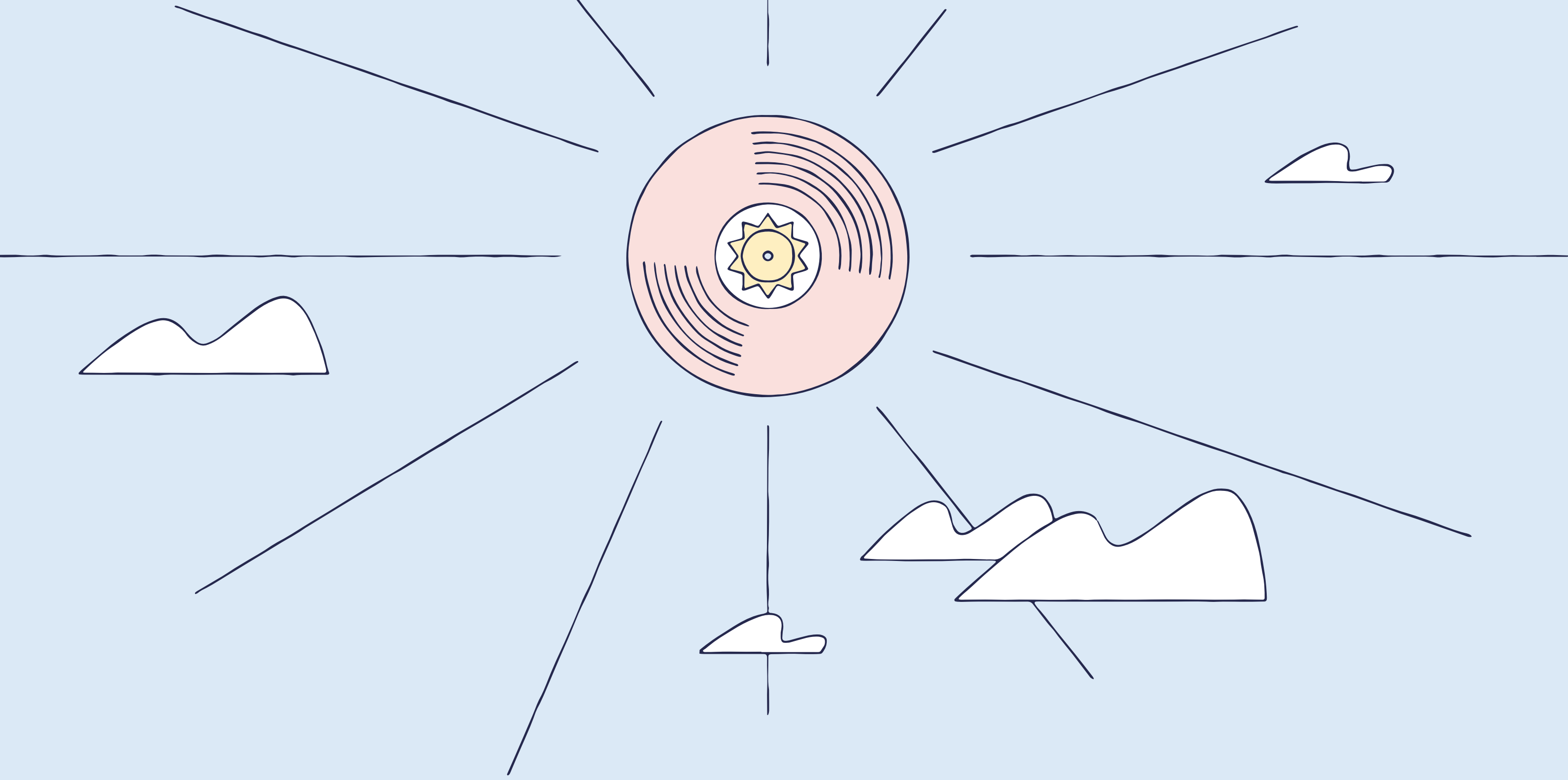
Statement of Performance Expectations

2022/23



Statement of authorisation

This Statement of Performance Expectations meets the requirements of the Crown Entities Act 2004 and reflects Public Trust's proposed performance targets and prospective financial information for the period 1 July 2022 to 30 June 2023. It should be read in conjunction with the Statement of Intent 2021–24. The purpose of the prospective consolidated 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 consolidated financial statements subsequent to presentation. The Public Trust Board is responsible for and has deemed appropriate for issue the prospective consolidated financial statements presented, including the appropriateness of the assumptions underlying the prospective consolidated financial statements and all other required disclosures.

