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I—REPORTS AND PROCEEDINGS OF SELECT COMMITTEES
IN THE REIGN OF HER MAJESTY
QUEEN ELIZABETH THE SECOND
Being the Fiftieth
Parliament of New Zealand

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Introduction

This is a compendium of all the select committee reports on the 2012/13 Estimates. The Fiscal Strategy Report 2012 and the Budget Economic and Fiscal Update 2012 are included in a combined report by the Finance and Expenditure Committee. The combined report also includes Vote Finance. The Finance and Expenditure Committee’s reports on the 2011/12 Supplementary Estimates and on the Addition to the 2011/12 Supplementary Estimates will be printed in the Appendix to the Journals – Select Committee Reports 2012.

The votes for the security agencies are examined by a statutory committee, rather than a select committee. The Intelligence and Security Committee was established by the Intelligence and Security Committee Act 1996. The committee’s reports on the examinations of Vote Communications Security and Intelligence and Vote Security Intelligence have been included in this compendium for ease of reference. Its reports on the 2011/12 Supplementary Estimates for Vote Communications Security and Intelligence and Vote Security Intelligence will be printed in the Appendix to the Journals – Select Committee Reports 2012.
The Transport and Industrial Relations Committee has examined the 2012/13 Estimates for Vote ACC and Vote Employment, and recommends that the appropriations in respect of these votes for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

David Bennett
Chairperson
2012/13 Estimates for Vote Arts, Culture and Heritage

Report of the Government Administration Committee

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**Vote Arts, Culture and Heritage**

### Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Arts, Culture and Heritage as set out in Parliamentary Paper B.5, administered by the Ministry for Culture and Heritage, be accepted.

### Introduction

The total appropriations sought for Vote Arts, Culture and Heritage (including multi-year appropriations) in 2012/13 are $294.312 million, a slight reduction from the 2011/12 estimated actual spend of $298.428 million. The broadcasting component in Vote Arts, Culture and Heritage comprises 52 percent of the appropriations sought in 2012/13.

### Cultural Diplomacy International Programme

The Cultural Diplomacy International Programme is a multi-year appropriation that seeks to showcase New Zealand culture through projects and activities focused on Asia and other parts of the world where New Zealand is pursuing free trade agreements. The appropriation of $11.032 million is to cover the period 2010/11 to 2014/15. We note that by the end of 2012/13 it is estimated that $10.594 million will have been spent, leaving $438,000. The majority of spending in 2011/12 and 2012/13 has been on events for the Rugby World Cup and to support New Zealand as the country of honour at the 2012 Frankfurt Book Fair.

We asked the Minister for Arts, Culture and Heritage if he thought that $438,000 was sufficient to cover the years 2013/14 and 2014/15. He said that there could never be enough funding for cultural diplomacy, and New Zealand had to take advantage of the large-scale opportunities offered to it, and not fritter away money on small-scale events. In this respect, the Minister was happy that the World Cup and the book fair received the bulk of the funding as they were both prestigious international events through which New Zealand could project itself to the world. Some of us are concerned that $438,000 is an insufficient amount to cover the years 2013/14 and 2014/15 in terms of the outcomes to be achieved.

### Orchestral funding

Vote Arts, Culture and Heritage funds the New Zealand Symphony Orchestra as well as a number of regional orchestras. There have been historic tensions between funding for the national orchestra and funding for the regional orchestras. The Ministry for Culture and Heritage is reviewing the professional orchestral sector, and a draft discussion document is to be issued soon. The Minister for Arts, Culture and Heritage believes that the guiding principle for the future of orchestra in New Zealand must be access to high-quality orchestral music. In this respect he sees a role for both national and regional orchestras. We look forward to receiving the discussion document, and will follow this subject with interest.
Sistema Aotearoa

Sistema Aotearoa is a programme that provides orchestral tuition to students from low-decile schools. El Sistema began in Venezuela in 1975 and has since spread to cities and countries around the world. The present Minister for Arts, Culture and Heritage launched Sistema Aotearoa in April last year. The programme is based in South Auckland, and involves the Auckland Philharmonic Orchestra. We were pleased to hear that the programme has been very well received and is in very high demand. Initial funding for the programme is for two years, after which it is hoped that philanthropy will feature more strongly in its funding alongside Government support. The Ministry for Culture and Heritage is currently undertaking an evaluation of the programme, which will determine how rapidly it can be further rolled out around the country. We are pleased with this progress, and congratulate the Minister, the Ministry, and the Auckland Philharmonic Orchestra for their work on this project.

Broadcasting

TVNZ7

Some of us are unhappy that the television channel TVNZ7 has been wound up. The previous Government provided funding for the channel for six years, which ran out on 30 June 2012. We note that the Minister of Broadcasting has not had discussions with industry to try to find new homes for locally produced TVNZ7 content despite his role of ensuring that New Zealanders are able to access local content.

Digital switchover

Later this year, Hawke’s Bay and the West Coast will be the first regions to switch over to digital television. This marks a watershed in New Zealand television. The Ministry for Culture and Heritage has been very involved in the lead-up to the switchover, particularly in educating the public about the changes they can expect. We are very interested in the digital switchover and will follow this matter with interest.

Managing conflicts of interest

We asked the Minister of Broadcasting whether he had put in place measures to ensure that New Zealand on Air is managing conflicts of interest, in light of recent issues surrounding the actions of a National Party electoral chairperson who also sits on the board of New Zealand on Air. We were told that the Minister had not put in place any specific measures, as he believed that the measures in the Crown Entities Act 2004 were adequate to deal with any conflicts of interest at New Zealand on Air.

Allocation of spectrum

We were interested to hear whether the Minister of Broadcasting had set aside spectrum for a non-commercial, public service television channel. The Minister said that there were a variety of places where people can watch content without commercials. He mentioned that the changing nature of the platforms used to deliver content will ensure that entities—low-cost, commercial, or otherwise—would be able to do so.
Converged regulatory approach

We are interested in the Government’s response to increasing convergence of content broadcast on television networks and content that is available on-line. This spans a number of ministerial portfolios, including broadcasting, information communications technology, and arts, culture and heritage. The Minister of Broadcasting told us that he has been discussing this issue with the relevant ministers, and that although he had not sought policy advice from the Ministry for Culture and Heritage, work on a converged regulatory approach was occurring.

Commemorations

Over the coming years, a number of significant commemorations will take place. 2014 will mark the 100 anniversary of the commencement of the First World War. The Minister for Arts, Culture and Heritage is shortly to announce members of a group to steer the First World War commemorations. It also marks the 200 anniversary of Samuel Marsden’s delivering the first Christian service in New Zealand.

New Zealand Memorial Park

New Zealand Memorial Park is a current project that once completed will provide a site for a number of memorials to commemorate sacrifice during war time. The park will link with the National War Memorial and the Tomb of the Unknown Warrior. The construction of this park has been a major initiative in the lead-up to the 100 anniversary of the First World War, and phase one of the build was completed in April 2011. It is desired that everything be put in place by October 2014 at the latest for the commemoration. It is intended that over time a number of memorials will be constructed, and we are aware that the Australian Government committed funding for a memorial. We are pleased that the Minister for Arts, Culture and Heritage will shortly announce the final decision on the form of the park.

Funding of the arts

We were interested in the process the Government uses to distribute funding to the diverse range of arts and culture institutions that exist. The Government appropriates money for spending on arts, culture, and heritage, but many funding decisions are made by arts and culture bodies that are at arm’s length from the Government. The Crown also has a role in funding the arts, but it must be selective in what projects it decides to fund. The Minister cited the decision to invest in the Frankfurt Book Fair and funding for First World War commemorations as two projects that the Government believes are crucial. We understand that the Arts Council of New Zealand, the New Zealand Film Commission, and the New Zealand Film Archive have benefited from increased funding from the Lotteries Grants Board in recent years.

Ethnic diversity

The Ministry for Culture and Heritage is committed to promoting the culture of all New Zealanders. We were interested to learn what the Ministry was doing to promote Asian and Indian culture in the light of New Zealand’s changing demographic profile. The Minister for Arts, Culture and Heritage is interested in increasing ethnic diversity on cultural boards. He mentioned that the Arts Council of New Zealand and the New Zealand Film Commission are aware of this issue, and it is reflected in their work outputs.
Warner Bros

On the day of our hearing, news emerged that Warner Bros had closed its New Zealand office and outsourcing of its distribution arm would occur at the end May 2012. We consider this to be an interesting turn of events in light of the Government changing employment law and offering tax breaks in the last Parliament to ensure that the *Hobbit* movies would be made in New Zealand. The Minister for Arts, Culture and Heritage had only been made aware of the closure on the night before our hearing. Some of us find it unusual that Warner Bros did not inform the Minister of this decision. The Minister said that an office closure did not perturb him, because the *Hobbit* movies were being made in New Zealand.
Appendix

Approach to this examination

We met on 20 June and 18 July 2012 to consider Vote Arts, Culture and Heritage. Evidence was heard from the Minister for Arts, Culture and Heritage, the Minister of Broadcasting, and the Ministry for Culture and Heritage, and received advice from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Eric Roy
Holly Walker

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Arts, Culture and Heritage, received 18 June 2012.

Minister for Arts, Culture and Heritage and Minister of Broadcasting, Response to standard Estimates questionnaire.

Minister for Arts, Culture and Heritage and Minister of Broadcasting, supplementary response to standard Estimates questionnaire.

Response to additional questions, received 10 July 2012.
2012/13 Estimates for Vote Attorney-General

Report of the Justice and Electoral Committee

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Vote Attorney-General

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Attorney-General as set out in Parliamentary Paper B.5, administered by the Crown Law Office, be accepted.

Introduction

The Attorney-General, Hon Christopher Finlayson, is responsible for the appropriations within Vote Attorney-General, which is administered by the Crown Law Office. The total appropriations sought for Vote Attorney-General for 2012/13 amount to $69.293 million. This represents a decrease of $9.071 million from the estimated actual expenditure for 2011/12, due mainly to the end of short-term funding provided in 2010/11 and 2011/12 to meet increased demand for the supervision and conduct of Crown prosecutions.

External reviews

Three external reviews of Crown Law have been undertaken recently: a review of public prosecution services by John Spencer; a performance improvement framework review commissioned by the State Services Commission, the Treasury, and the Department of Prime Minister and Cabinet; and a review of the role and functions of the Solicitor-General and the Crown by Miriam Dean QC and David Cochrane. These reviews found that Crown Law provides high-quality services, but that the office could improve its effectiveness and efficiency in a number of ways.

The Attorney-General told us that implementing the reviews’ recommendations was one of the office’s top priorities over the coming year. We heard that efforts to reduce the office’s accommodation costs are already under way, and that staff have been consulted on a proposal to improve the operating structure of the office. Other current work includes the Crown solicitor funding project, which is investigating the reasons for the variation in costs between Crown solicitors, with a view to creating a more sustainable funding model.

Crown solicitor network

Crown solicitors are private legal practitioners who conduct High Court and District Court trials on behalf of the Crown, so that Crown Law can use local regional solicitors around the country. Crown solicitors are appointed for specific districts on the recommendation of the Attorney-General and by warrant of the Governor-General. There are currently 16 Crown solicitor warrants, held by partners in private law firms throughout New Zealand.

The Spencer review found that the quality of the Crown solicitor network was very high but that costs continued to increase each year. Demand for Crown solicitor services was forecast to decline, and the Government intends to reduce funding for the network to the baseline funding for the appropriation in 2008/09. The Government has approved a one-off $4 million allocation from the Justice Sector Fund to help with this transition.
The concern was raised that the funding model for the office, particularly for the Crown solicitor network, may not be sustainable, as demand for Crown solicitor services has remained higher than expected, requiring $4 million of supplementary funding to accommodate demand. The concern was also raised that criminal litigation is becoming increasingly complex, particularly in the main centres, which will also continue to drive up costs. The Attorney-General told us that he was confident that the work the office has been doing on a more sustainable funding model will ensure that funding is adequate. We will continue to monitor the effectiveness of the Crown solicitor network over the coming year.

**Appointment of Solicitor-General**

The Solicitor-General is the Government’s chief independent and impartial legal adviser, particularly on constitutional matters, and the Government’s advocate in the courts (subject only to the Attorney-General in these functions), as well as the chief executive of the Crown Law Office. The Dean-Cochrane review recommended that the Solicitor-General continue to be the chief executive of Crown Law and to undertake advocacy and advisory roles, but with the emphasis on advice over advocacy. Cheryl Gwyn is the acting Solicitor-General since Dr David Collins’s tenure ended in March 2012. The Attorney-General assured us that appointing a permanent Solicitor-General was a priority and that interviews have already been conducted, with an announcement expected soon.

The performance improvement framework review recommended that Crown Law create the new role of deputy chief executive to take over some of the Solicitor-General’s administrative burden. Andrew Hampton has been appointed to this role. This will be the first time that an incoming Solicitor-General will have the support of a deputy chief executive. We will follow the appointment of the Solicitor-General with interest, and will monitor the success of the new deputy chief executive role in the coming year.

**Judicial complaints process**

The Office of the Judicial Conduct Commissioner was established in August 2005 to deal with complaints about the conduct of judges. Its stated purpose is to enhance public confidence in, and protect the impartiality and integrity of, the judicial system. The current Judicial Conduct Commissioner is Sir David Gascoigne.

We asked the Attorney-General if he was concerned about the judicial complaints process. We heard that the number of complaints had “exploded” over the last few years, with a large number of repeat complainants accounting for a great deal of cost and delay. The Attorney-General acknowledged the need for an independent officer such as the commissioner to deal with legitimate complaints, but said that this procedure should not be used to attack the judicial system. We are pleased that the Attorney-General is keeping this matter under review, and is considering a review of the judicial complaints legislation. We will continue to follow this matter with interest. We also understand that the upcoming Law Commission report on courts will address the matter of vexatious litigants, and we will be interested in its recommendations.
Appenlix A

Approach to this examination
We met on 28 June and 19 July 2012 to consider Vote Attorney-General. Evidence was heard from the Attorney-General, Hon Christopher Finlayson, and the Crown Law Office, and advice received from the Office of the Auditor-General.

Committee members
Tim Macindoe (Chairperson)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Alfred Ngaro
Denis O’Rourke
Katrina Shanks

Evidence and advice received
We considered the following evidence and advice during this examination:

Attorney-General, Response to standard Estimates questionnaire, received 25 May 2012.

Attorney-General, Response to committee questions, received 25 June 2012.

Attorney-General, Response to additional questions, received 16 July 2012.

Office of the Auditor-General, Briefing on Vote Attorney-General, received 28 June 2012.

Good morning to everybody and welcome to this meeting of the Justice and Electoral Committee. At this stage our item of business is hearing the estimates from the Attorney-General and his officials, and I understand that the Minister will also include his comments on the Parliamentary Counsel Office, for which he has responsibility, in the same presentation. So although they are two separate items we will roll them into one. Our usual format is to invite the Minister to make some opening remarks, and then I know that all members will be keen to engage in some questions. So thank you, Minister. Welcome, the floor is yours.

Thank you, Mr Chair. I have two sets of officials here. The Acting Solicitor-General, Cheryl Gwyn, is in court today, which is why she’s not here, but I’m accompanied by Dr Matthew Palmer, who is the Deputy Solicitor-General for Public Law, and Andrew Hampton, who’s the new Deputy Chief Executive, who comes from a long and lengthy career in most aspects of the Ministry of Justice over many years. I also have with me a number of officials from the Crown Law Office. I have with me Fiona Leonard, from the Parliamentary Counsel Office—she’s the Acting Deputy Chief Parliamentary Counsel—and a number of her colleagues are with me. Mr Moore sends his apologies as well, but he is in Darwin, I think, for a meeting of parliamentary counsel in Australasia.
I'll make a few comments first about my responsibilities as the first law officer of the Crown, working with the Crown Law Office on a variety of matters, and then I will make some comments about the Parliamentary Counsel Office, and then, obviously, questions may flow.

As Attorney-General and the responsible Minister for Crown Law, I've communicated my priorities for the coming year and they have been included in the statement of intent of the office. These priorities include ensuring that the recommendations of the three recent reviews—and I'll say something about them shortly—are progressed so that Crown Law is as effective and efficient as it can be; enhancing the oversight of public prosecutions, particularly the work of the Crown solicitors, to ensure high-quality and cost-effective services are delivered; developing the Government Legal Service to contribute to better management of the Crown legal risk; and, in collaboration with the Minister of Justice and the Minister for Courts, working to improve the operation of the courts to ensure that justice is delivered as speedily and inexpensively as possible.

I want to comment first on the first two of these priorities, the recent reviews of Crown Law and the oversight of public prosecutions, as each relate most directly to the estimates under consideration today. As the committee may be aware, in the last period three significant reviews have considered and reported on aspects of the work of Crown Law. These reviews were the review of the public prosecution services, which I commissioned and was undertaken by Mr John Spencer; a performance improvement framework review commissioned by the State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet; and, thirdly, the review of the role and functions of the Solicitor-General and the Crown Law Office, which I commissioned Miriam Dean, who is president of the New Zealand Bar Association and a very highly respected Queen’s Counsel, and Mr David Cochrane, formerly of the firm Chapman Tripp, now with Simpson Grierson, and they undertook that review.

All three reviews commented on the generally very high quality of the services provided by the Crown Law Office, but each also made recommendations for improvement. I welcome the findings of these reviews and I am very pleased that Crown Law is making good progress on implementing the various recommendations. This work is a top priority for the Crown Law Office in the coming year.

Implementing the recommendations are largely operational matters for which the Acting Solicitor-General and her team are responsible. By way of an update, staff consultation has just been completed on a proposal to improve the effectiveness and the efficiency of Crown Law by changing the way it’s structured and the way it operates. Work is also well under way to reduce Crown Law’s accommodation costs, which is its third largest expense.
Of particular interest to me is the work under way to progress those review recommendations that relate to the scope and the nature of the Crown Law’s legal work, with a report to Cabinet due later this year. Officials are available to answer any questions the committee may have about any aspect of this work.

As already noted, oversight of public prosecutions, in particular the work of the Crown solicitor network, is of particular importance to me. As John Spencer found in his recent report, the quality of the work of the Crown solicitors, which is a very old PPP—arguably, it’s the first PPP in the history of the country—is very, very high, but the cost of the network has increased considerably in recent years. By recent years I mean the past 5 or 6 years. There’s a very high degree of variation between the costs of different warrant holders, and that’s being looked at.

The Government has signalled for some time now its intention that the level of funding available for Crown solicitors return to the base appropriation as it was in 2008-09, prior to the ad hoc increases that have occurred since then. This is a significant change to make in a single year, especially when case volumes for serious crime are not coming down at the same rate as summary offences. As a result the Government agreed to a one-off allocation of $4 million in the estimates to assist with this transition.

I’ve met with the Crown solicitors, both individually and also as a group, on a couple of occasions, to discuss the need for the service to be financially sustainable without quality being compromised. In recent weeks the Deputy Chief Executive and the Deputy Solicitor-General have also met with each Crown solicitor individually to discuss their plans for managing within the new level of funding. Crown Law itself is in the process of significantly improving its financial management and business analysis capability in order to provide better support to the Crown solicitors.

Chauvel Chris, just on the injection of supplementary funding that you mentioned, is that what the $4 million from the justice fund is?

Finlayson That’s exactly correct.

Chauvel Thank you.

Finlayson Under the change proposal referred to above, these functions will be included in a small, dedicated public prosecution unit to be established within the Crown Law Office. So they are the preliminary comments I wish to make about the Crown Law Office.

About Parliamentary Counsel Office, there are no particular issues I wish to raise this morning, although members may have questions of me. The work output of parliamentary counsel continues unabated, some of it needing to be done in conditions of great urgency. So far as I’m concerned, it’s an opportunity for me publicly to state how all of us, legislators and the executive alike, can be very proud of the work that the Parliamentary
Counsel Office does. I think they’re the best statute drafters in the world. I think the quality of their product is unmatched, and I think we’re very lucky to have them. So that’s really all I wish to say about the PCO. They are a very dedicated and skilful group of specialists.

Macindoe Wonderful. Well, thank you, Minister. That’s a very concise and clear introduction. I appreciate your comments and it allows plenty of time for questions.

Chauvel Just looking at the appropriations for the Crown Law Office, down $9 million for this year and $4 million for the following year, yet you’ve had to, as you say, inject $4 million from the Justice Sector Fund. I mean, I think in previous years we’ve heard at the committee that there’s been an issue about the sustainability of funding, particularly for the conduct of Crown prosecutions line that used to exist as a separate part of the vote. I think the concern has to be that despite the fact you’ve got a forecast for demand dropping in that area, the reality is that hasn’t started to kick in—quite the reverse, which is presumably why you’ve had to put more money in. Have we got an issue with the ongoing viability of that line?

Finlayson No, I believe that there’s been a lot of work done in terms of reviews in the last 12 months, and Mr Hampton’s been appointed as Deputy Chief Executive to work with the leadership team in Crown Law to address some of these issues. From my point of view the bullet has been bitten, so I believe that the next 12 months will see a significant improvement, and I’m very happy at the work that’s been done to date.

Chauvel But in the financial review process it seemed that even if there is a bit of a drop in volume, one of the problems with particularly the larger Crown solicitors’ offices is that they are encountering much more complex cases. Any comment on whether simply cutting the funding will continue to allow them to service the cases as they’re required to do?

Finlayson No, I’m confident that what Mr Hampton’s doing individually with the Crown solicitors—keeping a very close eye on litigation and on the forecasting models—will enable us to address those very issues. Because you are absolutely correct. There have been a lot of legal changes in the last couple of years, and as the Criminal Procedure Act reforms are rolled out we’ll have to keep a very close eye on developments. And it’s certainly true, as you say—and I believe your assessment is accurate—that at least some crime has become much more complex and the front-loading of criminal litigation is quite apparent. So that’s why there’s been this move away from, instead of my going cap in hand to the Minister of Finance and saying: “Oh well, I think—”

Chauvel “I need an extra $11 million this year.”

Finlayson “I need an extra X.” I have to say it’s the only reason why one would want to be Attorney-General and Minister of Finance, as Sir Michael probably
knows, is because he could have a chat to himself and sort it out. But I don’t have that luxury, which is why we’ve had to adopt a more rigorous approach now.

Hampton Just further to the Minister’s comments, as well. With regard to the numbers, the number of cases that the network disposed of was only 2 percent higher last year than it was 5 years ago. So the volumes aren’t going up—if anything, they are trending down, just not as fast as the earlier forecast said. There are those issues of complexity, definitely, which have added to that increase in costs, but, as the Minister touched on, there is considerable variation between Crown solicitors on the average costs. Some of them dispose of cases for half the price of others. So what we’re trying to do is work with the Crown solicitors to understand what are the actual drivers of the cost, identify what is a reasonable cost for that activity without compromising the quality, and then have a more sustainable funding model, because, as I think everyone would accept, a 60 percent increase in funding over a 5-year period when the number of disposals haven’t increased anything like that suggests there is some efficiency there.

Chauvel But isn’t it obvious that the Crown solicitor at Auckland is going to have more complex cases, not simply because of the sort of criminal work that arises, but because of the sort of litigation that hangs off high-profile cases? You think about the Urewera litigation, you think about Dotcom, you think about the teapot tapes. I accept that they didn’t manage all of those through all stages of their litigation, but high-profile cases where the Crown’s interested in a good outcome—you may or may not get a good outcome—don’t those just have to be well resourced? You’re not going to get those at the Crown solicitor’s office in Napier.

Hampton The funding model that the Government has confirmed for the coming year factors in past billing practice. So a firm like Meredith Connell in Auckland, their funding available for the coming year takes into account that they already do a higher proportion of these cases. The problem we have, though—

Chauvel And yet they’re going to have to make do with 9 percent less this year.

Hampton All Crown solicitors have to make do with 9 percent less. We differentiate between the Crown solicitors based on their average costs over time. But I think the key thing to be emphasised is that a 9 percent drop only takes you back to what it was 2 years ago. When you have a situation where you have two Crown solicitors only a few hundred kilometres apart in similar-sized centres, doing the same job for significantly different costs, suggests that there isn’t a clear understanding of what’s actually driving the cost, so what we’re trying to do is move from what essentially has been an accounts payable model, where the Government has paid the bills that come to us, to one that goes: “OK, what is the cost?” But it’s got to be one that differentiates between the standard predictable work of the court and the more complex cases that you get in Auckland.
The outliers. The complex fraud cases would be an example of that.

And this year is all about gathering the necessary data to be able to implement that type of model. So that’s why in the coming year we’ve had to be blunt, we’ve had to do percentage cuts based on people’s previous billings to get us through the current year with the help of the $4 million, so next year we’ll have the data to have a more sustainable model in place.

But complex fraud cases would be done by the Serious Fraud Office.

Well, I’m thinking of Mr Dick ey from Meredith Connell—he’ll do some.

Not as part of this vote, though.

You are quite right. Much of his work would come out of the FMA.

For post-committal serious fraud work, it does come out of the pool of funding that Crown Law has. There is a separate line for serious fraud prosecutions for people off the panel, and that hasn’t been reduced. So it’s stayed the same from year to year.

On a case—say, a mutual assistance case like the Dotcom litigation, where you’ve had to effectively devote a lot of resource to it without much choice, because you have to do it, the American—the treaty we have with the United States requires it. There are many mutual assistance cases like that, just not as high profile, that the Crown solicitor in Auckland will just have to deal with that. It’s really very difficult to kind of estimate it.

No, you’re quite right. Extradition, mutual assistance—they’re ad hoc and there’s no pattern to them. That funding comes out of the Crown Law vote. Although it is fair to say that Ms Gordon, one of the Senior Counsel, she is dealing with an aspect of that particular case.

So is that now entirely in the hands of the Crown solicitor in Auckland, as far as day-to-day management of the litigation’s concerned?

No, that’s out of Crown Law.

So what’s Ms Gordon’s role?

She’s acting as counsel.

So she’s instructed on the day-to-day litigation.

That’s right.

And the funding for her doesn’t come out of the Crown solicitor funding pool either, because of the nature of the proceedings.

The nature of the instruction.
Chauvel                Just one other question on this general issue. Do you agree that it’s desirable to get the leadership of the office finalised as soon as possible?

Finlayson            Yes, and that’s an operational matter, which the team are working on.

Chauvel                No, I mean do you agree that it’s important to appoint a new Solicitor-General promptly?

Finlayson            Oh, yes. Yes, indeed.

Chauvel                And is that in train? Do we know when we might see—

Finlayson            I can tell the committee that interviews have been conducted. I had a discussion yesterday with the State Services Commissioner and Helene Quilter, his deputy, and hopefully I’ll be in a position to talk to my parliamentary colleagues about that within the next week or so.

Calder               Supplementary on that, Minister. Do you think with the new appointment may come a change in the role of the Solicitor-General at all? Do you envisage any change?

Finlayson            My candid view about the role of the Solicitor-General as it’s developed in recent years is it’s a huge job. I’d venture to suggest it’s one of the biggest jobs in government. The Solicitor-General has been required to be a chief executive of a Government department, provide sometimes instantaneous advice to Ministers, and has to be an advocate. So I pose this hypothetical to you, Dr Calder, that the Solicitor-General’s appearing in the Supreme Court on a matter, comes back to the Crown Law Office, instead of being able to sit down and review matters in preparation for the next day’s hearing, might be called over to a meeting with Ministers, and then may have to deal with a chief executive matter.

So what we’ve tried to do, and what the review—I had originally thought that one could separate out those positions so that the Solicitor-General would be primarily advisory and as the nation’s top lawyer appearing in the Court of Appeal, sometimes the High Court, and the Supreme Court, whereas there’d be a Chief Executive in State Sector Act terms. The review commissioned by me and conducted by Miriam Dean and David Cochrane concluded that, no, that would be a mistake for the person who was Chief Executive to be someone other than the Solicitor-General, but that there needs to be a Deputy Chief Executive to assist—almost like the managing partner of a law firm, to do much of the management. And that is why Mr Hampton was brought across from the Ministry of Justice.

Blue                Thank you, Minister. Last week we had the Judicial Conduct Commissioner and his deputy with us, David Gascoigne and Mr Alan Ritchie, and they described the challenges their offices face. I’d be very interested to hear if you have issues or concerns about the judicial complaints procedures.
I’m keeping a very close eye on that because there’s certainly been an explosion in the number of complaints. I guess one could categorise them this way. There are those who have a genuine grievance: they are concerned at—I’ll refer to something Sir Robin Cooke once said in a case—the cetacean-type gestation period of a case from the time of trial to the time of judgment, and they complain about that or the way they’ve been spoken to in court. Then there are those who individually decide they are going to pay someone—the presiding officer—back for the way they were treated. And then there are those who have declared war on the system. And the number of complaints has exploded in recent times. There are a number of those complaints, and I can think of one person—I’ve been told—who has about 47 complaints. In other words, the case is heard and then a complaint is lodged. It’s almost standard interlocutory procedure.

So I’m having a look at the legislation. I’ve yet to talk to the Minister for Courts and the Minister of Justice about it, and to other parties in Parliament. I think there does need to be a mechanism by which legitimate complaints are raised, and if you simply go to the head of bench or the judge, that can be quite intimidating for people. So there needs to be that independent complaint person, but at the same time this complaints procedure cannot be used as a mechanism to attack the system.

Sure. I think we’re all on the same page. The committee felt the same way and we’ve actually asked the commissioner to come back so we can see what we can do to help and assist, and if there’s anything in the Act that we can change. So this is clearly an area that you are—

It’s a huge area. It’s a very important one. I would suggest that the combination of vexatious litigants and abuse of judicial complaints in order to force judges to recuse themselves—they’re a major cause of delay and cost in litigation in this country. Certainly, if I can say this, Sir David has been working very, very hard on it. Mr Alan Ritchie, his deputy, is working hard on it at various times. I am very grateful to the Ministry of Justice, because I raised it with Mr Bridgman and he made additional resources available. The former dean of the law faculty at Victoria University, Professor Brian Brooks, has been working on some, so it has been all hands to the tiller, but, as you yourself would have known from the number of complaints, there are a lot.

And very few are upheld or they fall outside the jurisdiction. So there’s a lot of—but by law the commissioner has to look at every complaint fully.

Absolutely, because if he doesn’t—well, even if he does, frankly, some people are going to judicially review him, come what may. It is a weapon that is being used by people to screw the system.

At the moment complaints can go direct to the JCC, and on the website there’s a link. They can do it. So it’s quite easy for the public to access. They
can also go to the head of bench. Is that correct? They can write direct to
the head of bench, and they can—

Finlayson Yes, but the idea is that when this system was introduced, it was designed—
and I think this is why the judges were very much in favour of it initially—
as just a filtering system.

Blue Thanks for that. I think the committee will be following that up later this
year.

Finlayson I just wonder whether there is an opportunity, once the Law Commission
report on courts is out, to look at this question. Well, I know that they’ve
addressed vexatious litigants. That’s a big issue. But under the current law
it’s very hard to have ones declared vexatious, so there are lots of Albert
Haddocks out there. But we do need to do something about having a good
look at the judicial complaints legislation to make sure that legitimate
complaints are dealt with justly and expeditiously, but a lot of these
vexatious ones are dismissed fairly early on in the piece.

Chauvel It’s been 4 years since we had a silk appointments round in New Zealand.
What are your plans?

Finlayson The legislation has a category 2. I know that you have particularly strong
views about the antediluvian nature of the—

Chauvel But I wouldn’t mind if you wanted to make new appointments pending
your attempts to pass the legislation you have on the Order Paper.

Finlayson Oh, that’s certainly helpful, but I would like to think that before the end of
the year the legislation will be in place. You could, of course, agree to it and
it could sail through.

Chauvel But why on earth wouldn’t you make new appointments in the meantime?

Finlayson It reeks of Fitzgerald v Muldoon to me.

Chauvel No, you could make SC appointments.

Finlayson Oh, I could make SC—I see, not make Q—well, there is actually a
legitimate argument about whether they could be made under the royal
prerogative anyway, but, given that it’s expressed in legislation, it’s probably
best to go down the legislation route.

Chauvel Do you think it’s done any harm to the profession to require people—given
that you do think that there’s some merit in the title “Queen’s Counsel”, so
you clearly agree that there’s a role for people to be designated leading
members of the profession, has it done any harm to effectively preside over
a hiatus in appointments for 4 years?
Finlayson  I have to say I’m not too fussed. The good people are always hunted out. I can think of any number of senior juniors, as they are called, who are doing very senior work. But the point you make is a very fair one—that the sooner we get on with it, the better.

Chauvel  But, given that it’s had pretty low priority to date, it’s clearly not an issue of high priority for you. Would that be fair?

Finlayson  Oh, well, given my interactions with the Law Society and the Bar Association, I hear the same things you hear, Mr Chauvel. We all know lawyers would it regard as a very significant piece of legislation.

Chauvel  Well, I think I was clear with you when you spoke to the—I can’t remember now whether it was this committee or the Regulations Review Committee on this point. You know, there’s the Jack Hodder view that we shouldn’t have any status accorded the Crown—it’s all artificial. I mean, that’s one view. But you’ve taken, clearly, the view that there ought to be a reversion to the old, as you put it, antediluvian system. I just wondered whether you thought it was problematic that we were in a sort of Jurassic hiatus in the meantime?

Finlayson  I think the rank, it’s nice to have. It’s quite useful internationally, but it’s not the end of the world. But, anyway, the point is well made, and it’s certainly a category 2, so it needs to be jollied along.

Chauvel  Another question on legislative priorities—the Legislation Bill. One hears from, I think, parliamentary counsel, again in the estimates process, that your intention is to withdraw that bill, combine it with the ACT Party -initiated Regulatory Standards Bill, and return it to the House. First of all, is it correct, and, secondly, do you intend to make any announcement to that effect?

Finlayson  That is being looked at, although you would understand that any part—and there is some very good material there. Essentially that kind of material has to be apolitical, because otherwise—I think you yourself may have made the point—you just have another administration come along and insert different things. So we have to try and sign up to something that all parties around this table can say yes, that’s an acceptable standard that needs to be referred to in legislation. And I’m working on that.

The other thing I’m working on, and maybe it’s an exercise too far, is that when the report of the Law Commission came out, they also talked about addressing various issues in the Interpretation Act. So I’m actually quite keen, while we have this opportunity, to look at some of those issues. If it proves too difficult, we’ll just get the Legislation Bill back into the House. But I can talk to you about that separately.

Chauvel  Well, I think, given—just to finish the point—it’s a similar point to the silks, isn’t it? You could get the Legislation Bill through tomorrow because there’s consensus around the House on its importance. It updates an arcane
area of the law relating to delegated legislation, and I think everybody agrees it’s timely. It gives the PCO a proper statutory footing. The Regulatory Standards Bill, as you know, is a very different kettle of fish. It has excited debate across the House. It’s seen as an ideologically driven piece of legislation, as I say, from ACT. So is it really realistic to hope that you could combine the two, and wouldn’t you be better just to get on with the Legislation Bill?

Finlayson

Well, you could well be right, but that’s what I’m exploring at the present time in addition to the Interpretation Act material, which, 13 years on, probably there is some work to be done with interpretation. A couple of matters do need to be addressed there. So if we can tidy those up, well and good. The point is that if we’re to have regulatory standards in legislation, we can’t have ideological ones that are amended every 3, 6, 9, 12 years.

Ngaro

Minister, you’ve had a number of reforms in the last year in your portfolio areas. Could you just explain the reforms in regard to Crown solicitors and the organisation and remuneration?

Finlayson

As I said, the Crown solicitor network is a very old public-private partnership. Although the Crown is constitutionally everywhere, physically it’s not, and so the Crown solicitor network was developed so that, for example, someone would be given the warrant in the Hawke’s Bay to act for the Crown in relation to serious criminal matters. When I first started practising law, you’d go down to court on a Wednesday and Mr Toogood would be down there from Luke Cunningham and Clere dealing, for example, with a whole range of bankruptcy matters and so on. So the networks have grown; it’s a very efficient way of having private providers deal with these important types of cases.

As I said to Mr Chauvel, in recent years, though, the cost of it has expanded and so the challenge for us—and that’s why Mr Hampton has been so active in this area—is to see what we can do to maintain the network, because Mr Spencer, who has been heavily involved in Tainui’s commercial arm, he’s now helping Ngāti Raukawa—a very experienced commercial operator—he took a look at it, said: “Yes, great system, works well, but there have been these cost pressures on it, which have to be addressed.” And that’s what Mr Hampton is doing.

Chauvel

The characterisation of the Crown solicitor network as an efficient PPP is an interesting one. On the defence side, many people thought for many years that having legal aid solicitors in private practice was a very efficient PPP as well, and yet clearly the policy of your Government is to expand quite largely the Government-employed lawyers who will be in the public defenders office. Do you see an inconsistency between the two approaches?

Finlayson

No, I think that the public defender system will never replace private providers and would be entirely inappropriate. But for a lot of the basic stuff—the remands, maybe the pleas and mitigation, some of the more
It is possible for the PDS to do that work. If a specialist criminal barrister needs to be briefed to do a particular trial, so much the better. So I think it’s a system that can work in hand in hand very well.

So you’d see the PDS only doing very simple matters, rather than attempting complex criminal defence?

Oh, no. Well, I think it depends on the people involved. I think the opportunity for a young practitioner coming out to be blooded in the PDS is there and it’s good: learn the rules of procedure, master the rules of evidence, and so on, and then perhaps move on from there—and I think this has been the pattern, actually—to the criminal Bar. I think they work, and it could well be that a more substantive type of case could be done within the PDS. It depends on the people and the circumstances. The critical thing is to make sure that the accused has good legal representation, because it’s fair to say that there are too many cases that go to the Court of Appeal and the first round of appeal is: “My lawyer was incompetent.”

Minister, in your summary you mentioned there’d been a plethora of reviews, and some changes are mooted in the Crown Law Office. What, in your view—would you like to elaborate on the more significant changes that you—

Yeah, I’ll ask Mr Hampton to address that, because they are very much operational. I’m interested in the end product, and the fact of the matter is that from time to time cases may not go the way we want—like, for example, yesterday the Supreme Court issue. Two judgments. One where there was a complete and utter victory on behalf of the Crown was the case involving leaky homes in Auckland—the Grange—a huge win for the Crown. I’m not so much interested in, if you like, the legal end of work, because, I have to tell you, Crown Law lawyers are very, very good lawyers, and their work product is superb. It’s the way in which the office is organised.

There are really four key areas of focus at the moment. One we’ve already spent quite a lot of time on is the Crown solicitor funding project, which I won’t touch on again. The most immediate other priority is the work that’s under way looking at Crown Law’s structure and, in particular, its corporate and support functions. I can’t really go into too much detail about that, because a proposal has gone out to staff for consultation, and consultation just closed, but it is essentially picking up on the recommendations of the various reviews, particularly the PIF review, and looking at how we can align ourselves in a way that best supports the Government when it comes to providing high-quality legal advice.

The third leg of it is one that the Minister touched on around accommodation. The Government overall has a high priority on better utilising the space that is leased or owned by the Government. It’s one of
the biggest single users of space in Wellington, for example, and so we are working with other agencies to explore what are our options, at least in the future, for Crown Law to reduce the amount of space it uses and therefore save money for Government. Then the fourth area—and Dr Palmer’s probably better to talk about this than I—a lot of the reviews, particularly the Dean-Cochrane review, talked about Crown Law, just looking at the nature of the legal work it does, and so we have a fourth project under way, which Matthew is leading, looking at that area.

Palmer I can say very briefly about that that the Dean-Cochrane review made a number of recommendations about the Cabinet directions, which go to the heart of the role of the Crown Law Office. And we have an internal project, which is sweeping up those recommendations, putting them into a form that the Attorney can consider in due course, and then to be able to consult with his Cabinet colleagues about them.

Chauvel Turning to the Parliamentary Counsel Office, if that’s a good opportunity. A question that arose during the estimates process was whether or not the office could cope with an acting—I’ll use the term loosely—chief executive for, what, a period of 4 years while the incumbent’s in the UK.

Finlayson But hopefully he’ll be back in September, and I’ve got that constantly under review. I actually see some—it’s been quite a useful exchange. Mr Noble is a very fine public servant in both jurisdictions. At the moment he’s working, I think, in the Cabinet Office in London, dealing with issues like succession. So the linkages are still there, but I think that we are—without being oleaginous—very, very lucky to have a deputy in Bill Moore, who has had his entire life in the Public Service, in the Ministry of Justice as a legal adviser and as a very strong and capable deputy. So the short point is I have absolutely no concerns at the current arrangement, but I’m keeping it under review because if, for example, Mr Noble wanted to stay for an extended period, we’d have to take a fresh look at it.

Chauvel You specifically had to get legislation through the House to authorise the current set-up, and I think that was done just before Mr Noble went to the United Kingdom. I mean, would you say, in principle, that this sort of absence of a chief executive for an extended period of time—a number of years—is a thing that we could see in other departments?

Finlayson Well, I think there’s a lot to be said for exchanges from time to time. I don’t think you’d want to make it the norm, but in some circumstances I can see there are positive benefits. And I know, for example, that Briar Gordon spent some time—do you know Briar? She’s, again, a very senior person—

Chauvel Yes, we worked at the Crown Law Office together.

