21,148**	**20,813**
Total liabilities plus equity	**611,766**	**543,541**	**613,473**	**545,248**

The notes to the prospective financial statements form part of this statement.

Prospective Statement of Changes in Equity

Statement of Forecast Changes in Equity

For the period 1 July 2012 to 30 June 2014

	Group Forecast 2012/13 $000	Group Forecast 2013/14 $000	Parent Forecast 2012/13 $000	Parent Forecast 2013/14 $000
Opening balance	28,829	27,318	23,269	21,148
Comprehensive income				
Other comprehensive income - movement in cash flow hedging reserve	442	133	442	133
Profit (loss) after tax	(1,953)	142	(2,563)	(468)
Total comprehensive income	**(1,511)**	**275**	**(2,121)**	**(335)**
Equity at end of the year	**27,318**	**27,593**	**21,148**	**20,813**

The notes to the prospective financial statements form part of this statement.

Prospective Statement of Comprehensive Income

Statement of Forecast Comprehensive Income
For the period 1 July 2012 to 30 June 2014

	Group Forecast 2012/13 $000	Group Forecast 2013/14 $000	Parent Forecast 2012/13 $000	Parent Forecast 2013/14 $000
Revenue				
Revenue from financial instruments				
Interest from interest bearing securities	21,709	18,543	21,709	18,543
Interest from advances secured by mortgage	9,204	5,889	9,204	5,889
	30,913	24,432	30,913	24,432
Less: Interest expense	15,021	10,744	15,236	10,959
	15,892	13,688	15,677	13,473
Fees and commission revenue	41,339	41,862	38,769	39,292
Less: Fees and commission expense	2,748	2,850	2,549	2,651
Other revenue	1,805	340	3,165	1,700
Revenue from the Crown	4,500	3,277	4,500	3,277
Revenue before expenses	**60,788**	**56,317**	**59,562**	**55,091**
Expenses				
Employee benefits	38,654	34,266	38,654	34,266
Operating lease costs	3,779	3,779	3,779	3,779
Depreciation	2,177	2,145	2,177	2,145
Amortisation of intangibles	492	500	492	500
Net losses (gains) on disposals of property, plant & equipment and intangibles	76	100	76	100
Impairment losses and reversal of impairment losses on property, plant & equipment and intangibles	1,187	-	1,187	-
Impairment losses on advances secured by mortgages	758	783	758	783
Other expenses	16,262	15,564	15,908	15,210
Total expenses	**63,385**	**57,137**	**63,031**	**56,783**
Net realised gains (losses) on financial instruments	-	-	-	-
Net unrealised gains (losses) on financial instruments	644	962	644	962
Net gains (losses) on financial instruments	644	962	644	962
Profit before tax for the year	**(1,953)**	**142**	**(2,825)**	**(730)**
Tax expense	-	-	262	262
Profit after tax for the year	**(1,953)**	**142**	**(2,563)**	**(468)**
Other comprehensive income				
Movement in cash flow hedging reserve	442	133	442	133
Total comprehensive income for the year	**(1,511)**	**275**	**(2,121)**	**(335)**

The notes to the prospective financial statements form part of this statement.