On behalf of the Board of Public Trust:

Ian Fitzgerald
Chair
30 June 2022

John Duncan
Deputy Chair
30 June 2022

Contents

Advocacy is in our DNA

Public Trust's legacy of advocating for New Zealanders stretches back nearly 150 years.

Julius Vogel established Public Trust in 1873 after witnessing the exploitation of vulnerable New Zealanders' estates.

He petitioned government to create Public Trust, a government-owned and managed public trustee service that was the first of its kind in the world. The idea took off and has been replicated in the UK and throughout the Commonwealth.

Today, we are New Zealand's largest provider of estate planning and management services and a self-funding autonomous Crown entity with independence in respect to the way we administer our estates guaranteed under the Public Trust Act 2001.

We employ over 400 people across our network of customer centres and corporate offices. At some point in life, most New Zealanders will require one of our offerings, and we want to ensure we are there for them when they need us most.

We continue to advocate for all New Zealanders through the delivery of products and services that are compelling, relevant and accessible to all Kiwis.

While our principal objective as defined in our Act is to operate as an effective business, we also have clear obligations to care for the New Zealand community as well as care for our people.

Our Act sets out that we must:

- be as efficient as comparable businesses that are not owned by the Crown
- prudently manage our 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 we operate.

We empower New Zealanders to build and protect their legacies

Through our national network of customer centres, contact centre and website, we deliver day-to-day estate planning and trustee services to everyday New Zealanders. We also provide a number of other services that draw on our expertise, including management of charitable trusts, investment services and the protection of student fees.

Our specialised corporate trustee team supervises a number of New Zealand financial services businesses to help ensure consumer and investor trust in the financial system is maintained.

Estate planning and management

We provide guidance to New Zealanders to ensure that the people and things that matter the most to them are taken care of after they have passed away. We work with our customers to maintain and review their estate plans, ensuring they remain relevant and up-to-date over their lifetime. This might include:

- Wills: A legal document that sets out your wishes regarding the care of your children or pets, your funeral arrangements as well as how you want to distribute your assets or special items after your death.
- Enduring Powers of Attorney: A legal document appointing an attorney to step in to manage your financial and property affairs or your personal care if you can't.
- Trusts: A legal arrangement to protect the assets, and future assets, of your whānau.

Estate administration

We act as executor for estates. This critical service helps whānau at a very difficult time, and ensures that the wishes of the will maker are carried out so that their legacy can continue.

Executor Assist advisory service

We work with lawyers and private executors to help them with some or all of the tasks associated with being an executor. We complete probate applications, collect assets, pay liabilities, complete tax returns and completely manage estates on behalf of executors if required.

Personal Assist

We offer a tailored personal management service called Personal Assist where we help customers manage their financial and property matters, including paying bills, managing bank accounts, buying or selling assets, arranging caregiving or home repairs and applying for pensions.

Services under the Protection of Personal and Property Rights Act

We provide personal management services under the Protection of Personal and Property Rights Act 1988. This involves Public Trust being appointed by court order as the property manager for customers who no longer have mental capacity to manage their own affairs. Public Trust also audits statements filed by private property managers under the Protection of Personal and Property Rights Act.

Services funded by the Ministry of Justice

Public Trust also receives funding from the Ministry of Justice. These funds are used to provide protective fiduciary services to New Zealanders who would not otherwise be able to access them due to affordability or low levels of liquid assets. These services include personal assist, estate management, personal property management and private property manager audits.

Trustee of Last Resort

We are also required, in some instances, to act as trustee of last resort and provide fiduciary services to individuals when there is no other provider or when their needs are unlikely to be met by private sector trustee organisations.

Charities

A charitable trust holds and protects assets for charitable purposes, so people can leave a lasting legacy by providing ongoing support after they've gone.

We are one of New Zealand's largest charitable trust administrators and advisers. We help over 400 charities and work to make sure a benefactor's intentions are carried out for the life of their charitable trust. We take care of registration, reporting, gifting, legal, accounting and taxation, making sure assets are invested to provide lasting benefits.

We manage many different asset types, including New Zealand's largest training farm, Smedley Station.

Services to tertiary education

We safeguard student fees on behalf of over 200 private training establishments through our Fee Protect service.