Finlayson Oh, well, there you go. Well, she was in Crown Law and then she went to PCO. She spent some time in London. So I think this cross-fertilisation is a
really good idea, and it can only be to the benefit of both jurisdictions. But, as I say, you wouldn't want to sort of have people darting and diving off everywhere on a regular basis, because that may not be so clever.

Chauvel: So if Mr Noble doesn’t come back in September as anticipated, you’ll review the situation?

Finlayson: Correct.

Chauvel: Thank you.

Macindoe: Minister, I appreciate that Dr Palmer and Mr Hampton have been replaced now by your PCO officials, but we may still also have some overlap between the two topics.

Finlayson: No, that’s fine.

Shanks: I want to talk about the appointment of judges and what’s your opinion on our pool and what we’re doing to ensure that we’ve got a really well-resourced pool for you to be able to appoint from.

Finlayson: Yeah, I was told I wouldn’t—Dr Collins, when he was Solicitor-General, told me I wouldn’t be making that many judges. I think “recommending for appointment” is the correct constitutional term. I think I’ve recommended for appointment about 30 District Court judges, nine High Court judges, six Court of Appeal judges, and two Supreme Court judges, and there are a few further appointments to be made. A lot of people say it’s not transparent. It’s not that the process is not transparent; I think that it’s not known. And I could happily trot through what I do.

Blue: Yes.

Finlayson: With the District Court, the Chief Judge will say to me: “I have a particular need for a certain number of judges to replace x, y, and z.” And what normally happens is that advertising takes place, people apply, they’re interviewed by a mixture of Ministry of Justice and judicial people, and they come to me with recommendations and I go tick, tick, tick. I can’t think of any situation in recent years where I’ve said: “Certainly not that person.” or “What about that person?” So it’s a system that works very well.

With what they call the superior courts—which is a pejorative term but it simply means the High Court, Court of Appeal, and Supreme Court—what I try and do is consult as widely as I can with the Law Society and the Bar Association at the beginning of the year and with the judges to find out what sort of vacancies could be coming up, and you know because at a certain time there are going to be retirements. When a judge hits the age of 70, he or she is retired, and so then what I do—well, what happened when Dr Cullen was the Attorney was he would phone me and we’d have a chat about these things, and Mr Chauvel and I have had a discussion about that. I’m very conscious that when you’re dealing in a multiparty environment
there are Supreme Court appointments—I mean, the last thing we want is to get to a situation of the United States Senate Judiciary Committee - type hearings, but I am always open to see ways in which we can have proper consultation to ensure that the right candidates are selected. And the Law Commission report had something to say about that fairly recently.

So what I propose to do—some people have said, Katrina, that it’s all a bit vague, but actually there is a system. It’s operated across administrations very well. It does involve bringing your opposite numbers in and consulting on grounds of confidentiality. So what I think could be quite helpful—and, indeed, I’m working on it—is preparing a paper on it and getting it out there so that people understand the system, and then talk to political parties in the context of the rewrite of the Judicature Act and District Courts Act to see whether you have any particular views about it. It must never be a partisan activity, and we’ve been very lucky across administrations that it hasn’t been.

Blue I think there are about 244 judges in New Zealand. Would that be about the right number?

Finlayson Yes.

Blue Do you think that number’s about right, or too many, or not enough? And do you have any view on that or are you guided by the head of benches, really?

Finlayson I have to be ultimately guided by the heads of bench. The Ministry of Justice was doing some work on District Court judges and told me that their initial indication was that there were—what was the figure, Charles?

Chauvel Twenty-two too many.

Finlayson I said: “Oh, that seems a bit odd to me, but anyway, continue on with your work.” I think the real issue is not so much—I think the number is about right; it’s where they are. For example, if I can use the situation of Gisborne, which I don’t think has been particularly well served in recent years, it doesn’t have a resident judge. So judges are flying in from Auckland, and as a consequence a lot of cases are being remanded and so on. It’s entirely unsatisfactory, from my point of view. And so the Chief District Court Judge and I have been working on how we can improve the situation there. South Auckland is an example of an area where I have recommended for appointment a number of District Court judges, because that’s one of the fastest-growing areas. It’s fair to say in Wellington in the 3½ years I’ve been Attorney-General I’ve recommended for appointment one person in Wellington. So it really is population trends and so on more than raw numbers of judges, and it’s something I’m working on.

I’m also conscious we bumped the cap up a year or two back. I’d been receiving a number of complaints from practitioners about the large number of temporary judges. There’s one barrister of this town who refers
to them, quoting a Scottish law lord, as a cheap and nasty form of justice. So I’m conscious not to have—one has to be mindful of that as well.

But have we got about the right number? Well, my gut feeling is yes. We keep it constantly under review, particularly with some of the changes that have been made by Mr Power when he was Minister of Justice, and just making sure that—obviously we just don’t make them for the fun of it—everyone’s got a job to do.

Calder  Minister, what determines the appointment of a temporary judge, and how long would they normally be appointed? Why do you appoint a temporary judge, for instance?

Finlayson  Well, in the High Court I made one judge who reached the age of 70 a temporary judge for a year because two High Court judges are currently tied up dealing with the royal commission on the Pike River disaster and also the Christchurch inquiry, and so I needed to have a little bit of cover for that. In the District Court temporary judges—at one stage there were about 45 temporary judges, which I thought was unsatisfactory. There was a protocol signed between Dr Cullen and the late former Chief District Court Judge, Judge Johnson, about the circumstances in which they’d serve from 70 to 72, and the idea is that if there is a gap that needs to be filled, there’s a large trial coming up, someone can be called on. Also, some temporary judges have retained their warrants so that they can sit on the Parole Board as panel chairs.

Calder  So it’s for maintaining access to skill capacity—a reservoir of skill capacity, effectively?

Finlayson  Correct.

Calder  Thank you.

Blue  For clarification, so temporary judges are retired judges, usually?

Finlayson  Temporary judges are judges who have either reached the age of 70 and wish to step back—well, they have to—or have served a period of, say someone went on the bench at the age of 43, at 63 they’ve been on for 20 years but they’ll retire as full-time judges and hold a temporary warrant for a period.

Blue  OK. Right. Thank you.

Chauvel  Just on the issue you raised about the work that the Ministry of Justice did on the ideal number of District Court judges, I think you said they came to you and they said there was this surplus. You said, basically: “Go away and do some more work.” My understanding is they have written back to the Chief District Court Judge maintaining the accuracy of their estimate, notwithstanding the representations made from Her Honour indicating that
there were real problems with the calculations that they’d used. I mean, where is this issue at?

Finlayson Well, you raised the issue. In fact, it was presented in terms that I’d be going around with a machete disposing of judges. It’s constitutionally impossible for me to do that, because judges are appointed, and retire at the age of 70, unless there’s bad behaviour or they’re impeached or something. The reality of the matter is that between now and 2014 there will be about seven judges who reach the age of 70 and therefore statutorily have to retire. I’m actually quite relaxed about the exercise, because I would expect my officials to be giving me advice from the Judicial Appointments Unit on these matters. My task is to ensure that the judiciary is well served, that there are people who are able to do the job to ensure that justice is accorded to everyone in this land who comes before the Queen’s courts, and I am keeping a very close eye on it. I would expect that there would be debate within the office about those sorts of things.

Chauvel So in respect of this issue, you’re happy for justice officials reporting to you to continue their dialogue with the judges on the ideal number of appointments that should be made?

Finlayson Oh, well, I mean, I’m, for example, in a position where I believe that within a relatively short period of time there are going to need to be further appointments in the Greater Auckland area.

Macindoe Minister, we’ve just about run out of time. I wonder if I could ask you—and I’m sorry, this is slightly outside the scope, but in view of another item of business on our agenda today you may be able to assist. You’ll be aware that last night the House considered a bill in the name of Dr Kennedy Graham on the register of judges’ pecuniary interests. I don’t want to get into the issue there, but just to advise you that our committee has now had that bill formally referred to us, and our standard procedure is, of course, to open it up for public submissions.

We are conscious of the fact that the Law Commission is probably towards the end of its review of the Judicature Act and that a report is expected. It’s our view that probably it would be helpful for those who might want to submit on the issue to be aware of the Law Commission’s recommendations before we ask for those submissions to be in. I’m just wondering, can you give us an idea of—do you know of the time frame for when that report is expected and when it might be available for submitters? And we’ll factor that into our deliberations.

Finlayson I think it’s within the next couple of weeks, actually. From what I understand, the report will be finalised and will be available very soon, and then, obviously, the Ministers—the Minister for Courts, the Minister of Justice, and I—will need to have a talk about it and whether one has a courts bill or a District Courts bill and a revamped Judicature Act. And within that there’ll be a range of issues that will need to be looked at. I’ve
heralded vexatious litigants and this issue that’s been adverted to by the Law Commission. So it’s a very important issue, and I thought the debate yesterday raised a number of extremely important issues that will need to be looked at very carefully.

The whole issue of recusal—interestingly enough, there’s no better person to write a report on it, because the president of the Law Commission wrote a paper on recusal of judges or judges stepping back. It’s an issue that often comes up, and it’s surprising—as I understand it—that it’s a question of the theory’s all very good but the practical application of it is not always adhered to. That’s where perhaps things went wrong in the Saxmere litigation—not so much there a question of pecuniary interest disclosure. But they’re very, very important issues, and I think the various speeches captured what needs to be looked at.

Macindoe Thank you for that. I apologise for asking you a question slightly outside your portfolio area, but obviously our committee wants to ensure that we have a sensible framework and time frame to work within. Could I also apologise—I only realised a short time ago that this was actually supposed to start at 10.15. I think we were all of the view that we were starting at 10.20, so I probably kept you all waiting outside a little bit longer than I should have done. I apologise for that, and I hope I haven’t detained you unnecessarily. But thank you very much, Minister, and to all the officials who have been with you. I think it’s been a very wide-ranging and fruitful discussion. We appreciate your time, and we look forward to completing our deliberation on this item.

Finlayson Thank you very much.

conclusion of evidence
2012/13 Estimates for Vote Audit

Report of the Finance and Expenditure Committee

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2012/13 ESTIMATES FOR VOTE AUDIT

Vote Audit

Recommendation
The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Audit as set out in Parliamentary Paper B.5, administered by the Office of the Controller and Auditor-General, be accepted.

Introduction
The appropriations sought for Vote Audit in 2012/13 total $83.532 million, an increase of just under 3 percent from estimated actual spending in 2011/12.

The main increase is for departmental capital expenditure, which rises to $4.394 million for the Controller and Auditor-General’s move to new Wellington premises (from $1.152 million in 2011/12). The appropriation is authorised by permanent legislative authority under the Public Finance Act 1989.

Over 80 percent of the vote is for the 4,000 or so annual audits of the financial reports (and, increasingly, the performance reports) of public entities. It is a “revenue-dependent appropriation”, the cost being recovered from the entities audited. The appropriation is estimated at $68.868 million in 2012/13, slightly less than in 2011/12.

The balance of the vote, totalling $9.272 million in 2012/13, is for the Controller and Auditor-General’s work in support of Parliament’s role of ensuring accountability for public resources. This includes providing reports to Parliament and advice to select committees ($2.685 million), and the more discretionary work of undertaking performance audits and inquiries relating to public entities ($6.587 million). The amount sought is slightly less than in 2011/12.

Role and resources
The Controller and Auditor-General carries out her role independently of both the Government and Parliament, but as an Officer of Parliament she is accountable to Parliament for the resources used. For this reason, the Speaker of the House addressed funding issues at our hearing, leaving the Auditor-General and her deputy to answer questions on policy and operational matters.

The Speaker told us that, apart from the extra capital cost to fit out the Wellington office, the appropriation for operating expenses is basically unchanged this year. This is likely to place pressure on the office in 2012/13, as it has recently agreed to undertake four new inquiries which will require some outside expertise. He commented that the office might need to seek a supplementary appropriation for this purpose. Any proposal would be considered by the Officers of Parliament Committee.

The Auditor-General said that she believes she has adequate resources, with two provisos: funding pressure could come from the need to employ expert auditors and QCs for the
inquiries the office has agreed to undertake; and staff movements could lead to increased costs as the job market for accountants seems to be picking up. We asked about the office’s options if additional funding were not forthcoming in these straitened times. The Auditor-General told us that the Officers of Parliament Committee assesses resource needs carefully, and its recommendations are normally accepted by the Government. As a last resort, the Auditor-General said, she could report publicly if she felt that funding was inadequate to do her job properly, but this was not a measure she would use lightly.

Comparisons with other Officers of Parliament

We value the independent and powerful role of the Officers of Parliament—the Controller and Auditor-General, the Ombudsmen, and the Parliamentary Commissioner for the Environment—in New Zealand’s democratic system. We would not wish to see their offices constrained by a lack of resources. For example, we are aware that the Ombudsmen’s resources are stretched as they deal with growing numbers of complaints, which has constrained their ability to deal promptly with such matters as Official Information Act requests. The Auditor-General told us her office was not constrained by inadequate resources from addressing any particular major issues. Smaller issues often crop up—at any one time the office is evaluating 20 to 30 requests for inquiries—and the office has to make considered judgements about which ones represent a good use of resources.

We are interested in the resources provided to the Auditor-General relative to other Officers of Parliament, and whether their work allocation represents best value for taxpayers. For example, we note that the Auditor-General has carried out inquiries into water and biodiversity issues, which would seem more suited to the scientific expertise of the Parliamentary Commissioner for the Environment. We wondered whether the allocation was determined by the greater funding available to the OAG—about $9.3 million a year, compared with the commissioner’s $2.6 million. The Auditor-General agreed that the commissioner is clearly best placed for work on scientific matters, while her office covers public management, governance, and money matters. She said it was coincidental that both officers were working on biodiversity issues, but they have consulted each other to avoid overlap and ensure the best use of resources. More generally, the two are now coordinating their work programmes better to avoid duplication and to suit their areas of expertise, and they are open to the possibility of joint work. Apart from completing the biodiversity inquiry, the Auditor-General is not proposing any work on environmental issues in the current year.

Inquiries

As well as the Auditor-General’s core role of annual audits of public entities, she can choose to inquire into issues regarding the way public entities use their resources. While inquiries often originate from external requests, the Auditor-General is responsible for determining the nature and scope of any inquiry she decides to conduct. In 2012/13 the Auditor-General plans to conduct four major inquiries, into the following matters:

- aspects of Board-level governance at the Accident Compensation Corporation
- the Kaipara District Council’s management of the Mangawhai community wastewater scheme
2012/13 ESTIMATES FOR VOTE AUDIT

- the Ministry of Economic Development’s expressions of interest process for proposals to establish an international convention centre
- the decision by the former Associate Minister of Immigration, Mr Shane Jones, to grant citizenship to Mr Yong Ming Yan (also known as Yang (Bill) Liu).

We note that the first two of these inquiries were signalled in the Auditor-General’s draft annual plan, while those into the SkyCity convention centre and the immigration decision were launched in response to more recent requests. The Auditor-General has not carried funding over from the last financial year and so may face resource pressure in completing these inquiries. We asked whether there is scope to charge for inquiries, and were told that they are normally funded from the Government appropriation. Occasionally, an entity will request an inquiry that involves a strong element of assurance, and may agree to meet the cost of any external experts the office needs to use.

The Auditor-General is still scoping the work involved in the inquiries, but expects to complete most of it within the normal time-frame of two to three months; the Kaipara inquiry may take longer; the norm for a very large inquiry is closer to a year.

Audit services and costs

We discussed with the Auditor-General our concern about the increasing complexity of the requirements under International Financial Reporting Standards (IFRS). As financial statements become more complex, the cost of the service performance audits her office undertakes increases, and public entities have complained about the compliance burden. The Auditor-General said she shares our concern, and has been involved in an international working group to try to simplify the requirements and so reduce the compliance costs of IFRS. The group’s report in 2011 concluded that such extensive mandatory disclosures in financial statements can obscure more meaningful information, and it recommended ways of trimming financial statements by about a third. The Auditor-General said it was taking time to get international bodies to agree on simplified rules, but efforts are continuing.

Within New Zealand, it has been decided to adopt International Public Sector Accounting Standards for public and non-commercial entities, so that many smaller organisations will be able to prepare simpler accounts and will not require an audit. The Auditor-General said she is working with the Ministry of Economic Development and the External Reporting Board on implementing the changes.

Audit fees

Much of the Auditor-General’s revenue comes from the fees charged for the annual audits of public-sector entities, including local governments and schools. We asked how it is ensured that the charges and quality are reasonable compared with the private sector. The Auditor-General explained that considerable effort goes into ensuring that the fees and hours charged are fair and efficient: for balance, about half the audits are undertaken by Audit New Zealand and half by a wide range of private-sector firms, and its extensive database of the fees charged is independently audited. In some cases fees are negotiated down. The office publishes some information about how the fees are set and auditors allocated, but for the sake of brevity in its annual report, it focuses on the most important data. We were reassured by this explanation, but suggested that the office might consider...
publishing more extensive information, as we are aware of some concern among audited entities that they have little say in the process. The Auditor-General justified not using a competitive selection process for auditors on the grounds that the current selections were less expensive, more independent, and of higher quality. She said her office was happy to provide more information to anyone who requested it.

**Crown retail deposit guarantee scheme**

In September 2011 the Auditor-General published a report on the Treasury’s implementation and management of the Crown retail deposit guarantee scheme. The report found that the scheme achieved its objective of stabilising New Zealand’s financial system during the global financial crisis, but that there were inadequacies in the Treasury’s monitoring during the initial five months of the scheme. We asked whether the Auditor-General plans to follow up her report by attempting to quantify the extent of the additional loss to the Crown for which the Treasury could be held accountable, as the Treasury had recently indicated to us that it did not plan to do so.

The Auditor-General said she would be following up the four specific recommendations in her report, but had no plans to go further. She did not know that it was possible to audit the hypothetical cost of the scheme had the Treasury done certain things differently; nor did she consider that her office would have the expertise or the mandate to do so, as it would involve questions about the behaviour of private-sector entities. She noted that the committee had not asked for such work to be undertaken when it considered her draft work programme. However, the Auditor-General undertook to discuss with the Treasury what information it intends to provide when all recoveries from finance companies are eventually wrapped up, and she will assess whether her office can provide any assurance work on the issue.
Appendix A

Approach to this examination
We met on 20 June and 18 July 2012 to consider Vote Audit. We heard evidence from the Speaker of the House, Dr The Rt Hon Lockwood Smith; the Controller and Auditor-General, Lyn Provost; and the Office of the Controller and Auditor-General. We received advice from CST Nexia.

Committee members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Dr Nick Smith

Evidence and advice received
We considered the following evidence and advice during this examination:

CST Nexia Audit, Briefing on Vote Audit, received 20 June 2012.

Estimates briefing paper for Vote Audit, prepared by committee staff, dated 20 June 2012.

The Speaker, Response to standard Estimates questionnaire.

Response to additional questions, received 5 July 2012.
Appendix B

Corrected transcript of hearing of evidence 20 June 2012

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Nick Smith
Dr Jian Yang

Witnesses
Lyn Provost, Controller and Auditor-General
Dr The Rt Hon Lockwood Smith, Speaker
Phillippa Smith, Deputy Auditor-General

McClay: Mr Speaker, good morning. Welcome to the Finance and Expenditure Committee. It is a pleasure for us to have you with us, and before us today. We have a hearing of evidence on Vote Audit. We have the auditors of the Audit Office who have just made a brief presentation to us. Can I caution you and say that my colleagues have asked that where they ask a direct question I seek a specific and direct answer from you. Can I now offer you the floor for any comments that you would like to make.

Cosgrove: And Mr Speaker, we’d be happy for a critique of the chair if you like!

Norman: No frivolous points of order, though!

L. Smith: Thank you for your welcome here today for this examination of the estimates. I wondered whether the reason why you wanted the Audit Office along was to also put the Speaker through “get your own back”, but I think there is not a lot one can say about the Audit Office. My function, of course, as Speaker is very much limited to the financial affairs of the Audit Office. The details of what the Audit Office is up to is very much their independent role, and I can’t comment on any of that.

I think the only thing I would say about the financial situation, about the estimates, is that there is a bit of pressure on the Audit Office this year because you will be aware they agreed to take on four inquiries in recent
times: the Kaipara District Council one, the ACC one, the citizenship inquiry, and the international convention centre. These are going to put some financial pressure on the Audit Office to carry out these inquiries, and probably will require some outside expertise, and so there will be pressure.

The Crown revenue appropriation is basically unchanged for the office, and the increasing costs they face there—they are absorbing. The capital line is a little higher this year because of the fitting out of the Wellington office, and that will come back into more normal lines as we look further into the future. And the wider important work that the office does, where they charge the audit fees, you know, there is always a little bit of pressure on there, but at least that can be planned reasonably well. So the area of work where the greatest pressure is coming on is in that area of special inquiries that have been undertaken.

So I will introduce, of course, the Controller and Auditor-General, Lyn Provost, on my right, and the Deputy Controller and Auditor-General, Phillippa Smith, on my left, and the team they have brought with them today, I am sure, can handle any questions you put to us.

McClay Speaker, thank you very much, and ladies, I welcome you to the committee. I should have recognised you earlier. Colleagues, the floor is open.

N Smith Firstly, Mr Speaker, I wanted to ask about just the broad picture of the different offices and the relative amounts that are being spent, in that if you look at the total, Audit Office was spending about $81 million of public money, as compared with the Parliamentary Commissioner for the Environment at about $2.6 million. Do you think there is an appropriate balance between the importance the country gives to the management of its financial resources vis-a-vis the importance of us properly managing our natural resources? I put it in the context of where we’ve had the Audit Office in recent years do reports on water, do reports most recently on rivers, and is now planning to do work on biodiversity. And I can’t help thinking that the expertise within the Parliamentary Commissioner for the Environment, which is more natural science based, is a more appropriate place to do that than the Audit Office, but simply as a symptom of the amount of resource, which by my calculations is about 40 times as large, it automatically means that that work is done by the Audit Office when we, the Parliament, might get better value for money for that work being done by the PCE.

L. Smith A very interesting question, Nick. I think a fair comparison in terms of funding would be to compare the Parliamentary Commissioner for the Environment with the Crown revenue for the Audit Office, which is what—$9 million. Because the other is charged to all bodies that the Audit Office has to, by law—so the other bodies pay for those audits. The Crown pays just $9 million. But I don’t think that in any way belittles your question. I think your question is a fair question. In fact, I am going to ask the Controller and Auditor-General to respond to it, because I can tell you I
have asked the Controller and Auditor-General in the past why is the Audit Office—I mean I’ve got to stay out of these things in terms of the decisions as Speaker, but that doesn’t stop me from asking the questions. And I see the programme, like the rest of you see the programme, and I see stuff that I think, you know, why is the Audit Office doing this investigation, say, when we have a Parliamentary Commissioner for the Environment, another Officer of Parliament? I ask the questions too, and I am very happy for Lyn to respond to your question.

Provost  It is true we have done some environmental reports on how public entities are dealing with environmental issues in the past. You’ll notice in our latest programme there is nothing in the environmental area. The biosecurity one is a hangover from the last report. We now are working very closely with the parliamentary commissioner in terms of our work programme to make sure that if anything she’s doing and we’re doing is duplicated we use the best resource. So if it is a matter of a scientific issue, patently the Parliamentary Commissioner for the Environment is the right person to answer that. If it’s to do with public management, or governance, or money, it’s more in our areas. So I think we are working better in terms of coordinating our work programmes. That doesn’t mean I will never do anything on environment again; it just means that we’ll be very careful that we use the public resource in the best way, and use the expertise between our offices in the best way.

N Smith  Is there provision in the legislation for PCE and Audit Office to do a joint? Inevitably, environmental issues involve money—absolutely proper for the Audit Office to be involved around the money stuff, but around the scientific performance part, you know, my view would be: does the legislation enable—say if you’re going to do a piece of work on freshwater management or biodiversity or such issues—the Audit Office and PCE to gang up jointly?

Provost  I don’t think it explicitly says we can, but it doesn’t prohibit us. So certainly the Ombudsmen and the Parliamentary Commissioner for the Environment and myself have had discussions on potentially doing some joint reports. And the biodiversity one that we’re currently doing, we talked about which case studies we’d do, because the Parliamentary Commissioner for the Environment is going to do some work later this year. So our work, we agreed, would follow on from it. We’re also using the same expert, so we don’t in any way waste resource in that area. And I am certainly very open to doing joint work, and I think there are other opportunities for that to happen.

Barry  So who ultimately decides? Can you just tell me who ultimately decides—if it’s between you and the commissioner for the environment, for example?

Provost  We each have independent powers, so ultimately we decide, but I consult my work programme with select committees, with Parliament, and with any interested parties, widely. So my work programme is certainly consulted. As
I understand it, from the Parliamentary Commissioner for the Environment, theirs is more reactive. So for something like biodiversity it just happens we’re both doing something at the same time. So that’s why we’re doing some joint thinking and joint use of resources.

Cosgrove Mr Speaker, my question is more of a general one around resources—maybe you want the Auditor-General to answer it. We’ve seen, obviously with the other Offices of Parliament, including PCE, but more especially, say, the Ombudsmen, there’s a greater pressure on resources from both the Parliament, parliamentarians, and the media and outside agencies. I suppose my question would be that given there is extra pressure, as you’ve pointed out, and extra workload on the Office of the Auditor-General, do you believe that there is enough revenue to allow the Auditor-General to range as widely as her office would like over whatever issues she would like, given that that independence is critical to the nature of the office?

L. Smith I’ll get the Auditor-General to comment in a moment, but, Clayton, if I could just make a general observation. One of the differences between say the Office of the Auditor-General and the Ombudsmen, for example, is the Office of the Auditor-General has a little more control over its programme than the Ombudsmen has. The Ombudsmen is faced with—I guess annually, you know, we’re heading up towards 2,000 complaints that they’re dealing with, and so they’re not in control of their programme and they’ve been under increasing pressure. Obviously, when times get more difficult, then you tend to get more complaints to the Ombudsmen. So their situation has been one of considerable pressure. I think in the case of the Office of the Controller and Auditor-General, they’ve been able to operate within the Crown revenue stream of $9.372 million. They’ve had to watch carefully the fees they charge for the audit work they do, because if those get too steep it’s hard on the bodies paying those audit fees, so that puts pressure on the office.

I think the area where the greatest pressure arises is that area the office can’t control, and that is where the office is asked to take up inquiries, which it should and it must be able to do. Because this batch of inquiries came in quite recently—they’re all reasonably recent, the four inquiries—it meant the opportunity to carry any funding forward from the previous financial year was lost. So it’s not been possible to carry any surplus forward, and so the estimates we’re examining today, there are issues of pressure there, and I think—and I will ask the Auditor-General to confirm this—rather than the Auditor-General say “We don’t have the resources to carry out an investigation that we believe should be done.”, I think what would happen instead would be if these pressures become unmanageable because of inquiries that need to be carried out, I’m sure the office would come back through the supplementary estimates process and—

Cosgrove Could I just, before we go to the Auditor-General—because my question stems from this, that, obviously, the integrity and power of the Office of Auditor-General, like the Ombudsmen, is they are independent. That is
integral to our system. And they can roam where they feel it’s appropriate. As you’ve pointed out with the Ombudsmen, which has a direct link to this place in the exercise of our democracy, there seems to be, because of resourcing, an inability to deal with the amount of complaints and challenges that are put forward. I just wonder if you or the Auditor-General have a view as to whether your overall freedom to not only take on inquiries that are required of you but also to roam wherever you would like to, in as robust a way as you would like to, is constrained by those resources, and whether you are free to postulate whether you believe an increase in those resources would protect the integrity of the office.

I. Smith  
I think the independent Controller and Auditor-General ought to respond to that, so I don’t colour in any way—

Provost  
The independence of my office is absolutely vital to me, and something I will protect throughout my term of auditor-generalship. At this point in time, I think I have adequate resources to do the job, with a couple of provisos. One is that we are very dependent on the accountants job market, and that has been a bit suppressed for the last couple of years with the global financial crisis. There is sign of movement of our staff, and so there is some pressure around staff costs for us.

Secondly, as the Speaker has said, the four inquiries that we have just agreed to carry out need expertise. We are employing some QCs. We are employing some expert auditors, and that is putting some pressure on. I can assure you that if I cannot do those jobs I will be coming back, either to Parliament to say the resources were inadequate, or I do have the ability to charge for inquiries. So that’s another option—is to say to the entity “You’re going to pay for it.” So either one is possible.

The other thing, just to finish off, is we always look at whether our costs can be any more efficient, so that’s another way. But at present, with my current work programme, and with those couple of provisos, I think we have adequate resources.

Cosgrove  
Can I just ask: I understand the mechanism for returning, through you, Mr Speaker, to Parliament, to ask for more resources—either Mr Speaker or the Auditor-General. I’m not saying this would happen, but, hypothetically, if a Government said “Look, we just don’t have the money.”, or “We’re not going to make an appropriation.”, and you felt an inquiry or a report was critical, apart from charging, which is prohibitive in some cases, and may constrain your own activities, what is the Plan B?

Provost  
I have the right to publicly report, and I guess if I got to the point where I thought the resources of my office weren’t adequate that would be the only mechanism I have as Auditor-General to do anything about it. That’s a fairly powerful mechanism, though, so I don’t underestimate it, and I can’t at this point in time see that I’d use it, and I sincerely hope I wouldn’t.
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Cosgrove  It wasn’t a loaded question.

L Smith  I think, Clayton, the other thing I’d add is the reason why these parliamentary offices report to the Offices of Parliament Committee is to make sure that their funding is not totally under the control of the Government. Parliament has more influence, and most parties in Parliament are represented on the Offices of Parliament Committee. It’s my experience that when the Offices of Parliament Committee makes a recommendation to the Government that one of these auditing bodies, if you like, needs resources to carry out its statutory function, the Government recognises that, in my experience, and in my experience the Offices of Parliament Committee is pretty responsible. They don’t go saying “We need more money.” They test the Ombudsmen and the Office of the Auditor-General pretty tightly on whether these resources are required, but then, when the committee makes a recommendation, normally, in my experience, the Government responds.

Cosgrove  It wasn’t a loaded question. I suppose the only reason I asked that is given, again, the extraordinary pressure, say, on the Ombudsmen, which is, you know, different, you would understand given your high office that the inability to process the large volumes of complaints around OIAs or Ministers not acquiescing to the OIA and those sorts of issues actually impedes the democratic rights of members of Parliament. And we know that in the case of the Ombudsmen some of those requests have languished, through no fault of hers, simply for resources, literally in some cases for years. And you could go right through a term of Parliament and not have the issue addressed or a Minister or a Government entity called to account and asked, for instance, for the release of information. So I accept absolutely what you’re saying, but what concerns me is I wouldn’t want to see the activities of the Auditor-General constrained as they are in the same way as the Ombudsmen.

L Smith  I think it’s fair to say that the Offices of Parliament Committee has recommended an increase of funding, say, for the Ombudsmen in each of the last couple of financial years, and the recommendations of the Officers of Parliament Committee have been accepted by the Government. And so I am pretty confident—you know, I think the point you raised is a very important point—but I’m confident the way the system is set up that it is the Offices of Parliament Committee, not a Minister, that handles these budgetary issues, that it is a reasonable safety mechanism there.

Norman  To cut to the chase on this resourcing issue, my questions are similar in a way—have there been any inquiries that you thought you should run that you haven’t been able to run because of inadequate resources?

Provost  No. Not in my time. Philippa, is there anything in your time that you can think of?

P Smith  No. I can’t think of any major issue that we’ve not been able to address.
Norman: And have there been any minor issues that you would have liked to have been able to pursue, but you couldn’t because of the resource?

McClay: The question is: is there anything he can hang on—

Provost: Look, minor issues come in at the rate of 10 or 20 a week. We do make judgments all the time as to whether this sounds as though it might have something in it. We usually do some preliminary work, and often, if it’s a local authority, we’ll say “Look, this was the story.” and we’ll say “OK, that sounds fair enough.” We could pursue everything to the death, and we don’t, but that’s based on a judgment about what is good use of our general resources, and we’re doing it all the time.

Norman: If I could just follow up about what I obviously didn’t realise, which was your ability to charge. Is it that you charge the agency being investigated for the cost of the inquiry? Is that correct, or have I got that wrong?

Provost: Yes. Two recent ones that I think we’ve charged for were before my time. The immigration review—was that charged for?

Smith: I didn’t take part in that. I had a conflict.

Provost: Oh, that’s true. I think the Auckland footpaths inquiry we definitely charged the Auckland City Council for. I’m not sure about the immigration one. It was before my time.

Norman: In terms of my colleague, Metiria Turei put in a request for an inquiry around the convention centre. So what is the body that would be charged in the context that you decided to charge for that inquiry? Would it be the Government, the Prime Minister’s office, would it be Skycity?

Smith: It wouldn’t be Skycity, because our inquiry relates to a public entity. The question of charging for that has not come up; we haven’t considered it. But the public entity which is at the core of that is the Ministry of Economic Development.

McClay: In the case of—did you say Auckland streets was the inquiry?

Smith: Auckland footpaths.

McLay: Why was there a decision to charge in that case?

Smith: That was more of a sort of piece of assurance work that we did rather than strictly an inquiry. It related to a tendering issue over whether a contract to resurface some footpaths, quite a lot of footpaths, had been properly let. So it was more in the nature of assurance work.

Provost: There were a number of different opinions, and they wanted a final one, and that was a sensible decision.
Norman Just to follow up, in terms of these inquiries, so at some point you'll address the question of whether you are going to charge MED, but you haven't addressed that question yet.

P Smith No, we have addressed it, and we won't.

Provost We won't. We're not going to.

Norman Oh, you’re not going to? OK, sorry, my misunderstanding. And then in terms of how, you know, I’m not sure if this is the right place, but tell me if I’m asking the wrong question: can you tell us the time frame around this kind of thing? And how does it go about, like the work involved from the office? Are you going to be interviewing the Ministers, the officials? Like, what’s the kind of work programme that something like this looks like?

P Smith That piece of work is only just starting. It hasn’t yet been scoped as to who needs to be interviewed. Clearly, there are some complex issues. All inquiries have complex issues; we wouldn't be doing an inquiry if it were black and white. So when we have isolated what the issues are exactly, and who needs to be interviewed, then if it includes Ministers, yes—Ministers. But I’m not close to the actual detail of that, because it hasn’t yet been scoped and come back to me.

Norman And in terms of the—as I understand it, tell me if I’ve got this wrong. You do kind of a pre-investigation investigation or scoping to decide whether you are going to have a proper inquiry. So you must be some way down the track of deciding how you’re going to go about it, because you’ve done the pre-inquiry inquiry, if you like?

P Smith Pre-inquiry inquiry is probably dressing it up somewhat, but what we would do, and what we did in that case, was get two of the papers that appeared to be relevant, and see whether there was a clear story shown by those papers. We didn’t interview anybody at that stage, because of the nature—it appears—of that process, which wasn’t a tender process; it was more about finding ideas as to how a convention centre might be built. But there is a lot that isn’t revealed in the papers and will need to come from interviews.

Provost You also asked about timing. Most of our inquiries take 2-3 months. That’s the norm. If it is a very large one it’s closer to a year. Of the four that we currently have, the four big ones that are in the public arena, the only one that I think will take more than the 2-3 months, at this stage, is the Kaipara District Council one.

Norman OK, last one. As I’m sure you’re aware, there’s been some political debate about the Government should it proceed with the signing of the contract and so forth while the inquiry is under way. Do you have any view on that issue?

Provost No.
Parker: You said your vote is $81 million. How much of it relates to your audit function, and how much relates to your inquiry function?

Provost: Nine million of it comes from the Crown. Within the Crown funding we have the controller function, all the performance audits, and reports to Parliament and the inquiry function. I’m sorry, I don’t have off the top of my head what portion of that—

P Smith: It’s about four and four, isn’t it? It’s around $4.5 million.

Parker: So around $4 million is inquiry function. So the rest is broadly audit function?

P Smith: No. Support to Parliament is the other part of that. All of the work that we do in supporting select committees comes out of that $9 million, along with inquiries and performance audits, which are the same output class.

L. Smith: I sense what David’s after, though, is roughly how much of that is earmarked for inquiries.

Parker: Yeah, I’ve got that now. Thank you. So the bulk of your money, as you’ve earlier indicated, is spent on audit of public institutions, including Government departments and local authorities. We had a discussion before you came in about a broad number of us getting repeated complaints as to the increasing cost of audits, and there being some sense—at least from my part; I can’t speak for other members—that this is partly driven by the increasing complexity of IFRSs, that’s the International Financial Reporting Standards, and the increasing complexity of the accounts that you’re auditing, which don’t make them any more understandable for most people. In fact, you know, I’m a trained accountant, and I bloody struggle to find my way through these things now; they’re becoming so complex. Do you think it’s time for us to start pushing back against the increasing compliance cost from the accountants, who effectively control their own standards and complain about everyone else’s compliance costs?

Provost: Thank you. That’s a question dear to my heart. A number of you may have heard me talk about the fact that last year I sat on a committee to try and get compliance costs of IFRSs down internationally. We believe that 30 percent of the disclosures could be removed, and we are having some difficulty, though, getting through all of the international bodies. So that’s what’s happening on an international front. We haven’t given up; we will continue. Within New Zealand my predecessor said IFRSs was not sensible for the public sector, going forward, for the non-commercial organisations, and I agree with him on that. A decision has now been made to go with IPSAS, which is International Public Sector Accounting Standards, and also that we will make New Zealand standards.

My understanding is that those are currently being worked through, and I am certainly during my time as Auditor-General going to keep the pressure on to reduce the amount of information that is disclosed, because there’s
too much, and to encourage people to really look at how useful these financial statements are. I was with a public entity on Friday, and they said “You know about that disclosure thing that you’re interested in?” They said “We’ve gone through our accounting policies and we’ve cut them down by about half”, they said, “because they keep growing—they just keep adding a sentence here or a paragraph here or a change there.” So they said “We think we can do it.” So I see some hope on the horizon at present, and am certainly going to continue to push it.

Can I just go back to your question about performance audits and inquiry in that $9 million. Performance audits and inquiries are $6.5 million, and support to Parliament, which is the briefings you get before committees for estimates and financial reviews, is $2.7 million.

Parker My other question is in respect of one of those performance audits. Do you ever do follow-up performance audits to follow up on issues that you identified in an earlier audit?

Provost Each year we follow up the performance audits—whether the recommendations have been implemented—and also on the financial audits—whether the management letter reports have been implemented. I think the next report you’re going to examine is our report on the follow up. Usually we do them as a compendium report with what’s happened on all the reports. Sometimes when we think it’s particularly important, we do another audit. For example—in the very near future—we have done a follow-up audit on rest homes and the certification and audit of rest homes, which I think it was 2009 we put out a report in that area, and that one because it was so significant we have done a follow-up audit of.

Parker Can I ask you in particular about the performance audit that you did of the Treasury monitoring of the Crown guarantees scheme—and you can correct me if my paraphrasing is wrong—but the Auditor-General came out with recommendations saying: look, it fulfilled its purpose in that the financial sector didn’t fall over, but there was a period in the first 5 months when there was no monitoring by the Treasury, no reporting to the Minister, and in the case of one of the finance companies, deposits were tenfold during that period, and in the case of South Canterbury Finance the deposits to them grew by hundreds of millions of dollars that was lent out on increasingly risky loans. Now, that audit didn’t quantify, and didn’t attempt to quantify, the additional losses to the taxpayer as a consequence of the mismanagement of the scheme. The Treasury has since advised this committee that they don’t plan to investigate what is even the realm of cost that was additional costs to taxpayers under the guarantees scheme as a consequence of the mismanagement that you identified, and which they acknowledge was wrong, but they won’t quantify the loss. Do you have any plans, or will you consider trying to quantify the loss? The range of numbers that we’ve got, from the Opposition’s point of view, is between $100 million and $500 million.
N Smith  Point of order. The question is somewhat misleading in that the assertion has been made that Treasury won’t quantify the loss. What Treasury has said is they will not be able to quantify the loss—

McClay  Can I have some order please—

N Smith  The issue is—

McClay  No, Nick, can I have some order please for the moment. Largely, I think the question is within order, but members can ask supplementary questions to come back if they have issues around—

N Smith  The point of order is the assertion has been made by the member that is not correct. I think before the—

Peters  Well, you can ask a question after that.

McClay  Winston, Winston—it’s a point of order. Thank you.

Peters  Yeah, but it’s a frivolous point of order.

N Smith  The Speaker or the Auditor-General are misled about what in fact the Treasury has said when they responded to the question, and that was that they will quantify the losses at the end of the period when there is the wash-up from all of the companies.

Parker  Speaking to the point of order, Mr Chairman, this is just interference. Actually, that’s a nonsense. That’s not correct. What the Treasury said is they will quantify the loss under the scheme, not the losses caused by their incompetence.

McClay  Colleagues, thank you. What I will do is rule on this. Actually, those aren’t points of order; they’re debatable points. So largely what I would do is ask the Auditor-General to answer the question, should she so wish. However, having said that, other members may ask supplementary questions if they believe figures are not correct in what’s been put forward to you.