Prospective Statement of Cash Flows

Statement of Forecast Cash Flows

For the period 1 July 2012 to 30 June 2014

	Group Forecast 2012/13 $000	Group Forecast 2013/14 $000	Parent Forecast 2012/13 $000	Parent Forecast 2013/14 $000
Cash flows from operating activities				
Fees and other revenue	46,178	45,479	44,964	44,264
Interest	30,913	24,432	30,913	24,432
Payments to suppliers & employees	(64,430)	(55,760)	(63,830)	(55,160)
Interest	(15,021)	(10,744)	(15,236)	(10,959)
Taxation	-	-	-	-
GST	(700)	(700)	(700)	(700)
Cash flows from operating activities before changes in trading investments	**(3,060)**	**2,707**	**(3,889)**	**1,877**
Net flows from trading investments	-	-	-	-
Net cash flows from operating activities	**(3,060)**	**2,707**	**(3,889)**	**1,877**
Cash flows from investing activities				
Net flows from non-trading investments	215,454	68,953	215,453	68,953
Purchase of property, plant & equipment	(1,729)	(2,945)	(1,729)	(2,945)
Purchase of intangibles	(1,246)	(215)	(1,246)	(215)
Net cash flows from investing activities	**212,479**	**65,793**	**212,478**	**65,793**
Cash flows from financing activities				
Net receipts from clients	(203,591)	(68,500)	(202,761)	(67,670)
Net cash flows from financing activities	**(203,591)**	**(68,500)**	**(202,761)**	**(67,670)**
Net increase (decrease) in cash and cash equivalents	5,828	-	5,828	-
Cash and cash equivalents at beginning of the year	55,307	61,135	55,297	61,125
Cash and cash equivalents at end of year	**61,135**	**61,135**	**61,125**	**61,125**

The notes to the prospective financial statements form part of this statement.

Notes to the Prospective Financial Statements

1. Reporting entity and statutory basis for reporting

Public Trust 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 (the Parent) and its subsidiaries.

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and is domiciled in New Zealand. Public Trust's ultimate parent is the New Zealand Crown. Public Trust is an issuer for the purpose of the Financial Reporting Act 1993. Public Trust prepares separate prospective financial statements for the Parent and consolidated prospective financial statements for the Group.

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 within the Group's prospective financial statements or those of the consolidated Group as the Group does not control these funds and trusts so as to obtain ownership benefits.

2. Basis of preparation

Accounting compliance

These prospective financial statements have been prepared in compliance with New Zealand Financial Reporting Standard No. 42 – *Prospective Financial Statements* and New Zealand Generally Accepted Accounting Practice as it relates to prospective financial statements.

Measurement basis and currency

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.

Use of judgements and estimates

In preparing these prospective financial statements, management have made judgements, estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events, which are believed to be reasonable under current circumstances.

3. Accounting policies

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

Basis of consolidation

The consolidated prospective financial statements comprise the prospective financial statements of Public Trust and its subsidiaries.

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

The prospective financial statements of the subsidiaries are prepared for the same reporting year as the Parent, using consistent accounting policies. In preparing the consolidated prospective financial statements, all intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

The purchase method of accounting is used 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

On 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; and
- other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and net balances reported in the Statement of 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

All regular way purchases and disposals of financial instruments are accounted for on a trade date basis.

Financial assets 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.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

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 over 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 resale 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 include:

- investments in interest bearing securities; and
- derivative financial instruments classified as held for trading.

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.

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

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 using a valuation technique. The valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs and may include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Gains and losses on these financial instruments arise where their fair value on 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.

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 a 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 and forward rate agreements, are entered into for risk management purposes.

Derivative financial instruments entered into for risk management purposes are instruments that 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 are recognised on the date on which a derivative contract is entered into and are subsequently measured to fair value.

Where derivative financial instruments form part of an effective hedge relationship, they 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 similarly valued on the same basis.

Subsequent to initial recognition, gains and losses from remeasurement of derivative financial instruments to fair value are recognised in profit or loss, with the exception of gains and losses on derivative financial instruments which 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 gain or loss on financial instruments.

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

Receipts or payments on maturity of forward rate agreements are recognised in interest revenue.

Derivative financial instruments designated as hedging instruments – cash flow hedges

Derivative financial instruments, whose purpose is to match the cash flows arising from interest rate changes on floating rate mortgages and liabilities to clients at call, 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 these instruments are recognised in other comprehensive income (the cash flow hedging reserve). Any ineffective portion is recognised in profit or loss.

When the hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, the cumulative gain or loss on the hedging instrument remaining in the cash flow hedging reserve is transferred to profit or loss when the forecast transaction occurs.

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

Derivative financial instruments designated as hedging instruments – fair value hedges

Derivative financial instruments, whose purpose is to match the changes in fair value of long-dated term deposit liabilities 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 hedging instrument, together with any changes in fair value of the relevant (hedged) risk of the term deposit liabilities are recognised in profit or loss.