This service protects students from losses outside of their control (for example, due to closure or insolvency of a course provider), creating confidence in New Zealand as an education destination as student funds are protected until they have received their education.

Investment services for fiduciary customers

We provide investment management services to our fiduciary customers ensuring they can access effective and appropriate advice. Our products aim to provide sustainable, risk-adjusted investment returns and appropriate income streams for our fiduciary customers and charitable trusts, designed to help customers meet their current and future needs.

We invest funds on behalf of our fiduciary customers, across Retail (through estate distributions) and Fee Protect. These funds are held in our Common Fund (around $300m as at 31 March 2022), with individual customer funds ranging from very small to very large investment amounts. Deposits held in our Common Fund are guaranteed by the New Zealand Government – a notable point of difference.

In addition, we have around $900m funds under management as at 31 March 2022 in our Public Trust Investment Services. These funds comprise assets we manage on behalf of clients, the majority of whom are charities and are managed within a well-defined investment policy framework.

Corporate Trustee Services

Public Trust has a specialised corporate trustee team that supervises a number of New Zealand businesses to help ensure consumer and investor trust in the financial system is maintained. We are licensed by the FMA, under the Financial Markets Supervisors Act 2011 to oversee and provide guidance to our clients, ensuring that they meet the standards expected of them and that investors' interests are protected.

Corporate Trustee Services provides specialist services including:

- Supervision of regulated investment schemes and trusteeship of unregulated schemes e.g. wholesale schemes.
- Supervision of KiwiSaver schemes, including 4 of the 6 default providers.
- Under our custodial services, we hold listed and unlisted securities in safekeeping and are responsible for all associated cash and security transactions along with all reporting and tax obligations on our clients' assets.
- Statutory supervision of retirement villages, which involves monitoring compliance with obligations, including the financial position of villages and the security of residents' interests.
- Structured finance transactions, covering debt issues and securitisations.

Measuring our progress

We use a range of measures to assess our progress in delivering our strategic goals. These measures have been selected to balance our objectives of serving our customers and communities, being a good employer and building a financially sustainable business.

Objectives	What success looks like	Measure	2020/21 actual	2021/22 forecast	2022/23 plan
Serving our customers and communities	Our products and services are compelling, relevant and accessible to all New Zealanders and we empower them to build and protect their legacies	Number of new estates administered each year	1,447	1,392	1,404
		New business sales for Wills and EPAs	9,460	10,933	13,777
		New business sales for wills and EPAs completed online compared to total sales	61%	75%	74%
		Net Promoter Score	36.3	36.0	40.0
		Number of users visiting our website each year	305,757	450,000	480,000
Being a good employer	Our culture of care ensures our people are highly engaged, healthy, safe and well	Total Recordable Injury Frequency Rate	0.00	1.20	1.00
Delivering sustainable financial outcomes	We are able to reinvest in delivering great outcomes for our people, customers and communities	Annual revenue growth	-0.8%	-1.5%	15.4%

Contribution to Crown outputs

Public Trust has one reportable class of outputs under section 149E(1)(a) of the Crown Entities Act 2004, which arises from its services agreement with the Crown (acting through the Minister of Justice). Under this services agreement, the Crown purchases a range of non-commercial fiduciary services from Public Trust to ensure that affordability does not prevent New Zealanders in need from obtaining key estate and personal management services.

Providing these services helps advance the Crown's objectives of supporting New Zealanders to improve their wellbeing and protecting the most vulnerable members of our society.

The outputs arising from this contract are intended to enable access to trustee services for New Zealanders who are either vulnerable or unable to obtain key estate and personal management services within their own means.

How performance will be assessed

The services agreement specifies the scope of services Public Trust provides. Performance under the agreement is monitored through regular reporting to the Ministry of Justice.

Public Trust assesses its performance under the agreement by measuring the number of clients served and total hours spent providing services.

Details of Public Trust's actual, estimated and forecasted results are shown on the next page.