Provost  What we will follow up is—I think in that audit we made four recommendations going forward. We will definitely follow those up. I have nothing in my work plan at present, or no plans to do anything other than follow up those four things, which were more in what Treasury should do going forward.

Parker  This is no criticism of the Auditor-General, but I just want to understand that when this select committee reported back to Parliament on your report, the minority report said that the loss hasn’t been quantified. Your report didn’t quantify the loss. Is that correct?

P Smith  No.
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Parker That’s right, and the Opposition parties put the range of loss from what we know at between $100 million and $500 million, and that’s a disputed figure, I accept that—that’s the additional loss. No one is trying to quantify what the additional loss is as a consequence of the mismanagement that your report identified. Do you think that somebody should?

P Smith Look, my answer is: I don’t know. I’ve had reasonable involvement with that audit. It’s hugely complex. It would come down to—first of all we didn’t quantify the loss because until Treasury or the Crown has managed to realise what assets there still are, you don’t actually know, and I think perhaps that’s what Treasury might be referring to as a wash-up calculation.

Parker No, what they’re referring to is the amount that the guarantee costs the Crown, not the additional loss that was caused by the errors that you’ve identified.

P Smith All right. The second part, then, about the additional loss. I think that would be a massive piece of work.

Parker Well, don’t you think that if you’ve identified mismanagement by the Treasury between $100 million and $500 million according to the Opposition, someone should be actually taking a stab at identifying what it is? I mean, you’ve identified that one of the finance companies had a tenfold increase in deposits after the guarantee was granted at a time when the Treasury wasn’t monitoring that behaviour, and you’ve criticised that. There must be a substantial loss that flows from that, and yet we don’t know what it is.

P Smith I don’t know that you can audit hypotheticals, because to try to calculate what the additional loss was, we would have to say “Well, what might Treasury have done? If they had done this on a particular day, what difference would it have made.” I don’t think we can know that at this distance.

Parker But don’t you think that—I find that an incredible answer, I’ve got to say. I cannot accept that—you find that they mismanaged the Crown guarantee scheme. We found that in at least one of the finance companies, the deposits increased tenfold during this period when there wasn’t monitoring. We know that later when they started to monitor, they didn’t let things grow like topsy. There must be an additional loss that we can fix a range to, and yet no one’s looking at it.

McClay Look, if you have anything else to add, but I think you’ve thrashed that question.

Provost What we do know is the loss to the Crown, which is in the financial statements of the Government, and that is updated with every financial statements of the Government of what the total loss was, less the recoveries because there are recoveries continuing.
Parker: That’s not in dispute.

Provost: Yeah. And that figure I am comfortable we have got. The other one—I don’t know that we have the expertise or the mandate to go completely across the private—because it does get into private sector what-ifs, and I do not have a mandate in the private sector, so—

Peters: It’s public money. It’s a public guarantee. It’s not private any longer when the public are putting—

Provost: Yeah, the public money is in the financial statements of the Government. All losses there are in the financial statements of the Government.

N Smith: Isn’t the great difficulty in trying to quantify such losses the fact that at any time had the Government removed the Crown guarantee from one of those finance companies it would then immediately result in a loss of confidence in that institution and its potential failure? So that, to some degree, the Government was caught in a catch-22. If you were to quantify the losses you would also have to quantify—and if the guarantee had been removed from one of those entities—then what the losses of that would have been. Thus, the overall conclusion of your report that while there were lessons to be learnt from the way the Crown guarantee scheme had operated, overall it had had the desired effect and stabilised the New Zealand financial system.

Provost: That’s what we said in our report, and to go any further to quantify it would need a significant number of assumptions and what-ifs and hypotheses, and you would still end up with a range—

Parker: Well, that’s better than no range.

Provost: You’d still end up with a range.

McClay: Thank you.

Clark: My supplementary really is to say that Dr Smith referred to the potential for a run if the Crown backed out, and we know that South Canterbury Finance did fail. The question, though, goes back, to my mind, to the heart of your outcomes, which are about having a trusted public sector, and appropriately responsible public sector behaviour, and a high-performing public sector. Those are your outcomes for your function, and it feels to me where this loss, we think, additional loss by Treasury’s mismanagement of the scheme, is likely to be bigger than INCIS, and when you’ve got something that’s the most—potentially, we don’t know—the biggest loss of public funds, somewhere between $100 million and $500 million additional because Treasury intervened once in the market but then refused to monitor the effect of that, that really does cut, I would say, to the heart of your outcomes about trusted public sector, appropriately responsible public sector behaviour, and high-performing public sector. If we can’t investigate hundreds of millions of dollars worth of losses due to a public sector not performing properly, we’re in a pretty bad state, aren’t we?
Provost  I think if this was a matter the committee felt so strongly on—I’ve just consulted on my work programme, and it hasn’t been brought up—perhaps what I can undertake is to talk to Treasury, and see what information they intend to provide, which they’re obviously going to, and whether there is any assurance I can give to the committee over that information when they do provide it. Would that be acceptable to the committee?

Clark  Well, it’s a start.

Peters  Can I just say—this one’s for you—your report identifies the kind of behaviour you’d find acceptable, which is what we try to encourage in a First World economy. But this idea that one department doesn’t want to say that another department has clearly failed, and came here and told the committee they saw no useful purpose in finding out who was responsible—that sounds like a banana republic, doesn’t it? Honestly, you would not expect that in a First World—that you’ve got a huge loss, and a department is responsible and has the audacity to tell a committee “We see no useful purpose to try and answer that question as to who was responsible.”

McClay  Well, look, just before we go on, I’m not that sure that your interpretation of the answer is what actually happened, but if there is anything you want to address there in that question, please do so. No?

Provost  I’m not sure I can comment on that.

Peters  Well, OK.

McClay  No? Perhaps the Speaker has a—

L Smith  What inquiries the Auditor-General conducts is none of my business, for good reason. They’re totally independent. But all I was going to say is what Phillippa, the Deputy Auditor-General, said to the committee was not that they wouldn’t inquire into the issue; what Phillippa said to the committee was the difficulty for an Auditor-General to deal with a hypothetical situation. Because while the total losses of the Crown are established in the Crown financial statements, for an audit office to deal with hypothetical situations, I think is what—

Peters  Here’s the point here. There was a guarantee. There was an extension. There was a time when the thing blew wide open because no one was monitoring it. Now, you do not expect your lead department, like Treasury, to have behaved in such a haphazard, callous way. [ Interruption ] No, no, look, you have your opinion, right? A loss of this type requires answers in any First World economy or political system. I think the committee is grateful that you’ve pointed this out initially when you made your report, but we’re really asking whether you’ve got a view about a department that refuses to investigate to find who was responsible so that some time, hopefully in the future, such behaviour like that does not re-occur, which should be the premise of an audit in the first place, amongst other things.
Provost: Our recommendations were recommendations for the Treasury to improve. We don’t look, normally, at individuals; we look at an agency. The responsibilities within an agency are with the management of that agency and the individuals within it. We do not as an office, and I don’t think I can remember us ever doing, say that “This individual has done something wrong”. My mandate is absolutely on public entities.

Peters: OK, look—

McClay: Before you go on, I just have a sup on that one. I think your report, from memory, said that the system that was in place that had been set up was inadequate for a period of time—5 months—and that, actually, Treasury then put in place some additional controls and therefore learnt from that lesson. I take also the point you’ve made about when you’re dealing with what-ifs and speculation, how difficult it would be. So in that, if you were to do another piece of work—say, if Treasury had made a different decision on a given day—would it also be possible to say that if the scheme had been designed differently, with additional checks and balances put in place from day one, might there have been a greater or lesser loss to the Crown, what could that have been, and so on? Because, actually, if we are looking at, you know, what might have been done, and what could have been done, and the possible implications if someone else had acted differently upon this, it goes back to when the scheme was first set up, wasn’t it, and the direction that was given to Treasury as to what it was they were to achieve?

Provost: Hypothetically, and as soon as you get into hypothesis, they’re extensive. I can just repeat my offer to talk to the Secretary of Treasury, find out what information he intends to produce when this is all wrapped up, and, when we’re in a more certain position—because that starts to reduce your hypotheses, reduce your what-ifs, clarify some of your assumptions—see if there’s anything within my mandate that I can provide assurance to this committee and to the public on.

Parker: The point that your own officer made was that as the scheme was set up, as guarantor the Crown had the right to get information as to whether additional monies were being lent, to guard against moral hazard, which is always there when the Crown guarantees someone’s risk. Do you hold to the view that was expressed in the report from your office that the failure to exercise those rights and conduct any monitoring during that first 5 months was wrong?

Provost: I hold to my report.

Peters: Look, you audit, or you’re called into audit, local government accounts now and again. Take the case of the Auckland super-city, whose auditors are, I think, Deloitte. Do you think—

Provost: No, my auditor for Auckland Council is Audit New Zealand, and I personally audit that, and am the signing officer for that one.
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Peters I didn’t ask you that. The super-city has employed Deloitte as its auditor. Right?

Provost Its internal auditor.

Peters That’s right.

McClay So just before we go on, an internal auditor, but you’re the actual auditor?

Provost I am the external auditor.

Peters Well, that’s right. Deloitte is the internal auditor for the super-city. How’s it possible that the auditor for, say, the super-city of Auckland can be taking private contracts to do other work with respect to other contracts that they have? How can they fulfil both roles as an auditor?

Provost I thought, and I will check this, but I thought Auckland Council’s internal auditors were an in-house organisation.

Peters They have a finance committee.

Provost Yeah, a finance and audit committee, but they also have their own internal audit unit. So I think their internal auditors are an in-house group. I’ll check that, but I’m fairly certain that—

Peters Well, would you please check that—

Provost Yeah, I will.

Peters —because my information says that the auditors are Deloitte. Deloitte has got multimillion dollar contracts in a range of areas from the council, which begs the question: how could they possibly be the auditor of their own contracts?

Provost I understand Deloitte do the audit of Watercare Services for me, so they are my appointed auditor for Watercare Services.

McClay And you appoint them?

Provost I appointed them, and they are a part of the Auckland Council Group from Watercare Services. But my understanding was that the internal auditors are an in-house group. I am aware that Deloitte have done some work in terms of accounting systems for the council, but I am not aware that they are their internal auditors.

McClay And just so I’m clear, because I’m not sure that I understand the system, You’re the external auditor. That actually makes you the auditor. Is there a statutory obligation for you to audit?

Provost Yes.
There is. Others may be doing work, in-house or out-house, but, finally, decisions over audit and sign-off falls to you.

Me, and personally there are two sets of financial statements in the country I audit—I'm their personal signer. One is the financial statements of Government. Because of their size Auckland council is the other one.

Well, would you find out what the facts are on this matter for us?

Yes.

The reason why I ask you is because this question was raised before the former Minister for Local Government, who keeps on preaching about how the procedures should be in this place here and around the select committee. Of course, he wouldn’t answer. So now I have to ask you.

All right, I want to finish this with one thing, actually, that follows on for that. So you mentioned earlier about $9 million, more or less, of your revenue income comes from the Crown. The rest is from those who charge, and we can take local government as an example of that. I want to come to value for money, because local government, Auckland Council, Rotoroa council, every council must use your services—how do we know that the fees that you are charging them are fair and equal, but are also the equivalent of what they might find if they were able to go to the private sector?

That’s a question that I ask myself regularly to make sure that we do have efficient audit fees. The reason that 50 percent of my audits are done by the private sector and 50 percent of them are done by Audit New Zealand is to give me some of that balance. So I use between 40 and 50 audit firms to do the audits. That includes the big four chartered accounting, the medium size ones, and quite a lot of little ones for the schools. We keep an extensive database of audit fees and compare between organisations to make sure one isn’t out of line. We also compare rates and hours to make sure they’re not out of line, and we have an audit of that done on an annual basis by an independent person to make sure that we are not out of line in any way. If individuals have problems with the audit fees, which, like you, I get some complaints on that, some people that complain about their audit fees—that is actually an excuse, and they often have problems themselves. So it is not just an audit fee issue. We deal with those by looking at what other fees are being charged, and what is a fair fee for this job. In some cases they’re negotiated down, and in some cases they’re negotiated to a different level. We’re just about to go into the schools round, where the 2,500 schools audits will be audited. I have set my expectation that I wouldn’t expect those fees to go up between more than 2 to 3 percent, which is about where the market’s moving, unless there was a very good reason.

Just around that area, do you publish that information?
Provost: We publish some of it. This year we published this is how the audit fees are set, and this is how the system works, of allocation, and that's been very helpful to people, and the comparative—we do some of it.

Bennett: Why don’t you publish all of it?

Provost: Our report, too, is getting quite long, so we’ve chosen what we think are the important things. If there’s more useful information we could put out in the public arena, happy to hear, but—

Bennett: I tend to think you might want to do that, because the pressure we’re getting is from organisations that feel that it’s a monopoly. Just hearing how you structure it now gives some comfort around that, but we also have examples in local areas where they found that not only did they have no choice in who they got to audit, they felt the fees were too high. But they also felt that the quality of auditing wasn’t up to standard, and they’ve then had political ramifications from issues coming forward. And it would be quite interesting to see if those were your audits or whether they were done by a bigger audit company, and whether there’s an issue there. I would imagine the organisations themselves—you know, if you’ve got Deloitte or whoever doing the audit, when they walk in you know they’re going to be taking their bags and so you’re going to know—the council will know who’s actually doing the audit on your behalf. Or is it—

Provost: They know. They sign on my behalf. If anyone does get any letters about audit fees, please refer them to us because there are multiple stories behind that, and sometimes it is merely sharing the information that resolves that.

Bennett: They won’t write to us necessarily, but they want to feel that they’ve got a competitive process. I guess that would be their issue, and they don’t feel they have that ability to contract.

Provost: And we have moved away from the competitive process because it’s too expensive and was affecting audit quality and independence, and those are two things I won’t compromise.

Bennett: That’s why we need to see all that information.

McClay: To be fair, we probably get more letters about rates than we do about auditing, but I know our mayors and others do raise it with us from time to time. Mr Speaker, thank you for being with us today for an hour, and to your colleagues, thanks for the work you do. I’ve got to say that certainly the committees I’ve served on, your staff and officers work to a very high quality and standard and are professional, and we are grateful for their assistance.

Provost: Thank you very much for that feedback; I appreciate it.
2012/13 Estimates for Vote Canterbury Earthquake Recovery
Report of the Finance and Expenditure Committee

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Vote Canterbury Earthquake Recovery

Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Canterbury Earthquake Recovery as set out in Parliamentary Paper B.5, administered by the Canterbury Earthquake Recovery Authority, be accepted.

Introduction

The appropriations sought for Vote Canterbury Earthquake Recovery total $90.653 million in 2012/13. This is a substantial reduction from previous appropriations, as most demolition costs and red-zone property purchases have already been funded over the past two years.

In 2010/11 when the vote was established expenditure totalled $1.046 billion. In 2011/12, the $21.6 million initially budgeted was increased in the Supplementary Estimates and Addition to the Supplementary Estimates to $897.8 million to cover demolition costs and the acquisition and management of properties in the red zone authorised by Cabinet. Because of uncertainties about timing and costs, Cabinet approval has been given to transfer any under-spent part of this funding to 2012/13.

Funding for CERA

The vote provides funding to support the Canterbury Earthquake Recovery Authority (CERA) in planning and facilitating the recovery from the earthquakes; it does not cover all earthquake-related costs. About 40 percent of the vote is allocated for expenses incurred in managing the recovery, which increase by 44 percent to $37.278 million in 2012/13. This reflects an increase in CERA’s activity, including the recent establishment of an internal Christchurch Central Development Unit in April 2012.

The new unit is charged with delivering a blueprint for the rebuilding of the central business district. While located within CERA, it has strong links with other partners, including the Christchurch City Council and Te Rūnanga o Ngāi Tahu. We heard that work on the plan for the CBD is on track, and it will be published on 30 July.

We asked about CERA’s financial assurance systems, considering the large amounts of funding being channelled through it for the recovery. We were told that CERA’s staff and systems have been drawn from established Government agencies, and it has an experienced chief financial officer, so proper processes are operating. In addition, the Office of the Auditor-General inspects CERA regularly.

Uncertainty of the Estimates

There is still a high degree of uncertainty about the costs to be funded under the vote, and about the timing and amount of money that the Crown may recover from insurers and from the eventual sale of red-zoned properties. We note that the 2011/12 appropriations were increased significantly in the Supplementary Estimates and Addition to the
Supplementary Estimates from the amount initially budgeted, to cover demolition costs and the acquisition and management of red-zone properties, and that approval was given to transfer any unspent funding to 2012/13. We have sought further information about the likely carry-over of funding, but this information was not available by the time we completed this report.

**Progress with the recovery**

The Minister told us he considers that good progress is being made given the huge scale of the recovery task. From its establishment just over a year ago, CERA is now fully operational with a strong ethos of getting things done. Zoning decisions have been made, and over 5,000 red-zone settlements paid out so far; initial concerns about demolitions have subsided, and work is proceeding in an orderly way; new subdivisions have been decided on and are being readied for building; and a development plan for the central business district will shortly be published.

We heard that just under $1 billion of work has been consented to for the rebuilding of Christchurch’s horizontal infrastructure, which includes roads, and pipes for fresh water, stormwater, and waste water. This work is being undertaken by the Stronger Christchurch Infrastructure Rebuild Team, which includes CERA and the city council, and is led by the New Zealand Transport Agency. Fletcher’s project management office is making progress, but much remains to be done: it has completed rebuilding over 16,000 houses—about 20 percent of the total.

The Minister and CERA told us that Christchurch’s population is estimated to have dipped by 7,000–8,000 after the earthquakes, which they consider a relatively low rate of depopulation in the circumstances, and health board and education ministry records indicate that people are starting to return. Economic activity remains strong, judging by measures such as exports through the Port of Lyttleton and the unemployment level. The number of building consents has increased, and the pace of the recovery is expected to pick up soon.

Asked how CERA’s success could be assessed without specific performance measures in its statement of intent, Roger Sutton, CERA’s chief executive, observed that it would be best measured not by the blueprint due out soon, but in 10 years’ time by the end result of the recovery.

**Issues for the future**

The Minister could not place a figure on the proportion of the Crown’s substantial expenditure on red-zone property purchases it might expect to recover. At this stage, he said, it is anyone’s guess. Area-wide assessments will be needed and many issues will need careful thought; for example, the water level of the Avon River had been changed by the earthquakes and is now above the road in places. He said there are clearly opportunities for civic amenities in eastern Christchurch, and public input and suggestions will be sought as ideas develop.

**Demolitions**

Over the past 12 months about 1,300 buildings in the central business district have been demolished out of the 1,600 assessed as needing to come down. Another 900 require
further engineering assessment, and in some cases owners and insurers are still deciding whether structures are economic to repair. We heard that demolition of the remaining large buildings should be completed over the next nine months, and all demolitions completed within 12 months. We were interested to note that the number of buildings demolished in Christchurch over the past year exceeds the normal total for the whole country over 20 years. We are aware that such work is highly-skilled and dangerous, and commend the professionalism shown by the demolition teams, and their good safety record.

We asked whether any property owners are being prevented from rebuilding by adjacent at-risk buildings that need to be demolished. CERA informed us that no such situation has arisen yet, and there are good liaison arrangements in place to expedite things if needed.

Residential demolitions

We asked about plans to demolish houses in the residential red zone, since several thousand purchase offers by the Crown have been accepted by homeowners so far, and houses are standing empty. The Minister told us that the Government is not in a hurry to deal with the empty houses; getting people re-established is the bigger priority. Some houses are in situations where it is not safe to attempt demolition yet, while some others are caught up in issues with insurers over apportionment or land remediation payments.

Insurance payouts

The Minister acknowledged the frustrating delays people are facing with payouts from their insurers. He explained that complexities arose from the need to apportion damage caused by each earthquake event between the Earthquake Commission (EQC) and private insurers, as a result of the High Court’s judgment that the commission’s coverage is renewed after each event, effectively re-triggering the $100,000 cap on the amount EQC covers. He considers the judgment beneficial to the extent that it provides some clarity for the industry and allows people with undamaged properties to maintain insurance cover, but conceded that it creates a difficult process for EQC and the insurance industry. He understands they are close to sorting out an acceptable methodology for determining who pays for what, and considers it best for them to be allowed a little more time to complete the process.

We asked about the situation facing people with properties zoned green which have been classified by the Department of Building and Housing as technical category 3 (TC3), that is, able to be rebuilt but requiring stronger foundations. In particular, we were interested in whether TC3 is just a guideline, or forms a legal part of the building code so that insurers are required to pay for the foundation strengthening needed. The Minister told us that it is not a straightforward matter of insurers being required to pay out for whatever is in the code. Rather, the question of who is liable for the cost of foundation work will depend on the nature of the insurer’s liability as set out in the particular policy; unfortunately, the earthquake experience has revealed that policies vary widely, with over 80 different types, and people are often not aware what exactly their insurance covers.

Insurance dispute resolution

Given the complex issues regarding insurance claims, and the widely-varying estimates of rebuilding costs which can raise disputes between homeowners and insurers, we asked whether some form of independent tribunal to help resolve insurance disputes is being
considered. We note that the suggestion of an insurance commissioner or similar independent body was first raised a year or so ago, and now has the backing of the Christchurch City Council. The Minister told us he will consider the desirability of a tribunal, but there are numerous issues involved, as insurance disputes can involve legal and engineering expertise, and can overlap with the area of financial advice, so considerable care is needed.

**Communication over zoning decisions**

We are concerned by instances of poor coordination between CERA and the Christchurch City Council over recent zoning decisions in the Port Hills, as some properties were declared safe at the end of June, after their owners had been barred from entering for 16 months, only to be red-stickered a few days later by the City Council under section 124 of the Building Act 2004. The Minister and CERA acknowledged that such situations were highly frustrating for the few people affected, but said that any reconsideration by engineers of the threat to specific properties from falling rocks had to be accepted.

We asked about the division of responsibility for the cost of mitigation work on properties in the Port Hills, as the recent zoning announcement indicated that costs would be split evenly between central and local government. We were advised by CERA that discussions are under way but no decision has been taken yet.

**Availability of housing and land**

We were informed that of the 7,358 properties zoned red, over 6,000 owners have so far accepted one or other of the Government’s purchase options, and about 5,000 settlements have been completed so that people can move to new accommodation. Meanwhile, CERA has used its powers to ensure that 26,000 sections within the urban boundary are available to be developed as residential land, and is working with the owners to bring them onto the market. CERA said it is aware of concern about reports of increased prices for sections, but has seen limited evidence so far, and understands that demand has been slower than expected.

**Rental increases**

We are concerned by reports that rental rates have increased sharply in Christchurch, forcing some people to sleep rough. We are aware that the Minister has disputed official data indicating that Christchurch rents have increased by 26 percent, but we also understand that there are over 100 people on Housing New Zealand’s waiting list for accommodation. We asked whether he is monitoring the situation through CERA and Housing New Zealand, and could supply evidence that there is not a rental crisis in Christchurch.

The Minister said that relative rents indicate no significant dislocation between Christchurch and the rest of New Zealand. He accepts that some people have difficulty in finding affordable housing, but does not consider the needs or waiting list to be greater in Christchurch than elsewhere. He said that major efforts were going into increasing the supply of housing, including provision of temporary villages and additional accommodation support. The Minister has undertaken to provide further information to us about rental price movements.
Temporary villages

The Government has arranged the establishment of three temporary villages to accommodate people displaced by the earthquakes. They are located in Kaiapoi, Linwood, and Rawhiti Domain, close to the communities where people’s homes are under repair. We heard that such accommodation was in demand and much appreciated. While there are still some vacancies, the villages are designed for those displaced from their homes rather than those newly seeking accommodation.

Consultation over the cathedral

We raised with the Minister and CERA the public concern about the future of the Christ Church cathedral. While we understand the need for the emergency powers granted by the Canterbury Earthquake Recovery Act 2011 in the immediate wake of the earthquakes, we asked whether consideration is now being given to restoring the normal consultation and appeal processes provided for under the Resource Management Act 1991 to allow more community involvement in decisions about the cathedral. The Minister said that restoration of the RMA processes is not being considered at this point, in view of the implications for delays to the wider rebuilding process.

However, he noted that those seeking to save the cathedral have now developed a more specific concept, backed by engineering assessments. Although the concept does not yet include a work plan or costings, a discussion is taking place over the practicalities of rebuilding. He noted, however, that the ultimate decision on the cathedral’s future rests with its owners. He added that the required annual review of the effectiveness of the Canterbury Earthquake Recovery Act has been completed and the results will be released soon.
Appendix A

Approach to this examination
We met on 18 and 24 July 2012 to consider Vote Canterbury Earthquake Recovery. We heard evidence from the Minister for Canterbury Earthquake Recovery, Hon Gerry Brownlee, and the Canterbury Earthquake Recovery Authority. We received advice from the Office of the Auditor-General.

Committee members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Dr Nick Smith

Evidence and advice received
We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Canterbury Earthquake Recovery, prepared by committee staff, dated 27 June 2012.

Office of the Auditor-General, Briefing on Vote Canterbury Earthquake Recovery, received 27 June 2012.

Minister for Canterbury Earthquake Recovery, Response to standard Estimates questionnaire.
Appendix B

Corrected transcript of hearing of evidence 18 July 2012

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon Ruth Dyson
Paul Goldsmith
John Hayes
Denis O’Rourke
Hon David Parker
Rt Hon Winston Peters
Eugenie Sage
Su’a William Sio
Hon Dr Nick Smith

Witnesses
Hon Gerry Brownlee, Minister for Canterbury Earthquake Recovery
Roger Sutton, Chief Executive
Benesia Smith, Chief Advisor to the Chief Executive
Warwick Isaacs, General Manager, Operations
Dave Mills

McClay
Minister, good morning, welcome to the Finance and Expenditure Committee. We are here for an estimates hearing on Vote Canterbury Earthquake Recovery. We have an hour available to us, so I would invite you to address the committee—

Brownlee
I just need to signal I need to get to Christchurch for a funeral so I was told 9 to 10, so I’ll need to leave at 10. But the others can stay.

McClay
Sorry, I wasn’t aware of that.

Parker
Could you leave plenty of time for questions then, Gerry?

Brownlee
Yeah, that’s my intention.

McClay
All right, thank you for that, Minister. We won’t take any other time with introductions. I offer you the floor and I know there’ll be questions from my colleagues.
All right. Thank you. I don’t want to take too much time here. I think the questions will be most useful. I just want to perhaps reflect on the last 12 months since we were here. At that time Roger had just newly been appointed and since that time he’s gathered around him a pretty impressive team of people inside CERA, who are now, I think, in a very strong operational role. They have an ethos inside the department that is very much about getting things done. I think, you know, he’ll be able to speak to many of the achievements that they’ve got ticked off so far.

Also about this time last year we’d just started the process of rezoning some land, indicating to people that their property damage or the land damage was such that continued residential occupation was no longer advisable. Since that time we’ve had 7,358 people told that their house was in a so-called red zone, and they have occurred progressively, with the most recent being just a couple of weeks ago. But of that number, so far well over 6,000 have sent back consent forms indicating that they are taking one of the Government offers, and the settlements, so far, are around about 5,000, where people have actually received their payment and are able to move on.

We’ve also had the number of subdivisions come forward. With those the work is well in train to progress the availability of those sections for people to choose from. That, I suspect, will continue at quite a pace over the next couple of years.

We’ve also had, you know, significant progress in the CBD where about 1,579—close to 1,600—buildings were considered to be of a condition that they’d probably need to be demolished. Of those, 1,300 have been demolished, and there are now another 900-plus that need engineers’ reports for a decision to be made about what their future is. And around this time last year too there was quite a little bit of, you know, background concern about the way some of that was being done. I think all of that has settled. The overwhelming number of those demolitions are being carried out by CERA, through the programme that Warwick established. That has been a very orderly process and has seen, I think, you know, quite significant progress to a point now where we can look forward on 30 July to the CBD plan being promulgated—published, effectively.

Work has continued over the last 6 months with the Christchurch City Council and with the project team that was assembled after the receipt of that document last December to really finesse it out and, in particular, to make the rules clearer for people, and to try and get some shape around how that new city might develop in the years ahead.

On the more interesting aspects of the sort of societal matters around the city, I think it’s interesting to note that unemployment in Christchurch is lower than most other parts of New Zealand, and that, you know, the measures that we do have indicate that the economy in Canterbury is growing much more quickly than in other parts of New Zealand. That will be in no small part due to expenditure that comes out of a recovery, but that expenditure is at a very,
very early stage, and we can look forward to—I think—much more rapid growth over the next short while.

I’m told by the health board that some of the population appears to be returning and possibly growing. What they’re noticing is the number of registrations for primary health organisations for people over 60 is on the increase. They suspect that people—younger people in particular—who are coming into the city don’t immediately register with a primary health organisation. And it would appear from the education sector that we’re at a point of—if not the population returning to its former levels and growing—at least being younger children not being taken out of the city.

So all of that augurs well for the future because it indicates a strong commitment to the city, to the greater Christchurch area I might say. That has to be encouraging from a recovery perspective, particularly when you look at what’s happened in various disaster areas elsewhere in the world.

I think the other indicator that’s useful to note is the number of building consents that are being issued is definitely on the up. We’ve also got the very successful SCIRT programme that was put together not directly by CERA, but the New Zealand Transport Agency took a lead role in that. CERA are involved, as is the transport agency and the Christchurch City Council, and there’s just under $1 billion worth of work currently under way, consented through the SCIRT offices. One of the interesting things is that we’re going to end up with some of the best intellectual property about horizontal infrastructure for any city anywhere in the world, as a result of that particular process.

On the EQC front, it’s not directly involved here, but it’s obviously very significant, the Fletcher PMO office I think is doing a pretty good job. Over 16,000 houses now completed, with that representing something just less than 20 percent of what they have to do, so still a very big programme in front of them.

On that note I’ll conclude by saying I think the last 12 months has probably—for many people—led to the realisation of just how big this event was and the scale of the recovery that’s necessary.

McClay Minister, thank you.

Dyson I’m hoping that your CERA powers will give you the opportunity to suspend time, because I’ve got another select committee to chair at 9:30 in another building. So if you could use your powers to put time on hold for me that would be really helpful.

I want to ask you about the most recent green zone announcements and how the CERA decision-making process relates to the city council issuing of section 124 notices under the Building Act. Let me give you an example of some of my constituents who for 16 months have not been legally allowed to live in their homes. Their homes are undamaged, they just happen to be near rockfall
threat. For 16 months they’ve been out of their house because it’s got a red
sticker on it. They’ve had private detectives snooping on them, that we’ve paid
through our rates. They’ve been threatened with a $250,000 court fine if they
dared to go back into their house, because it’s so dangerous. Friday, 29th June
you make an announcement, their house is green zoned, and the red sticker is
automatically removed. They don’t feel safe because there is nothing between
them and the rocks that have made them legally unable to be in their homes
for 16 months. How can they feel safe in their house?

Brownlee  Well, I think the only thing I could say is that we have had, I think, quite an
exhaustive process and exercise in trying to establish what was reasonable life
risk for people living in those zones. There’s no doubt that the rock roll issue is
the hardest one to deal with, if it’s cliff collapse or land slip it’s pretty
straightforward.

There are a couple of things that I think are relevant. Firstly, we’ve come
through a very, very active seismic period during those months and if there’s
been no rock roll during that time and no damage to their property during that
time from rock roll, then I think it would be reasonable from an authority’s
point of view to accept that the science of life-risk assessment is on the right
track. The people who’ve been allowed back in are people who have now, after
that period of time, gone above the 1 in 10,000 risk.

Dyson  No, 1 in 5,000.

Sutton  1 in 5,000 now. 1 in 10,000 in 2016.

Brownlee  No, hang on, the people who’ve gone green are either above the 1 in 10,000
now or are in a category between 1 in 5,000 and rising to 1 in 10,000, on the
current track, over the next 4 years. The alternatives to that, we’re saying to
people: “Look, you just stay out for another 4 years.”, and at that point being
able to say statistically we can now look at the life risk and find that you’re in a
1 to 10,000 or better position, but the question would still be exactly the same
in their heads I suspect.

Dyson  So why, when they were green zoned on Friday 29 June and their red sticker
was removed, and they were told their house was safe, that they could move
back in, why was it the case that the following Tuesday the city council put
their red sticker back on their house and said: “You’ve got a section 124 notice.
Your house is not safe to live in.”? How does this coordinate, and there’s more
coming. How does this coordination work?

Brownlee  Well, there are two things. I’ll get Roger to speak about that in a minute, about
the coordination issue, but there are two aspects to the 124 notices. So one is
where there is a life-risk hazard—

Dyson  This is solely rock fallers.
2012/13 ESTIMATES FOR VOTE CANTERBURY EARTHQUAKE RECOVERY

Brownlee: Well, I can’t comment without knowing the house, but the other reason why someone may have a 124 notice on it would be if their house was badly shaken and damaged.

Dyson: Solely rock fallers.

Brownlee: Roger?

Sutton: So, yeah, I mean we made those zoning announcements that day. You know, we thought we were making good announcements, but there may be one or two people where the engineers, on further examination of those properties, decided they do actually still have a section 124 notice. At the end of the day we make those zoning decisions, but we have to live by the advice of the engineers, and if these people, these engineers, on further thought, have decided they aren’t safe then we’re happy to stand by that, but we accept that it’s very, very difficult for those people.

Brownlee: My understanding is there are four properties that have been in that category, but there may be more.

Dyson: I can give you the list. There’s more coming. What do they do now?

Sutton: In terms of?

Dyson: Green zone; red sticker. When can they go home?

Brownlee: Yeah, look, hang on.

Dyson: Who’s responsible for doing what to make their house safe?

Brownlee: So we’re talking at a slight vacuum here, because it would be—I think if we had the maps here and were able to point to where these properties are, you’d find that they are on relatively—well, it would be easy to see, I think, why that threat is there, and why in fact there might’ve been a bit of an over enthusiasm about the green zoning. In the great context of the 18,000 homes that are on the Port Hills—it’s just the same as on the flat—you won’t get it right every time. So I understand that there are four properties at the moment that have got the 124 notices reapplied, out of the—in this case—285, I think, that were in the category of 1 to 5,000, rising to 1 to 10,000, and there may well be one or two others. But there will be then a review of all the information. The same is as happening on the flat.

Sutton: I mean, I think you could also add that, you know, we think our zoning process is sound, but people in many ways should take comfort that the engineers are, if you like, giving their advice about whether these places are safe or unsafe. If these engineers feel it’s still unsafe then we’d be stupid to actually be, you know, not allowing those red stickers not to be going back on.

Dyson: I guess it’s hard for people to understand how on Monday—
Sutton Yeah, I can accept that.

Dyson —at the beginning of the zoning announcement week—they were threatened with a $250,000 fine—

Sutton I can understand that. Yip.

Dyson —if they moved into their house. Nothing changed, except the number of days. Four days later, red sticker is off; good to go. Three days later, red sticker is back on.

Sutton Yeah I accept that, Ruth.

Dyson That is not good communication, and it’s really hard for people to live like that. There is no explanation from the city or CERA about what happens next for them, and that’s what I’d really implore you to give them. They have no idea what is happening next.

Brownlee Well I’ll make sure that they are informed of a process, but as I say there are four properties so far in that category.

Dyson More coming.

Brownlee Maybe.

Dyson I’ve got to go to a select committee. Can I put in some more written questions to you?

Brownlee Well, of course.

Dyson Thank you. Thanks for your time.

Smith I want to ask the Minister about the demolition process, in the sense that it has been a big challenge for CERA over the last 12 months. Frankly, if you look at the history of demolitions, my understanding is that more buildings have been demolished in Christchurch over the last 12 months than what would normally be done in New Zealand over a 20-year period. We all know that demolition work has the highest occupational safety risks, let alone in an ongoing seismic zone. So my questions are around how much more is there around the demolition phase. And, I think, are you confident you’re going to be able to maintain what I think is a pretty extraordinary safety record, having, as I understand it, demolished 1,300 buildings without a bad safety record, and the importance of getting those buildings removed for the rebuild to able to occur and for Christchurch to get back to some normality. So, firstly around the compliment of the occupational safety risk, can that be maintained? And, secondly, in terms of what your expected timetable is going forward, and getting that demolition phase of the recovery complete.

Brownlee Look, I’ll ask Warwick to speak to those last points. I’ll make the point though about the safety record. It is quite extraordinary. I think what’s struck me is the
utter professionalism of the people who are involved in demolition. You sort of go from a view that a lot of people have, that you just wander in there with heavy gear and get stuck in, to understanding that there’s actually quite a process as important in deconstruction as in construction. I think they’ve done an extraordinary job.

There’s been one accident that has caused everybody a degree of distress. My understanding is that that particular gentleman is going to make a full recovery, and you know, we’re certainly wanting to monitor how that is coming along. But on the time line, I think Warwick you might be the best to—

Isaacs Thank you, Minister. Yes I expect there’s about 12 months to go in the demolition programme. We are finding that there is quite a tail as owners and insurers are still debating their relative positions. We’re finding that there are increasing numbers still of uneconomic buildings, which owners and insurers then make the decision to move on with demolition. So around 12 months to go. The large buildings are all on track, so that’s the Clarendon Towers, Pricewaterhouse, Holiday Inn, so those are all within probably the next 9 months, but I think to tidy them up it is around 12 months.

Smith The tight issue is where other property owners are affected by a building that’s at risk. Have you set yourself a deadline where, sure I’ve got a building and I might have a decision about whether I’m going to replace, rebuild, or demolish? Where it’s significant is where other property owners are affected by the at-risk building. Have you set yourself a deadline at which point there will be all those buildings that require restrictions on other property owners being out of the way so that that impact on the broader Christchurch economy is moved through?

Isaacs To date we haven’t had any of those issues arise. You can imagine on a demolition site that the set up of the site with the equipment generally goes outside the boundary of the affected property, and so there’s a lot of liaison that goes on between ourselves and the affected property owners. But to date we have not got the situation where someone is saying: “Look, I want to get on with the rebuild, and the demolition is holding us up.” If that is to occur, we certainly have a range of techniques with which to push that property owner and the insurance owner along to expedite their decision.

Sage Minister you’re well aware of the substantial public concern about the cathedral. That’s a category I listed building. Under any normal process there would be a requirement for resource consent for its demolition, and that would likely be notified and the public would have an opportunity to have a say. Under the Canterbury Earthquake Recovery Act and the extraordinary powers that are given to CERA under that Act, the fact that the RMA procedures are suspended, the Act in section 92 requires that you do an annual review and report on its operation and effectiveness. When I wrote to you saying that the review was overdue in April, you said it would be undertaken. Has it been undertaken? Has there been consideration of restoring those processes under
the RMA so that people can have a say on the demolition of a building like the cathedral and take it to the Environment Court if necessary?

Brownlee Well, the first point is yes, the review has been undertaken, and—

Sage Has it been released?

Brownlee It should be released very shortly. I haven’t seen a draft of it just yet, but the reviewer has completed the work. On the issue of the cathedral, I think there’s a couple of things that are relevant there. First is, in recent days the people who were seeking to save it have become a lot more organised, which is a good thing, and also a lot more realistic, so they now have the work that was completed by the engineering firm suggesting a method for repair of that building. What’s not there at the moment is a work programme. So you’ve got a concept, but how you put life into that concept and achieve the restoration without putting workers at risk is yet to be determined. Then there is the cost issue as well. There is clearly a discussion going on at the moment, but ultimately the decision about that cathedral rebuild or otherwise will lie with the owners of that cathedral.

Sage Well that’s my point, Minister. Because we haven’t got a process where the public can have a say, are you considering, as part of the review, restoring to the council its decision-making powers under the RMA so that the public can participate in those decisions?

Brownlee Not at this point.

Sage Why not?

Brownlee Well I think you’ve got to look at the wider issue of the rebuild of Christchurch, and it goes a lot further than the position just around the cathedral.

Sage I’m aware of that, but it is meaning that the community is shut out because those normal processes don’t apply. Now that we’ve moved past the emergency situation, surely there is scope for people to be involved in the future of the city by going through the normal RMA process.

Brownlee I think at the moment there’s no great rush on things. There is a considered process under way. The voice of people who were wanting to save it is certainly being given a fair hearing, and a more fair hearing than it might get under a bureaucratic process. I mean, there is a discussion going on over the practicalities of achieving a restoration. I think that’s a pretty good place to be in.

Smith If you took the view that the full RMA process was required in the rebuild of Christchurch City wouldn’t there be a substantive risk, given that the consideration and council hearing process plus the potential appeals to the Environment Court typically stretches out for a period of 2 years, and wouldn’t
you be accused of substantially holding up the critical recovery of Christchurch if you were not to use any of those CERA powers around the RMA?

Brownlee  Look, I think that’s absolutely right. There’s no intention—in fact, absolutely no desire—for anything other than a high-quality rebuild to occur in Christchurch. I think the opportunity to get that substantially under way in the remaining 3 years of life or 4 years of life that CERA has is one we can’t easily look to set aside.