When a hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, the resulting adjustment to the carrying amount of the hedged item is amortised to profit or loss over the period to maturity of the instrument hedged.

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;
- term deposits;
- advances to clients;
- trade receivables;
- due from subsidiary (Parent prospective financial statements); and
- advances secured by mortgage.

Loans and receivables are initially recognised at their fair value plus transaction costs. Subsequent to 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 assets arise on sale, derecognition or impairment and 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 assets with similar risk profiles.

An impairment loss is recognised when there is objective evidence that future cash flows from the asset will decline from the previous expected levels. The amount of any impairment is measured as the difference between the asset'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 asset through an impairment allowance account.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft), money market deposits on call and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at their cash settlement value.

Investment securities

Term deposits within investment securities are 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.

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. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less 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 individual 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 asset through a collective impairment allowance account.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss is comprised solely of those derivative financial instruments held for trading in a loss position which cannot be offset against a countervailing balance which forms part 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 deposit liabilities – subject to fair value hedges

Term deposit liabilities 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 include:

- liabilities to clients (except for those term deposit liabilities that are the hedged item in a fair value hedge accounting relationship);
- trade payables; and
- loan from subsidiary (Parent financial statements).

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

Subsequent to 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 rates prevailing at the reporting date. Exchange differences arising on the settlement or translation of foreign currency monetary items are recognised in profit or loss.

Property, plant & equipment

Property, plant & 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	2-5 years

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

A review of property, plant & equipment is undertaken at the end of each financial year 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 & equipment; otherwise it is classified as an intangible asset.

Impairment

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

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

Intangible assets

Intangible assets are recognised where they are clearly identifiable, and have probable future economic benefits 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 a business is recognised in the Group's Statement of 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 recognised in 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 two to five years using the straight-line method.

A review of intangible IT assets is undertaken at the end of each financial year to ensure the estimates of useful life and the amortisation method remain relevant.

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 recognised in profit or loss.

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

Parent investment in subsidiaries

Investments in subsidiaries are 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.

Subsequent to acquisition, investments in subsidiaries are subject to annual review for impairment.

Upon receipt of a dividend payment from a 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 recognised.

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 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

Provision is made for long-service leave benefits on an actuarial basis. 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 that 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 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 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 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 Prospective Statement of Cash Flows these are 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.

4. Significant assumptions

The forecast financial statements are based on the following assumptions:

1. Public Trust is subject to the Non-Bank Deposit Takers' regime under the Reserve Bank of New Zealand Act 1989 (RBNZ Act). Under this regime Public Trust currently has an exemption until 1 December 2013 relating to the capital requirements. It is assumed that appropriate measures will be taken to ensure that Public Trust continues to comply with the regime.
2. The forecasts assume modest revenue growth over the forecast period (CTS revenue 3% p.a., trustee fee revenue 1.5% p.a., customer investment solutions revenue 1.5% p.a.).
3. The forecasts assume a continued focus on cost control through reducing non-value-added costs.
4. The Non-Commercial Protective Fiduciary Services Agreement between the Crown and Public Trust, funded by the Ministry of Justice, has been confirmed at $3.3 million in 2013/14.
5. It is expected that a significant amount of the 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.
6. Risks exist that could affect the achievement of the results in the forecast financial statements:
   - The forecasts include provisions for mortgage losses at a comparable rate as those in the 2012/13 forecast – in the current economic climate these forecasts are uncertain and downside risk exists.
   - The ongoing volatility in property and investment markets continues to create a higher-than-usual degree of uncertainty for forecast financial performance. Downside risk exists from further mortgage provisions and adverse revaluations of mortgage backed securities.
   - 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, and 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.
7. Expenses include a continued investment in organisational change.
8. The investment portfolio will be operated within approved asset allocation and risk policies.
9. Property fit-out costs are assumed to be 100% capital expenditure while IT transition costs are assumed to be 50% capital expenditure and 50% operating expenditure.

Appendix: 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 outside 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 amending key risk policies within 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 Common Fund Investment Risk Management Manual) 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.

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