Service	Measure	Client Asset Pool	2020/21 actual No. of clients	2020/21 actual Hours	2021/22 forecast No. of clients	2021/22 forecast Hours	2022/23 plan No. of clients	2022/23 plan Hours
Providing services to incapacitated persons under the Protection of Personal and Property Rights Act 1988 or under Public Trust agencies	Number of clients served and hours to manage and advise under the Protection of Personal and Property Rights Act 1988	$0-$20k	521	9,308	425	7,740	509	9,279
		$20k-$50k	72	780	107	1,004	128	1,204
Administration of estates and trusts	Number of clients served and hours administering[1]	$0-$20k	637	1,546	362	1,106	433	1,326
		$20k-$50k	110	558	-	-	-	-
Examination of statements filed in court by any manager who is not a trustee corporation under section 46 of the Protection of Personal and Property Rights Act 1988	Number of clients served and hours taken to examine statements	$0-$20k	862	2,567	733	2,715	879	3,255
		$20k-$50k	1,407	4,932	1,578	6,305	1,892	7,559

1. Administration of estates and trusts for clients with total assets valued between $20k and $50k is outside the scope of the services agreement with the Crown commencing from financial year 2020/21.

Revenue and expenses

Expected revenue 2022/23: $3.6 million (GST exclusive).

Proposed expenses 2022/23: $3.6 million (GST exclusive) - proposed expenses include only the direct costs incurred to deliver these services.

The maximum potential revenue under the agreement is $3.617 million.

Public Trust will report the costs of providing services to qualifying customers that are in excess of funding received under the agreement.

Common Fund reporting

Public Trust's Common Fund contains fiduciary customers' trust account money and is guaranteed by the New Zealand Government. The Common Fund is subject to strict investment guidelines that ensure it maintains a conservative risk-return profile. The primary measures used to monitor the Common Fund's risk exposure are value at risk and the liquidity test.

Value at risk

Value at risk (VaR) is a statistical measure of the risk of loss in an investment portfolio given normal market conditions over a defined period of time within a given probability/confidence level. In other words, VaR defines the maximum level of acceptable loss for a portfolio given normal market conditions over a given time period.

Value at risk (VaR) is an estimate of the risk of a loss within a portfolio. By setting VaR measures, portfolio managers attempt to keep the risk of loss within agreed levels.

Measure	2020/21 actual	2021/22 estimate	2022/23 forecast
Common Fund VaR, excluding term deposits, measure of 0.4% at 95% confidence level[1]	0.30% monthly average[2]	0.15% monthly average, with no month exceeding 0.4%	VaR will not exceed 0.4%

1. The Common Fund VaR measure of 0.4% at 95% confidence is the same as stating that Public Trust is 95% confident that losses in the Common Fund will not exceed 0.4% of the fund value over any one day.

2. In August 2020, Public Trust temporarily raised its Common Fund VaR limit from 0.4% to 0.6% in response to the unprecedented VaR increases caused by market dislocation arising from the Covid-19 pandemic. The limit reverted to 0.4% in March 2021 at which time the VaR measure was updated to exclude term deposits on the basis that these securities are not marketable and therefore not subject to the market risk that VaR measures.

Liquidity test

A liquidity test measures the proportion of liquid assets relative to the total value of an investment portfolio. An asset is considered liquid if it can be quickly converted into cash. The Common Fund must maintain an appropriate level of liquid assets to ensure that it can meet its clients' funding requirements.

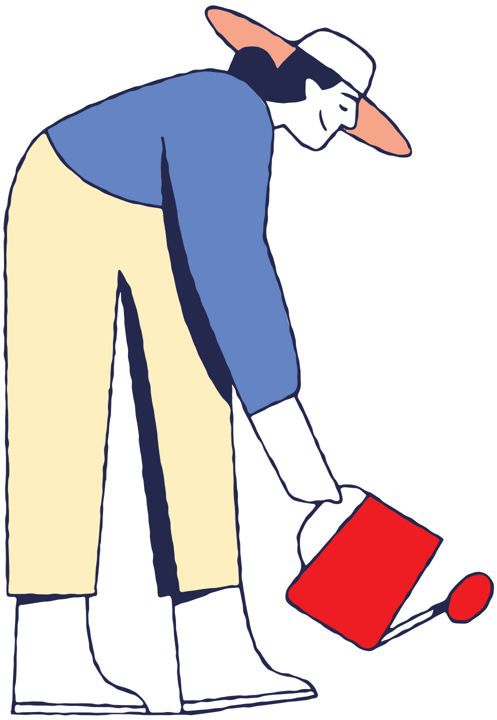
Measure	2020/21 actual	2021/22 estimate	2022/23 forecast
Percentage of Common Fund assets (by dollar value) that can be liquidated within 100 days, measured monthly	48.0% monthly average, with no month below 33%	47.7% monthly average, with no month below 33%	At least 33% (by dollar value) of Common Fund assets can be liquidated within 100 days