Cosgrove  Minister, on the 18th June this year you said in the Christchurch Press that there was—that Christchurch residents have not been hit with astronomical rent increases. Then on 7 July data was presented that shows there’s been a 26 percent increase in rentals, and I know you’ve disputed the figures, but anybody with half a brain, living in Christchurch, would understand when you’ve got people living in vans, some of whom are employed, and a 49-year-old ex-painter who can’t get a job and is living with his wife in sand dunes, that there’s probably a problem, and given that over 100 people are on the list for Housing New Zealand accommodation, and can’t get it. Do you still believe that there is not a rental crisis in Christchurch? And, secondly, could you explain your comment that you felt a 26 percent increase in rental cost was positive for the region?

Brownlee  Two things. Firstly, Mr Cosgrove, you’ve got a long history of putting up these anecdotal suggestions—

Cosgrove  Would you like me to give you the media clips?

Brownlee  —about people’s circumstances, without ever actually coming up with the cases for us to look at.

Cosgrove  They’re in the—I can give them to you now. The Christchurch Press levelled them with you.

Brownlee  And where they have been in the media, there have been investigations made—

Cosgrove  It’s all public cases.

McClay  Clayton, let the Minister answer the question.

Brownlee  —to try and get those people into a better position. The second point is that the relative rents—Christchurch to the rest of New Zealand—there is no significant dislocation. Thirdly, if you look at issues around housing, you will find that there are difficulties throughout the country. We have made a lot of effort to try and create opportunities for people to be housed, in what are clearly difficult circumstances. And as to my comment about the positive nature of the rental increase, you will particularly remember predictions of 40,000 people being unemployed, the economy falling to bits, etc. None of those things have come to pass, and the areas that people are wanting to get into, where the greatest rental increases have occurred, are in fact in the
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suburbs closest in to the centre of the city. Now I think that is a positive thing because unless you have people committed to living in a city you have no city.

Cosgrove Well, despite your sort of, you know, slap in the face to me over my allegations, these aren’t my allegations; these were put to you by journalists in the Christchurch Press. There are photos of these people living in sand dunes. There was a television exposé on people living in vans, and the figure of 104 people has come out of Housing New Zealand. Yet you tell us to take you on good faith. You say there is no significant dislocation. So can I ask you for your evidence that backs up that statement?

Brownlee All I can tell you is that there is at least two of the cases that have recently been prominent in the media where, upon inquiry, all of the facts were clearly not known to the journalists who presented the situations for the nation to consider. The next bit, I’m not sure what you’re asking.

Cosgrove Well, I’m asking you—you made this statement that there’s no significant dislocation in Christchurch. Presumably you and your—

Brownlee Yes, front page of the New Zealand Herald.

Cosgrove Excuse me, can I finish. You and your department presumably have some sort of statistical evidence to back that up. So you’ve rubbished the evidence in the Christchurch Press. Can you give us—

Brownlee No, I didn’t rubbish the evidence.

Cosgrove Can you give us some evidence that backs your statement?

Brownlee All I can say to you is—

Cosgrove Apart from anecdotal sort of—

Brownlee You’re prosecuting a case on the basis of the front page of the Press. I’m simply saying that the rental comparators that were published in the New Zealand Herald around the same time would back the position that I’m taking.

Cosgrove So can you give us some evidence from your department? Presumably you’ve done some work on this, in conjunction with Housing New Zealand or other agencies, to give us some sorts of definitive statistics as to what the situation is, if everybody else is wrong and you’re right?

Brownlee Well, you would know that there’s no such thing as a definitive statistic, but we can get you some information.

Cosgrove Well, a best guess then, to quote your finance Minister.

Brownlee We can get you some information. I don’t have it with me.

Cosgrove Do your officials have anything with them?
Brownlee  Our—

Cosgrove  But don’t you think it’s a priority you ought to be monitoring damn near each week, given the difficulties that people are in? You don’t accept they are in difficulties—

Brownlee  No I don’t, and I think this is a position that you’re promoting. I don’t think it’s typical. I might ask Roger to talk about what we are doing to provide accommodation.

Cosgrove  Well, all I’m asking—and I think it’s a fair question—is that if the media is wrong, if Tenants Protection, and other agencies are wrong, if Labour members of Parliament are wrong, OK that’s fine, but could you present us with some evidence to the contrary, and have you done any work on this, because you think it’s pretty critical?

McClay  Clayton, I think the Minister has answered that.

Brownlee  You are telling me that you think it’s critical to the recovery. I don’t think it is—

Cosgrove  I think housing is pretty critical to the recovery, yes.

Brownlee  Housing is, which is a different issue to the difficulties that some people face; quite a different thing. You will be aware that efforts to try and expedite people into better housing situations have actually led to a court case most recently. So I think what I would say is that while we—and I accept that some people will have housing difficulties—can try and sort those housing difficulties out, that what we have done is provide additional accommodation support for people. There are the temporary villages that we can talk about. But the biggest thing, I think, is making sure that you’ve got supply of housing. It’s sort of extraordinary to me, I think it’s extraordinary, that when we’re trying to do something to increase the supply of housing, which is ultimately going to relieve the problem, there are so many people opposed to that.

Cosgrove  The one definitive statistic that perhaps you might agree with—because it’s one of your Government departments—is over 100, I think, couples or people, but 100 people at least, requiring—Housing NZ figures—emergency accommodation. So what’s the plan around that? Because that’s not media or me, that’s your own Crown agency.

Brownlee  Yeah, but there’s always been a list of people wanting housing fairly urgently from Housing New Zealand. That’s not a new phenomenon. It’s certainly not unique to Christchurch.

Barry  I asked the Office of the Auditor-General about this as well and they didn’t have the figures—but perhaps you do, Minister—about temporary housing and the uptake on it in Christchurch. What are the figures, please?

Brownlee  Roger, you might—
Sutton So the Government is committed to three temporary villages—one at Kaiapoi, one at Linwood, and one at a place called Rawhiti Domain. Rawhiti Domain is the newest one. So Kaiapoi has got 22 units, and 20 of them are occupied at the moment. In Linwood the Government has got 41 units, and 35 of those are occupied, and then at Rawhiti Domain, we’ve just completed that, there are 19 units there and only two of those are occupied. So there’s vacancies available in those villages at the moment. Those villages were specifically designed for people displaced by the earthquakes. They’ve been placed in the community close to where people are having to move out of their houses for repairs, and they’ve gone extremely well. We’ve got a lot of very, very happy, satisfied tenants from those places.

Barry So the people that are being alluded to through the media who were having difficulties with housing could still get opportunities in Kaiapoi and Linwood, and have housing?

Sutton Those villages have been established for people displaced by the earthquakes. People are moving out of their houses for earthquake repairs. So they’re not designed for people who’ve come to Christchurch to seek a job or something like that. They’re there for people who are earthquake impacted.

Cosgrove Minister, could I ask you, do you accept that people are still having extensive difficulties unlocking their insurance payments from insurers?

Brownlee Yes.

Cosgrove What are you doing about that?

Brownlee Well, we’re in constant dialogue with the insurers. We’re trying to understand exactly what the problems are and the extent of them. So if you look at the work that’s currently taking place in—well, step back a little bit, try and get some order into the sort of process. We got DBH initially to look at categorising land in Christchurch to see what the extent of the damage was. If you go back to last year, I think, we had a handout here that showed both the vertical acceleration and therefore movement of the land and the lateral spread, which was in a clockwise direction from the Port Hills round to the sea. All of that movement, we all know, caused a certain amount of liquefaction in some areas, and it caused the relative level of the land to sea level to move in a number of places. In the worst affected areas we’ve gone for the red zone option. But throughout the city there are categories 1, 2, and 3. Category 1 and 2—repair and rebuild—I think is progressing at a reasonable sort of rate. TC3 is where most of the difficulty lies, so put that in a box for a minute.

The other difficulty is around apportionment. So the deficiencies in the EQC Act were tested in court. There was an agreement that once the court ruled no one would appeal. The court ruled that each event subsequent to a renewal of a policy triggered the EQC cap into play once again, or part thereof. So that brought in place the apportionment argument.
Could I just break a minute there and say I think the EQC Act with that retrigger was very significant in enabling the vast majority of people in Christchurch who have undamaged houses to continue insuring their houses for earthquake damage in what is a very seismically active area. So I don’t see it as being all bad, but it is certainly causing a degree of difficulty in working out who pays what for what event. Two of the smaller insurance companies are engaged in an exercise with EQC to try and put together a method that all the insurers will accept, and they are, I’m told, very close to achieving that. Short of nationalising the insurance industry, I think we need to just give them a little more time to try and get that sorted.

On the issue of TC3, EQC have set about a very extensive drilling programme, their private insurers are engaged in a drilling programme, and CERA has now become the overall coordinator of all of that, so that we can have shared information across the agencies of the State, including GNS. That will, I think, get us relatively quickly to quite a refined position. And, you know, if people are currently designated TC3 they could find themselves TC2 quite easily as a result of this programme. We’re seeing some evidence of that at the moment. So yeah, it is difficult, but I think, you know, progress is—you can see it on the horizon.

Cosgrove Is TC3 still characterised as a guideline, or is it lawfully embedded in a code?

Brownlee Characterised as a?

Cosgrove Is it characterised as a guideline still, or is it embedded as law in the code?

Brownlee Well, if you’re on land that’s designated as TC3 now—

Cosgrove No, sorry. Forgive me, different question. Maybe I should explain, because you’d be aware that if it’s a guideline and not in the building code then, or sorry, if it’s in the building code, whatever’s in the building code, insurers are required to pay out on. If it’s not embedded as law in the building code or the Act it’s a guideline, and then it’s up to insurers whether they, you know, play fast and loose. So my question is, is it a guideline—I’m not interested in how it affects people at this point—or is it lawfully embedded in the code as law?

Brownlee Well, you’re trying to categorise—

Cosgrove I’m asking.

Brownlee No, no. Yes, you are, but the basis of your question is that you’re categorising all insurance responses as being dependent upon the building code. That’s not the case. One of the things that we’ve discovered in the settlement process for the red zoned houses so far is over 80 different types of insurance policies with different settings and different requirements. Replacement in an insurance policy does not always mean replacement as we might ordinarily expect it to mean.

Cosgrove Well, could I just put this to you—
So the question you’re asking is, if someone has got a destroyed house and their land becomes TC3 who is liable for the cost of that TC3 foundation? And that’s a question that will depend entirely on the insurance policy that people had, regardless of what’s written into the code.

Well, could I put this to you, because there are a number of issues which aren’t dependent on seismic events, and aren’t dependent on TC3, or whatever, and these have been put to you, and they’re simple disputes between insurers and individuals. For instance, you will be aware that a number of people have been told that the repair and/or rebuild of their house may be $300,000. Folks have gone and got quantity surveyors and then they’re told this is rubbish; it’s fine. Now even if you accept that maybe the insurer’s been a bit mean, maybe the QS has gone a bit troppo, and you drop it by 20 and raise it by 20, that’s still a 60 percent gap, and insurers are just saying no. So constituents, if they’re not under financial or geographic pressure, are just saying no, back, and they have nowhere to go. Now it’s been put to you by, I think, our party 12 months ago that an insurance commission or some sort of third party to unbundle disputes might be helpful, or some advocacy. It’s been put to you now by the Christchurch City Council there should be some, again independent, tribunal or something to stand on the side of constituents to sort it out—

Mr Chairman, we must have a question.

A bit like his question, and this is important, actually. You can rubbish it if you like, but this is important to people.

We’d like to have a chance to have a question at some point.

Continue with the question, but then we’re moving on in a moment.

Well there is a little bit to it. Sorry to interrupt your coffee.

Continue, continue, continue. You’re using time.

So don’t you think it’s time for people who perhaps are in that situation and in others where it’s not dependent on regs or seismic events—they just cannot get a break through as insurers will not return calls and they can’t afford to access advocacy; even those who have, they won’t even return the lawyer’s calls—that it might be appropriate for you or your agency to do something?

Well I think there’s a couple of points. Firstly, there will be cases like that, I don’t doubt. In fact, I know there are. But are they typical of the situation everyone is in? I’m not sure about that. But we will certainly have a look at what would be the effect of any sort of agency or advocacy service that might be put in place. As I said before, people need to understand that not all insurance policies are equal, and therefore the insurer’s response in any case will be different because it’s driven by what’s in the policy. You know, all of us—all of us, including me—have bought policies over the years, thinking that we had what was necessary and then can be quite surprised by what it actually means.
Cosgrove I accept that. I think you’re right—

McClay Clayton, no, no. Sorry we’ll have to move on.

Cosgrove Could I just put this to you? I accept what you’re saying, but don’t you think it would be smart to—like in the Queensland floods and in the bush fires, where you’ve got ordinary people who are not lawyers, you know, they’re elderly folk and others, who just don’t know whether—do they understand their policy, but they don’t know whether this is a good deal or not, and they want a third party to look over their shoulder and say: “Yes Granny, this is OK. You can sign it. This is fine. Nobody’s trying to have you on.”, but they’re reluctant to do it because they can’t get access to any sort of third party advice. You can give it, I can give it, but I don’t think either of us are lawyers. We can guess, but we’re not qualified to actually say that this is a good deal. Don’t you think it would speed the recovery up to have access to some sort of advocacy system so that people have the confidence to say: “OK, this is fine.”?

Brownlee Well, as I said, we are going to have a look at that. The other point I’d pick up on there is that not only are we not lawyers or engineers or otherwise, we’re also not financial service advisers, and so there are issues around that that we’ll have to consider as well.

Goldsmith I think you mentioned the figure of about 6,500 red zone houses that have been dealt with and 6,000 have been accepted. Just walking around Christchurch you see endless houses that have obviously been empty and knocked about. What’s the rough timing on when you’d expect those houses to be demolished? I presume, you know, for maybe half of them the Crown eventually may be able to resell the land at some point down the line. What’s the sort of long-term thinking about how that will evolve—when you look at a hillside, and you know that half the houses are clearly being demolished at some point?

Brownlee I think if you look on the flat land there is a programme for demolition at the moment, and for recycling also, where it’s possible. That is progressing at a reasonably steady pace. Where, in some cases, given that the Crown has, in some cases, acquired the house under option 1 it may well be caught in some of the insurance issues that others are facing. So that could be either apportionment or some understanding of around where the payments go through the EQC TC3 land payments. What I’ve said is that well, we’re not going to be in a hurry. Don’t put us at the top of the queue while they’re looking at an empty house where people have moved on, if there are people in houses that are occupied who need to have decisions made. I think that’s one of those things that will just evolve over time. Some of the cliff collapse properties pose particular difficulties for demolition because it’s just not safe to put heavy machinery on to some of those sites—

Sutton Any machinery.
Brownlee  Well, any machinery, that’s right. Some of you may have been up there at various times. Even just walking on those sites is potentially hazardous, so we’ve got to work out a way of getting rid of those. But someone with a clearer understanding of what’s required will do that and give us that advice at some point.

Goldsmith  Is there any indication, at this stage, you know, in terms of – You announced that the Crown paid for the red zone properties so far. Roughly do you expect to maybe get 20 percent of that back in 15 years’ time? Do you have any indication yet, or is it too early to say?

Brownlee  We’re certainly not counting on that. I think the decisions have been made on the basis that any of those areas would need area-wide treatment that was very, very expensive, and certainly, from my perspective, uncertain. So what might happen in the future I think is anyone’s guess. What I do think though is that particularly in the east of Christchurch there are some extraordinary opportunities now for civic amenity on some of that land, where, you know, you may be able to have activity on that land that doesn’t require, you know, big dwellings or big structures but, you know, it can be used for other purposes.

Over time we’re going to have to look at that, along with looking at the hydrology of the Avon River. So if you go down to those eastern suburbs at the moment you’ll find most of the river stopbanked with temporary stopbanks, and at times the water level is up above where the road is sitting. There are some issues that need to be sorted out around that. We haven’t had a big rain event in Canterbury for the last 21 months, and if we do have a big rain event and it coincides with a spring tide or a king tide, then I think we’ll see some serious vindication of some of the moves that have been made. But it remains a thing that we have to treat and think carefully about, moving forward, but there’s no rush on that at the moment. I think, you know, just from civil society if you like, there’ll be a lot of ideas come up about what we might do with some of that land.

McClay  Thank you Minister. I think you said you had to leave at 10 o’clock to go on a plane—

Brownlee  Sorry, I have to go to a funeral in Christchurch.

McClay  All right, thank you. Your officials are able to stay with us I assume?

Sutton  Yes, I’ve got about 10 minutes, Minister.

McClay  We’ve got 10 minutes of the time left and I know there’s a couple of other questions. Well, thank you for your time.

Hayes  Has there been a significant decline in the Christchurch population and has this had any sort of impact, if there has been?
Sutton So the overall population declined from various sources—we get to a number around 7,000 or 8,000, that sort of number. We’re seeing some indications the population is starting to come back. But I mean, considering the level of damage, the fact that 50,000 people used to work in the CBD, you know, I’m pretty happy actually with the level of depopulation we’ve actually seen.

Internationally, in events like this, people have often seen much, much larger levels of depopulation than we’ve seen in our city. As the Minister has outlined, overall, despite what’s happened, the economy is still going very, very strongly, you know—exports through the port, unemployment, nearly all those key metrics are actually still looking very positive.

Barry I was really interested to ask about the new unit that’s been set up, having covered the temporary housing thing—the Christchurch Central Development Unit. So the estimated costs of that unit and the way it’s working in with the other establishments—how is that working on the ground?

Sutton So Warwick’s the director of that unit, so maybe I’ll get Warwick to speak briefly about that.

Isaacs Obviously we’re part of CERA, so we’re fully integrated into CERA. We have—as well as CERA itself—strong links with the city council, Ngāi Tahu, and the other strategic partners, so the work on the 100-day plan of action the Minister announced on 18th April is proceeding very well. We’re expecting that we’ll very much meet our 100 day target and have a plan for the rebuild of the central city on time, available for the Minister to consider.

Barry So the measurements and evaluation of the efficacy of this unit are based on the 100 day model, really? That at that point you’ll be able to evaluate the success of what you’ve been doing?

Isaacs Exactly right. And then past the 100 days is what’s the role of CERA in overseeing and leading the redevelopment of the central city, which obviously is a very vital part of the recovery of Christchurch.

Sutton Yeah, I mean you could argue that—I mean, our effectiveness will be judged when we come out with our blueprint. But really our effectiveness will be judged in 10 years’ time, when they say: “Gee, haven’t we actually been part of building an absolutely outrageously beautiful, successful city, where lots of people want to live, lots of people want to play, lots of people want to, you know, where people want to be.” That’s really what we’re aiming for.

Barry Thank you. And you’re on track for that?

Sutton We are.

Sage Just in terms of the statement of intent, and you’re obviously looking at financially prudent expenditure. Given the large sums of money that are going through CERA—I know the Serious Fraud Office has been down—what
assurance can you give us about your systems in terms of ensuring that there is no corruption, and that there is good audit control of the expenditure?

Sutton  
So, I mean the organisation, while it’s a stand-alone Government department, has actually leveraged a lot off other Government agencies. So a lot of our IT systems, a lot of our financial systems, we’ve taken from other organisations. We’ve got, you know, an experienced CFO and we’ve got an experienced team on board. A lot of my people have come from Government so they’ve got an understanding about the need for actual proper process—you know, proper process, proper accounting, and so on.

Sage  
But there are no performance indicators in the statement of intent around that.

Sutton  
Well, I mean, we have the Audit Office all over us more than once a year, going through our stuff that’s on site. I’m sure if there are issues the Audit Office is going to be more than capable of pulling them up and bringing them to the attention of the other parties.

Cosgrove  
Can I ask you Roger, who pays for what in terms of local and central government, because you’ve had the Minister come out and say it’s fifty-fifty, you’ve had Mr Parker, the mayor, come out and say that no, that’s not right, and then you’ve heard a contradictory statement from the Minister, and then we’re in a holding pattern. So who’s paying for what?

Sutton  
This is on the Port Hills stuff?

Cosgrove  
Yeah, this is the overall payment, fifty-fifty, that the Minister talked about.

Sutton  
So there’s been some discussions with the council about how the costs of the Port Hills are going to be assigned, but there’s been no final agreement between the parties.

Cosgrove  
But the Minister’s said it’ll be fifty-fifty.

Sutton  
Yeah, look, I mean, I wasn’t in the room for those discussions. Those are really questions you need—

Cosgrove  
That’s what he said publicly.

Parker  
Can I ask a question on section availability? People are moving out of the red zone. What information can you give us as to whether there are going to be enough sections available in time for them to have houses built on them by the time they move out of the red zone?

Sutton  
So we’ve red zoned something like 7,300 properties. Some of them were relatively recent with areas like Southshore and also some of the areas on the Port Hills. So far the Government has bought about 5,000 of those properties. So it’s been quite extraordinary the level, you know, the number of properties we’ve actually bought, and the people have actually left those properties. So there are now large areas of the red zone where people have actually gone and
moved on to something else. We’ve used our powers to ensure that about 26,000 sections are available within the urban boundary to be turned into residential land. I guess, you know, we continue to work with various landowners to ensure that land can actually come to market.

Parker I’ve seen some reports that the average section prices in the areas that are available have increased by perhaps 30 percent. Is that correct?

Sutton I haven’t seen any numbers like that, and initially when I attended a lot of red zone meetings people were very, very concerned that actually section prices were going to go through the roof. I think we’ve seen only very limited evidence of that. Pegasus, which is a township a bit further up the road, they’ve recently done specials and various things for people within the red zone. So I don’t have any specific data on that, but I mean, I think, some of the developers are also going slower than they expected, because there simply hasn’t been the demand they had originally anticipated.

McClay All right. Thank you very much for your time and for the evidence you’ve provided to us.

Conclusion of evidence
2012/13 Estimates for Vote Commerce

Report of the Commerce Committee

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Vote Commerce

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Commerce as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

Introduction

The appropriations sought for Vote Commerce decrease by 1.9 percent to $140.248 million in 2012/13 (estimated actual in 2011/12: $142.961 million). Significant increases include funding for the Financial Markets Authority and the Commerce Commission litigation fund.

Rebuilding confidence in financial markets

We asked the Minister of Commerce about feedback regarding confidence in financial markets. He told us that confidence was returning, but it had a long way to go, particularly given recent events such as finance company collapses. He said that it was important to maintain transparency, trust, and the integrity of New Zealand’s rules, regulations, and legislation, which were very valuable assets for our service exports. As New Zealand is a debtor nation reliant on foreign capital, and owing $180 billion overseas, it was also important that lenders could be assured that our financial system is fair, transparent, and robust.

We asked how the Minister’s announced review of KiwiSaver default providers and changes relating to disclosure of information would help to give investors confidence and grow New Zealand’s capital markets. He told us that these measures would bring transparency to capital markets, to help rebuild trust in the financial system.

The Minister said also that predatory share offers remained an issue. The Ministry of Economic Development was consulting on pertinent regulations, which it expected to be introduced by the end of the year. The regulations would provide for fines, and more time for recourse for people caught by such schemes.

Financial Markets Authority

The Financial Markets Authority has been running for just over a year, and its work is still mostly that which it inherited from predecessor organisations. We understand that it is keen, however, to work pre-emptively to prevent financial issues, and had consulted widely on the Financial Markets Conduct Bill currently before the Commerce Committee. We note the authority’s Licensing and Supervision of Market Participants appropriation for 2012/13 increases by $568,000 to $12.256 million, and its Performance of Investigation and Enforcement Functions appropriation increases by $1.219 million to $6.968 million. The authority’s Performance of Financial Markets Monitoring Functions appropriation decreases by $600,000 to $6.237 million.
Ministry of Business, Innovation and Employment

We asked about the Ministry of Business, Innovation and Employment, which is to be established on 1 July 2012. No specific appropriation has been set aside for this change. The Minister said the new ministry would allow services for business growth to be delivered more efficiently and effectively, particularly regarding exports, innovation, and capital markets. He told us that initial set-up costs and changes would be minimal, with the organisational design and costs of the merger to be worked through between now and 1 October 2012, but he did not provide the committee with any specific dollar figures. The budgets of the organisations merged into the new ministry will be transferred.

We asked about potential policy conflicts between the departments that formed the new ministry. The Minister explained that the point of the new ministry was to bring various perspectives together for discussion, rather than developing policy in isolation.

Telecommunications

We asked what advice the Minister had sought or received on a regulatory convergence for the broadcasting and telecommunications sectors. The Minister told us that many reports had been written on this issue in New Zealand and Australia. He had received high-level advice on the competitive structure of these sectors in New Zealand in relation to exports and job creation. He said, however, that the regulatory environment in this area was not part of his portfolio, and confirmed that he was not undertaking work on a converged regulatory approach for the telecommunications and broadcasting sectors. He was aware of high-level discussions by other Ministers on this issue, but not of any specific plans.

We had heard reports of steady increases in complaints to the Commerce Commission, and litigation relating to telecommunications. We asked the Minister about the importance and resourcing of this work, and the effectiveness of the telecommunications branch of the Commerce Commission. The Minister said that the telecommunications branch reported to the Minister of Communications and Information Technology, but was confident that the branches for which he himself was responsible were sufficiently resourced. The Minister reconfirmed that there were no plans to merge the office of the Telecommunications Commissioner into the Commerce Commission, and that he had neither asked for nor received any advice on the Telecommunication Commissioner’s position.

Some of us were concerned that although the Minister agreed that it was his job to be driving change in the regulatory environment, he could not confirm that there was a work plan to address convergence of telecommunications and broadcasting, and he could not confirm whether New Zealand was in or out of step with most other countries in the world by not moving towards a converged regulatory approach.

Commerce Commission funding

We heard from the Minister that the Commerce Commission’s workload had increased as a result of a large amount of litigation relating to Part 4 of the Commerce Act 1986, which covers markets with little competition. The commission would also be examining Fonterra’s Trading Amongst Farmers scheme. We asked whether this workload was
appropriately resourced, since the appropriation was unchanged, although it was covered by a $3.837 million expense transfer. The Minister said that the litigation was likely to take several years, and funding would be moved from year to year to meet time-frames dictated by the judicial process.

**Harmonising legislation with Australia**

We asked what legislative work was being done to harmonise commerce law with Australia. The Minister cited the Financial Markets Conduct Bill, the agenda relating to the single economic market with Australia, and legislation on information sharing by the Commerce Commission as key work in this area.
Appendix A

Approach to this examination

We met on 14 June 2012 to consider Vote Commerce. Evidence was heard from the Minister of Commerce, Hon Craig Foss, and the Ministry of Economic Development, and advice received from the Office of the Auditor-General.

Committee members

Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received

We considered the following evidence and advice during this examination:


Minister of Commerce, Response to additional written questions 1–11, received 26 June 2012.

Minister of Commerce, Response to standard Estimates questionnaire.

Minister of Commerce, Response to written questions 1–116, received 12 June 2012.

Office of the Auditor-General, Briefing on Vote Commerce, received 14 June 2012.

Office of the Auditor-General, Requested information on Commerce Commission, received 22 June 2012.

Vote Briefing Paper, prepared by committee staff, dated 25 May 2012.
Appendix B

Corrected transcript of hearing of evidence on 14 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Moana Mackey
Mark Mitchell
Dr Jian Yang

Witnesses
Hon Craig Foss, Minister of Commerce
Liz MacPherson

Foss I will make some opening comments and then open for questions, and I will defer to my officials if necessary.

Two of our four key priorities laid out by the Prime Minister recently were about building a more competitive and productive economy and delivering better public services. Our business growth agenda drives the first priority, and Vote Commerce plays a crucial role. Work under Vote Commerce directly contributes to building our economy and helping develop a world-class regulatory and business environment, ensuring our financial markets are strong and well functioning, and enabling productive and competitive businesses to grow jobs and exports.

Vote Commerce is also responsible for major public services for businesses, such as the Companies Office, the insolvency service, and the Intellectual Property Office. If the committee doesn’t mind, I would like to take a moment to congratulate the Intellectual Property Office on winning the Grafton Art of Change Special Award for its recent business transformation. The award recognises the team, who have done a great job involving change to a new internet-based system.

Today I would like to focus on my role as commerce Minister to ensure that the regulatory environment is right for encouraging businesses to grow. My No. 1 priority is to create the right regulatory environment for business. Businesses can grow more confidently if they know they have a stable regulatory environment with clear and robust rules. The Government knows that economic growth comes from business growth, which is why
we are focusing on ensuring businesses have the key inputs and frameworks that they need to grow. There are four key pieces of legislation currently under way in Vote Commerce that are the key to creating the right regulatory environment.

First of all, addressing rebuilding or continuing to build confidence in our capital markets. Firstly, it is important to complete the work of the Financial Markets Conduct Bill, or the FMC Bill, which is before this committee at the moment. I am grateful for the full consideration you are giving to it and I acknowledge that you have travelled the country to hear submissions, and everything I have heard—feedback—thus far has been very positive. Again, I acknowledge the hard work of the committee on that one. I won’t comment too much further on that, because, of course, that bill is currently before this committee.

Of course, we need to encourage pro-competitive collaboration while clamping down on illegal cartels. We have the Commerce (Cartels and Other Matters) Amendment Bill awaiting first reading in the House. That bill will facilitate pro-competitive, innovative, and efficiency-enhancing collaborative activities that are essential to New Zealand realising its productive potential. At the same time it will criminalise hard-core cartel conduct. The bill achieves those objectives by clarifying the scope of prohibition. Compared to the current prohibition, the bill instead defines the forms of conduct that are illegal—that is, fixing prices, restricting output, allocating markets, and bid rigging. That approach should achieve greater certainty as to the type of conduct that is prohibited.

Very importantly to me, the bill introduces a collaborative activity exemption. That new exemption is much broader in scope than the current exemption for joint ventures and focuses on the substance of the activity, not necessarily the form of the arrangement. The bill also introduces a clearance regime so that businesses can test with the Commerce Commission in advance whether a proposed activity would be prohibited. Currently the Commerce Act provides a clearance regime for mergers only. This new regime will include collaborative arrangements that should provide greater certainty for businesses to operate in our economy.

Of course, on the flip side, the bill introduces criminal sanctions for individuals and companies. For an individual the maximum sanction will be 7 years’ imprisonment. For a body corporate the sanctions remain the same at the current level: a fine set at the greater of either $10 million or three times the value of the commercial gain, if it can be ascertained. If it cannot be ascertained, a sanction will be 10 percent of annual turnover. While it is important to penalise such behaviour that distorts prices and undermines the competitiveness and integrity of our markets, there are a number of equally significant improvements that are proposed. The design of the bill means focus should no longer be just on the criminal sanctions, but of course on facilitating pro-competitive, innovative, and collaborative
activities. Also, we are looking to continue to strengthen the rules that apply to governance, registration, and reconstruction of companies.

The next piece of legislation, which is also currently before the House, is the Companies and Limited Partnerships Amendment Bill. That bill intends to increase confidence in our markets by reducing the potential for New Zealand-registered companies to be misused for overseas criminal activity. It aims to increase confidence in New Zealand’s regulation of corporate forms by better aligning the Companies Act and takeovers codes. It also ensures that New Zealand remains a trusted place to do business by introducing criminal offences for directors who commit serious breaches of duty. That bill is intended to increase confidence in our markets because we must be and are still a very well-trusted place to do business in the world.

The registration provisions of that bill are designed to reduce the potential for misuse of our various registration systems in New Zealand. Each registered company under this bill and limited partnership must have a New Zealand-resident agent to respond to requests from regulatory, investigative, and law-enforcement agencies. The register can publish notes about warnings about particular companies and can initiate checks on at-risk companies or individuals as they see fit. That bill is part of a wider programme that aims to reduce the misuse of a very fine regulatory environment in New Zealand and to reduce criminal activity both in New Zealand and with our partners overseas.

The final set of reforms in that bill is the introduction of criminal offences for directors who commit serious breaches of two duties under the Companies Act. The relevant duties are that they must act in good faith in the best interests of that company, and to not carry on business in a way that risks serious losses to the company’s creditors. There is a high threshold there aimed at serious misconduct and would not catch an inadvertent act or omission by a director. Those reforms recognise the substantial harm that can result when companies breach the duties they owe and as was evidenced in the number of finance company collapses where many investors lost considerable savings. They are also in addition to the civil remedies already available to the company and its shareholders, and those provisions will give enforcement agencies such as the Registrar of Companies and the FMA the role of taking action on behalf of and in the public interest.

Finally, I will mention the Financial Reporting Bill. That bill follows on from a review of New Zealand’s financial reporting framework. I expect to be able to introduce that bill into the House in the next few weeks. The Financial Reporting Bill rationalises financial reporting obligations across the statute books and represents a major rewrite of current financial reporting legislation. A significant feature is to remove the requirements for medium and small companies to prepare annual reports, including financial statements, in accordance with generally accepted accounting practice, or GAAP, as it’s called. The net effect will be reduced compliance for most
small and medium companies. Officials have estimated the average saving to be about $175 per company, or across the economy estimated at $90 million a year.

The other major change in that bill will be to empower the External Reporting Board to issue accounting standards to registered charities. The absence of accounting standards has led to reporting by some charities that is inconsistent with GAAP. Clear rules are required to improve charity reporting and increase comparisons between charities. That bill, like much of the legislation that has come through this committee in the previous Parliament and now, provides a once-in-a-lifetime opportunity to modernise our financial regulation and legislation within New Zealand.

Mr Chair, in conclusion, I continue to progress the existing work and am embarking on new work that will go some way to creating the right regulatory environment for businesses in several areas that come under my portfolio responsibilities. The changes will provide more certainty for business, giving them confidence to contribute to growing a more productive economy, growing exports, and growing real jobs. I also take a moment to once again thank the members of this committee for their consideration of the various bills from the Vote Commerce portfolio area and the bills you are about to receive over the coming years, and look forward to continuing to work with you generally in a bipartisan matter as we progress better legislation and regulation for New Zealand. Thank you, Mr Chairman.

Young

Thank you very much, Minister. I think that we do get our teeth into some of the bills that have been coming through; FMC in particular is before us right now, and it’s very interesting.

Cosgrove

Minister, the workload of the Commerce Commission has increased, obviously. Can you give us some basic reasons behind that?

Foss

The workload under, for example, the Commerce Commission—they’ve got a lot of litigation happening all around Part 4. They anticipate having to spend quite substantial funds in various court processes over the next wee while. Their merits reviews and bits and pieces have been challenged. The FMA now is fully up and running, about 14-odd months into its life and, as members note, the spend on that has increased and the levies have just been announced the other day. So all things financial regulation in New Zealand—yes, there is probably a heavier workload. The TAF—the Commerce Commission will be looking into the TAF arrangement with Fonterra, how that plays out. So, yes, it is an increased workload, by necessity, to keep the integrity and trust within our financial system.

Cosgrove

Do you believe the appropriation you were given was enough resource to cope with it?
2012/13 ESTIMATES FOR VOTE COMMERCE

Foss
Yes, I do. The appropriation is unchanged, pretty much, from last year. There has been some movement around between some of the—

Cosgrove
Sorry. Given it’s unchanged and the workload’s gone up, is there sufficient resource? I take the point about the levy, but how do you rationalise—the workload’s gone up, the appropriation’s stayed the same. How can you assure us that they will have the resource capability to do an appropriate job, given all of the challenges you’ve put before them?

Foss
Sure. Everything I’ve seen so far is in fact the team that works with me. Remember, there is no Ministry of Commerce, as you know. We take delivery for services from MED. The services I’ve seen arrive in a timely manner. There are big challenges. Much of the work here is not new; you know, it’s been going on for quite some time—in fact, some of it is 5 or 6 years old. For example, the bill that’s before you know. So much of the heavy lifting work has been done. But, yes, we are moving things around within our vote to make sure that first and foremost the trust is maintained in our system and we are able to align the outputs of Government to what’s necessary to help businesses and jobs grow.

Cosgrove
So by moving things around I presume you are meaning either cuts or savings—savings are cuts. So what things are being moved around and where, in dollar terms? So where are savings or cuts being made and redeployed, if at all?

Foss
Well, I don’t agree, actually. Savings aren’t cuts. Savings can be doing something more efficiently. There are changes in the ministry—

Cosgrove
With respect, saving, by normal definition, is where you may take from an entity dollars from one part of the entity and redeploy it in another part of the entity. A cut is where you take a resource away completely from that entity. So where are cuts and savings being made—in what areas?

Foss
Well, the total vote’s the same, pretty much, as last year, as you pointed out.

Cosgrove
You said there were things being moved around. As a committee we’d expect a little more detail from a Minister than “things being moved around”. So which things are being moved around, what is the cost, what is the appropriation, and can we have some specificity?

Foss
Well, I can assure you that the outputs will be delivered—

Cosgrove
With respect, Minister, I am sorry, that wasn’t the question. I’m quoting your words. I’d like to know what things are being moved around—with some specificity. Are there any cuts or savings being made, in what areas, and how much, and whether these will be compensated? Then we can get to the output issue.

Foss
In some areas reserves are being utilised—
<table>
<thead>
<tr>
<th>Cosgrove</th>
<th>Which areas?</th>
</tr>
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<tbody>
<tr>
<td>Foss</td>
<td>—such as Commerce Commission. They are moving funds from one year to the other because litigation that was anticipated this year is happening—</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>That’s one.</td>
</tr>
<tr>
<td>Foss</td>
<td>—presumably next year. Companies Office funding has been moved around.</td>
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<tr>
<td>Cosgrove</td>
<td>How much?</td>
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<tr>
<td>Foss</td>
<td>Companies Office, interestingly, is currently in deficit to about $9 million—the company memorandum account. So thus the fees you saw the other day, but that has been changed around.</td>
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<tr>
<td>Cosgrove</td>
<td>Changed around?</td>
</tr>
<tr>
<td>Foss</td>
<td>Well, moved around. There is now a fee for an annual registration for a company. That hasn’t been in place since about 2004, I think, when that was changed. So that’s what I mean where things are being moved around or changed.</td>
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<tr>
<td>Cosgrove</td>
<td>That’s two. Where are the rest?</td>
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<tr>
<td>Foss</td>
<td>That’s two. Total policy under Commerce is about 9, unchanged—7.9, so again unchanged. So if you want some more specifics, I can talk to my team here. They can answer you some specific—</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>Can we have them now? Because that’s why we are here.</td>
</tr>
<tr>
<td>Foss</td>
<td>Which area in particular would you like to know about?</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>Well, I don’t know what I don’t know. I’d like you to run through the whole vote.</td>
</tr>
<tr>
<td>Foss</td>
<td>The total vote is $140 million. It’s stayed at $140 million. There have been some substantial changes. They’ve gone through Treasury. They have been reviewed. They’re in the SOI, but if you want some specifics, ask about a particular area, if you like.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>Well, run down all your areas.</td>
</tr>
<tr>
<td>Foss</td>
<td>I can list them if you want, but I’ll chew some of your time up.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>No, that’s fine. It’s my time.</td>
</tr>
<tr>
<td>Foss</td>
<td>So you want me to go through them?</td>
</tr>
<tr>
<td>Lotu-liga</td>
<td>Can I—</td>
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</table>
2012/13 ESTIMATES FOR VOTE COMMERCE

Young  Just let the Minister answer and then we'll come to you soon, Sam.

Foss  OK. I think it would be in your papers. Total policy advice, $7.7 million. Ministerial servicing, $2 million. Operation, a total of 52. Then non-departmentals: XRB, $4.4 million; Takeovers Panel, $1.4 million; Commerce Commission, $26.5 million—some of this is, of course, recoverable—FMA, a total of $26 million; Commission for Financial Literacy and Retirement, $5.7 million; ComCom litigation fund, $10.7 million; and statutory management of Aorangi, $500,000.

Lotu-Iiga  You've kind of answered the question. There have been some changes. Also in the departmental output expenses—a slight decrease, I understand. There's movement there. I was just going to ask you about the litigation funds. There has been a build-up of litigation expenses transferring—there's quite an increase in the provision for litigation, you know, the litigation fund. Are you confident that these Part 4 cases are getting through as you would like in terms of the litigation pipeline, if you like?

Foss  Sure. I have to be careful not to comment on the cases themselves, of course. But the Commerce Commission, even in their previous SOI—the merits review of Part 4. Remember, Part 4 changes are not actually that old. So at the end of the day that's a subject of the judicial time frame and then appeals or not. So, the Commerce Commission, those processes are working as intended. The Commerce Commission can't dictate those time frames, because they are subject to the judicial process. But there are more hearings, appeals I'm aware of or still undergoing. So it's one of those parts of the vote where there's an estimate of those costs and they have been relatively delivered upon over the last year. But the actual timing of them is moving around.

Lotu-Iiga  But just to answer the question Mr Cosgrove raised, the funds that have been put in that litigation fund—increase in appropriation—is in response to that increased demand for resources. Is that a fair comment?

Foss  That's right.

Cosgrove  Minister, we've been advised that you've had—and we're awaiting figures, but you probably will have them—quite an increase in staff turnover. So can you give us some figures on that?

Foss  I'll ask Liz MacPherson here that one, because as I noted earlier I receive outputs from the Ministry of Economic Development and there have been changes flagged with the new ministry. So I'll ask Miss MacPherson to answer that one.

MacPherson  In terms of our turnover, it has decreased slightly, but essentially we have been tracking on what we would consider to be slightly the high side, and obviously we're working on—
Cosgrove  Sorry, could we have some numbers, because we did ask our advisers and they weren’t in a position to provide us with that information.

Lotu-Iiga  Sorry, is this departmental or non-departmental?

MacPherson  What are you asking—

Foss  Total numbers, or are you looking at specific entities?

Cosgrove  Total numbers. The audit—what were our advisers—

Lotu-Iiga  Sorry, just clarification. This is for the Commerce Commission of for the departmental—

Foss  You’ve got 345-odd, so that they’re asking about the turnover of staff.

MacPherson  Of MED?

?  Yes, the departmental.

Foss  Yes, so at the high level, what are the numbers?

Cosgrove  While you’re looking, could you advise us what is—I can’t recall the public sector average. There was an average.

Foss  About 12 or something, I think.

Cosgrove  Twelve percent?

Foss  Sure, OK. We’ll come back to you on that. So MED will answer that as best they can, and if we can’t, I’m sure Mr Joyce will be able to supply some of those numbers, because that does come directly under him.

Curran  Minister, when the Commerce Commission appeared before us a couple of months ago with regards to a consumer law reform bill they made the observation that there’s an increase—a steady increase—in telecommunications work around complaints, which is resulting in a higher degree of litigation, which presumably is reflected in the report that we’ve got before us today. In the context of that, what is your view around the significance of that work, and whether or not the vote, the appropriation that’s been made in that area, is sufficient? And also your views on how effective that part of the organisation is working, and are you receiving reports that greater attention needs to be paid to that part of the work that the Commerce Commission is doing?

Foss  Sure. Specifically, that part of the Commerce Commission actually reports to Minister Adams under ICT, but going right back to the start, you’re quite right, there has been increased interest in all things telecommunications: content, internet, etc., etc. I fully acknowledge, and that’s just a reflection of where the world’s at at the moment. I’m satisfied that the Commerce Commission—the bits that I look after—are able and resourced well
enough to attend to the matters that either they choose to investigate, and there’s a few of them under way at the moment, or that they receive complaint about and do investigate. I’ve yet to hear anything to the contrary to that from the commission themselves.

Curran I take your point that that part of the commission reports to the ICT Minister, but you are the Minister of Commerce that has responsibility for the Commerce Commission, and you must be aware of the rumour that’s doing the rounds—and, in fact, you’ve commented on it—that there’s a plan to merge the Telecommunications Commissioner’s role into the Commerce Commission, which you are on the record as denying. Do you stand by that? And do you believe that—or will you tell this committee that there are no plans now or in the future to merge the role of the Telecommunications—

Foss I think the article you’re referring to I say there are no plans, I think, answering your last part. I think I said there are no plans at the moment or I’m aware of to merge those two offices. I think that was the quote you’re referring to.

Curran The quote you said was: “‘There is no plan to merge the telecommunications commissioner’s role into the Commerce Commission,’ Foss’s office emailed Computerworld.”, dated—

Foss Yeah, OK. Yeah, sure, so I said it, but nothing’s changed since that article. I can’t answer for plans in the future, because I don’t know how far the future is. But there are no immediate plans with myself. Having said that, though, I am always interested in making sure that things of Government are able to deliver and focus on what they’re charged to do in the best way possible. So if the commission themselves come up with suggestions or want to have a discussion about changes at the margin or larger changes, of course I’ll engage in that discussion via MED. But right now I’m not aware of any plan to drastically change that office.

Curran So that’s this month, or is it—are we talking 6 months or a year? There’s no plans this year to merge the—

Foss Not that I’m aware of, there are no plans. There may be changes that would happen as a normal course of business, but I’m not aware of any drastic plan or strategy to—

Cosgrove Drastic plan.

Foss Well, you can define it what you like. As far as I’m concerned, that office will still exist in its current form, as far as I know.

Curran Have you received any reports on this?

Foss Not specifically on changing the structure of that, no. Minister Adams would, if there is such a report. It wouldn’t come directly to me.
Lotu-Iiga

Minister, do you formulate policy and make decisions as the Minister based on rumours, innuendo, and other scuttlebutt? You know, she’s talking about rumours that I’ve never heard of. Do you formulate your policy—

Curran

“She” has a name.

Lotu-Iiga

My question. Do you formulate your policy based on rumours, scuttlebutt, and other innuendo?

Foss

No, of course not. No one does. There is a political element, of course, but there is a lot of attention on that particular space just because the world is very dynamic and moving to that space, and the question does have to be asked somewhere along the way of are the structures of Government and governance appropriate for the way the world is operating today. But that doesn’t mean that I have any plans whatsoever, or that I’m aware of, to change in particular the role that exists now. The Telecommunications Commissioner is actually a Commerce Commissioner under the definitions, as far as I understand it, anyway.

Curran

Well, with respect, Minister—and you would know that there has been a lot of speculation in the technology-ICT media and also in the mainstream media on this particular issue in recent months that continues: as much as yesterday there has been discussion around the future of this particular part of the commission.

Now, I raised this issue because, as the Commerce Commission has told us—this very committee—this part of its work is increasing in importance. There’s a study that’s been undertaken by the Telecommunications Commissioner around the barriers to the take-up of ultra-fast broadband. Ultra-fast broadband is one of the Government’s flagship policies, which is currently under question in terms of the costing for actual connections to the household. Now, this is a serious issue, and I would put to you that the industry needs certainty around this issue. So I ask have you as the Minister of Commerce asked for any advice on this issue around merging and bringing the telecommunications role back into the commission, and the future of the telecommunications role within the commission, or have you received any reports on this issue?

Foss

Well, again, first and foremost that is Minister Adams, but the second part of your question—have I asked for a study or anything on the particular change in that office around—

Curran

Have you asked for any advice?

Foss

No—no more nor less than advice on any other thing.

Curran

So is that a yes or a no?

Foss

Well, it depends on how you define that. I have not asked for advice on: “Do I believe that that role should dramatically change in some way, shape,
or form?”. No, I have not. But I may well have asked for advice along the way of: “All things competition—is everything working as well as intended?”. That could include that; that could include Part 4—all sorts of things. But specifically to what you’re asking, I do not recall—and I’m quite sure I have not asked for such a report, or not initiating such an action.

Cosgrove Just a point of order, with respect, and I’m genuinely trying to assist. I think it’s possibly not helpful to talk in “I may have”, because you either have or you haven’t, with respect. “I may have done something.” is sort of talking in the hypothetical or third person.

Foss Sure, but also, with respect, it depends on the definition of “advice”.

Curran Minister, there does seem to be a hesitation around this issue. Does the Minister consider this to be an important issue going forward, given the context which I’ve put it in? Do you consider the telecommunications role within the commission to be a significant issue—yes or no?

Foss Well, of course.

Curran So what steps are you taking to look at its future role and the context it’s in now—what are your plans and can you give this committee some idea of where you see it going; and have you sought advice, have you got any reports on that role, whether it’s to do with Part 4 or whatever, and can you share some of those views with the committee?

Foss Sure, but I have no plans. I have no plans to change that office in any—the reason I say “drastic way” is there’s bound to be something that may change at the margin, but I don’t mean the core purpose of the office—no, I do not see, nor have any plans for that to change. Have I sought advice? I seek advice on all things competition all the time. That’s why I’m reluctant to say—

Cosgrove This is a supplementary. With respect—

Young We’re running—OK.

Cosgrove Hang on, this is the Opposition’s time—we’ve got tons of time. I think my colleague was searching for a rather specific answer, and I think, with respect, you’re a Minister; I’ve been one. We know what it’s like—

Foss Oh, if it’s specific, I have not sought advice on the telecommunications—I have not sought—

Cunliffe Have you received—

Foss I’m not aware that I’ve received, but I have not sought, either—

Cunliffe Have you received advice?
Foss I am not aware of having received advice on the Telecommunications Commissioner, OK?

? He’s answered the question; let’s move on.

Young In fact, Minister, you’ve answered this question about four times.

Cosgrove Well, that’s your definition.

Mitchell Minister, in the Budget you announced a review of KiwiSaver default providers and other changes around disclosure of information. Can you just share your thoughts on how these changes will help grow our capital markets and sort of maybe give investors more confidence?

Foss Sure. The changes in the Budget announced were there had been a flagged review of the default provider side of KiwiSaver—that’s been flagged for quite some time—by the end of 2014. So we anticipate initiating that review relatively soon to give all participants quite a good lead-in time to contribute to that discussion. I don’t predicate any particular outcome to that, but as well as that, at the same time, we announced the ability or the requirement for KiwiSaver funds—those that are regulated—to provide generic returns, accounts, and statements of performance so individuals can compare, if you like, apples and apples and apples across KiwiSaver funds.

So all those things add to our capital markets by transparency, by comparatives, and continue to rebuild trust in our system. And I cannot overestimate to the committee—and I’m sure the committee agrees—the need to continually rebuild trust in our financial system, in our capital markets, for not only your small KiwiSaver investor to your large-scale player in our financial markets. That is an ongoing piece of work and we all acknowledge the issues that happened in recent years, which played out and pretty much gutted our second-tier finance sector.

Mitchell In relation to that, the FMA’s been operating for a year now. Can you give us an update on how it’s working, and even its role leading into the future?

Foss FMA have been going just over a year now. I think they’re doing a very good job. They have inherited a lot of work, and what’s displayed before the public is a lot of the things they’ve inherited, but they also are very keen to work with the sector to have a pre-emptive role, perhaps, at the top of the cliff, rather than the bottom of the cliff, although right now, as we all see playing out before the courts, there are many of those issues at the bottom of the cliff. So I do think they’re doing a very good job. Recently their consultation about the requirement for prospectus—part of the FMC bill, actually—they’ve been consulting widely on that one. Just engaging with the sector to try and get ownership of the rulings, if you like—it’s not quite the right word—but the directions they give for such things.

So, yes, I think they’re doing a very good job in tough times and with a pretty tough mandate, but overall—in fact, the sector—you almost feel like
they’ve been there for quite some time, but they’ve actually only been there for, as I say, a year, 14 months.

Young Just a supp on that. You made a comment before about not overestimating the need for confidence in the financial markets. In terms of the sector, what sort of feedback have you—may have received in terms of how that confidence is rebuilding?

Foss It is rebuilding, but it’s a pretty large mountain to climb, given recent events, and particularly for a sector of investors who lost money in the finance companies. Those issues—what they believed they were investing in wasn’t necessarily what they were investing in or what was portrayed to them, or perhaps activity happened which, again, is now playing out before the courts.

I’d just point out that I was recently up in Asia, and once again what was looked and viewed very fondly and of a valuable part of the relationship with New Zealand is the transparency, the trust, and integrity of our rules, regulations, and legislation—not just in finance, by the way. It is such an opportunity for New Zealand if we are able to maintain that as good as anywhere in the world, because that also will help us build export of services up through emerging Asia, who value our accounting standards, the frameworks under which we operate, and it creates a great opportunity for us because in some of those countries they don’t quite have the same standards of transparency. That is a hugely undervalued asset for New Zealand—in the private and public sector, by the way.

Bakshi Minister, can you elaborate a little bit more on the predatory share offers. What action has been taken and what’s happened on that front?

Foss Yes, we announced it the other day. Again, that’s an ongoing issue. It’s one of those issues in the finance sector you go, well, of course you have to do what you can to regulate this. It’s disappointing that some individuals or entities try to abuse, perhaps, some lack of education in the market by some. We recently announced that we’re consulting right now on regulations, which we fully anticipate to be passed by the end of the year, to have fines and time of recourse for those people that get caught by a phone call or a letter out of the blue which looks all quite official; in fact, it is well below the market. Again, that kind of behaviour detracts from the confidence that we need everyone to have in our markets. And, again, that’s generally acknowledged as a public good which we’re continuing to do to build confidence in the sector.

Lotu-Iiga You talked about Asia, Minister, and Australia’s also our biggest trading partner. I think you’ve held meetings with your counterparts in Australia and our laws seem to be harmonising in a sort of effective way going forward. Can you talk about that relationship and how you—in terms of we’ve got a bill that’s also covering the Commerce Commission sharing information and the like?
Foss That’s right. Yeah, that one’s at Committee stage, almost finished, I think. We’ve got the SEM agenda. I’m also in charge of that as commerce Minister—single economic market with Australia. We’ve ticked off about 13 or 14 of the 28 points our Prime Ministers agreed to a couple of years ago. A lot of the final few points are pursuant to legislation before the House; in fact, before the Committee—this is the big one, FMC, that kicks off some of those engagements, be they a common regulatory or a mutual recognition or accreditation, or something in between all of those in things finance.

So the international co-op bill before the House at the moment—almost completed, I hope—that is a step further down that path. It actually codifies what I think most people sensibly think should be happening, but the big one is the FMC bill, which goes hand in hand with the financial service advisers and the QFE legislation of a couple of years ago. This is the biggie. But interesting with Australia, once again we have competitive advantage with some of our free-trade agreements up through Asia, which our friends in Australia do not have, and so once again the opportunities to utilise broadband, etc., are pretty bright, I think, for us to work and grow some of our service deliveries or exports up through Asia, be they finance, education, content—whatever.

Curran Well, with reference to that—to competition in the broadband market and with reference to your earlier comments about ensuring that there’s a regulatory environment for business to grow, what advice have you sought or received on a converged regulatory approach for broadcasting and telecommunications sectors?

Foss Without going into too much of the territory of the Minister of Broadcasting, there’s a lot of conversation reports out there, such as Law Commission, etc., out there in that space, and our colleagues across the Tasman are making progress with changes in that space, as well. That’s what I meant earlier when you asked about “Have I received advice?”. At a high level I received advice on—or ask for advice about—the competitive structure of New Zealand and what are the impediments to us growing exports and creating real jobs, and things are changing. Five, 10 years ago we’d probably have a different discussion about whatever was changing then, and the question is, again, are the structures, or the regulations under which I’m responsible for as commerce Minister, appropriate for the changing environment, or do we need to change? And there is a lot of discussion in that space, I fully acknowledge. But directly, have I started a line of work as commerce Minister in that space? No, I haven’t, but in almost every conversation I talk about the challenges of all things digital and what that means.

Curran Why not?

Foss Because there’s actually a lot of work going on across Government in that space. If you’d seen the announcements from our Prime Minister—10
targets, if you want—No. 9 and 10, things such as one interface with
government or making sure that the processes of government as it
interfaces with business and the rest of New Zealand is as clean and as crisp
as possible and provides as much—

Curran Are you aware that New Zealand is out of step with most other countries in
the world in the fact that we are not making moves towards a converged
regulatory approach?

Foss We may or may not be. I’m more—

Curran Are you aware—I mean, the “may or may not be” is—I mean, you either
agree with me—

Foss Because that’s a judgment term, because I’m sure we’re ahead of some
other entities and perhaps behind others. It depends on what destination
you’re trying to get to. The taxpayer of New Zealand is investing a lot in
infrastructure such as broadband—ultra-fast broadband—which, at the
same time that happens, does throw up the need for further discussions
around things across government, actually, not just in, say, a particular vote,
because things digital are blind to barriers, borders, whatever you like. So
are the frameworks we have flexible enough to achieve the most benefit out
of that? That’s an ongoing discussion, but right now, no, there’s not a body
of work under my office, but across Government, and as you’ve seen
announced from the Prime Minister and, specifically, Minister Joyce, I’m
sure there would be work to try and achieve the best outcomes.

Curran Do you see it as your job, as the Minister of Commerce, to be driving that
change in the regulatory environment, given that the regulation is your
territory?

Foss Well, that’s right, actually, but first and foremost we’re doing financial
regulation—that’s actually what the bill is before this committee right now,
but the competition, I agree, goes everywhere. Right now our priority is the
modernising of our financial regulatory framework. Things competition are
always before us, and across many portfolios, and, yes, we are paying
attention to those to make the public services, or the Government’s delivery
of public services, as aligned with the current world and the anticipated
world as much as possible, but I’m not leading that under my vote.

Curran Well, just so that I’m very clear about this, a work plan to drive change in
the regulatory environment between a convergence of broadcasting and
telecommunications is not on your work plan right now.

Foss Not on the Minister of Commerce’s work plan.

Curran Well, whose work plan is it on?
I’d imagine those discussions would be looked at by the Minister of Culture and Heritage, the Minister of Economic Development, and the Minister of Broadcasting, and ICT.

And are you, as Minister of Commerce, having discussions with them about that work plan—those work plans—right now?

Well, as you said right at the start, in the general “The world’s changing—are we doing what we can to build the best framework to allow New Zealand to benefit from that?”—those general discussions, yes.

To be frank, Minister, that sounds very woolly.

But I’m not leading that, so you may want to ask those questions of, perhaps, other Ministers who are leading that.

Then you’d be aware whether there was a work plan or not—a specific work plan. Are you aware of any specific work plans by other Ministers, such as the Minister of Culture and Heritage, Broadcasting, ICT, Minister of Economic Development, in these areas—on the convergence of telecommunications and broadcasting?

I’m aware of thinking about it, discussions at a high level about it, as much as the sector is, if you like. There are also other things in play at the moment, such as a Law Commission report and the response—that final report, that’s due September or something, I think, from them. So at that level, but a deliberate or—excuse me—dedicated work stream to consolidate, to converge, no, I’m not aware of that.

Minister, coming back to the fact that—talking about, like, important markets to New Zealand, Asia-Pacific, South-east Asia, and the fact that we are seen as having a very strong regulatory environment, do you see—and you spoke about opportunities in both the public and private sector. I mean, you are leading a very strong programme of regulatory reform, which is excellent for the country, and obviously has a lot of interest from these markets. Do you see us almost having, maybe, a bit of influence in terms of their own regulatory reform, in terms of aligning these important markets, to us, with New Zealand? And also could you just talk a little bit—there’s two parts—about some of those opportunities that you see emerging through that public and private sector?

Sure, and I’ll acknowledge that regulatory reform, particularly in this space, is ongoing; I didn’t suddenly start that. Minister Power picked up work from Minister Dalziel, and it is ongoing of good government—governance. I fully acknowledge that, and much of the work I’m doing picks up that and continues it, and whoever the next Minister of Commerce was, I’m sure, will do the same. It’s just essential. At the end of the day, New Zealand, in a financial regulatory sense, is a debtor nation. We, as New Zealanders, owe the world $180 billion. Those creditors to us need to be assured that the system under which they are deciding to lend to—at that very top level, and
then as it filters down whatever entities after that—is fair, is transparent and robust. And if someone breaks the rules—if they’re the smallest entity, person, or that largest entity—they will be before the courts, like anybody else, and that is actually—

Cunliffe Or the OAG.

Foss Well, quite possibly, yeah, quite possibly, but we—that’s a credit to our system of governance, actually. Some would say things aren’t working; actually, I’d argue things were working, because all of those processes are available to anyone, independent of the political side of Governments, and I just can’t say enough how important it is to maintain that in New Zealand, as a nation reliant on imported capital, and also a nation looking to grow its exports of physical and weightless goods, up through, particularly, emerging Asia, which takes about, I think about 30 or 40 percent of our total exports now.

Cunliffe Thanks very much. Minister, nice to see you back in front of the—or in the room, as it were—

Foss That’s right. I’m not surprised to see you on my right, this time. I normally see you on my left.

Cunliffe That’s right. It just shows, with passing years, anything is possible.

Foss That’s true.

Cunliffe Look, a couple of questions around the role of Vote Commerce going forward and the formation of the new MoBIE. What is the cost to the Vote of the set-up, or any other contributions into the new organisation? What is the Vote Commerce’s contribution, if any—for example, the cost of integrating your IT systems? That may be nil, because they may previously be fully integrated. Any redundancies, any rebranding, including letterhead and stationery, any consulting costs, and any other costs?

Foss So the cost of Vote Commerce of that restructuring to the new ministry, all of those costs? Can I defer to—

Cunliffe Sure.

MacPherson As you’ll be aware, obviously, the new entity hasn’t come into being yet—it starts on 1 July—and that the approach that is being taken is one of minimal change to start off with, and to work through the organisational design as we head towards 1 October. So in terms of any of those costs, those are yet to be worked through.

Cunliffe But this is an estimates hearing, and it’s forward-looking, and we’re talking just the year, the current financial year, and I’m sure that as a prudent financial manager you will have done some expenditure forecasts, otherwise
you wouldn’t be able to do a year’s budget. So just within the current financial year, how are we looking?

MacPherson Well, in terms of the contribution towards the set-up of MBIE, obviously, from the start of the new entity all of the budgets that are currently part of the existing organisation will transfer, and the costs that will occur, in terms of the development of the new entity, will—are basically being worked through as we speak. I’m aware of the fact that you will be seeing the responsible Minister for the new entity next week—

Cunliffe But I’m asking here specifically about the contribution. You’re one of the votes which is being merged. The new ministry sets up in 7 days, and you are telling this committee of Parliament, in public session, that you are still, quote, “working through” your cost forecasts for the current financial year? I’m sure that’s doing a disservice to your characteristic thoroughness. Now, can you please give us some more information than that?

MacPherson As I say, the costs will be worked through—they are being worked through—

Cunliffe Will you be—let me help. Will you be replacing your existing letterhead and stationery?

MacPherson The approach that’s been taken—

Foss Commerce won’t.

MacPherson No, Commerce won’t be doing that. The approach that is being taken is that the—we will have an interim identity. These are all questions that should appropriately be put to the acting department—

Cunliffe The department starts in a week.

MacPherson It does, and there is an Acting Chief Executive for the department—

Cunliffe Will you be branded as the Ministry of Business, Innovation and Enterprise, or will you be branded as the Ministry of Commerce?

MacPherson From 1 July, there will be an interim logo.

Cunliffe Yes, so you will be changing you letterhead for that?

Foss There is no Ministry of Commerce.

Cunliffe There’s Vote Commerce.

Foss Vote Commerce receives outputs from the ministry, which is changing.

MacPherson And the Minister of Commerce’s letterhead will remain the Minister of Commerce’s letterhead, obviously. But—
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Cunliffe: But for the Department?

MacPherson: Well, the entity concerned, the way that we are approaching this is that when we are speaking as MBIE, there will be an interim logo that will be used, but in the meantime—

Cunliffe: An interim logo.

MacPherson: —an interim logo, which is the Government’s seal, and that in—and that the other letterhead will, as with, for example, the Ministry of Primary Industries, the other material will continue to be used in a prudent fashion.

Cunliffe: So how long will the interim logo last, and when will you move to your new logo?

MacPherson: These are all questions which actually, I think, would be far more appropriate for you to put to the Acting Chief Executive—

Cunliffe: Don’t you worry, I will be, but I’m asking you as the financial officer for Vote Commerce in the current estimates year. We will be quizzing the ownership Minister quite clearly on these matters, but I’m very interested to know what the implications for Vote Commerce will be. You might, for example, be relieved of some overhead costs; you might incur some costs. I am not coming at this with any particular presuppositions, but I’m sure it’s doing a disservice to your work to say that you’ve got no idea whatsoever of any cost changes.

MacPherson: The issue is that from 1 July there is, effectively, minimal change to arrangements, OK?

Cunliffe: I understand that, and an interim logo—

MacPherson: That’s right.

Cunliffe: —and I’m wondering if you could advise the committee how long that will last for, approximately: 6 months, 1 year, 2 years, 5 years?

MacPherson: The aim would be to have a logo in place before 1 October, but that—

Cunliffe: Before 1 October, OK.

MacPherson: —but that is something—

Cunliffe: So within the current financial year you would anticipate, all things being equal, moving to a new logo. I don’t want to consume the committee’s time talking just about a logo and letterhead, but, Chairman, it would be extremely helpful to get a straight answer from our witnesses. Now, I cannot accept that you do not have any work done, in your forecasting, on these costs. Have you done any work on the costs of rebranding and logo and website change?
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<thead>
<tr>
<th>Foss</th>
<th>Not in Commerce.</th>
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<tbody>
<tr>
<td>MacPherson</td>
<td>I would like to—the point I would like to make is that there has been an Acting Chief Executive in place for the Ministry of Business, Innovation and Employment. He is currently working on those issues, and I believe it is most—</td>
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<tr>
<td>Cunliffe</td>
<td>So he doesn’t delegate that to you?</td>
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<tr>
<td>MacPherson</td>
<td>He does not delegate that to me. And it is most appropriate for you to put that question to him.</td>
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<tr>
<td>Cunliffe</td>
<td>So with the chair’s permission we’ll put that question to you in writing, and look forward to your response. Can I move on to the decision-making process? Minister, the Cabinet meeting at which the MoBIE entity was agreed was on 12 March. When were you first consulted by your colleague Mr Joyce on this matter?</td>
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<tr>
<td>Foss</td>
<td>Ah—</td>
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<tr>
<td>Cunliffe</td>
<td>Can’t remember a date?</td>
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<tr>
<td>Foss</td>
<td>What was it? The 12\textsuperscript{th} of March?</td>
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<tr>
<td>Cunliffe</td>
<td>Yeah, roughly how long before Cabinet—how many weeks, roughly, were you? So was it a few months’ gestation?</td>
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<tr>
<td>Foss</td>
<td>There’d been general discussions, going quite some time back, about other various ministries and votes structured appropriately at an informal level.</td>
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<tr>
<td>Cunliffe</td>
<td>Bringing these together into a single ministry.</td>
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<tr>
<td>Foss</td>
<td>Oh, just in general, Government—all things Government.</td>
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<tr>
<td>Cunliffe</td>
<td>OK, so there’s a pan-governmental process, we all know that. When was the first discussion that you were involved on specifically integrating your ministry—or your vote—into the new MoBIE?</td>
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<tr>
<td>Foss</td>
<td>Off the top of my head, I can’t give you that date.</td>
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<tr>
<td>Cunliffe</td>
<td>Roughly speaking—days, weeks, months?</td>
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<td>Foss</td>
<td>Discussions earlier in the year, but I couldn’t even remember if it was March or not. But the key point for this Minister—who does not have a ministry, right?</td>
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<tr>
<td>Cunliffe</td>
<td>You mean Mr Joyce or yourself?</td>
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<tr>
<td>Foss</td>
<td>This one—myself. Vote Commerce. Vote Commerce, as you said.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>It’s the royalesque third person we’re getting a bit, sort of, worried about.</td>
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Foss Yes, wouldn’t want to do that. But, you know, I fully acknowledge your—

Cunliffe It’s a pretty easy question—

? Let him answer it.

Foss I know, but the point being Vote Commerce, with these changes, will receive the—I’m blind to the administrative side of MED. I receive outputs—

Cunliffe But the question is—

Foss Oh, so your question—I cannot answer when I first had that discussion, or report, or something—

Cunliffe When did you first become aware of the possibility that there would be a new integrated Ministry of Business, Innovation, etc.?

Foss At a guess, discussions early in the year. Obviously, before that paper.

Cunliffe Early in the year?

Foss Well, note that I got my warrant on the 8th or so of December, so early in the year. I can’t—

Cunliffe Early in the new year.

Foss Well this year, of course.

Cunliffe January, February.

Foss Well, the January one may have some sand on it from the beach.

Cunliffe It might have some sand on it.

Foss I don’t want to put you astray with—but I’m not trying to not give you an answer.

Cunliffe No, but you’re saying that it was mid-March—

? Early in the year—

Cunliffe You’re talking a couple of months.

Foss Well, that Cabinet paper, therefore, would have gone to another Cabinet committee prior to then, so I’m sure you must have another paper trail, as well, which shows the timing of those discussions, particularly, from the Minister of MED, Minister Joyce.
Cunliffe: OK, that’s fine. Minister, final question: do you anticipate that the new ministry will allow you to more efficiently and effectively deliver services for business growth?

Foss: I anticipate that very much so, otherwise those changes wouldn’t be happening. There’s about six clusters in there. I’m particularly interested and involved in the export side, the innovation side, and the—is it competition or capital markets? Capital markets side.

Cunliffe: Good, and do you anticipate—

Young: Last call.

Cunliffe: How do you anticipate to deal with any potential policy conflicts between the driver of being better for business and the other responsibilities that some of your constituent parts of MoBIE like, for example, labour, who have occupational safety and health, workplace relations, and other matters under their—

Foss: That’s the whole point of those changes, actually: to put those various competitive, if you want, discussions around a table so the best outcomes are had, as opposed to operating in silos, and I’m sure that Minister Joyce would add a lot of colour to that.

Young: Right, thanks for that, Minister. We’re sorry, we’re coming to an end. Time is over. No, sorry, we have gone over. Thank you very much for being with us, and we appreciate your time with us; thank you, Minister and your team.

**Conclusion of Evidence**
2012/13 Estimates for Vote Communications
Report of the Commerce Committee

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Vote Communications

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Communications as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

Introduction

The appropriations sought for Vote Communications increase 26 percent to $226.968 million in 2012/13 from the estimated actual expenditure for 2011/12 of $179.729 million.

Ultra-fast and rural broadband

The multi-year Broadband Investment (Crown Fibre Holdings Capital Costs) appropriation of $408 million was established in 2011/12 to allow Crown Fibre Holdings Limited to implement the Government’s commitment to broadband investment. The Minister of Communications told us that access to world-leading communication is central to achieving growth and improving public services, and important for keeping in step with international partners, particularly because of New Zealand’s isolated geographical position. The Minister said also that there is a direct, well-documented link between broadband investment, growth in gross domestic product, productivity gains, and job creation. Improving connectivity and access to real-time video feeds meant better access to resources in areas such as health and education, particularly for rural communities.

The Minister referenced the National Health IT Plan, which includes tele-health services. This would allow elderly people’s treatment to be monitored at home and give patients access to their own information. Networked access to databases proved useful following the Christchurch earthquake, when access to some medical practices was compromised.

Broadband in schools

We heard from the Minister that 490 schools were serviced with broadband to the school gate under the Rural Broadband Initiative, 38 short of the target of 521 as a result of consenting issues and the Auckland waterfront strike. A much smaller proportion of these schools are receiving broadband services through retail service providers. One reason for limited uptake is that an education-dedicated network, the Network for Learning, will be developed by the Government in mid-2013, and some schools are waiting to connect directly to this service rather than to a retail service provider.

We asked how the areas for broadband roll-out to schools were designated. Schools were classified into four zones. Schools in zones 1 and 2 are within the ultra-fast broadband roll-out area, and schools in zone 4 are covered by the rural broadband initiative. Schools in zone 3 have been allocated to ultra-fast or rural broadband coverage on a case by case basis. Remote schools required purpose-built broadband solutions, which have now all been signed off, apart from the three Chatham Islands schools for which contracts are pending.
We raised the issue of reports that connections to schools were deployed past the gates of other schools that had to wait much longer for their connections. The Minister said that partner companies contracted to install the broadband infrastructure were working to their own deployment plans, but that she could discuss rationalising the rollout to connect such schools sooner. Some of us raised with the Minister the fact that the definition of eligible rural schools that had cable laid to them had not taken into account the absurd outcome of schools that did not form part of the definition, but are in some cases located metres from where the cable has been laid and had not been connected. The Minister agreed, where these examples existed, to look into the matter. The Minister gave an undertaking that if these examples were raised with her, she would “absolutely look into it with Chorus”.

**Broadband in households**

We heard from the Minister that the ministry would reach the target of extending the ultra-fast broadband network to 70,000 households within the first year of the initiative. She explained that the Government’s role was to supply the network, but it was then up to each consumer to contract with a retail service provider to obtain broadband services. We heard that 1,012 households had signed up with providers by the end of April 2012.

The Government aims to have ultra-fast broadband available to 75 percent of all New Zealand households by the end of the roll-out in 2016. The Minister said she was not concerned that the 1,012 households connected was only a small fraction of those to whom the network was available, since it is only the first year of the programme. The Minister stated that “we didn’t have great connectivity previously before this Government made the commitment [to broadband]”. Some of us expressed alarm at the low numbers of connections to households. The Government has looked at uptake in other jurisdictions of comparable networks, and observed that uptake of broadband services was typically slow then increased exponentially. A factor in uptake is the availability of particular retail service products, which the Minister expects to increase over time.

**Regulatory framework**

The Minister confirmed that she took responsibility for ensuring that the regulatory environment encouraged optimal uptake of ultra-fast broadband, and said the Government’s first priority for uptake is in the health, education, community, and government sectors, although the Government is also examining broader issues that may impede uptake. We asked whether she would consider altering the regulatory environment if uptake did not increase; she said that if uptake was less than expected, the Government would examine the reasons for this.

We asked whether the Minister considered it desirable to have multiple companies providing media content through ultra-fast broadband, and whether she was concerned about dominance by one large media company. She agreed that access to media content services was an important factor for consumers deciding whether to buy ultra-fast broadband services, and suggested that such services might evolve with the roll-out of fibre. She told us that she was confident that the regulatory framework was adequate, and the Commerce Commission was in a position to take action if any company was unfairly dominant in the market.
Copyright and media content

We asked when the fee review of the Copyright (Infringing File Sharing) Act 2011 would be decided, and whether the Minister was concerned about reports that internet service providers were spending up to $90,000 getting ready for the file-sharing infringement system. She told us that the industry had not raised concerns with her on this matter, which was the responsibility of the Minister of Commerce.

We asked what the Minister was doing to encourage the distribution of legal content in New Zealand by services like Spotify or Netflix. The Minister told us that there was a limit to what the Government could or would do to draw such companies; constraints such as the small size of the New Zealand market limit its appeal. She agreed it was important to ensure that the regulatory environment was correct and attractive.

The Minister told us that she was very interested in developing New Zealand content and working with the New Zealand industry to enhance skills in the sector. She told us that there was work being done by a number of Government agencies to develop hubs for innovation in this area. For example, an Enterprise Precinct and Innovation Campus information technology hub is being built in Christchurch, and the Wynyard Quarter Innovation Precinct in Auckland is well into its planning stage.

700 megahertz spectrum

As a result of the switchover from analogue to digital television, 112 megahertz of spectrum from 694 to 806 megahertz will be available for new uses. The Minister said that the Government was continuing to facilitate investment in wireless technology by auctioning the 700 megahertz spectrum. She told us that a paper was going to Cabinet soon on allocation decisions, with the intention to hold an auction in late 2012 or very early 2013 to give the industry time to plan investment. She told us that economic assessments of mobile data usage over the 700 megahertz spectrum forecast a net economic benefit to New Zealand of around $1.1 billion to $2.4 billion over the next 20 years.

Release of information

The Minister told us she would release shortly an unedited version of the Briefing to the Incoming Minister regarding decisions or actions for the six months to 20 June 2012, as directed by the Ombudsman. The communication of the Ombudsman’s request to the Minister was subject to an administrative delay. We were assured that the request has been received and will be acted on.
Appendix A

Approach to this examination
We met on 28 June and 19 July 2012 to consider Vote Communications. Evidence was heard from the Minister of Communications, Hon Amy Adams, and the Ministry of Economic Development, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Communications, Responses to additional questions, received 12 July 2012.

Minister of Communications, Response to standard Estimates questionnaire.

Minister of Communications, Response to supplementary questions 1–116, received 26 June 2012.

Office of the Auditor-General, Briefing on Vote Communications, received 28 June 2012.

Vote briefing paper, prepared by committee staff, dated 12 June 2012.
Corrected transcript of hearing of evidence on 28 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Gareth Hughes
Peseta Sam Lotu-Iiga
Todd McClay
Mark Mitchell

Witnesses
Hon Amy Adams, Minister for Communications and Information Technology

Adams  Good morning, Mr Chair, committee members. Just by way of initial comments, I want to run through a bit of an overarching look at what we’re doing in the portfolio, and covering off some of the main things that I imagine you will be interested in hearing about. Then, obviously, if there are things I don’t cover in that we can certainly have plenty of time for questions.

This is a portfolio that we very much see as critical to our growth strategy of building a competitive economy. Clearly, because there is a direct and well-documented link between broadband investment, growth in GDP, productivity gains, and job creation. The committee will be aware, of course, that it’s also, importantly, linked to the delivery of better public services, particularly through the provision of Government services, health, education, and the like.

Key priorities for us this term are ensuring we’re making the most of the significant investment we’ve made in our UFB initiative, our RBI programme, and continuing to facilitate investment in wireless technology through the auction of the 700 megahertz spectrum. At the same time as doing that, of course, we are very conscious that it’s an area of an incredibly fast-paced change of technology, and we need to be vigilant to ensure that we remain with secure and resilient networks that are still effective for our purposes.

The four priorities that we’ve set for the Government for this term are, firstly, making the most of the UFB and RBI initiatives, allowing our 700
spectrum to be freed up for new investment and innovation in wireless, enhancing security and resilience of the networks and services, and ensuring that the legislative framework keeps pace with change and provides the appropriate balance between consumer and industry concerns.

The main work under these areas: in the previous term, obviously, the core work for us was setting up the contractual arrangements for UFB and RBI, passing the legislation to have structural separation of Telecom, and ensuring open access over the network. It’s interesting, actually, the public-private approach to those contracts is now being recognised around the world as one of the most innovative approaches to deployment of fibre networks, particularly as it led to the full separation of the incumbent, and actually at a relatively low cost compared to other jurisdictions.

Now that we’re through that part of it, obviously we’re working through a number of initial implementation challenges, which are to be expected in a contract of this size. We’re working through those individually and successfully with the sector, and we’re keeping a close watching brief on that. For example, I’ve written to the TCF—the Telecommunications Forum—asking them to develop new guidance on rewiring. We’re working with Crown Fibre Holdings to ensure there’s better role clarity around the role they’re playing going forward post-contractual negotiations. We’re working with our UFB partners to resolve issues around non-standard installations and multi-unit complexes, and we’re making good progress on all of those.

Obviously, as well as rolling out the network and ensuring that that process works well, there are other aspects of telecommunication services that we are very aware could certainly have an impact on impeding uptake or customer experience. So, obviously, there’s a monitoring programme with issues like national transit, traffic management, and data caps and the like, and we continue to be very interested in those if they identify as problems to consumer use.

We’re also closely monitoring content and convergence issues. Now, I know there’s been criticism that the Government hasn’t stepped in to regulate what is perceived as a monopoly by Sky, and the work that other jurisdictions are doing in convergence. In relation to Sky, can I say that I’ve always maintained that we have a regulator in this area, who is well positioned to act if there’s anti-competitive behaviour. The Commerce Commission is the best body to deal with this, and the fact that they are now taking steps to investigate this area confirms that view.

In relation to the issue of convergence, the Government, of course, recognises that the telecommunications and broadcasting sectors are becoming ever closer. The question we have to ask is whether there’s anything we need to be doing right now to either support or remove impediments in that space. I’d note simply that the starting point for the Australian convergence review, for example, which of course the
Government over there hasn’t made any comment on whether they’ll follow up on, is that actually the starting point is to remove unnecessary regulation rather than increase regulation over the sector, and that many of the existing rules are unnecessary or inconsistent with their convergence platforms. Of course, the comparison in New Zealand is that we have a system already that’s far more generic and less prescriptive in this area, which means the risk of setting inconsistent rules for different converging platforms is much lower in New Zealand, making it far less an urgent issue here for us.

We are looking at ways, though, to make regulation fairer and more efficient. For example, the Law Commission has been asked to look at the regulatory framework for news media, with respect to its adequacy in catering for new and emerging forms of news media and online speech harms, and I have my officials looking at converging markets and developments in other jurisdictions to look at what we can learn that will be of use in the New Zealand context.

In relation to the deployment of UFB and RBI, clearly, it is still early days. We’re a few days away from the end of the first year of the build period, and, as we have said all the way through, deploying networks of this size is certainly a marathon, not a sprint. Deployment is steady, and has been ramping up extensively since March, and I’m certainly confident that our deadlines for the build period of 2019 for UFB and 2016 for RBI will be reached. In relation to RBI, I have just finished the second phase of RBI contracting, which will ensure that 193 more schools, 34 rural hospitals, 10 health centres, and 183 rural public libraries will receive fibre connections. That means we’ll have 97.7 percent of schools and 99.9 percent of students receiving UFB-enabled speeds by 2016, with the remaining schools, of course, receiving terrestrial wireless under our remote schools initiative. The only thing we’ve got left to do now is complete the tender process for the three Chatham Islands schools, and work on that is under way.

The Government’s five-point plan is also progressing well. Obviously, this is mostly being led through other votes, but we have a coordination role across it. Highlights in that are in e-education, obviously—the continual funding for the fibre drops from the road into the school. That’s now totalling, with the allocations in this Budget, $29 million over last year and the 3 out-years; $33.8 million capital funding for the expansion of the SNUP programme—the School Network Upgrade—and, of course, the Network for Learning is the key piece of the e-education platform, and that is progressing well.

E-government—UFB is seen as a key enabler of directions and priorities for government ICT, which is considering, obviously, things like how government can better utilise cloud computing to deliver more centralised ICT services and more citizen-centric provision to New Zealanders. E-development, we’re working more closely with Ngā Pū Waea, the Māori broadband advisory group, to work how we can most effectively leverage
the UFB and RBI services into their communities, and particularly the roll-out to certain rural communities and rural libraries will be significant in terms of helping community development. E-business is an active programme of work helping businesses identify how they can lift their productivity and effectiveness using the fibre world, and in e-health there is some really exciting work under way through the National Health IT Plan, particularly in the areas around telemedicine, shared records, telework, telehealth, and the like, which Minister Ryall obviously is the lead Minister in progressing.