Prospective consolidated statement of financial position
as at 30 June

	Forecast 2022 ($000)	Plan 2023 ($000)
Assets		
Cash and cash equivalents	20,704	21,192
Investment securities	302,701	308,273
Trade and other receivables	3,852	4,194
Advances to clients	2,971	3,002
Total financial assets	**330,228**	**336,661**
Contract assets	10,069	10,614
Other assets	3,714	3,549
Right-of-use assets	22,293	19,663
Intangible assets	21,056	17,262
Deferred tax asset	10,163	10,163
Total assets	**397,523**	**397,912**
Liabilities		
Liabilities to clients	294,324	295,569
Trade payables	2,370	2,510
Employee entitlements	4,415	4,585
Provisions	1,796	2,137
Contract liabilities	203	181
Lease liabilities	22,560	20,588
Other liabilities	433	454
Total liabilities	**326,101**	**326,024**
Equity		
Contributed equity	90,174	90,174
Accumulated losses	(18,752)	(18,286)
Total equity	**71,422**	**71,888**
Total liabilities and equity	**397,523**	**397,912**

Prospective consolidated statement of changes in equity
for the period 1 July 2021 to 30 June 2023

	Forecast 2022 ($000)	Plan 2023 ($000)
Equity at the start of the year	74,415	71,422
(Loss) profit for the year	(2,993)	466
Total comprehensive (loss) income for the year	**(2,993)**	**466**
Equity at the end of the year	**71,422**	**71,888**



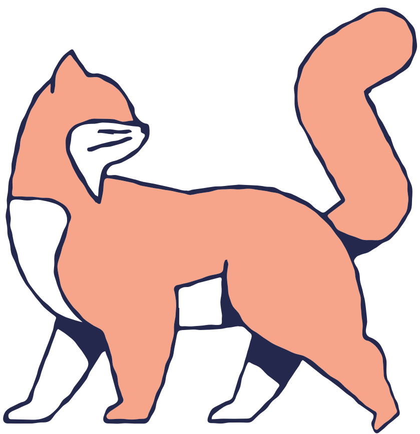
Prospective consolidated statement of total comprehensive income

for the period 1 July 2021 to 30 June 2023

	Forecast 2022 ($000)	Plan 2023 ($000)
Revenue		
Interest from interest-bearing securities	3,952	7,278
Interest from advances	181	170
Less: Interest expense	(175)	(913)
	3,958	**6,535**
Revenue from contracts with customers	59,006	66,149
Net revenue	**62,964**	**72,684**
Expenses		
Employee benefits	(43,015)	(48,573)
Amortisation of intangible assets	(4,259)	(4,664)
Depreciation	(3,234)	(3,642)
Operating lease costs	(588)	(206)
Other expenses	(14,463)	(14,707)
Total expenses	**(65,559)**	**(71,792)**
Interest on lease liabilities	(357)	(426)
Net losses on financial instruments	(41)	-
(Loss) profit before tax for the year	**(2,993)**	**466**
Income tax benefit	-	-
(Loss) profit after tax for the year	**(2,993)**	**466**
Total comprehensive (loss) income for the year	**(2,993)**	**466**

Prospective consolidated statement of cash flows
for the period 1 July 2021 to 30 June 2023

	Forecast 2022 ($000)	Plan 2023 ($000)
Cash flows from operating activities		
Receipts from customers	58,862	65,240
Interest received from investments	4,133	7,448
Payments to suppliers and employees	(59,219)	(62,851)
Interest paid	(175)	(913)
Net cash flows generated from operating activities	**3,601**	**8,924**
Cash flows from investing activities		
Net flows from investments	2,508	(5,603)
Purchase of other assets	(989)	(810)
Purchase of intangible assets	(1,423)	(870)
Net cash flows generated from (used in) investing activities	**96**	**(7,283)**
Cash flows from financing activities		
Net (payments to) receipts from clients	(2,722)	1,245
Principal lease payments	(2,526)	(2,398)
Net cash flows used in financing activities	**(5,248)**	**(1,153)**
Net (decrease) increase in cash and cash equivalents	(1,551)	488
Cash and cash equivalents at beginning of the year	22,255	20,704
Cash and cash equivalents at the end of the year	**20,704**	**21,192**



Notes to the prospective consolidated financial statements

1 | General information

Public Trust is a body corporate established and domiciled 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. Public Trust is a Crown entity for the purposes of the Crown Entities Act 2004 and an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The prospective consolidated financial statements comprise Public Trust (the Parent) and its subsidiaries (collectively, the Group).