Moving into 700 spectrum, we're making very good progress on the allocation there. The restacking of frequencies is progressing well, with the frequency looking to be completed by November, so the switch-over looking to be completed by November of next year, and the frequency cleared and ready for reallocation, we're aiming for December of next year. Seven hundred megahertz is game-changing stuff. It’s enabling us to roll-out fourth-generation mobile broadband services, and actually if you look at the numbers around this, the fibre networks are incredibly important, but the really big increase in growth numbers is around mobile data. So 4G networks over this 700 band enable speeds of up to 100 megabits per second on a wireless basis, and truly have the potential to be transformative. In actual fact, there is early talk about LTE Advanced being developed. Obviously, it’s still a few years away, but that has the potential to look out towards speeds of 600, 700 megabits a second, so it really could be fantastic. There’s been economic assessments done of the benefits of the 700 megahertz spectrum of around $1.1 billion to $2.4 billion over the next 20 years in terms of net economic benefit to New Zealand.

We’ve been consulting extensively around the plans to get this to market, particularly the allocation and planning parameters, the band selection, and the band architecture. It’s my intention to take a paper to Cabinet in the next month or so to get some initial decisions on how that works, and look to make announcements as soon as we can, because we really are motivated on giving the industry as much time to plan their investment so that we can get the networks to market as soon as possible.

I talked about the importance of security and resilience in our networks. We’re very concerned or very aware that as we become increasingly mobile-dependent we need to ensure that cyber security is front and centre of New Zealanders’ minds. We’re doing a lot of work with consumers and businesses alike to make sure that that is well understood. We have set up recently a new cyber security policy office within the Department of the Prime Minister and Cabinet to give it a whole-of-Government look.

Yes, Mr Chair, let me run very quickly through anything else in here. The one other thing that I’m very interested in developing is more information to consumers around product disclosure. I think that is something, frankly, that’s a little bit lacking, and as we’re seeing more and more this being the purview of everyday New Zealanders—not necessarily tech-advanced New
Zealanders—I think we do need to do more in that, and that’s something I’m working on.

So the only thing I would say, just before we kick into questions, is that I’ve brought with me a few things which might be of interest to the committee, which I’m happy to leave with you, around the architecture and roll-out of how the RBI programmes work: some coverage maps, which I’m quite happy for you to look through, which show how Chorus’s deployment works across the whole coverage areas 1, 2, and 3, so you can track where progress works across different parts of New Zealand, and an equivalent coverage set of maps for the Rural Broadband Initiative, so just so you can get a sense of how that all works. With that, Mr Chair, I’m happy to take questions.

Curran Thank you, Minister, for your presentation. Welcome to the Commerce Committee. On 2 February a briefing to the incoming Minister, you yourself, was published. I noted that the pending decisions or actions required in the next 6 months, all of those decisions were redacted in the document. It’s now 28 June, and despite repeated requests by the Opposition for that information, which were refused, and an Ombudsman’s direction to you in early June that you release the majority of that information, that still hasn’t been received. When are you going to release that information on your pending decisions or actions required in the next 6 months, which actually ends at 30 June?

Adams Obviously I’m aware you made a complaint to the Ombudsman about that, and we’ve been working through the Ombudsman to get rulings from them as to what needs to be released and when, and we’ll be happy to comply with their directions.

Curran The Ombudsman has directed you to release the information.

Adams Well, then it will be coming out very shortly, I’m sure.

Curran Can you give this committee a time that it will actually be released? Because it’s been weeks since the Ombudsman’s decision. It’s nearly the end of June; it’s 6 months. The 6-month period of your decision making has actually passed, and the public is none the wiser for what decisions you were actually working on or actions that you were actually working on.

Adams Well, to the extent that the Ombudsman has directed them to be released, they will be released, I would think, by the end of this week.

Curran By the end of this week? So you’ll give the committee that assurance?

Adam I’ll give the committee that assurance.

Curran Thank you. Of your pending actions and decisions that were considered of commercial sensitivity and of national security concerns, how many of those have actually been achieved?
Adams: Look, I don’t have the briefing to the incoming Minister in front of me and I can’t actually, off the top of my head, recall what all of those were.

Cunliffe: Minister, do any of your officials recall what the briefing to the incoming Minister was, or any of your officials happen to have a copy of that with them, given that it’s a primary accountability document for the Government?

Adams: To the extent that it hasn’t been released yet and I’ve got to go through and check which ones are subject to release—but has anyone here brought the BIM?

Curran: I’ve got a copy of it right here, but it’s redacted.

Adams: You’ve got the redacted version and you’re asking me about the non-redacted amounts, which we’ll comment on when they’ve been released, which I’ve said will be this week.

Curran: So how can the committee be assured of your accountability over the last 6 months?

Adams: Well, the briefing to the incoming Minister is officials’ advice to me on things I may wish to do. The things I have done, you’ll know, because they’re in the public record. There will be things in there that I may have decided not to take official advice on or we may have had a different view on.

Curran: The Ombudsman released its decision on 7 June.

Cosgrove: Can I get a supplementary? With the Ombudsman having ruled that you have to release on 7 June, it’s now 28 June, and you are saying you’re going to release, on your own authority, in a week. Why should it take this committee pressuring you to release a document the Ombudsman has demanded you release 3 weeks ago?

Cunliffe: That’s 6 months old.

Adams: I haven’t actually received a notice of that decision. It’s probably in my office. I’ve been out of the country for some time and I’ve given the indication to the committee that it will be released by the end of this week. I can’t take it any further.

Cosgrove: There’s a constitutional point here, and with respect, some of us have been Ministers. Whether you’re out of the country or on planet Mars, there are faxes, there are phones, and when an Ombudsman makes a decision that says “Minister, you must release …”, are you telling me you’re blaming your officials because they didn’t tell you?

Adams: No, not at all. I’m saying—
Lotu-Iiga She’s saying she’s releasing it by the end of the week.

Cosgrove Why has it taken a month?

Lotu-Iiga She’s answering the same question. It’s being released by the end of the week.

Cosgrove The question is why it’s taken this long.

Curran My office has made repeated calls to her office and to the Ombudsman’s office asking for this information to be released, and every time we’ve been told: “When we’re ready.”

Cosgrove Who’s in charge: the Ombudsman, or do you just ignore the Ombudsman?

Adams Well, I’m just being told that apparently when that ruling came out on 7 June it was incorrect and had to go back. The Ombudsman’s reissued it this week with the correct decision.

Cosgrove The decision has what—changed?

Adams Apparently the letter that came across to the office was incorrect, which the Ombudsman has now accepted.

Cunliffe Incorrect in what respect?

Adams I can’t tell you that, but it has now come back to my office this week, and it will be released this week. The information will be released this week.

Cosgrove So you haven’t read the original letter?

Adams No, I haven’t.

Young I think the Minister has answered that question.

Cosgrove No, she hasn’t told us whether she’s read the letter or not.

Adams Yes, I did. I just said if it comes to my office and it’s wrong, my staff pick up an error and they’ve gone back and asked for it to be reissued correctly, which the Ombudsman agreed to do. That has now come through to my office this week, and the information will be released by the end of this week.

Cunliffe Can the Minister advise the committee in what material respect it was wrong, that was material enough for her to withhold this information, and can the Minister comment further on whether she has a commitment to transparent and open government?

Adams Well, I just advise the committee that I didn’t read the first letter, because the staff in my office picked up that it was incorrect and asked for it to be sent back.
Cunliffe: But, Minister, you are accountable for a decision to maintain the withholding of important public interest information that is now 6 months old. You have made that decision. Whether you have made that on advice of staff is your own matter, but you are accountable. Now, the committee has a legitimate function to inquire, at the very least, the basis for your decision, given that it is extraordinary that a BIM is not fully in the public domain 6 months later. In fact, you are now approaching, as you know, the end of the 6-month period that these matters were pending to. Wouldn’t it be convenient if a Minister had managed to stall this, by hook or by crook, until a recess when the matter was then moot, particularly if it was after the select committee’s consideration of the vote? I’m sure you wouldn’t possible have had that thought cross your mind, but there must be a good reason why you withhold it. We are asking you what that good reason is.

Adam: You will know very well that there are matters for genuine withholding, and it is not true to say that you’re entitled to see everything that comes across in the BIM. There are absolutely matters that are appropriate to withhold. We took a view on those. You’ve made a complaint to the Ombudsman. That is the appropriate process. We have worked through that process. We have received the Ombudsman’s corrected advice this week, and we are acting on it this week.

Cunliffe: So in what respect was the Ombudsman’s ruling of 7 June incorrect?

Adam: I’ve already told you, I didn’t see it. My staff picked up the error.

Cunliffe: Would you ask your staff and advise the committee, please? You are accountable.

Adam: I am accountable. The issue was that that letter was not the correct decision that had been discussed—they told us was going to be made. It came through corrected, and we are acting on that this week.

Cunliffe: You’ve said that several times, Minister. How many times have you received a letter from the Ombudsman, an independent Officer of Parliament, telling you that a decision to withhold a document has been incorrect? How many times has that occurred since you became Minister?

Adam: To the best of my knowledge, this is the only issue where we have received advice from the Ombudsman to release information.

Cunliffe: So this is the only time you’ve been censured by the Ombudsman—
Adams  I don’t think it’s a censure at all. We had a discussion and they have asked us to release; we will be releasing.

Cunliffe  So your decision has been overruled or overmanded, or whatever word you want to use—reversed—by the Ombudsman, and you’ve been corrected by the Ombudsman. This is the only time it’s happened to you, and you are asking this committee to believe that you didn’t even read the letter, and you have no knowledge—[Interruption] Excuse me, this is a serious matter. That you have no knowledge of the basis on which the Ombudsman has issued that original decision. You are saying to the committee that you are—

Lotu-Iiga  Point of order. Can the member just ask a question rather than make outlandish statements?

Young  That’s fair enough, David.

Cunliffe (Inaudible) about the statements, Chairman. The question is how can the Minister expect the committee to believe that if this is the only time she’s been countermanded by the Ombudsman, she has no knowledge of the basis for that?

Adams  No, no. That’s not what I said, at all. This is a process, and you’ll know very well how this works. I’m sure you’ve been down the same track yourself on many occasions as previous Ministers. The complaint was made, we go into a period of discussion with the Ombudsman around the basis for withholding and the Ombudsman’s views. There’s toing and froing on that. I was actively involved in that throughout. We’ve represented our views to the Ombudsman, went back and forward. On the basis of that, they issued a decision. The decision letter my staff picked up wasn’t correct. They sent it back—

Cunliffe  In what regard?

Adams  They didn’t send it to me, because of its incorrectness. It has now come back into my office.

Cunliffe  But you were advised on the basis of that?

Adams  Pardon me?

Cunliffe  You were advised the basis for that incorrectness? That’s not very good grammar, but to use your words.

Adams  No, no, actually, I wasn’t. It’s now come back in this week, and we’re acting on it. To be fair, the substantive issue in this is the decision to withhold, which I absolutely accept accountability for. We had ongoing discussions with the Ombudsman around the ruling on that. We’ve accepted his advice that’s come out, and we’re releasing it this week.
Lotu-Iiga If you release the documents by the end of the week and we write to you asking what the reason was behind the decision not being correct, are you able to give us an answer around what happened there?

Adams Absolutely. We disclosed right at the outset the basis on which we were withholding all of the withheld information. That has never been secret. Clearly, the Ombudsman and my office went through a process of discussion, and some of that involved the fact that as time passed, it became in the public interest to release rather than withhold. But we can absolutely go through that.

Lotu-Iiga And we can incorporate that answer into our report? I think that solves the matter.

Curran Can I just confirm that the Ombudsman has actually asked you to release the majority of that information?

Adams The letter has come in this week, and we'll be sending it out in compliance with the decision.

Curran Can you answer the question, please. Has the Ombudsman directed you to release the majority of the information?

Adams I don’t know if it’s the majority. There were aspects that were withheld that they have directed us to release, and we'll be releasing them——

Curran How many?

Adams I couldn’t tell you off the top of my head. I haven’t done a 50 percent assessment of word count as to whether it’s a majority, but we’ll be complying with their ruling.

Lotu-Iiga And we’ll get that in a written answer.

Adams Happy to.

Cunliffe Would the Minister be prepared to return to the committee once that material has been released, should the committee have some questions about it?

Adams I'll consider that at the time. You can make a request and I'll consider it.

Cunliffe Very generous.

Curran Could we turn to ultra-fast broadband, thank you, Minister. Can you tell the committee how many schools have been connected through ultra-fast broadband, and how many through the Rural Broadband Initiative?

Adams Sure, let me just find those numbers. Under the Rural Broadband Initiative, there were 521 scheduled to be connected for this year. They are running a few behind because of a number of reasons—the Auckland waterfront
Can I just ask—in a recent answer to a written question which you submitted to me, there were 56 schools connected to the urban—to the ultra-fast broadband—

Sorry, Ms Curran, 56 connected to?

To ultra-fast broadband, and 291 to the rural broadband.

OK, so the numbers I’m giving you are schools where the network has been built to the schools. Whether the schools have been connected through a retail service provider is a separate issue. So can I just clarify what you’re asking, because the numbers I’ve given—

My written question to you was how many have a connection to the gate, and the answer was 291 in the Rural Broadband Initiative, and you listed each school, and 56 through the ultra-fast broadband connection. Of those two numbers, what I am interested to know is how many are receiving services through retail service providers?

I haven’t got that. I probably can find it if you give me a minute to flick to it. But the connections to the retail service providers, as you’re probably aware, is a much smaller subset of the schools that are fibre-ready, that the network has been built to them. That’s for a number of reasons. Firstly, because most schools have been advised that with the Network for Learning coming through the pipeline to be developed from mid next year, a number are waiting with their existing providers to get on to that. In a number of other areas, there aren’t RSPs offering services to those schools yet, or where they are offering, the schools are choosing not to take them up. My job as Minister for Communications is to build the network. Who they choose to hook up with is under the schools’ control, and under, obviously, the Minister of Education. Our job is how many we have built under the network, and the numbers I have given you satisfy the numbers of schools provided under UFB and RBI.

With respect, Minister, 56 schools connected to the ultra-fast broadband network in mid-2012 is not a great deal. My understanding is, as you’ve just confirmed, that a much smaller subset are actually using the services through those.

No, no—it’s not 56.

Can I also ask how many households in New Zealand have been connected to the ultra-fast broadband.

First of all, it’s not 56 schools that have been connected. There are around 380 schools that have been connected.
Curran Minister, I have a written answer—

Adams Well, I'm giving you updated information.

Young Can you let her answer the question.

McClay Mr Chair, I haven't seen the written answer; I'd like to hear what the Minister has to say.

Adams These are the schools that have had ultra-fast broadband connected into the school, and then there are 485, I think, is the number under the RBI—who have been connected through the RBI. Now, there is a smaller subset of those two numbers that are receiving services, which is a different issue and an issue that I'm not directly responsible for. Our mandate under the UFB and RBI is to roll it out. A big part of the reason for that is because they are waiting for the N for L, which is the education-specific network that is being provided to them, so if they were to sign up to a provider now, they would be signing up for a very short space of time, often at quite high cost, and they're making decisions about whether they wish to do that or they'll wait for the N for L.

Curran Minister, you haven't answered my question about how many households are connected to the UFB.

Adams OK, well, I can give you that answer.

Curran But also, are you telling this committee that you are not responsible for how many people actually—for the uptake of ultra-fast broadband?

Adams What I'm telling you is that with schools there is a particularly unique situation, because the Government is rolling out for schools a dedicated education network. That has been well publicised with the schools, and the schools therefore know that if they are to connect to a retail service provider now, and if retail service providers are developing products specifically for schools, it is likely to have a very short lifespan. So that's the answer.

Curran That wasn't the question, Minister. It was quite simple. Two questions: how many households have been connected to the ultra-fast broadband network? We have a target in year 1, which finishes in a couple of days, of 70,000 households having had the construction of the network, available for connection. And we're on track to meet that.

Adams Let me answer that one, then, and then we'll come to the other, because you keep rolling two questions together. So how many households have been connected to the ultra-fast broadband network? We have a target in year 1, which finishes in a couple of days, of 70,000 households having had the construction of the network, available for connection. And we're on track to meet that.

Curran Can you tell us how many households are connected to ultra-fast broadband? I don't want to know the target; I want to know how many
have had the connection taken to the gate, and then I’d like to know how many are actually using it.

Adams The number of 70,000 is the number who have had the full ultra-fast broadband network built, connected, ready to be turned on when they sign up with an RSP.

Curran So that’s 70,000 have received it.

Adams So 70,000 have the network built to their premises, ready to be used as soon as they sign up with an RSP.

? Supplementary—

Adams Hang on, just let me answer. That is the UFB build commitment. So the contracts we’ve entered in for is for that part to happen. It is then up to each consumer to connect or contract with an RSP to receive services and actually start getting live feeds over—

Curran And how many are doing that?

Adams End of April quarter, 1,012 is the number.

Bakshi Minister, my question is how does this ultra-fast broadband fit into the Government’s broader economic growth programme?

Adams As I mentioned in my opening comments, the ability to access world-leading communications is central to a growth agenda, it’s central to rolling out of better public services, which are obviously two of the Government’s key agendas. So we have figures from a number of independent consultants who have talked about the considerable uptake in GDP through world-leading connectivity. Increasingly, we are seeing that if we are not providing a high-class, world-leading connectivity, New Zealanders will continue to be out of step with international partners. Particularly with our place at the bottom of the world, our ability to get to market, to access those services, is absolutely fundamental.

We didn’t have great connectivity previously, before this Government made the commitment. In the rural sector, for example, there are only 20 percent of houses that have access to anything like 5 megabits a second. Under these proposals, it’s going to go to well over 86 percent of rural households alone. Particularly in those rural areas who were very poorly served previously, we are now seeing world-leading connectivity being made available.

But let me just talk too about the impacts on particularly health and education, where the ability to access real-time video feeds, communication through to anywhere in the world, means that particularly rural communities, those who aren’t in the major centres, can access the best of resources from around the world, regardless of where they live. For me, that
has the potential to be transformative, not just in the productivity benefits to business immediately, but actually in the skills development, the public health development, the community development, because they’re no longer a prisoner of their geographical location.

So that’s a fundamental part of our growth agenda. We see it as core a part of infrastructure as an electricity network or a roading network. That’s why we’ve made such a big commitment to it.

Bakshi So have seen any response from the——

Cunliffe Sorry, we’ve got supps, Mr Chair.

McClay You may well, but he hasn’t finished. So far, this side of the table haven’t had any questions.

Cosgrove They are your estimates, you’re supposed to know.

Bakshi Have you seen any response from the health sector or the education sector?

Adams Yes, absolutely. The education sector is really gearing up to the delivery of e-education through, particularly, the development of the Network for Learning, which they are setting up now as a dedicated, secure New Zealand education network. In the health sector there’s been some tremendously exciting initiatives under the National Health IT Plan, particularly around, as I was talking about in my introductory comments, the delivery of telehealth services, allowing more elderly New Zealanders to stay in their home and receive monitoring treatment; around shared-care databases, so patients can get access to their records wherever they are. Particularly in Christchurch after the earthquake, this became of fundamental importance, with some medical practices being destroyed or patients not able to get to their regular provider. The ability to have a shared online patient’s record was absolutely fundamental to that working well. That hasn’t been available in New Zealand until now, and that’s now being pioneered off the back of this sort of connectivity.

Cunliffe Minister, to, say, the nearest hundred thousand households, what is the total number of households that the Government is aiming to get ultra-fast broadband available to by the end of the UFB roll-out programme?

Adams By the end of the roll-out programme——

Cunliffe It’ll be 75 percent of all New Zealand households.

Adams Seventy-five percent of all New Zealand households.

Cunliffe What is that, to the nearest hundred thousand?

Adams I couldn’t give you that number.
2012/13 ESTIMATES FOR VOTE COMMUNICATIONS

Cunliffe: Can any of your officials give us any approximation?

Adams: Have you guys got a raw number of how many households?

Cunliffe: How many households are there in New Zealand? Can anyone tell us?

Curran: Surely you would know that figure, Minister, given that—

Adams: No, actually, I’m quite happy knowing that 75 percent of New Zealanders will have world-leading broadband and the other 25 percent will receive—

Cunliffe: Minister, are there any questions you feel you could answer? There hasn’t been one yet. The Government’s primary target—Minister, how many households are there to be connected in the UFB roll-out in total by the time it’s finished?

Adams: As I said, what I know is that it’s 75 percent of New Zealand households. I don’t have an absolute number.

Lotu-Iiga: In 2016.

Cunliffe: Minister, my best estimate is that there’s around about 2 million households in New Zealand, in which case 75 percent would be about a million and a half. Would you accept that as a rough estimate?

Adams: Well, if your numbers are right, your numbers are right.

Cunliffe: All right. So if there’s a million and a half, is it true that only 1,000 have so far actually connected to the UFB roll-out programme? You gave the 1,012—

Adams: One thousand and twelve as at the end of April.

Cunliffe: Out of 1.5 million.

Adams: OK, so just let me talk you through this. The first thing is that the UFB programme that I’m here talking about—[Interuption] No, no, hang on. You’re confusing issues, and I want to answer. [Interuption]

Young: Look, let’s give courtesy to the Minister to answer the question that you’ve put to her.

Cunliffe: Well, that would be marvellous.

Adams: Well, if you give me a moment, I’m very happy to, but you have to understand this: what we’re talking about are two different things. The UFB build programme is building a network of cable in the ground, fibre to the premises to 75 percent of New Zealand premises. The rural broadband is dealing with the other 25 percent. Of the 75 percent, by the end of 2019, they will all be served by ultra-fast broadband accessibility. Now, then the question becomes what level of uptake do we get. With respect, you are
confusing the two issues, so that’s why—[Interruption] No, just let me answer. So that’s why I’m giving context. So 75 percent of New Zealand households is what we are building. Then there is the issue of how many of those households choose to connect to fibre services, which is the issue of uptake. I have made a number of comments publicly, and we’ve talked—so the number of 1,012 is the number who have so far made that decision to take advantage of what we have built. Our commitment is around the build; their choice is around uptake. Uptake is driven by a couple of things, one of which is the provision of the retail service products into the market, which are developing now, and can be expected to ramp up over time.

Cunliffe  Point of order, Mr Chairman. I asked a specific numerical question. The Minister has done her best to answer that. The next question actually goes to this point that the Minister is now raising, which is about uptake. I take it from the Minister’s comment that the Minister supports maximising the uptake of UFB. If that is the case, does the Minister think that it would be desirable to have multiple providers providing rich content through the UFB, or is she concerned about dominance by one large media player?

Adams  OK, fair question. So a couple of things. First of all, what you’re talking about is primarily relating to consumer uptake, and of course our priority areas for uptake that we’ve expressed as a Government are actually business, government, health, and education. So that’s my first point.

Cunliffe  Oh, really?

Adams  Yes, we’ve announced that several times. The second point is in the consumer area, I do agree with you that access to content services is a considerable factor for decisions to user uptake. We have talked a number of times about the fact that we will be very interested to see how the content market develops under a fibre world. What I don’t think you can do is look at the provision of content services in our existing world and assume that will be the same market analysis once fibre is well rolled out. In that space, I would certainly agree with your assumption that content is important. Your second part of your question was around am I concerned about dominance of any particular player—

Cunliffe  Potential dominance.

Adams  Potential dominance of any particular player. What I’ve said in that regard is that I am satisfied that we have a regulatory structure in terms of the Commerce Commission that is in a position to act if that dominance is market-limiting or unfair use of a dominant position. My answer to that is that it is an issue of concern to consumers in terms of access; whether we need to act is a separate issue. I am satisfied that the regulatory frameworks we have now are adequate to deal with it, as the Commerce Commission’s decision to look into some of those dominance issues tends to validate.
2012/13 ESTIMATES FOR VOTE COMMUNICATIONS

Curran   Do you take responsibility, in the sense that your Government is rolling out the ultra-fast broadband programme, for ensuring that there is the best possible regulatory environment for the uptake of ultra-fast broadband?

Adams   So my Government—you’re absolutely right—we’re rolling out the network, and what we have said that we’re particularly concerned to ensure in the first instance is uptake and use through our priority use sectors, which are health, education, community, and government. So those are the areas that we are most focused on ensuring that there are no inhibitions to uptake. But we are also absolutely actively engaged in looking at issues—for example, the Commerce Commission’s demand side study, where they identified a number of issues that could be barriers to uptake, and we are actively considering each of them.

Curran   But it was an either yes or no question. Do you take responsibility for ensuring the best regulatory competitive environment for the uptake of ultra-fast broadband?

Adams   So I would absolutely agree that we are responsible for the regulatory framework.

Curran   So if the uptake does not improve, will you undertake to change the regulatory environment?

Adams   I’ll be looking at uptake, and if it doesn’t perform as we would expect, we would certainly be looking at why that is. What I would say—

Curran   Do you have a time frame in mind?

Adams   Well, that’s just what I was about to go into. What I’ve been looking at with some interest is how uptake has modelled in other jurisdictions who have rolled out similar networks. What we know is that they do have a slow and exponential growth curve of uptake. I think right at the moment, when the build programme is just completing its first year of operation, it is not at all surprising to me that there are a very small number of fibre products in the market, because those RSPs are developing the products now and they are waiting for a critical mass of build to be under way to bring their products to market. So I’m not at all concerned or surprised by the current level of uptake. We will continue to look at that, and, as I said, we are not waiting for that, in that we’re actively engaging on the issues that have been identified around things like non-standards, multi-unit complexes, premises rewiring, and the like.

Curran   Can you give us a time frame?

Adams   A time frame for what? For fixing everything?

Curran   For an analysis of when you’re going to be completing that, and looking at the regulatory environment.
Adams: Well, we’re looking at it now, and, as I say, we’re addressing each of those hurdles as they come up. If your answer is specifically around content—is that what you’re pointing at, Ms Curran?

Curran: Yes.

Adams: Well, the issue around content—I think I’ve made my position reasonably clear on this, which is that I’m satisfied that right now no regulatory intervention is necessary, because the Commerce Commission is adequately resourced to deal with it.

Curran: Could we turn to spectrum?

Young: Clare, that is a different line of questioning. Clayton’s got some supplementary questions.

Cosgrove: Just to go back a step. A couple of very quick, practical questions, Minister. The broadband roll-out to rural schools—question one, what was the definition used to classify which schools would be considered rural, and therefore have priority?

Adams: Well, all schools are priority users, but the definition is between which were urban and which were rural, and which were remote schools—is that your question?

Cosgrove: Yes.

Adams: They were broken down into the zone 1, 2, 3, and 4 schools. Zone 1 and 2 were within the UFB-build period. Zone 4 were automatically in the rural period, and then there was a subsequent period of assessment with the zone 3 schools where we made an analysis on a case by case basis of whether it made more sense to include them in the UFB candidate areas or in the rural schools initiative. That has now been completed. The other component part of the assessment was the remote schools initiative, the ones who are clearly much more remote than most, where we needed to have purpose-built solutions for each of them. As I said in my opening comments, those have now all been signed off, apart from the three Chatham Islands schools, which we’re still working through the contracting for.

Cosgrove: If I can give you a practical example from your own province, because I’m sure you know it well, do you think it makes any sense, for instance, to have broadband run down the main road, past, say, Oxford Area School, which has been a New Zealand leader of schools in internet technology and its use, run right past that school, metres from the school—this is not a gateway issue, by the way—and run right the way up to, say, View Hill School, which is about 10 or 15 kilometres away, and not spend a couple of dollars and have it access the school it runs past? Example two, even more absurd, is running right down the State Highway 1, right past Woodend School, literally metres from the gate, because they’re digging the trench right down there, because it backs on to State Highway 1—likewise
Waikuku School. Don’t you think that makes no economic sense at all? And who got the slide rule out and thought of such an absurd formula, because those schools, in the last parliamentary questions of you and your predecessor, are some years away from getting access, even though they are metres from the pipe?

Adams OK, so the point you’re raising is, I think, more around one of timing of access than whether they are urban or rural, because urban or rural, both those schools will get fibre delivered to them, into the school. So it’s not a question of—

Cosgrove Eventually.

Adams Yes, that’s right. So the question is the timing of the roll-out, as opposed to the urban/rural distinction. So there are a number of those issues popping up where we are seeing particular schools that have come to our attention, where they say: “The fibre is here, and you’ve connected this one; can you connect that?”, and we’re going back and working with the UFB partner in those areas to address them. The UFB partner, so in that instance Chorus, is working through their own deployment plans. So as a Government, we don’t direct them: “You’ll connect the schools in this order.” But where particular inconsistencies are brought to my attention, I go back to them say: “Why have you done it this way? Can that not be brought forward?” and we try and work through those.

Cosgrove Could I take you up on that matter, because I have lodged and received—

Adams Absolutely.

Cosgrove —thank you—written questions with you and your predecessor, and all I’ve got back is: “This is when it’ll happen under the time frame.”, and for some of these schools, it is a couple of years away. It hasn’t been: “I’ll look into it; that makes sense. A 10-metre pipe off the main pipe might be a good idea economically.” It’s been: “This is the time frame. This is the decision. Go away.” Rangiora School is another one. Woodend, Waikuku—I’m just using them out of my own area because I know them well.

Adams OK, so if you’ve written me a parliamentary question it would have been phrased in the terms of “When are they scheduled to get it?” and I would have answered. If you want to write to me expressing as you described it, I’m happy to.

Cosgrove I made explicit questions. So would you give us a commitment today that, not just for my area, but where you have absurd results, where the pipe goes literally a few metres from the school, that if we give you the list, you’ll undertake to look at whether those can be accommodated earlier? Because the unit cost of doing that is minuscule, but the waiting period for some of these schools means that the education outcomes are held back for a couple of years.
Adams  I’m certainly happy to give you the undertaking that if you raise with me the context, I will absolutely look into it with Chorus. What I can’t give you the undertaking of is a solution, because that is their determination, but I’m very happy to raise it with them and see if we can get responses as to why.

Hughes  Thank you, Minister. Can I ask when do you expect the fee review of the Copyright (Infringing File Sharing) Act, the so-called “Skynet Law”, to be decided?

Adams  Look, Minister Foss is running the work programme on that. I haven’t got a time frame, I don’t think, in front of me. I’d have to come back to you on that, or you might be better to write straight to Minister Foss.

Hughes  As the Minister responsible for telecommunications, do you have any concerns that the submissions are pointing to ISPs spending up to $90,000 to just get ready for the system, and are you concerned that potentially what we are seeing is a subsidy of the rights holders?

Adams  Look, it’s not something that the industry has raised particular concerns with me about. In the main, they have directed their discussion with it to Minister Foss. I’d be pretty reluctant to cut across whatever announcements he wants to make on it.

Hughes  What are you doing to encourage legal content in New Zealand? We talked about content in terms of the UFB; what have you done in terms of getting companies like Spotify or Netflix to New Zealand, if anything?

Adams  So there’s limits as to what, as a Government, we do to encourage them here. What we do need to do is ensure that the regulatory framework is correct and is attractive. We recognise, of course, that a lot of the decisions for them as to whether to come and locate in New Zealand are around the size of our market, the economics of the return that they would expect to see. I mean, we’ve seen Spotify come in, we’ve seen Quickflix come in; that’s a natural market response to the changing opportunities, and we certainly welcome that and want to see it.

But actually, as much as anything, I’m very interested in developing New Zealand content and working with the New Zealand industry to try and enhance the skills in that sector that will provide New Zealand - based content and services over time. So in that space there’s a programme of work going on across a number of agencies in Government to enhance the ICT skills pipeline, to develop some innovative hubs for innovation to occur, to work with, particularly, how we do Government procurement into IT, because actually my own view is that if we can make Government procurement far more attractive and easier to work with for small New Zealand providers, that helps to enhance and support the local industry that can then provide that local content.

Hughes  When can we expect the first hub to open?
Well, EPIC’s planned and well under way in Christchurch in terms of construction, as part of the rebuild of Christchurch. The Wynyard innovation precinct is well under its planning stage, although it’s not open yet. I haven’t got an opening date for you for that. There are a number of players involved in that one. We’re working with the Advanced Technology Institute, particularly around having a stream of work focused specifically on the IT and communications sector in terms of developing the skills and R and D into that sector. So there’s a number of things going on.

Just with regards to 700 megahertz spectrum, can you advise the committee will there be an auction or whatever process you’re going to take place—will that happen this year or next?

As I said in my opening comments, there is a paper going up to Cabinet that will make those allocation arrangement decisions very shortly. So I can’t give you an answer on it, but in terms of the timing, the intention at this stage is to hold that auction either—if not at the end of this year, then very early into next year, because, as I said, we do see it as very important that the industry has sufficient lead-in time to plan the investment of the significant capital programme.

Thank you, Minister. Sorry, no time for supplementaries. You can follow it up with a letter from the committee if you want to. We are over time for that.

Hang on, there’s not a question, there’s an information issue. There are a number of requests for information, and I just want to confirm that the Minister will supply those to the committee in the normal way. Clare had a number of requests. Have we documented those? Does the Minister know clearly what they are?

The things that I’ve undertaken to supply, I’ll certainly supply.

It’s on the record; we’ve got a transcript.

Would you like me to leave these various bits and pieces I referred to earlier, with the coverage maps and the bits and pieces?

Yes, that would be great. Thanks very much, Minister and your officials.

**Conclusion of evidence**
2012/13 Estimates for Vote Communications Security and Intelligence, and Vote Security Intelligence

Report of the Intelligence and Security Committee

The Intelligence and Security Committee has examined the 2012/13 Estimates for Vote Communications Security and Intelligence, and Vote Security Intelligence, and recommends that the appropriations in respect of these votes for the year ended 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Rt Hon John Key
Chairperson
2012/13 Estimates for Vote Conservation

Report of the Local Government and Environment Committee

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Vote Conservation

Recommendation

The Local Government and Environment Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Conservation as set out in Parliamentary Paper B.5, administered by the Department of Conservation, be accepted.

Introduction

The appropriations sought for Vote Conservation increase to $444.954 million in 2012/13 from $437.8 million estimated actual expenditure in 2011/12 ($449.209 million was budgeted).

The increase is mainly due to expense transfers because of timing delays in projects. These are offset by one-off transactions in 2011/12 such as Crown Land acquisitions and the write-off of Waitangi Endowment Forest trees which were transferred to the Waitangi National Trust Board.

For the 2012/13 year, Crown revenue in Vote Conservation is estimated to be $17.411 million, excluding capital receipts.

Commercial activities and partnerships

Most of the revenue, or third-party income, generated by the Crown from Vote Conservation comes from concessions granted by the Department of Conservation for commercial activity on conservation land. We were interested to hear that third-party income will be reviewed with a view to increasing it. Some of our members look forward to the results of this review. Others are concerned about the impacts of increased commercial development on conservation values. We look forward to a report by the Parliamentary Commissioner for the Environment on the issue of the commercial use of conservation land.

The department is involved in a number of conservation partnerships with commercial organisations, including Air New Zealand Limited. We were pleased to learn that Air New Zealand’s longstanding involvement in transporting endangered species has now been placed on a formal footing as part of a three-year partnership with the department. We note that such partnerships can help promote business involvement in conservation.

Aeromagnetic surveys

During 2012/13 aeromagnetic surveys will be conducted in the South Island. The area to be surveyed includes parts of the Te Wāhipounamu South West New Zealand World Heritage Area. The Minister told us the data collected will have a range of applications in fields including minerals exploration.

The surveys will not include areas protected under Schedule 4 of the Crown Minerals Act 1991. However, world heritage areas such Te Wāhipounamu are not included in the
schedule, and there is some concern that if minerals are found by the survey, the temptation will be to mine them. The Minister of Conservation assured us that no competitive mining tender would include Te Wāhipounamu. She said that surveying does not equate to mining and there is no harm in merely looking. The Minister said it was the Minister of Energy’s responsibility, not hers, to progress legislation to allow public consultation on applications to mine conservation land.

**Marine reserves**

In May 2012 the High Court overturned the Minister’s decision to decline a proposed marine reserve in Akaroa Harbour, Canterbury, and ordered the Minister to reconsider the application. The Minister told us that she has received a copy of the judgment and was seeking advice. We look forward to her response.

The Marine Reserves Bill was initially referred to the Local Government and Environment Committee of the 46th Parliament, and remains before this committee. We welcome the Minister’s statement that she is seeking to update New Zealand’s marine reserves legislation. Some members would like to see more collaborative regional forums established to identify protected areas.

**Hector’s and Māui’s dolphins**

During our consideration of the 2010/11 financial review of the department, we discussed the threat management plan for Hector’s and Māui’s dolphins. Subsequent to the hearing of evidence, it was announced that the Hector’s dolphin portion of the plan was to be reviewed.

We were pleased to learn from the Minister that an announcement was due shortly. She cautioned that any decision about the management of Hector’s and Māui’s dolphins needs to be based on science, and noted that not a lot is known about them. She cited evidence that the last fishing-induced Māui’s dolphin death was 12 years ago, and said that predation, starvation, and a failure to breed could be factors in their decline.

There is concern about the possibility that the Minister may receive conflicting evidence from the department and the fishing industry on the cause of dolphin deaths. The Minister told us that she would need to balance any evidence received, and that threat management plans help weigh data and options.

Subsequent to our hearing, it was announced that restrictions on the use of set-nets would be extended to help protect the Māui’s dolphin.

**1080 poison**

The appropriation *Management of Natural Heritage* includes performance measures for the control of pests, including possums. Much pest control is reliant on the use of 1080 poison. Over time the amount of 1080 dropped in aerial operations has fallen from 20 to 2 kilograms per hectare; and we were interested to learn that this may be reduced to 200 grams.
While we want our native flora and fauna protected, we acknowledge that the use of 1080 is contentious, and it is encouraging that it has been possible to reduce the amount of poison dropped while achieving a 98 percent kill rate.
Appendix

Approach to this examination
We met on 26 June and 19 July 2012 to consider Vote Conservation. Evidence was heard from the Minister of Conservation, Hon Kate Wilkinson, and the Department of Conservation, and advice received from the Office of the Auditor-General.

Committee members
Nicky Wagner (Chairperson)
Maggie Barry
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kay
Hon Annette King
Moana Mackey
Eugenie Sage
Hon Dr Nick Smith
Andrew Williams

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Conservation, Response to standard Estimates questionnaire.

Minister of Conservation, Response to additional questions, received 29 June 2012.

Office of the Auditor-General, Briefing on Vote Conservation, dated 26 June 2012.

Vote briefing paper, prepared by committee staff, dated 29 May 2012.
2012/13 Estimates for Vote Consumer Affairs

Report of the Commerce Committee

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Vote Consumer Affairs

**Recommendation**

The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Consumer Affairs as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

**Introduction**

The appropriations sought for Vote Consumer Affairs decrease by 4 percent to $8.508 million for 2012/13 from the estimated actual expenditure of $8.904 million for 2011/12.

**Powerswitch campaign**

For 2012/13 the estimated actual spend of the multi-year appropriation for Upgrading and Promoting the Consumer Powerswitch Website is $1.1 million. We asked the Minister of Consumer Affairs about any pricing advantage resulting from switching power companies through the Powerswitch website. The Minister told us that the website, which was set up four years ago, has been overwhelmingly successful. He said that in 2011/12, 54,846 consumers had switched power companies, resulting in expected savings of $9.050 million over the following financial year, with an average annual household saving of $165. We heard from the Ministry of Consumer Affairs that the forecast target number of visits to the website was expected to reduce from 293,600 in 2011/12 to 250,000 in 2012/13 because it was recognised that there would be less interest after the first year of the campaign. The Minister said that the campaign was experimental, but as it had been successful he was likely to recommend that it continue after its multi-year appropriation ends in April 2014, if funds were available.

We asked whether the Minister had been asked to obtain data on whether retail electricity was cheaper from state-owned or private power companies, and whether it was possible to provide this information. The Minister said he had not been asked for such information, nor did he consider it was his role to provide it. He said that the consumer affairs portfolio relates more to ensuring informed, confident consumers.

**Credit Contracts and Consumer Finance Amendment Bill**

We asked about feedback on the exposure draft of the Credit Contracts and Consumer Finance Amendment Bill relating to loan sharks. He told us that the Ministry of Consumer Affairs had consulted widely and had received very positive feedback on the bill from banks and third-tier lenders. He said there was some concern from these groups about the ability of the Commerce Commission to enforce potential legislation in this area, but the Commerce Commission had reassured him that it could and would enforce the legislation.

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1 The Ministry of Consumer Affairs is a business unit within the Ministry of Economic Development.
We asked why the exposure draft bill did not include a legislated cap on interest rates for loans. The Minister told us that he had consulted on this possibility, but had heard little support for it. He explained that capping interest rates might have the effect of discouraging rates below the cap, and that too high a rate would be meaningless, while too low a rate would be oppressive.

We raised the possibility of non-interest fees on loans also causing issues. The Ministry of Consumer Affairs told us that interest-rate-only caps in Australia had not been effective. The ministry told us that “cost of capital” caps, which covered both fees and interest rates, had been used in Australia, and the ministry would recommend this approach if interest rates were to be controlled.