2 | Basis of preparation

These prospective consolidated financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as it relates to prospective financial statements. They comply with New Zealand Financial Reporting Standard 42 (NZ FRS 42) *Prospective Financial Statements*.

Actual results may vary from the information presented and the variations may be material.

Measurement basis

The prospective consolidated financial statements have been prepared on a historical cost basis.

Functional and presentation currency

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

3 | Basis of consolidation

Subsidiaries are investees controlled by the Group. The financial statements of the subsidiaries are included in the Group's consolidated financial statements from the date on which control commences until the date control ceases.

All intra-group balances and transactions and unrealised income and expenses resulting from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

When the Group loses control over a subsidiary, it derecognises the related assets and liabilities and any other components of equity. Any interest in the former subsidiary is measured at fair value when control is lost.

4 | Significant accounting policies

Financial instruments
Classification
The Group classifies financial instruments depending on its business model for managing the financial instruments and the contractual terms of the cash flows.

Initial recognition and measurement
All financial instruments are initially recognised when the Group becomes party to the contractual provisions of the instrument and is measured at the fair value of the consideration received plus or minus directly attributable transaction costs in the case of a financial asset or financial liability not recognised at fair value through profit or loss.

Subsequently, the Group applies the following accounting policies for financial instruments:

(i) Financial assets at amortised cost

The Group's business model is to hold financial assets in order to collect the contractual cash flows consistent with a 'buy and hold' investment strategy, and all of the Group's financial assets give rise to cash flows that are solely payments of principal and interest.

Financial assets in this category include:

- cash and cash equivalents
- investment securities: term deposits and interest bearing securities
- trade and other receivables
- advances to clients.

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft) and money market deposits on call. Cash and cash equivalents are recognised at their cash settlement value.

Trade and other receivables represent the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Subsequent to initial recognition, investment securities, trade and other receivables and advances to clients are carried at their amortised cost in accordance with the effective interest method, less impairment.

Financial assets at amortised cost are regularly reviewed for impairment under either the simplified approach applicable to trade receivables and contract assets (excluding contract assets of uncertain timing) or under the general approach applicable to all other financial assets. Under the simplified approach, a loss allowance is always measured at an amount equal to lifetime expected credit losses, whereas under the general approach, a loss allowance is recognised for 12-month expected credit losses unless the credit risk on the financial instrument has increased significantly since initial recognition, in which case, a loss allowance is measured at an amount equal to lifetime expected credit losses. The Group assumes credit risk has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at year end.

Expected credit losses are measured in a way that reflects the probability weighting of a range of possible outcomes, the time value of money and reasonable information about past events, current conditions and forecasts of future conditions. Any impairment gain or loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial asset through a loss allowance account.

(ii) Financial liabilities at amortised cost

Financial liabilities in this category include:

- liabilities to clients
- trade and other payables.

Subsequent to initial recognition, financial liabilities at amortised cost are carried at their amortised cost in accordance with the effective interest method.

Intangible assets

Goodwill
Goodwill arising from business combination is initially measured at cost, being the excess of the consideration transferred and the fair value net of identifiable assets acquired and liabilities assumed. Goodwill is subsequently carried at cost less any accumulated impairment losses.

IT assets and development costs
Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. They 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. Costs incurred in developing internally generated software are recognised where the software qualifies for recognition as an intangible asset. Costs are accumulated as capital work in progress until the intangible IT asset is in a functional condition. They are then capitalised and amortised over the asset's estimated useful life of 3–10 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 are subsequently carried at cost, less any accumulated amortisation and accumulated impairment losses.

Impairment of assets

Assets other than goodwill and other financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An internal review of asset values is performed at the end of each financial year. External factors, such as changes in expected future processes, technology and economic conditions are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for any amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined using a discounted cash flow model. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units or CGUs).

Any impairment losses are recognised in profit or loss. Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Impairment of goodwill

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment is recognised in profit or loss as a permanent reduction in the carrying value. Impairment losses recognised for goodwill are not subsequently reversed.