**Wheel clamping**

We asked the Minister about the wheel clamping code of conduct for parking enforcement agencies. He gave us a comprehensive report, and told us that six parties including the main industry players had drawn up and signed the voluntary code. The code would come into force on 1 October 2012 to give businesses time to prepare, for example by altering signage. The code included such provisions as restricting the cost of removing a wheel clamp to a maximum of $200, and allowing drivers of inappropriately parked vehicles a 15-minute grace period.

**Consumer protection in online retail**

We heard from the Minister that online retailing made up about 4 percent of the retail market, and was predicted to peak at 15 percent in 2020. He said that the Consumer Law Reform Bill was expected to make some improvements in protecting consumers online, and he intended to monitor this area.
Appendix A

Approach to this examination
We met on 28 June and 19 July 2012 to consider Vote Consumer Affairs. Evidence was heard from the Minister of Consumer Affairs, Hon Simon Bridges, and the Ministry of Consumer Affairs, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Consumer Affairs, Response to additional questions, received 12 July 2012.

Minister of Consumer Affairs, Response to standard Estimates questionnaire.

Minister of Consumer Affairs, Response to supplementary questions 1–116, received 26 June 2012.

Office of the Auditor-General, Briefing on Vote Consumer Affairs, received 26 June 2012.

Vote briefing paper, prepared by committee staff, dated 12 June 2012.
Appendix B

Corrected transcript of hearing of evidence on 28 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Pesata Sam Lotu-Iiga
Gareth Hughes
Todd McClay
Mark Mitchell

Witnesses
Hon Simon Bridges, Minister of Consumer Affairs
Adrienne Meikle, Ministry of Consumer Affairs
Liz MacPherson, Ministry of Economic Development
Evelyn Cole, Ministry of Consumer Affairs
2012/13 ESTIMATES FOR VOTE CONSUMER AFFAIRS

Young It’s great to have you here Minister, and if you would like to start off with some opening comments, that would be fantastic, and then we’ll open up the questions.

Bridges Thank you. I have my speaking notes and I’m going to be brief, because I know that you will have probing questions about this portfolio. It’s good to appear before you, my first appearance at estimates.

Cosgrove Is that me personally, or the whole committee?

Bridges All of you—all of you, even the bearded one! I’m baiting you! [Interruption] Can I genuinely and sincerely thank you for the feedback I’ve had, the excellent work you’re doing on the Consumer Law Reform Bill. I appreciate your diligence on what may not be necessarily the most high-profile pieces of work, but it is, in its way, a very significant and substantial law. I think it is also worthy of mentioning that I appreciate as well from the feedback that I’ve got that it’s been approached very much in a bipartisan manner, and I think that’s all to the good of something like this, where we do want to get it absolutely right. Can I also thank you in advance for the work that you’ll be doing on the CCCFA Amendment Bill, the loan-shark work. It’s also going to be a very substantial reform that may well include credit repossession law reforms as well. I know you will perhaps have seen Dr Liz MacPherson, acting chief executive of MED in your last—

MacPherson Ms.

Bridges Ms, is it? Where did I get the “Dr” from?

MacPherson I can’t claim it, I’m afraid.

Cosgrove She’s a ministerial minder, I think she’s looking after the five of you.

Bridges Right, we’ll see how that goes. Adrienne Meikle, acting general manager of Consumer Affairs. Just, as I say, very briefly, what I want are confident, informed consumers. They in turn help create an efficient and effective marketplace, and thus a strong environment conducive to business success. To these ends, as you may be aware, we’ve got really significant work streams going on for a small vote. Firstly, the Consumer Law Reform Bill. You are well aware of that, and you’ve been working hard on it, as I’ve said. It’s going to rationalise and update the laws in this area. It’s literally, I think, a once in 20-year opportunity. Secondly, as I’ve already said, consumer credit law reform. Again, that’s significant, I think. Just to touch on the highlight there, I do think introducing responsible lending is quite a radical notion, actually, and an important one. It will, I think, add to—

Cosgrove Have you communicated this to Bill English?

Bridges Well, no. He is full of big ideas, Mr Cosgrove. Finally, also continuing improving access to and the practices of consumer dispute resolution bodies. That is something we haven’t done a lot on yet, but as you’ll be
aware, there are a number of dispute resolution bodies that consumer affairs is involved with. I want to have a look at those and make sure that they’re working well for consumers. To keep Mr Cosgrove happy, I’ll leave things there. I’m very happy and open to your questions and comments.

Young

Thank you very much Minister, and we’ll throw questions open to the floor.

Lotu-liga

Thank you, Minister for—

Bridges

Just one thing. You know what I did say—I don’t want the nice questions coming from this side, Sam.

Lotu-Liga

OK. We’ll start with loan sharks, shall we? You’ve done some presentations and I attended one of those. Could you give us just around the—

[Interruption] On some of the feedback on the loan shark and the exposure draft bill, can you give us some indications around the sorts of responses and sorts of areas that the public are concerned about? The consultation that you conducted was, I think, really positive. I know the feedback I’ve got from community groups has been really positive about having that level of discussion with them.

Bridges

Without wanting to turn this into a love-in, can I just thank you for your work, because I know you’ve been very much involved in this. As you say—

Cosgrove

Flowers and chocolates would do it.

Bridges

That’s right. We’ve been out and consulted all over the country: Wellington, Christchurch, Auckland—a number of times in Auckland—and as you say, you organised one with the Pacific community, which went very well. Effectively, the feedback has been very strong and very positive. So actually I don’t think, other than maybe one or two, there has been any saying “No, we shouldn’t be doing this.” The banks support it, even third-tier lenders say they’re reasonably positive about the intent of this. Some of the concerned speak—I’m happy to be frank with the committee—in relation to enforcement. So I understand that. The point is that it’s all very well having the best law in the world, but if you don’t and aren’t able to effectively enforce that, well, that’s not worth anything. So I take that seriously. I’ve had conversations with the Commerce Commission in this area. They say they can enforce it and they will enforce it. One of, I think, the salient points there is that in the past they did not have the powers necessary to be able to step in, in these sorts of situations where there is unscrupulous lending to vulnerable parties. They tell me that they are glad that they will have the power to act in these situations, and they intend to enforce the law.

Young

In the code of conduct around wheel clamping, which has been pretty provocative in my city, I noticed around that one of the entities that has signed up was from New Plymouth. Are you happy with that and the progress that’s been made?
Bridges  So you’re exactly right. I think there are about six parties that signed up; there was one from New Plymouth, a fairly small operation. So they went to the expense of flying up to Auckland. We had a meeting with players. Effectively we’ve got all the big players in here—there are one or two parties outside of the tent, as it were. What we’ve done is we’ve put together a code of conduct. Let me just say, I was actually genuinely surprised at the extent to which the industry players were prepared to up the ante and have a good, solid code of conduct. So for example—just one example—New Zealand Wheel Clamping, it is alleged, according to certain papers, that they have been charging people $400 to get the wheel clamp off. Under this law, there is a maximum of $200. Just some things like that, I think, will make a real difference. There are a whole lot of other rules in the code. I’m very optimistic. It comes into force on 1 October, because they do have to change their businesses to some extent, their signage, etc. I’m very optimistic that it’ll work well.

Young  Just following up in terms of that grace period of time—I think it was 5 or 10 minutes—if there is dispute around that in terms of that code of conduct, I’d be thinking that there would be resolution within the code or—

Bridges  Yes, that’s right. So my recollection—I could stand corrected—is that it’s a 15-minute grace period, so you may not be clamped prior to that 15 minutes. If you park somewhere you are not allowed—private car parking, which is effectively what this is about—you have a 15-minute grace period. If you are clamped within that period, effectively the parking industry will not be able to, under the code, to do anything, get you in any way, charge you. The clamp has to come off.

Young  Good progress on that, I reckon.

Cosgrove  Just on that—

Bridges  Has this been a problem in Christchurch?

Cosgrove  No, we don’t have a lot of clampers down there, Minister. Just on that point, you are not planning, as part of the sanctions around this, to don stilettos and jump on the bonnet of a car and celebrate and dance around, are you, as a way of promoting this?

Bridges  I did have some advice from a colleague that is was always good to come to estimates hearings with a prop, but I haven’t brought the wheel clamp in. Personally, I have never been clamped—never seen one, in fact. So no, I don’t intend to be doing anything with clamps.

Cosgrove  Could I go to a probably a less important aspect—possibly more important than clamping—the Powerswitch website. You are obviously aware of the capabilities of that. Firstly, has your department done any research into the pricing advantages that that website has engendered from people switching?
Yes. So just some general comments—

Or disadvantages.

Yes, so I’ll certainly let the people at the table answer that specifically for you. Just in general comments, this was set up 4 years ago. I think it’s been overwhelmingly successful, actually. For the investment, it’s been good value for money—$1.1 million going to it this year in terms of my vote. To give you some numbers, Mr Cosgrove, at the end of May the number of visits to it was nearly 97,000. Consumers are estimated to have saved a total of $745,000 this year as a result of switching power companies. That’s an average annual household saving to those who have gone in of $165.

So does that website give you the ability to track from—presumably it does—having switched from company A to company B?

What it does, as I understand it, is that you go in—

Yes, I know what it does. But all I’m asking is—

You’re asking if you can physically do it on that website?

No, do you collect data so that if I go in and switch from company A to company B, you’ll know I’ve switched from company A to company B? Is it extractable?

Is that publicly available information?

No, not necessarily publicly available, but can you extract it? Have you extracted it?

I’m pretty sure that there is some data, I’m just not sure of the details. The Electricity Authority works with Consumer New Zealand to obtain that data, so they are definitely monitoring the amount of switching that’s going on.

Thank you. So my next question is have you, Minister, or have any of your colleagues asked you to extract data as to, for instance, whether the savings that are being achieved are being achieved because SOE power companies are cheaper, retail-wise, than their private sector counterparts?

No. I haven’t been asked for that information.

You haven’t been asked? Have you—given the great SOE debate, without transgressing into that area—do you think it might have been a smart idea, given the debate around retail power prices with SOEs versus the private sector, and the evidence that other committees have had that SOEs are cheaper by $265, on average, per annum, it might have been a smart move to ask? Given that you have the dollar amounts, that’s rough.
Bridges  No, I don’t. I think we have generally, as a Government, a pretty good sense of the power industry, of where it’s at. Actually I—

Cosgrove  What’s that sense based on, crystal balls?

Bridges  Well, yesterday, for example, I met with a major power company. Their view is, actually, that prices, if anything, over the next wee while are going to settle down, not necessarily go up much more.

Cosgrove  Sorry, Minister, forgive me. That wasn’t the question. The question was based around this, that we have asked—interference is about to be run, I think, for you. We have asked the Minister of Finance, in another place. We’ve asked the Minister for State Owned Enterprises in another place. We’ve asked the Minister of Energy. We’re asking you. All of those Ministers have, in their own way, access to expertise and data that could substantiate or knock over the claim by industry experts that on average consumers are paying $265 a year less for retail power if they purchase from an SOE as opposed to retail. The question, I suppose is, none of your colleagues have even bothered to ask the question and do the analysis. Neither have you, I presume, because you don’t know the answer.

Bridges  No, with respect, my brief in consumer affairs is not, in fact—I don’t think—necessarily about the price per se. It is about informed, confident consumers who understand their rights, understand where they are. Powerswitch has been very helpful in that. But I think, with respect, the question you’re asking asks me to tread on territory of the Minister of Finance and the Minister of State Owned Enterprises.

Cosgrove  No, no. You’re absolutely wrong. It simply asks you, as I have done your officials. You’ve confirmed the dollar amounts, that’s great. That’s interesting data that they’re saving $745,000 a year. Your officials have confirmed that it is possible, they believe, to extract the data simply—for instance, if I’d swapped from Meridian Energy to Contact, or vice versa. I would have thought that it’s within your ambit to at least ask for that data. My question would be, if you haven’t, given your colleagues haven’t asked you, would you be prepared to extract that data and provide it to the select committee?

Bridges  Look, I’d consider that. I don’t want to say yes, Mr Cosgrove, because I think my tentative view is that it is outside the brief of what Vote Consumer Affairs should be doing.

Cosgrove  It’s your website.

Bridge  No, you are asking me whether under the Official Information Act we are—well, you’re saying short of that, actually—would we be happy to look and provide that. I don’t know how much difficulty there is involved in doing that. I can’t answer those questions for you right now. I will genuinely consider that.
Cosgrove: Could you take that as a formal request, consider it, and get back to us?

Bridges: Right. And what in fact I’m just being told—and I am here to help, Clayton—is that the website is, in fact, technically speaking Consumer NZ’s website, so the extent to which we can go in there and get that, I’ll find out.

Cosgrove: I’ll put a modified request then: could you give us an undertaking that you will go to Consumer NZ—I’m sure they wouldn’t have a problem, actually—and ask them whether they can provide it. We don’t want names, we just want the stats. Who is going from what to what, and the savings or otherwise alongside them, and ask them whether they would provide you to provide us with that data.

Bridges: What I will do is I will honestly and faithfully consider your request, and I’ll come back to you about that.

McClay: Just on that one, Minister, and thank you for what you’ve said. Are you aware that a similar question was asked in the House of a Minister who had competence in this area, and actually information was provided to the House that showed that actually between the privately owned power companies and the State-owned companies there wasn’t a great gap, and in many parts of the country actually the privately owned company was seen to be cheaper in providing it.

Bridges: My understanding is that literally in every region, a private company is cheapest. Sue Chetwin of Consumer NZ takes the view that things won’t change much under this mixed-ownership model. If anything, the increased competition will be a good thing.

McClay: Just a follow-up from that, given the Powerswitch campaign for the website has been so successful, and I understand it has met with huge consumer interest and success, if Mr. Cosgrove was right with his position—I don’t accept that they are correct—would it not be the case that consumers would be aware of this and via the Powerswitch website would be looking for better deals?

Bridges: That is the exact purpose of the Powerswitch website. It is to give people a sense of their options. They can go in with their current power company and price, and they can see whether they can get a cheaper, sharper deal. What I’m saying to the committee is that it’s been a roaring success. The average annual household saving has been $165, and that’s for 97,000 people—nearly 100,000 people. Basically the city of Tauranga or two Rotoruas.

Cosgrove: On that wonderful success, why have you downgraded the targets?

Bridges: Are you talking about financially?

Cosgrove: No, I’m talking about that you’ve included 293,600 visits in the 2011/12 year, and that’s been downgraded for 2012/13 to 250,000 hits. I accept it is
2012/13 ESTIMATES FOR VOTE CONSUMER AFFAIRS

pretty good success, but why have you downgraded that, and what’s the future of the website after the multi-year appropriation expires in April?

Bridges Let me answer your second part, and then I’ll hand over to someone about the first part, because, frankly, I’m uncertain why that is. It is a 4-year appropriation. Effectively, that was, I suppose—to put it my way—to give it a go, see whether it worked. What I’m saying to you is that it’s worked very well. You’ve heard me say that. The question then is will it continue. My view on that is that I’m very open. Given what I’ve said to you about the success of it, there’s every prospect that we should go back—I should go back—to Government and we should continue this.

Cosgrove Was it your intention to actually advocate that position?

Bridges I’m open, but given that it’s a success, and presumably will be a success into the future, there’s a good prospect of that.

Cosgrove Just on that, I’m a bit confused, because you say it’s a success, and I’d agree with you to a large extent. So why would you not be saying to us “I’m going to go…”—I know you can’t guarantee what the Treasurer will do, or the Minister of Finance—why wouldn’t you be saying to us you are going to go and advocate for it’s continuation? If it’s a success, why wouldn’t you be open to—

McClay There might be something that’s more successful.

Cosgrove Hang on, you’re not the Minister. I know you want to be, but you’re not.

Bridges How long, Clayton? How long?

Cosgrove I’d give it a couple of days.

Bridges On the basis of my performance? That’s not very nice. No, no, look. I’ve already said to you I am very open to that. I repeat that it has been a success. I accept it’s not a question, but Todd McClay’s point is a good one; just where the resources fall down in difficult times, who is to say, but it’s been a great success, it was for 4 years on the basis that we need to give it a go, you know, success should be continued. I think that’s true.

Cosgrove So best guess, to quote the Minister of Finance? You think it’ll be around?

Bridges I’m open. I’ll get Evelyn here to answer your first question about the numbers, Clayton. We need more time!

Cosgrove This side of the table’s very happy to accommodate you, Minister. Come back every week, if you want.

Cole We understand that the numbers there are worked out between the Ministry of Consumer Affairs, the Electricity Authority, and Consumer New Zealand. So Powerswitch is run by the three entities. We understand that
the numbers were reduced because it was expected there would be much more interest in the first year of a campaign. In the latest year of the campaign there has been a lot more emphasis towards small business, because a lot of people have already gone in and (inaudible).

Cosgrove  
So wouldn’t you think, given what the Government has embarked upon in respect of the sale of assets that there would be, politics aside and selling assets [Interuption] They don’t like it. That—

Bridges  
We’re not selling the assets, Clayton

Cosgrove  
Just simply because—no, you’re giving some away—there’s been a change in the industry, that consumers might have a heightened interest. The likelihood that the interest will be downgraded, what’s that based on?

Cole  
I think the point is that we’re talking about at least 250,000 visits. I do find it interesting that we were so incredibly specific in the previous year as well in terms of 293,000. We’re—

Cosgrove  
I take it the new Minister will be less specific going forward.

Bridges  
Well, there’s clearly a lot of science that goes into this, Clayton—293,000, I mean—

McClay  
Could you summarise it? Both sides of the table are looking forward to it being more successful than you’re projecting.

Young  
Well, it’s a huge success, and I think the Electricity Authority came here in their financial review, and said they were expecting 50,000 hits in the first month, and they came in in the first 3 days. Some companies within that first month increased their discount.

Cosgrove  
Would you two like to swap? He’s doing his speech.

Bridges  
I don’t want to swap.

Bakshi  
Minister, there’s a certain increase in online retail. Do you have any plans to investigate what’s happening?

Bridges  
That’s a good question. Online retailing, I think, is a brave new world, actually. Your Consumer Law Reform Bill that’s before you makes some improvements. I suppose I am reasonably keen to have a look and see whether the legal framework matches up with the reality of what’s happening in New Zealand at the moment. When it comes to online retailing, according to the New Zealand Herald, which is, of course, always right, we’re about 4 percent at the moment with online retailing. That’s predicted to go to about 15 percent and peak out there at 2020. This is a very, I think, interesting area. I’m watching what’s happening overseas, personally, how online marketing is taking over from some of what traditional retailers have done. It’s, as I say, interesting to behold.
Personally, I think there is some merit in just looking and making sure that the legal framework matches up with the reality of what’s happening online. To some extent, the Consumer Law Reform Bill does that, but I might have another look at that this year.

Cunliffe Just a quick thanks to your officials for the work on the Consumer Law Reform Bill. It’s a bit like the Battle of Britain, you know—

Bridges Keep them busy.

Cunliffe Never has so much been owed by so many to so few. A quick question on loan sharks. Why not an interest rate cap?

Bridges Good question. Throughout the consultation—I’ve said I went to the major centres—I explicitly asked people at those consultations to give me their views on a fixed interest cap. I was underwhelmed by the response. I actually anticipated quite some interest in that; I didn’t really get it. The extent that I did at one or two meetings, it would have been 1-all, with someone saying it’s a good idea and someone saying it’s a bad idea. We haven’t made a final decision. To some extent, I’m still open-minded. I do have some reservations. I’m happy just to outline them really briefly for you. I do think there are, potentially, real unintended consequences with the fixed interest rate cap. If you set it, for argument’s sake, at 49 percent, I have a concern that you are saying to the marketplace that anything under that is reasonable—it may not be—and anything over is not OK. Then you run into these problems that if you set it too high, it’s meaningless; if you set it too low, it’s oppressive. You have that set of problems. My view of the philosophy—if you like—of this legislation is that it is about responsible lending in a given set of circumstances, where the lenders make very clear what the borrowers are getting themselves into, put themselves in their shoes, and work through that with them; so have some obligations. I have a tentative view that a fixed interest rate may cut across that, if you see what I mean, because it’s suddenly like a blanket rule, rather than looking at the circumstances and deciding whether or not that is responsible in that situation.

Cunliffe That’s a very helpful answer, thank you. If experience were to prove, down the track, were to show, that lenders perhaps weren’t entering into the spirit of the legislation as you had hoped, would you be prepared to have another look at that issue?

Bridges Yes. I really think this is an area where reasonable people differ, and it’s not black and white.

Cunliffe It’s about what works, at the end of the day.

Bridges Sam has a set of views. Not all fixed caps are necessarily created equal; you can go soft or hard, and all those things.
Lotu-Iiga Just on that, the experience does actually show overseas that there have been interest caps put in place that don’t work, and if you set the cap on the interest rate and don’t cap the fees or zero the fees out, then you can have a $1,000 loan with a 48 percent cap on interest rates and still have fees higher than the loan. Have the officials looked at these jurisdictions overseas where these caps have been put in place, payday loans then become redundant, the caps on interest rates, and then the fees become a real issue. What has been the Ministry’s response to that? We have seen the experience overseas that it doesn’t work. I’d be interested in their views. Evelyn?

Cole The ministry is very aware that the interest rate caps, which are only caps on interest, in Australia and Victoria have not been effective. But in Australia, there are other caps where they actually do a cost of the capital cap, which covers fees and interest rates. In terms of looking at the options, we have looked at what could be the approach if you did interest rate caps—which is separate from whether you would or wouldn’t—and we would recommend that if you went along any cap form, that you did it as cost of capital cap.

Lotu-Iiga And Canada?

Cole Sorry, I’m not, off-hand, aware of the Canadian one. We’ve done most of our work on Australia, because of it being our nearest neighbour.

Bridges Can I just finish the point by saying that you will, as a committee, get the bill. Ever the optimist, I hope we can be bipartisan on that bill as well.

**conclusion of evidence**
# 2012/13 Estimates for Vote Corrections

Report of the Law and Order Committee

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Vote Corrections

Recommendation
The Law and Order Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Corrections as set out in Parliamentary Paper B.5, administered by the Department of Corrections, be accepted.

Introduction
The appropriations sought for Vote Corrections in 2012/13 total $1.408 billion, an increase from the estimated actual spending for 2011/12 of $1.291 billion.

The increase in departmental output expenses projected for 2012/13 relates mainly to underspends carried forward from 2011/12 and asset- and staff-related costs. They were offset by one-off funding in 2011/12 for Corrections Inmate Employment, a permanent reduction in departmental revenue for KiwiSaver and the State Sector Retirement Savings Scheme, and savings resulting from the recent expenditure review.

The projected increase in capital expenditure in 2012/13 (76.9 per cent) reflects deferred maintenance of facilities, and other expenditure on the department’s asset base. A significant contributor is the building of Wiri Prison in South Auckland, which will also incur higher operating costs.

Cost savings
We note that the department has made savings following reviews of its asset base, structure, and expenditure. We were told that projected savings of $65 million will be reinvested in reducing reoffending, in support of the Government’s justice sector targets. The review will result in the closure of old prisons and older units in other prisons.

Some of us are concerned about the job losses resulting from the closures, and also understand that about 140 staff will be affected by the departmental restructure now taking place. We were assured that most of the staff affected by the structure review are in leadership and management roles, and that no front-line staff would be lost. The department intends to employ affected staff elsewhere in the organisation where possible, and is working with recruitment agencies to help find new positions for others. However, the chief executive acknowledged that while fewer than 140 staff may lose their jobs, the size of the organisation will be reduced.

Rehabilitation
We are aware of the rehabilitation programmes at some prisons such as Rimutaka and Spring Hill, and have been impressed with their results. The Minister said that one aim of the review of the department’s asset base was to allow more focus on rehabilitation, making such programmes equally available nationwide. Substantial capital investment will be needed to prepare some prisons to offer rehabilitation and training programmes on the
scale the department would like. The Minister expressed hope that a dramatically reshaped prison service offering more of these opportunities would emerge within 10 years.

Wiri prison
We note that a large factor in the increase in capital expenditure will be the new prison at Wiri. Some of us are concerned that although the department is closing older prisons the introduction of Wiri may result in excess capacity, particularly as all indicators are that the prison population is likely to fall. The Minister said that a new prison in South Auckland reflects population trends and capacity issues specifically in that area. In addition, Wiri will be a custom-built prison, better equipped to rehabilitate prisoners than current facilities. The department also stressed the importance of retaining a buffer of available beds, noting that the 1,000 prisoners from Auckland who are currently in prisons elsewhere because of capacity issues could be housed closer to home. The Christchurch earthquakes have raised awareness of the need for emergency accommodation, and for bringing prisons up to current building and seismic standards.

Contract prison management
We asked about the performance of Serco in managing Mt Eden prison, and the decision to invest heavily in a new privately run prison. The Minister acknowledged that only 17 of 37 performance targets (40 per cent) had been met by Serco to date, and that this performance was disappointing. It was, however, Serco’s first year of operation at Mt Eden. The Minster expects Serco to meet agreed performance standards, and failure to do so will incur financial penalties.

We asked whether performance issues were likely to be repeated in the management of Wiri prison. Differences between Wiri prison and current privately managed prison facilities were pointed out; the Minister told us that Serco had inherited a complex operating environment at Mt Eden, which has a large population with a high proportion of remand prisoners. We heard that Serco has been involved throughout consultation on Wiri prison, and should have better control of factors affecting its management and performance outcomes there.

Technology for electronic monitoring
We were interested in electronic monitoring of prisoners and the options afforded by new technologies for extended supervision and enhanced monitoring, particularly of offenders who pose a risk to the community but cannot be sentenced to preventive detention for a first offence.

Trials with GPS devices have been done by the department, and the Minister is hopeful that new technology being trialled, which allows tracking of offenders and sends alerts, may provide a solution.

Any legislative change to allow extended monitoring would take time, and in the meantime such offenders will continue to be released. We noted that a number of high-profile offenders are to be released in September 2012, and asked how they would be managed. The department assured us that work is under way with the Parole Board to authorise the placing of special monitoring conditions on particular offenders, and it is the department’s intention to have this implemented by September 2012.
Appendix A

Approach to this examination
We met on 20 June and 18 July 2012 to consider Vote Corrections. Evidence was heard from the Minister of Corrections, Hon Anne Tolley, and the Department of Corrections, and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian Mc Kelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Corrections, Response to standard Estimates questionnaire.

Minister of Corrections, Response to additional written questions, received 20 June 2012.

Office of the Auditor-General, Briefing on Vote Corrections, received 18 June 2012.

Vote briefing paper, prepared by committee staff, dated 20 June 2012.
Tolley  I just make a few brief comments. I think we all understand that the days of locking up prisoners and throwing away the key for the majority of our prisoners is not the way of the modern world. And this Government has made it very clear that we are determined to reduce the victims of crime, and a very effective way of doing that is by reducing offending. So, we know that 47 percent of our offenders that we release from prison, within 12 months are back, and we see them again.

Through a combination of changes that have been made to Corrections—so that is reviewing the asset base and closing some of our very old prisons, closing down some of the units in some of the existing prisons that are old and out of date, and reinvesting in our asset base—we have made some savings. By reviewing—and there is a current review going on of the structure of Corrections, so we have three silos, and we want to be able to manage our offenders from the time they come into our care to the time they leave our care, so we have a flatter management structure—that has also released some savings. And over the last 12 months there has been an expenditure review, which has enabled the department to operate more efficiently, and that has released some savings.

We are proposing in the Budget to reinvest $65 million of those savings over the next 4 years into reducing reoffending for a whole number of
ways. Again, we all know this: the three factors that affect our reoffending rates are drug and alcohol addiction, lack of education and training skills, and then having jobs for the prisoners when they come out and re-linking them with their family groups and their communities. So those are three areas that we’re really focused on, and over the next 4 years we have set ourselves a target of reducing that reoffending rate by 25 percent. That’s an ambitious goal, but we’re wanting to get a big change through the Corrections department.

I have to say that in talks with various groups of managers throughout the service, and even, I think, you would have seen when you visited Rimutaka on Friday, the staff are really excited about this change in focus for them. Yep, we accept that there are some prisoners that we need to lock up and keep away from the community, but there are a whole lot of them that come back out into our communities and we know are committing crimes again, and that’s creating more victims. So, that’s where the Corrections department is at the moment, and we think it’s a really exciting opportunity for us to do some real good out in our communities.

Dean Thank you.

Chauvel I just wondered if I could ask either you Anne, or Ray, in respect to the answers to the written questions, you indicated that there were 327 redundancies in the department in the last financial year, 18 in the year to date. Obviously, you expect significantly more than that as a result of the realignment exercises? Can you put a number on that?

Tolley I’ll just clarify, I think the 327 includes the staff that went to Serco. There’s 300 staff that went to Serco. So they show in our books as having left our employ, but they are actually still employed in servicing prisons.

Chauvel Just not by Corrections—by Serco.

Tolley Yeah, by Serco, and contracting.

Chauvel I’d like to come to asking you something about Serco—

Tolley But you want to talk about the reorganisation? Again, we are in the middle of that, so we are consulting still with staff and the undertaking. We’re a day out; actually the decisions will be announced tomorrow. So Ray is a little bit constrained as to what he can say about that reorganisation. As you appreciate there are staff involved.

Chauvel And yet you’ve said that in order to pay for this new focus on rehabilitation that you spoke about earlier—

Tolley Yes, and Ray can give you some indicative—
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Chauvel
You’re going to use the proceeds of this realignment and restructuring exercise. So you’re clearly confident that it’s going to occur pretty much as planned.

Smith
Yes. So, maybe just on that, I will be announcing to all staff tomorrow, just the final structure. But that’s right, there are some changes. Consultation process has been actually really good, and overwhelmingly positive, and people have participated. We’ve got some really good suggestions, so we’ll come up with a better structure than what we proposed, but in terms of the savings it’s still in the same position.

Chauvel
So just remind me of what the original projected number of staff losses would be?

Smith
140. So, it’ll still be close to that. In terms of your question about redundancy, there are a couple bits of that in terms of this coming year. We’re working really hard on the sites where we’re closing prisons, noting that New Plymouth is the probably worst affected site, in terms of its location. Prison staff in other areas have adjacent prisons that they can move to, so we’re not expecting redundancies of any order there. In New Plymouth I’m encouraged by the fact that a large number of the people there have indicated they want to move to other prisons, and we’ve got a package around that, so we’ll help them move and relocate, and meet the cost of that. We’ve got until March of next year before we finally close that prison up. So we’ve got another 9 months to run. I’m pretty confident that we’ll get a lot of people work either within our system or in other parts of the State sector as we go through that period. So, don’t have a final number here.

Just on the restructuring here in Wellington, it’s a little bit the same. It’s early to put a number on how many people might end up ultimately redundant. The objective again is to land as many people as we can back in the organisation. We’re also working with private recruitment agencies and others to find wherever we can a job for people. So if we’re going to struggle to place some of our own people, we’re going to work really hard to keep them in employment. Sometimes in these restructures people set a date and say if we can’t find you a job by “x” date then you have to leave. We haven’t done that; we’ve kept it a fairly open process. Some people, I think, will elect to leave, and they’ll be searching for something else, or see it as an opportunity, but most people want a job and we’re going to work really hard to do that.

Chauvel
Are the total savings identified from the exercise again?

Smith
It’ll be around the $10 million mark.

Chauvel
So, clearly, quite a few staff are going to go? You just won’t achieve those savings otherwise.
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Smith  There’s no question that we’ll reduce the size of the organisation. Remember these positions are all in the leadership and management and support roles, there’s no front-line staff here. And, yes, I’ve been open and upfront about the fact that the numbers will be less. But, actually, I think a lot of these people will find jobs elsewhere in this current structure, of which there are a large number of vacancies across the country.

Clendon  Thank you. I’m interested in—I’m starting up with capital expenditure, which has significantly increased this year and next. A big contributor to that is the Wiri prison. Looking at the present muster, the capacity—you are going to close prisons and units, I understand that—I think a conservative estimate is that you’re left with about a 1,000-bed buffer in terms of capacity, given the current muster. You’ve got about 1,000 beds to come and go on in prisons. Reported crime is going down. We’ve just heard from police that they’re focusing on crime prevention. All of the indicators are that the prison population will decrease rather than increase over time. And yet we’re looking to add 1,000-plus bed capacity at Wiri, at a significant capital expense, in an ongoing operation expense increase of close to 7 percent from 2016 on. I can’t join the dots, frankly. I don’t understand why you would commit that much capital and ongoing cost to all of that spare capacity that you simply don’t seem to need.

Tolley  OK. And that’s the process we went through with Wiri. The first thing I’d say to you is currently we have about 1,000 prisoners who come out of the Auckland area and have to go to other prisons, and that is our fastest growing area for population. So, on the one hand, you could argue that we do need extra capacity in Auckland. But you’re right, the muster is dropping, and we plan to drop it even more. But you still have to retain a significant barrier. I’ll get Ray to talk about the exact figures. But the Christchurch earthquake showed us you’ve got to be able to take into account, if you do have a catastrophe like that, that you need a certain amount of beds just for that emergency purpose. The offenders don’t all come in nice, neat packages around the country, so you’ve got to be able to manage them across your beds across the country. So you do have to keep that buffer.

And the other thing is that even though we are closing some of those wings that are old and not worth doing up, and reinvesting back into some of those prisons, that will be an ongoing process to bring them up to 21st century standards, which is what we need if we are serious about rehabilitation. And, of course, we’ve got the seismic survey going on as well. So we are keeping ourselves a reasonable buffer. I understand it’s going to be about 1,400?

Smith  1,200

Tolley  Yeah, 1,200.

Clendon  1,200 after Wiri’s built?
Tolley  1,200 after Wiri’s built, yeah.

Clendon  So how many beds are you closing then?

Smith  So if you’re just trying to work out the numbers at the moment, we’re sitting between 1,600 and 1,700 spare beds, but we look to hold 1,200, and we’re going to close out nearly 700 in the changes.

The other thing—the Minister’s right—there’s sort of a bit of rebalancing. So we’ve got these 1,000 prisoners out of Auckland that should be closer to home, and alongside that this closure programme that we’re doing doesn’t close out every old thing that we’ve got or everything that we think. So there’s basically some stuff we needed to move on more immediately, where there were already known risks around the buildings, i.e., the infrastructure and the seismic risk around the buildings, or just the general state of them. You don’t have to be an engineer to go into some of these cell blocks to know that they’re actually not satisfactory—just because they’re 150 years old, that’s just a reality. But there is also another block, which identified in the prison closure programme final report over the next 5-10 years, where the engineers have said you need to do something about it. So they represent a significant ongoing risk.

We’re sort of rebalancing with getting a prison in Auckland where the population base is. It’s going to allow us to progressively address those units that are really beyond their economic life. If you spend a lot of money on them, you don’t get any more than what you’ve already got, and you get no additional rehabilitation capability. So that’s been the rebalancing that’s trying to go on.

And beyond all of that, we think that a 1,200-bed buffer is about right. I think we’ve learnt a bit out of that from the Christchurch experience, where 700 prisoners were decanted and moved. So, if you think about it, 1,200 sounds a lot, but you can use that up pretty quickly. A 5 percent movement in the muster line is about 360 prisoners on forecast. So you can quickly eat into your reserves, and I think the history of the department has been that it’s struggled to have enough capacity, and has been chasing its tail a bit. I guess we don’t want to put that at risk.

Clendon  That was in the face of an upward trend in numbers.

Tolley  That’s right.

Clendon  Of course, in terms of risk management Wiri, as some of the objectors pointed out, is very close to a major fuel storage depot. And some of the risk analysis around that didn’t look very clever, I have to say, in terms of locating close to 1,100 prisoners that close to a known hazard.

Smith  Just a comment on that. Yes, it was raised significantly in the resource management consent process. We’ve had to continue working with the council to clear up all of the issues that they raised, and all of that’s been
done now. We’re through that process and are satisfied that we had all the residual risk areas around that. So, yes, it certainly was raised. There was an overall recalibration of the number of prisoners that could be held in that Wiri precinct, if you like, between the women’s and men’s prison, and we scaled back on the women’s prison projections.

McKelvie It’s related to capital extension. ______ last week to visit Rimutaka, and the thing that really impressed me was the rehabilitation programmes that are going on there. Does the redevelopment, or the new development, I guess, around prison accommodation, does it give you the opportunity to expand on this?

Tolley Yes. That’s really a large part of reconfiguring those assets to enable us to do that. If you think of the old prison—and I think New Plymouth is a classic of that, with the row of cells and guys get locked away, and I think Arohata I visited—very, very difficult to get those rehabilitation opportunities for those prisons. Because they were built with this mentality that you locked your prisoners down at 5 o’clock at night and you opened them up at 8 o’clock in the morning, probably even less than that in some instances.

So that’s not a modern corrections service, and this gives us the opportunity to reshape some of those prisons, to make sure that those facilities are there. Rimutaka’s a couple of sheds, which they’ve done some fantastic things in as far as training’s concerned. But somewhere like Arohata, they just don’t have the space. It’s such a difficult site. If you want to try and add more into that for training, we’ve got to knock some stuff down to make way for that. So over the next 10 years I think we will see the reshaping of those existing prisons quite dramatically. Well, I certainly hope so.

Prosser Thank you, yes. You talked about educational training, obviously touching on that as being one of the key drivers in recidivism. Are there plans to instruct basic numeracy and literacy for those inmates that don’t have those skills? And even if there weren’t plans, could that be examined in the light of—perhaps even within—the current constraints, if that was going to be a contributor to reducing recidivism, would that ______

Tolley Yes, absolutely. And one of the first things that I asked, I think, as Minister, was that we have a good look at the education that is currently being provided. That’s happening now, there’s a tender—Cognition Education are providing a scenario of where we are, and then we will develop a plan to go forward that’s consistent across all prisons. Somewhere I’ve seen the stats, it’s something like 94 percent of prison inmates have literacy and numeracy skills.

Prosser Are they for that specifically?

Tolley As part of the case management? They are.

Smith Yes they are.
Tolley  But it’s how we deliver that, and there are some huge opportunities to work with our communities. I think Mike Williams is doing some work in the Hawke’s Bay prison around literacy. There are lots of programmes that are happening. What we want to know is what’s effective. What can we roll out that’s consistent right across the prison service—you don’t have to luck into being at a certain prison to get certain training. But that basic education can make an enormous difference. Imagine as a former education Minister that’s something that’s uppermost in my mind.

Ross  There have been a couple of escapes from private prisons reported recently. Can you talk to us about the process that’s in place that the department goes through when this happens, what penalties there are, and what work is done with the company to try to ensure it doesn’t happen again?

Tolley  We’re talking about Serco. Unfortunately, prison escapes are not just confined to the private operators. The difference when you are contracting to a private company is that you have a contract and you have some performance measures and results that they have to meet, and you have some penalties, which you can put into place. So, I open it up to these guys who can talk about the detail. But what I expect is that a full investigation is done both by Serco and by Corrections, and that then an assessment is made around any financial penalties. But, more importantly, that I’m assured then that processes are put in place where the investigations have found that there are any failings in their processes and systems. So, at the end of the day, it’s great that you can penalise them financially, but actually we want to know that those prisoners are safe and secure, and that the prison is working correctly. But, you might want to comment?

Smith  Yes, just to add to that, I think they take it to heart when these things happen in the same way that we do. A $150,000 penalty is not unnoticed when that happens. But a full investigation takes place and they actually have put in place quite a programme in Mt Eden, following the first escape, which is about further bedding-in their running of the prison, and lifting their performance across the board. I’m pretty confident that we’ll see the performance grow across the rest of this calendar year and into the second year of operation.

So, whenever these events happen it’s taken very seriously. We play a role of assisting them where we can and supporting their investigations, but also the role of holding them to account for their contract. That’s an important role we play as well. Those penalties come along when they don’t quite perform at the levels we’re seeking. Fundamentally, the prison runs like all prisons, and then within the contract there are some incentives that they can earn or not earn beyond just the core running of the prison, and that’s where those penalties come into play.

Ross  Just picking up on your first point about these types of issues aren’t confined to privately-run prisons. Is it typically the case that the number of
events of non-compliance in private prisons is greater or lesser than what we have in department-run prisons?

Smith 

Actually, I think it depends on the prison. So I think we have some outstanding examples of publicly-run prisons in New Zealand and internationally. There are some outstanding private prisons run internationally. We’ve only just started this again in New Zealand. So I think prisons are all different. Mt Eden is New Zealand’s busiest prison. It’s a big prison, it’s a difficult one. The majority of prisoners there are on remand; they’re not settled in the environment. There’s a lot of coming and going from the prison. So it’s a tough prison when we’re running it; it’s a tough prison when they’re running it. But what I think you see is you can steal the great ideas that come from different management groups who have different experiences. That’s the opportunity that’s created out of having, I guess, another model operating.

Tolley 

The Wiri contract is quite specific around performance. They have to perform 10 percent better than the Corrections department, and we’re allowed to steal any of their ideas and put them into place, and then the next year they still have to get another 10 percent performance on top of that. So that’s huge opportunities for us. Serco has its problems, but it also has some good things that we are copying and investigating to copy.