Goodwill has been allocated to the Corporate Trustee Services CGU for the purpose of impairment testing. The allocation is made on the basis that this CGU is expected to benefit from the business combination in which the goodwill arose. The CGU was identified at the lowest level at which goodwill is monitored for internal management purposes.

Impairment testing is done using a discounted cash flow model.

Employee benefits

Annual leave

A provision is made for annual leave in accordance with the accumulated entitlement as at the reporting date. This is carried at the cash amount necessary to settle the obligation.

Long-service leave

A 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 a Treasury risk-free rate as at the reporting date.

Leases

The Group leases various offices, motor vehicles and IT equipment. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate initially measured using the index or rate as at the commencement date
- Lease payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease if that rate is readily determinable. If the interest rate is not readily determinable, the Group applies its incremental borrowing rate. To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a Treasury risk-free discount rate (to serve as the risk-free interest rate), adjusted for the Group's credit risk and entity specific margin.

The Group is exposed to potential future increases in variable lease payments based on an index or rate. These have been included in the lease liability based on the index or rate at the commencement date. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of offices and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

Taxes

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 other comprehensive income or equity, in which case, it is recognised in other comprehensive income or 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 tax is provided using the liability method on:

- future income tax benefits arising from unutilised tax losses
- temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred 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 taxable profit will be available against which the deductible temporary differences and tax losses 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 and 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 prospective consolidated statement of financial position.

Revenue from contracts with customers

The Group's core business is providing estate planning and management services; trustee services for individuals, businesses, corporates and charities; personal management services; investments for fiduciary customers and protective fiduciary services to New Zealanders.

Revenue from contracts with customers is recognised when control of services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group has concluded that it is the principal in its revenue arrangements because it controls the services before transferring them to the customer.

Disclosure of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers is provided in note 6.

Fees revenue
Fees from services are recognised at a point in time or over a period of time in accordance with the underlying service contract when control of the asset is transferred to the customer, generally as work is performed or as time elapses over a fixed-term contract.

Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts provide customers with volume fees and volume rebates. The volume rebates give rise to variable consideration.

Refer to note 6 for further details on the accounting treatment of variable consideration.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for services transferred to the customer.

Contract assets represent revenue for which the Group does not have an unconditional right to payment as of balance date because the revenue may be subject to a billing restriction.

Contract liabilities
A contract liability is the obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

If a customer pays consideration before the transfer of services to the customer, a contract liability is recognised. The timing of recognition is when the payment is made or the payment is due, whichever is earlier. Contract liabilities are recognised as revenue when the Group performs the services under the contract.

Provisions

General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 identified or alleged or other contractual disputes have arisen. Final resolution may take a number of years. 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 the 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.

Make good
The make-good provision relates to contractual obligations resulting from the Group entering into lease contracts. The provision is calculated using the present value of management's best estimate of the expenditure required to make good the condition of the buildings upon terminating the lease and vacating the premises. These costs have been capitalised as part of the cost of right-of-use assets and are amortised over the shorter of the term of the lease or the useful life of the assets.

Presentation of cash flows

Cash flows from operating activities are cash flows from the principal revenue-producing activities of the Group.

Cash flows from investments are presented on a net basis as they relate to the placement and withdrawal of deposits from financial institutions.

Cash receipts from/payments to clients are presented on a net basis as they represent cash receipts and payments on behalf of customers, and the cash flows reflect the activities of the customer rather than those of Public Trust.

Net cash flows from financing activities are substantially comprised of:

- movements in the liabilities to clients
- cash payments for the principal portion of the lease liabilities.

5 | Changes in accounting policies

New and amended financial reporting standards and interpretations
There were no new standards or amendments effective 1 July 2021 that had an impact on the prospective consolidated financial statements of the Group.

There are also no new accounting standards, amendments to accounting standards and interpretations issued but not yet effective that have been early adopted by the Group.

6 | Significant accounting judgements, estimates and assumptions

Use of judgements and estimates

In the process of applying the accounting policies, management makes judgements, estimates and assumptions. Actual results may differ from these estimates.

Information about critical judgements that have the most significant effect on the amounts recognised in the prospective consolidated financial statements are included below.

Variable consideration
Under NZ IFRS 15, variable consideration exists as a result of the 5% cap provision (under section 122 of the Public Trust Act 2001), volume rebates and annual management fees being calculated as a percentage of the gross value of assets under ongoing administration.

To estimate the variable consideration to which the Group is entitled resulting from the 5% cap and annual management fees, the Group applies the expected value method and only recognises revenue to the extent it is highly probable that a significant reversal in cumulative revenue recognised will not occur when the uncertainty is subsequently resolved.

Volume rebates are offset against amounts payable by the customer. Customer entitlements to rebates are calculated each month based on timely unit pricing information for managed funds. Accordingly, estimation is not required to determine this variable consideration.

Contracts with a significant financing component
The Group considers a significant financing component applies to contract assets of uncertain timing. These represent estate administration charges where payment is not due until an uncertain point in the future. These charges relate to estates with life tenants whereby payment will be received when the estate is wound up on the death of the life tenant.

Judgement applies in determining the expected date of recovery and in applying appropriate discount rates to expected cash flows of the contract assets. The expected recovery date is based on actuarial models using statistical life expectancy data. Cash flows are discounted using the Treasury-risk free rates at the reporting date reflecting the low credit risk resulting from the Group's first call over the client's assets. Future cash flows beyond 10 years have been discounted using the 10-year rate. Where collection is expected within 12 months of the reporting date, no discounting is applied.

Impairment of trade receivables and contract assets
Impairment analysis is performed regularly for trade receivables and contract assets (excluding contract assets of uncertain timing) using the simplified lifetime expected credit loss approach. Loss allowances are based on the aged profile of the receivable or contract asset, historical trends of recoverability by age and service type, review of clients' ability to pay expected or outstanding fees and current economic and forecasts of future conditions.

Recognition of deferred tax asset for carried-forward tax losses
Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses or temporary differences can be utilised. This requires management to assess the likelihood, timing and level of future taxable profits.

Goodwill impairment
The recoverability of the carrying amount of goodwill is assessed for impairment annually. Performing this assessment requires management to estimate future cash flows, terminal growth rates and pre-tax discount rates.

Provisions
Legal counsel is consulted on matters that may give rise to a remedial work and litigation provision. Estimates and assumptions are made in determining the likelihood, amount and timing of cash necessary to settle the obligation.

Lease accounting
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

For leases of offices, the following factors are normally the most relevant:

- If there are significant penalties to early terminate, the Group is typically reasonably certain to not early terminate.
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend.

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption resulting from replacing the leased asset.

Extension options in motor vehicle leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised or the Group becomes obliged to exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs that affects this assessment and that is within the control of the lessee.

Significant assumptions

The prospective consolidated financial statements have been prepared on the basis of assumptions as to the future market environment and events that Public Trust reasonably expects to occur, associated with the actions that Public Trust reasonably expects to take, as at the date that this information was prepared.

The statements are based on the following significant assumptions listed in order of importance in relation to their impact on the prospective consolidated financial statements:

1. The 2022 forecast financials includes actuals up to March 2022 and 3 months of forecast.
2. The 2023 plan financials assume no material ongoing Covid-19 related disruption.
3. Retail revenue is projected to grow due to performance improvements following Covid-19 related disruption in financial year 2022, price increases and partnerships activities.
4. Operating costs are projected to increase on the expectation of staff remuneration and supplier cost increases, in-line with market inflation, and higher depreciation and amortisation due to recently completed capital expenditure projects.
5. Corporate Trustee Services revenue is projected to grow due to KiwiSaver fund growth driven by ongoing investor contributions and new business growth.
6. Investments revenue is projected to increase due to higher interest rate margin, partially offset by lower Public Trust Investment Service revenue due to a decrease in the management fee rates.
7. Digital revenue is expected to grow due to higher sales volumes from website optimisation, partnerships activity and increased expert reviews.
8. Fee Protect revenue is projected to increase slightly, with domestic student enrolments expected to remain steady and international student enrolment beginning to increase in the 2023 education year.
9. 2023 plan financials assume capital expenditure on intangible assets and property, plant and equipment of $1.7 million.
10. Compensation and legal claims for service delivery issues are expected to continue at the levels observed in financial year 2022. Provisions are forecast using best estimates.
11. The funding cap for the services agreement between the Ministry of Justice and Public Trust is projected to remain unchanged with an expectation that no work is performed in excess of the funding cap.
12. The Common Fund and Public Trust Investment Services portfolios will be managed within approved asset allocations and risk policies.