Chauvel 

It’s important to paint a full picture, though, isn’t it? You mentioned a $150,000 fine Serco was subject to. They’re subject to an extra $25,000 for an early release, another $50,000 for failing to file performance reports, and there’s another $25,000 fine pending. The latest escape from, I think it was, earlier this month could cost them another $150,000. So you’re looking at nearly half a million dollars in fines for failure to perform. And you answered a question from me, I think, on 13 June, conceding that they failed 40 percent of their targets last year. This isn’t exemplary performance.

Tolley 

No, it’s disappointing that 17 out of 37 of their performance targets—but this is their first year of operation. I think we do have to accept that. And there was no transition in their contract; it was just full on from day one. And they’re not alone. Some of the things they’re making huge progress on. As I say, they’re not the only ones to have an escape, unfortunately.

Chauvel 

I accept that. But, as I say, let’s make sure we’re presenting the full picture here. And the question has to arise, given that 40 percent failure rate, given the half a million dollars worth of fines they’re facing, is why on earth would you hand them the management of a new facility at Wiri, when, as Ray says, there are excellent examples of performance in the public sector, and we have a professional and well-run public prison service. Why give it to the failing entity, rather than keep it in State hands?

Tolley 

I’ll answer it in two parts. First of all, they are part of a consortium, so they work—
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Chauvel: Yes, but they’re going to be running it, they’re not—I mean the consortium’s only about building and—

Tolley: But, secondly, with Wiri they are able to design their environment. And I’m not trying to defend them, because I don’t think failing 40 percent of your targets is good enough. Right? So, I’m demanding better performance out of that. But, actually, we handed them a built environment and said this is what we want from you. With Wiri they have been part of designing that around the performance targets that we’re going to set. And that’s a bit of a different animal. As I say, I think it is different. And, look, they will improve. We have seen significant improvement.

Chauvel: But the question really is—accepting what you say that they’ll be part of the design of the new facility, given that 40 percent failure rate in their one, given the extensive fines for non-performance they’re facing—why would you choose them to be a part of the consortium that gets to operate something for 30 years at great cost to the taxpayer, rather than let the—

Tolley: Because I don’t think you’d write them off after 6 months operation, which is what you’re suggesting.

Chauvel: It’s quite a substantial reward to give that party, when you’ve got a public system performing pretty well by comparison. Wouldn’t you agree?

Tolley: But you are trying to judge them, basically, on 6 or 7 months’ performance. And what I’m saying is we’ve heard this is a difficult prison. This is an environment that they were given, that they were handed over. There were no transition procedures put in place for them. From day one they’ve had to perform to the 100 percent. So we are confident that they will meet their performance requirements and we have seen considerable improvement in this first year. The benefit for us is that we can fine them where they don’t perform. There are significant financial penalties.

Chauvel: Well, would you concede that it might have been a good idea to wait another year or two to give them a chance to establish a track record?

Tolley: Well, in a perfect, yes—

Chauvel: You say there will be improvement, but really that’s just a hope on your part, isn’t it?

Tolley: No, no, because we are actually seeing the performance improving. In a perfect world, yes; but it takes so long to build a prison. You can’t decide this year we’re going to have a prison, and it’s up and running by next year.

Chauvel: Well, exactly, because they get to run it for 30 years. That’s the problem, isn’t it?

Tolley: So that’s one of our problems—that we are looking out and we currently having 1,000 prisoners coming out of the Auckland area. So we could have
delayed the Wiri decision, but we decided that we had to—in order to keep that programme rolling and to make sure that we had those beds as soon as we possibly could get them—we had to make the decision. Thank you.

Goff Can I just follow up on the supplementaries that Charles has been asking about Serco? Why were you surprised at the 40 percent failure rate of Serco, when you’ll know that Serco’s performance in Australia and the UK has been pretty patchy?

Tolley I think that you have to have a look at the 14 areas in particular that they have failed in. Some of them are around plans. Some of them are quite serious, and some of them are administrative-type tasks. So, as I say, it is a difficult prison. It was an environment that was handed over to them to operate—

Goff But is it a difficult prison? This is a brand new prison. You’d expect a brand new prison to perform far better than, for example, the prison that it replaced.

Tolley Well, well, when I say a difficult prison, it is because of the type of prisoners that are housed there. There are three-quarters on remand. So these are people that are coming and going for short periods of time. It’s not like a settled prison. So, anyone that operates it has difficulties, as with the Corrections department.

Goff But it’s always been remand in Mt Eden.

Tolley That’s right.

Goff Predominantly remand.

Tolley And there have been a considerable number of difficulties that the Corrections department face.

Goff You excuse the poor performance on the basis of lack of transition measures.

Tolley No, I’m not excusing poor performance.

Goff OK, well you explained it, let me put it that way—you explained it through lack of transition measures. Shouldn’t your Government have put proper transition measures into place if you wanted it to work? You had plenty of time.

Tolley Hindsight is a wonderful thing. Yeah, hindsight’s a wonderful thing. In future, it probably would be wise—

Dean We aim high.
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Tolley — in those circumstances to put some transition procedures in place, provisions in place.

Goff You’ve got penalty provisions in the Serco contract that amount to some several hundred thousand dollars. But that would be a pretty small percentage of the overall annual profit, wouldn’t it? How effective are your sanctions when obviously this is a very profitable enterprise for Serco?

Tolley I’ll ask Ray.

Smith Obviously when you enter these things you don’t know exactly what someone’s profit margin is, but effectively 90 percent of the contract value is paid for running the prison, and then there’s 10 percent at risk, like around these measures. It’s in that 10 percent really that, I think, need to be able to make their gains, it would be fair to say, because they have all the same costs as we do in running a prison. So they’ve got to make their gains there.

Goff But have they got all the same costs—because their staffing ratios are much lower, because they’re there to make a profit. So they’ve lowered the staff numbers in relation to the prison population, haven’t they, from when Corrections ran it?

Smith They run a different model from we do and we don’t pay them as much. They still have to employ people and feed the prisoners and do all of those things. So there’s a set of fixed costs in there that are held for them as well. There’s no profit in there—the cost of just running that prison. I mean, it’s up to them to work out where they get their profit from. I am trying to be helpful, but I think their opportunity is in the 10 percent that is at risk. So if you think about that prison, there’s a $30 million, roughly, cost to run the prison. There’s 10 percent at risk, and that is where their opportunity is. So if they lose their opportunity there, that eats into their profit margin.

Goff OK. So you don’t pay them as much. They’ve got to take a profit margin out of it. They’ve lowered their staff-to-inmate ratios, and suddenly you find they’re failing 40 percent of their performance standards. Why should you be surprised? Why is this only with hindsight?

Tolley You keep saying they’ve lowered their staffing ratios, but they run a different model. So—

Goff Can we get clarification off Ray on that? Ray, what’s your staffing ratio compared to—

Tolley You’re comparing apples and pears. He said they run a different model. So, you’re comparing apples and pears.

Goff Yeah, but regardless of what model you run, the number of prison officers you have per head of inmates obviously has an impact. That’s common sense. So, we’re trying to do this on the cheap. They’re wanting to make a
decent profit out of it. That’s what they’re here for. They’re not here for the
good of the country; they’re here to make a profit. Why would there be
surprise if suddenly you find that 17 of their performance indicators aren’t
being met.

Mitchell Can I take a point of order, please, Madam Chair? Phil, you’re asking the
CEO to comment on the business model of Serco. He can’t do that. All he
can do is comment about the deliverables that they want. But you’re asking
him. He doesn’t sit on the board of Serco, so he doesn’t know what the
business model is, or what the profit was.

Goff But you are represented on Serco aren’t you? Not at all?

Dean So no to that. Are you able to provide an answer to the question?

Tolley There are a lot of assertions in that question that I’m just not accepting.
This is a contract to run a prison. As I say, there are performance elements
in there. There are standards that we expect and there are penalties if they
don’t reach those standards. We are not trying to do it on the cheap. The
whole purpose of getting other operators is to drive performance through
the Department of Corrections. As I say, we have picked up really good
ideas from them. There are things that they are doing that we think will
make our operations better. And the next contract at Wiri is a really unique
contract that is based around performance. It is driving better performance.

Goff Well, unfortunately, it’s not driving good performance as the performance
indicators show. But can I ask Madam Chair—

Tolley Well, let’s see. We’ve had less than 12 months’ operation.

Goff Sure. But they’ve been operating for years in the United Kingdom and
Australia. So they’re not new to this game. They’ve been around for a long,
long time, and they’ve been operating in New Zealand in other capacities.

Tolley And some of them are extremely successful models.

Goff Madam Chair, can I ask through you for the department to come back to us
with an indication of their assessment of why the performance targets
haven’t been met, what the staffing-inmate ratio is, and how effective they
think the sanctions are, given the profit margins that the company operates
under. Those are the things I want answers to.

Tolley I don’t think they can actually answer the last, but we can supply you with

Goff Do your best.

Dean Thanks for that. Phil, do you want to submit those questions in writing to
me.
Goff I can do.

Dean OK. Thank you. So, I’ll receive the questions and I’ll rule on them and forward them to you.

Goff Can I—just the last question?

Dean Well, if you do, Charles won’t have time for his question. Ask a question, Charles.

Chauvel Thanks. As usual this hearing’s been obsessed with the prison system, but, of course, the department comprises other—

Tolley Absolutely—34,000 defendants in the community.

Chauvel — important units. I guess I’m interested in hearing about what updates there might be for the committee on the technology available on electronic monitoring and offenders. I’m aware, for example, that your colleague the Minister of Justice is talking about legislation to deal with detaining the tail of those who couldn’t be sentenced to preventative detention on first offence. It’s about 12 people, I understand. But what advice has the department given the Government about alternatives to the detention model. Clearly, there’s one release coming up on 1 September. Legislation is not going to be through in time for that. Is there going to be an attempt to deal with— will there be extended supervision in that case? For example, it could be subject to enhanced monitoring.

Tolley So what the department has done—I think at the time of the child sex offender who was discovered teaching in schools, I asked Corrections to have a look at the extended supervision orders. I have been a bit unhappy about them when I had a look at them, and their effectiveness, and the perception of what they were, and the real restrictions that Corrections have, because they’re not with people 24 hours a day. I was aware that they had done a trial on GPS last year, which was not particularly successful. However, they have been trialling some new technology and we are hopeful that that will be something that we can bring into use.

Chauvel So will this be a feasible way of dealing with, for example, that tail of offender?

Tolley Perhaps not—I don’t want to comment on individual cases, but there will—

Chauvel But that clump of cases.

Tolley Yeah, but that clump. We really want to know, and if you look at the one there’s been the inquiry on, we really want to know where those people are in order to protect our children. Yes, technology is changing dramatically and that would give us a reasonable way of tracking where those people are
going, with alerts if they’re going into places. You could also be looking at some of our protection orders.

Chauvel Could you do all that under existing legislation, or would you need new legislation?

Tolley I think the department’s having a look at that at the moment. I’m happy to keep you involved in that.

Chauvel Is that something that we could take the Minister’s invitation up on?

Casey Yes, we can at the moment do it under existing legislation with a special addition.

Chauvel Does the parole board need to order it, or can you do it—

Casey So, it allows us to monitor the whereabouts of an offender. We can use whatever technology we have available at the time to do that. So, in order to get this up and running around August/September, we are in the process of starting to go back to the board to get special conditions changed for a group of people that we could legislatively make some changes for GPS. If we were—at some point in the future, for extended supervision offenders, we could get a legislative change that would say that GPS or monitoring the whereabouts of an offender on that order is a standard condition, and, therefore, part of the legislation, and therefore ______

Chauvel And, obviously, that would be a lot cheaper than having them in detention.

Casey Absolutely.

Dean I’m going to wrap it up here. Thank you very much for attending today.

**conclusion of evidence**
2012/13 Estimates for Vote Courts

Report of the Justice and Electoral Committee

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Vote Courts

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Courts as set out in Parliamentary Paper B.5, administered by the Ministry of Justice, be accepted.

Introduction

The Minister for Courts, Hon Chester Borrows, is responsible for the appropriations in Vote Courts, which is administered by the Ministry of Justice. The total appropriations sought for Vote Courts for 2012/13 amount to $728.741 million. This represents a small increase of $31.909 million from estimated actual expenditure in 2011/12, mainly attributable to transferred efficiency savings, and partly offset by realigned corporate and administrative expenses and adjustments to baselines to make efficiency savings.

Modernising courts

The Future Court Services programme is a major programme to reduce pressures on the court system by modernising courts and improving the way they operate, through new projects and legislation. The programme comprises the following six initiatives:

- The Criminal Procedure Act 2011, the biggest reform to criminal procedure of the last 50 years.
- The Auckland Service Delivery Project, which involves implementing a regional service delivery model for more sustainable and cost-effective court services.
- An electronic operating model for court records and case files.
- An audio-visual links project, to allow evidence to be given remotely in certain circumstances.
- A project to improve collections segmentation and the management of workflow.
- The Courts and Criminal Matters Bill, seeking to introduce more effective ways of enforcing fines payment and reparation.

The Minister told us that his goals are to create a twenty-first century court system that improves access to justice and provides better services to all court users at lower costs. The goals of the reform programme include eventually simplifying traditional court processes and language to make proceedings easier for people to understand; and in the short term reconfiguring some court rooms make the position of the defendant more inclusive and central. The Minister also gave a demonstration of a new cross-agency initiative, eBench, which allows police to file charges electronically, and judges to electronically record judicial decisions. We heard that this programme is expected to save police and court staff about 93,000 hours of work each year.
We look forward to monitoring the results of these initiatives to modernise and improve court services.

**Courthouses**

The ministry’s website indicates that six courthouses were temporarily closed for earthquake-strengthening work on 30 November 2011. The estimated cost of the strengthening work was $2 million, and it was projected to take about 12 months. The Minister told us that he was satisfied with the pace of the work.

We also heard that the ministry is reviewing the way it delivers court services, taking into account the need for earthquake-strengthening closures, the low use-rates of some courthouses, and the potential of new audio-visual technology for conducting uncontested proceedings, reducing the call on courthouse time. We understand that this review is due to be completed in the next few months, and look forward to seeing the results.

**Family Court fees**

New fees have recently been introduced to the Family Court, including a one-off $220 fee for lodging a custody dispute. The Minister said that this fee would encourage people to reflect on whether they wished to proceed with that course of action. We heard that these fees can be waived for people receiving benefits and those entitled to legal aid (applications will be considered by people not in either of these categories). The Minister said that he expects up to half of Family Court filing fees for care and custody of children to be waived.

We heard that these fees are expected to generate approximately $3.5 million per year. We were told that the annual costs to run the Family Court have increased significantly. However, we note that they are being introduced while the review of the Family Court, which has involved consultation with judges and other experts, is still in progress. We wonder whether it might be beneficial to put this initiative on hold (as the Minister of Justice has done with changes to legal aid) until the findings of the Family Court review have been released, so that they might be taken into account. The Minister told us he will consider a concern that was raised of whether introducing disincentives for bringing cases to the Family Court without corresponding incentives to seek dispute resolution would have the effect of reducing access to justice, particularly when domestic violence is involved. We will monitor this with interest.

**Fines collection**

Collecting fines effectively is important, as monetary penalties generate Crown revenue and ensure the integrity of the sanctions being imposed. We were pleased to hear that the ministry has substantially reduced the amount of outstanding fines debt to $627 million, from $800 million in 2005. We were also pleased to see that the proportion of debt that is overdue is now slightly lower, at 45 percent, down from 48 percent in 2010. We hope the ministry will further improve its recovery of outstanding and overdue debt during the coming year.
Approach to this examination

We met on 21 June and 19 July 2012 to consider Vote Courts. Evidence was heard from the Minister of Courts, Hon Chester Borrows and the Ministry of Justice, and advice received from the Office of the Auditor-General.

Committee members

Tim Macindoe (Chairperson)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Alfred Ngaro
Denis O’Rourke
Katrina Shanks

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Courts, Response to standard Estimates questionnaire, received 25 May 2012.
Minister of Courts, Response to additional questions, received 16 July 2012.
Office of the Auditor-General, Briefing on Vote Courts, received 21 June 2012.
Office of the Auditor-General, Overview of the Justice Sector, received 21 June 2012.
Appendix B

Corrected transcript of hearing of evidence 21 June 2012

Members
Tim Macindoe (Chairperson)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Hon Tau Henare
Denis O’Rourke
Denise Roche
Katrina Shanks

Witnesses
Hon Chester Borrows, Minister for Courts
Andrew Bridgman, Chief Executive
Robert Pigou, Deputy Secretary and Tribunals
Tony Fisher, General Manager District Courts

Macindoe … what is in line for his portfolio in the year ahead followed by a presentation of some new technology and then we’ll look forward to having an opportunity for questions. With that I hand it over to you, Minister. It’s nice to have you at that end of the table, because last time you were here you were sitting where I am.

Borrows Yes. It’s a bit odd. But anyway, we’ll give it a fly and see how it goes. I promise I won’t take too long. Those of you who have been on the committee for a while will recognise the people who are with me.

Vote Courts has a budget of almost $730 million for 2012/13 financial year. Around two thirds of that goes directly to the Ministry of Justice to run the District and High Courts, specialist courts, and tribunals, for the collection and enforcement of fines. Almost 40 percent is budgeted as non-departmental expenditure covering things like judges’ and coroners’ salaries. It’s a pretty substantial vote, and like the wider public sector, the challenge we’ve placed on the Ministry of Justice is to use this money to deliver court services in better and more efficient ways.

The key shift is modernisation. Our courts system has an operating model based on paper and face-to-face services delivered through 66 individual
courts. It’s full of tradition and convention, which doesn’t mean much to the general public, but it’s important to our lawyers, judges, and some court staff. That, combined with its huge reliance on a paper-based system and a requirement to swear and affirm documents at various stages of proceedings, gives the appearance that the justice system is increasingly out of step with how New Zealanders expect to access public services. And that’s got to change, not for change’s sake, but its important provisions must remain where there is a whole generation of people who see service delivery as being about how they can do what they want over the internet. We don’t buy groceries, pay our bills, do banking, or book flights, tickets, or hotels in the way we did just a few years ago. Last week I was in a 125-year-old country school and watched the teacher take classes in astronomy in eight schools from Waikato and Bay of Plenty down to Wellington City. The public demands to engage with and work with the justice system that reflects the way we live.

What we need is a courts system, and I mean courts in the broader sense, that uses 21st century technology and practices, and to this end the ministry is implementing legislative and operational change to modernise the way in which courts and tribunals work. My focus is on all of these changes making a really practical difference to people. That’s my role as Minister, and I can’t help but take the approach after the experience in and around the courts for the last three decades or so.

My goals are to have improved access to justice and better experiences for people at court, services that are easier to understand, faster times to complete cases, better services for the judiciary, and people who make the court system work, and reduce costs so that Vote Courts lives within its means. The basic questions I’ll keep asking are the way we’ve always done things necessarily the best way to continue doing things, or can we make the processes faster, simpler, easier, but, most of all, fairer for people? And these questions are relevant both to the way the ministry runs its court operations and the way the court processes work.

So I believe that we need to go even further than ensuring people can access justice. They need to be able to understand justice. Our system, as it stands, is very complex, and the procedures and jargon make it very hard for laypeople to connect with what happens in court. I don’t want that to be the case for people coming to court, because it’s important that defendants, victims, witnesses’ support people, and the public in general understand what’s happening, or we don’t have a justice system at all. Simplifying language and procedure are long-term ways of addressing this.

In the short term there will be a couple of court rooms reconfigured to pilot having the defendant at the centre of the court sitting. This will be a real change from now, where they are on the periphery of the room, and often on the periphery of proceedings, even though it’s supposed to be centred on them, almost in the role of a spectator with conversations more
often taking place between the judge and the lawyer and not inclusive of the defendant before the court.

The implementation of the Criminal Procedure Act, which was passed by this Government at the end of its last term, is a very significant change for courts and will underpin ongoing reforms. A lot of attention was given to the legislative changes made. It will clean up the myriad of complex procedural rules that bind the system, and pave the way for a package of reforms over the next 18 months that will fundamentally simplify criminal procedure for the District Courts and High Court, as well as change some appeal pathways. I think, even more importantly, the new Act has also removed barriers that have prevented the introduction of many modern information technologies.

You can therefore expect changes brought about by the expansion of information technologies to be a regular feature of the courts in the future. These changes will start with electronic filing of police charges or informations, and recording of judicial decisions next year, when the bulk of the Act comes into force, and will eventually pave the way for an electronic operating model for all courts. That’s great. I know what it’s like for police to have to drive to a court house and hand over a sheet of paper when they should be able to just simply push a button at the station and transmit it there. Next year that’s what they will be able to do.

Key technology that we have already introduced is audiovisual links in court, and we’ve now rolled this out to Auckland, Hamilton, and Manukau courts. By the end of March the technology had been used for almost 3,500 remand appearances and 1,900 counsel-prisoner interactions. The pilot found that 89 percent of defendants thought that it was effectively the same as appearing in person. We anticipate some of New Zealand’s biggest courts could each have up to 2,000 remand prisoner appearances by AVL a year.

AVL, as it is currently configured, is a specific secure link between particular courts and prisons, but seeing how successful it’s been, I’m very keen to see something like an AVL-like sort of a system used in other court and tribunal hearings, where appropriate. Again, lots of people Skype these days. My daughter-in-law, who lives with us, at the moment Skypes her parents in Canada every night with no problems with connection at all. There seems to be no reason why an uncontested matter shouldn’t be able to be dealt with via AVL to an online judge without the need for a day away from work, the expense of counsel having to travel and wait with them, allowing for things such as child care and loss of wages, and possibly travel costs. So if you’re appearing on an excess breath alcohol charge and you’ve blown at 450, everyone in the system knows you’re going to get a $450 fine, you’ve got to pay an offender levy of $50, you’re going to pay court costs of $132.85 or something, and you’re going to lose your licence for 6 months. Everybody knows that. So if it’s all uncontested, nothing’s going to be raised that the police would object to, and there’s going to be a guilty plea...
entered, why wouldn’t you be able to do that over AVL? So that’s the way we’re hoping to move.

I was now going to briefly walk through a new initiative, called the eBench. This will allow judges to record judicial decisions electronically.

Macindoe Minister, before you get on to that, and we appreciate that, I was remiss earlier, but I’m sure you’re aware that we are recording the hearing, but I should have just drawn that to your attention. More important, obviously, for the questions. But just so that you are aware. So you’re moving now into your presentation of the technology?

Borrows Yes. I just want to tick off two things first. The first one is Family Court fees, and the other one is about seismic risk on courts that have been closed. As far as Family Court fees go, it’s important to note that nobody’s forced to take these matters to court, as most decisions that are made within relationships in this way are negotiated out by third parties—lawyers, professionals, or families or friends. The fees can be waived for beneficiaries, those entitled to legal aid on other grounds of hardship, and it’s expected that maybe up to 50 percent of Family Court filing fees for care and custody of children will be waived. There are no hearing fees for care of children matters, so the $902 per half day will not apply, and a filing fee is a one-off, in the case of care of children matters, of $220, which is far less than the hourly rates of most Family Court lawyers, and we’re hoping that it will act as a disincentive for bringing children into the court arena where they don’t need to be.

Just quickly on courts closures—Seven courts were closed due to seismic risk after engineering reports which found that they were unsafe to occupy because of the risk to life in an earthquake event. This has been hugely frustrating to many, especially because the risk is no greater now than it was 2 years ago, but having asked the question of risk, and having got an answer, in the unlikely event of an earthquake, and given health and safety legislation, injury or death would incur a huge liability. Some courts have taken the immediate attention because of remoteness and workload. So Masterton, Christchurch, and Dunedin have been the focus of work. How these buildings are fixed will probably assist later fixes in other courts.

No decisions have been taken to close any particular courts at present. Some people may want to invert that, and say “Aha, so you haven’t decided to reopen them either.” All I can do is refer back to what I said in my introduction—that there are changes right across the system that are being considered in the way service is delivered, and if you don’t need to go to a court to pay a fine, file an application, swear an information, apply for a birth certificate, register a birth, get advice on a hearing date, or even take part in court proceedings, then the brief of those changes to service delivery is wide, and categorical assurances one way or another won’t be given until after the process is complete.
That’s the introduction bit, and we’ll just move on quickly to the eBench. And I’m just going to give you a quick spiel then it’s going to be run through for you, and you’ll be able to see it on that screen.

As I mentioned earlier, our courts are old-fashioned and everything is still on paper and requires manual handling to move it through the system. For example, every time the police charge someone they have to fill out an information, which is one of these forms. There are about 20 of them there. They are in quintuplicate. I’ll chuck them round. We were thinking we should have a Top Town game, where you have to write it out, stamp it, sign it, run down to the courts, swear it, pick up a pie and a pint and be back here—first team wins So you can see just by looking at that how laying that information is. If you could see an information for— So that’s for every charge. For instance, I arrested a guy when I was a D in Stratford for 357 charges of theft as a servant. So there were 357 of those. Every one of them was, thankfully, at that stage, I didn’t have to write it, but we had a typist who had to type them out.

Macindoe Is that a charge sheet?
Borrows People call it a charge sheet or whatever we call it—
Blue So I guess if you made a mistake, that’s it. It’s thrown out. If there’s a typo or something.
Borrows Yeah, it’s not quite— If it’s a mistake as to form then that’s OK, but if it’s a material mistake it can be biffed. But it’s really about the time in doing that. So if you looked at one of those that had been before the court, say, on five appearances it would be covered in handwriting down one side of it, and then a court administration person has to decipher that judge’s handwriting, and you can imagine that after he has had 60 defendants in front of him in a day, it may be looking a bit ugly, especially if each of them had a couple of informations to deal with, and that’s where mistakes happen.

So where your judge is making those decisions and remanding in custody or on bail, putting terms and conditions on that, or sentencing or whatever, then at the moment he takes one of these stamps, and if you’ve been to a court you’ve probably seen about 30 of these lined up in front of a judge. So there’s time in finding that and just going through the mechanics of writing on the information. So what we’re doing here is we are expecting that this is going to save police and court staff about 93,000 hours of work in a year. There are 250,000 of those things that get filed in the court every year. So it could be fun if you all take one, fill it in with a name of a friend, and decide on a charge that you might like to put in there—I’ll give you a copy of the Crimes Act if you’d like to dream a few up—

Calder Minister, did you say that when you charged somebody as a D you had to do that 270 times for 270 charges—for each charge, one of these?
Borrows Yes.
Can we just let the Minister finish his presentation, because we do want to have questions for the main event.

So I’ll hand over.

Good morning. My name is Chris Pennell and I’m the ICT project manager for the delivery of the project.

I’m Darrell Hart, the business project manager.

So as the Minister said, the name of the system is eBench, and we’re proudly building it across the road at Justice’s headquarters. What we’ll show you today is just a prototype of what we’ve been building, to reinforce what the project’s objectives are, and also it’s been helping with the change curve, or the adoption with our end-users. We have been showing it off to the judiciary and to our court staff.

So what you are seeing in front of you is a hearing screen, and it has gone through a bit of an iteration to design the screen so that it’s logical for the users. It’s broken up into three sections. The first section on the left-hand side is where you see the defendant’s name and the charges that are up in this hearing. The middle pane is a bunch of the most commonly used actions that the judge would be performing. And on the right-hand side is the actions that have been applied in this hearing, which is, in essence, it’s also referred to as the shopping cart, so you’re putting actions into the shopping cart. I’ll show you what exactly that means. So after this scenario we’ve got Mr Joe Bloggs here, and he’s up on a first appearance for three charges—there’s a drink-driving, a driving while disqualified, and a careless use of a vehicle.

So, as Chris has said, and you’ve seen the charge sheets, and the Minister has talked about the 350 charges—today those are all on paper, whereas this system receives those all electronically from the police, and they’re presented to the judge electronically on screen. So there are no paper charges any longer for that criminal court. Also, if there were bail conditions, and there’s not for this EBA example we’re showing you, but they would also today be presented on paper to the court. Under eBench those will be supplied electronically as well and uploaded and be available in eBench electronically.

So this scenario, just to show you how it all works—The police would apply for a careless driving charge to be withdrawn. The judge just selects the charge and then selects the right option, which is the withdraw by leave, and then applies that into the shopping cart.

The items that he’s put in there go green.

Then Mr Bloggs, through his counsel, would then be—he’s pleading guilty to the next couple of charges, and then the judge would request a pre-sentence report, which comes from the correction probation service where
they do an assessment on the defendants and provide some sentencing recommendations, and then he’s going to remand the defendant at large for a sentencing hearing. He applies that into the shopping cart. The first thing you might notice is that there’s a little warning triangle here, which is just to provide direction to the judge that he’s actually omitted to schedule the future sentencing hearing. So in this case, he would just select the sentencing hearing. He would come up with some valid options for 6 weeks out from today. He would select one of those options, and he would be applying that into the record of hearing. Everything now is in green. If he’s happy with what he’s put into the shopping cart, he can then read it out to the defendant and then he can authenticate that decision with the use of the green button.

Hart

So that’s a major benefit over the way that those charges are processed in court today. What Chris has just clicked on, as the judge would, has acted on both of those charges together. There is no need for every multiple charge. You’re only performing one set of actions on those charges. All of the information is clearly legible now. That’s for the judge themselves and for any others that have to read that record. Also, really importantly, that information doesn’t need to be transcribed from the paper-based record into the court’s computer systems, and on to the other agencies’ computer systems as well. It’s automatically—that’s entered on to the court record. It’s automatically updated on to those systems.

Pennell

So now we move on to the sentencing hearing, and how the judge would perform that. In advance of the sentencing hearing, he would’ve received a pre-sentence report electronically through the probation service, look at the recommendations, and take any notes within the system.

Hart

Yeah, it's not very visible on this screen that you’re looking at, because this is running in full screen, but this application is running in a browser window, so anywhere that you’ve got a secure ministry network you can then log on through the browser and access eBench, and that means that the judge can access those records in his chambers or her chambers, and also—or any other staff that require it—you don’t have to move the file to multiple places, so everybody can have access to the information at the same time. Today, in terms of making those notes in the judge’s chambers, there’s no set way in which those notes may be recorded. We encourage and promote that to be done in eBench, because from there all of the notes are available in a consistent and centralised location.

Macindoe

I’m going to have to say, can we finish the presentation now, just to ensure that we do have the time for questions. I think we’ve got the idea, and it’s a giant leap forward, so thank you very much for bringing it to our attention. Could I open it up now for members’ questions.

Chauvel

Chester, what level of consultation has occurred with the District Court judges, themselves, over the use of this new technology?
2012/13 estimates for vote courts

Borrows: I think they were certainly consulted over what they wanted and needed, and then it’s been to the judges conference that was held this year, the District Court and the High Court judges. From our point of view it was very well received. Robert was there.

Chauvel: So in terms of the ongoing development of the package?

Hart: Yes, we have a committee of judges that we meet with every month, and we also have access to those judges outside of those hours to interact with, as well as going to other judicial forums to present and get feedback on this. I might want to add that that was overwhelmingly positively received by those judges at that conference.

Chauvel: So just on that general subject, when I asked you in the House last week about the imposition of the Family Court fees, you weren’t sure about the level of consultation that occurred with the judiciary over those fees. Have you had a chance to look into that?

Borrows: Yeah, the Chief District Court Judge was consulted with, as was the Principal Family Court Judge, and it was expected then that having gone to him, then he would consult more widely with his panel of Family Court judges, and we’re not sure what he is—

Chauvel: I suppose the fact that he was in Canada would have made that quite difficult—

Borrows: No, he was—

Chauvel: —when you made the announcement.

Borrows: Oh, but the announcement was on 31 May, I think. But he was consulted with before then.

Chauvel: Clearly, given what we’ve heard from media reports, it doesn’t seem that the judges themselves knew about the fee. Do you think that’s a satisfactory state of affairs?

Borrows: Well, I think that’s something you need to direct to him. You wouldn’t necessarily expect— I think you would expect that we would work through the head of bench, and so by going to him as the Principal Family Court Judge, then we would have expected, I think, that he would then take that down from there.

Chauvel: So you’d be happy for me to explore that with him?

Borrows: Yep.

Shanks: I just want to go back into Charles’ first question. It’s really to the IT guys that are here. Congratulations. I think it’s a fantastic project that you’ve got going. What I’d like to ask you about is what is your identifier for the cases,
and who’s going to have access to these cases, going forward? Are you looking at things like a shared platform, you know, having the sharing of information more, and have you built that facility into your planning, in your considerations when you’ve built this project?

Hart  So this is primarily maintaining the permanent court record, and the permanent court record is owned, if you like, by the judiciary. So they’ll need to authorise any access to the court record. This is the first step in a number of changes for the ministry. So we’ll pass information as authorised from eBench and make that available to other systems, including systems that the ministry is planning to build in the future, which are going to have internet access for all parties. So that’s something that other parties might be talking about.

Shanks  So have you been talking to the other ministries, like police—

Hart  Absolutely.

Shanks  —to ensure that, you know, when you get to that space everything is going to interface, and we haven’t got all these silos of systems again, which is what’s been happening in the past?

Bridgman  Yes, I think the interfacing issue is very important and also, obviously, we don’t want to start bringing in systems that aren’t talking to each other. But I think more importantly, or as importantly, is, you know, it’s what the Minister alluded to. With IT going forward, we really want to create a system where people can deal with us more and more through the web or through AVL or through Skype. That’s the key thing. So relative to other organisations, we are still hugely brick and mortar and paper based, and part of this process really is to start on a journey where people can deal with us 24/7. They can file their applications through the web, they can deal with us through the web, so—

Shanks  I think my question was more focused on the other agencies and ministries all speaking to each other.

Hart  Absolutely. We can’t do this project without getting the charging records electronically, and the bail conditions, from police, and then when we complete those actions within a case then information needs to pass back to the police. Same with Corrections. For the sentencing recommendations, they come through electronically. So, yes, we’re talking and interacting with those agencies.

Roche  Thanks, Minister. I’ve got a couple of questions around the Family Court, particularly around the fees. The first question is around what sort of research has been done to actually have any idea of what the impact on charging fees is going to be in terms of demand and use of the Family Court. Are you expecting there to be a decrease in use? What sort of impact will the fees have on revenue? So could you expand on that.
Well, it’s expected that they will save or bring in about $3.5 million. So at the moment, the cost has blown out to—or blown out is a bit dramatic, but it has gone from $88 million to $142 million, I think, a year to run the Family Court. So if the questions are based around things like hardship, then people will be able to obtain a waiver of those fees, say, for instance for care of children - type applications. That’s set at $220 at the moment. It’s a one-off fee, and they don’t pay hearing fees, so they don’t pay for the length of time that the matter is before the court. Who would get a waiver? Well, a beneficiary would get a waiver. A person who is in receipt of legal aid would get a waiver. And then there’s also people who may not be in those two criteria could still apply for a waiver, and could still be successful in getting it. It’s expected that up to about 50 percent of the matters that come before the court, or these matters that come before the court, would be in receipt of a waiver.

When you say “waiver”, do you mean that $220 one-off fee would be waived?

Would be waived. They wouldn’t have to pay it. That’s right.

Cool. There was some comment you made while you were presenting—this is just my second question—which was around, you made a comment that this might act as a disincentive for bringing children into the court. Would you care to elaborate on that?

Yes. The vast majority of these sorts of arrangements are actually negotiated out. So they’re either negotiated between lawyers or they’re just negotiated between the partners as they go their separate ways, or, if there’s dissension they bring in someone, who might be a family member or trusted person, or a professional counsellor—those sorts of things.

Is that counsel for the child?

No, it might be a professional person involved with dispute resolution, those sorts of situations. Or it could be a pastor or it could be an uncle, you know—someone like that. And so what we’re trying to do is just to put a bit of a step before people do go down the court track. You may think: “Well, people only ever go to court as a last resort.” That isn’t actually always the case. Long after a separation, these things frequently do come back to court—particularly between litigious couples—come back and back and back to court. Most of us who are MPs have had people in our offices telling us about being dragged back before the court on custodial matters that are costing them an arm and a leg, and maybe the other party is legally aided, and so it is costing them, in effect, nothing, but it is costing the working ex-partner, in terms of legal representation, quite significantly. What we are saying is that we just want people to think. So that is one consideration, but the biggest consideration is dragging children into an arena where they don’t need to be, and the effect that that has. If you look at what Professor Gluckman has said about children being involved in
Family Court proceedings in these sorts of disputes and the psychological impacts of that, then it’s fairly telling.

Roche So just a supplementary to that is if that is the case, what actions are you taking to beef up the alternative resolution processes? Are you putting more money into Family Court counselling? So we’ve got the disincentive on one side. What are the incentives?

Borrows There is, as you know, and I’ve been criticised for not waiting until the end of the Family Court review, but there is a review going on and those things are being looked at. At the same time, though, I’d go back to my first statement and that is that most people get there without any of that assistance. Most people sit down and nut it out. If your next comment is “Yes, but where it gets nasty there needs to be some assistance with that.”, that’s right, and that’s what lawyers are for, and maybe those cases need to go to court, and legal aid would still be available for those people. Just as a final thing, an average hourly rate for a Family Court lawyer is somewhere in the $300 mark, maybe up to $350 to $400. This is $220, as a one-off fee. All it is is a check to say “Do you really need to go here?”.

Dalziel I understood that there were provisions to allow for alternative dispute resolution but they haven’t been brought into effect because the funding hasn’t been made available for them.

Borrows I’m not sure that that is the case.

Dalziel What is the case?

Chauvel It’s what the Chief Family Court Judge says.

Fisher I’m Tony Fisher, the general manager of District Courts. In the current Family Court operating model, under the early intervention programme initiative that was introduced by the Principal Family Court Judge, there is provision for cases to go off to mediation, which is conducted by lawyers appointed to assist the court.

Dalziel Yes, but not trained mediators. That’s my point. There was provision for alternative dispute resolution, which are trained mediators, not lawyers, that have been appointed to assist the court in a mechanism to get round the fact that the money hasn’t been made available for a decision of this Parliament.

Fisher So when that’s—

Dalziel That’s correct, isn’t it?

Fisher That’s correct, there is that part of the Family Proceedings Act, the legislation where that was introduced, that was subject to funding being made available.
Dalziel: And that funding has never been made available, correct? So that is an issue, Minister.

Borrows: Yes, it is an issue.

Dalziel: Because I am deeply concerned about introducing fees to change behaviour when the alternative—a safety net, as it were—is not available to assist people that do not have a powerful place in a relationship. It's all very well to say that “If there is domestic violence…”, that ignores the fact that an element of domestic violence can be the power in controlling behaviour of one partner that is not obvious to the wide world because there are no bruises to show, but the psychological damage that is done to both the partner and the children is a high risk. The reason for having alternative dispute resolution is to make sure that there’s a proper mechanism for actually identifying those issues of power and control and not allowing an abuser to get away with it. And, unfortunately, by bringing in fees while we’ve got a review of the Family Court going on, which is able to address a number of these issues, without bringing in the particular funding that is required to implement a prior decision of this Parliament, we’ve ended up in a very, very dangerous position for people. I would like you to really seriously look at it.

Borrows: Yes, I think you do raise an issue that we’ll consider. But I do think that in the sort of circumstances that you’re outlining, that person in an inequitable relationship will still be able to achieve legal aid and would—

Dalziel: No, no, no. If she’s got an income, she’s not going to get legal aid. You’re just assuming that every single person that is subject to a controlling partner is unemployed or subject to access or low income.

Borrows: No, I’m not making any assumptions. I’ve been looking around the justice system for a while as well. But I take your point. Do you want me to make a response?

Dalziel: Yes.

Borrows: So I take your point. If the person was eligible for legal aid, obviously she could get it. If she was working and doesn’t qualify for legal aid then she would have to access that. I believe that a person in that sort of relationship who has taken the courage to leave the relationship, even though it’s inequitable, no doubt has taken some legal advice and would move down that track. I don’t believe that a person who has the strength to make those decisions would not access legal advice around making that separation and taking the initiative to do that. Part of that would be taking advice on this particular aspect, and I don’t believe for a moment that $220 would be a hurdle for that, bearing in mind just retaining a Family Court lawyer would be about $1,000. What frequently happens, of course, is that the fee would be paid upfront and paid back as part of the bill.
Thanks, Minister. I’m interested in the fines that you collect, and how they’re trending and how many are overdue. I have a supplementary to that I’ll ask you.

We’ve introduced a segmentational workflow management plan, which has meant that we’re recovering a lot more money than we have before. The cost savings have generated about—well, it has saved—about $2 million a year. We’ve introduced an electronic model, which I answered some questions in Parliament about recently, which was designed here. It’s been seen as world-leading. In fact, the biggest provider of Government services IT in Japan came out to look at our model because of how well it was going. As far as recovering debt goes, that’s going very well as well. In 2005 there was $800 million worth of debt outstanding. Now it’s $627 million this year, so we’re having some good responses there. As far as overdue debt goes, in 2010 that was 48 percent overdue; now it’s down to 45 percent. So we think it’s going pretty well.

This is a very simple question. Are traffic infringement fines part of the court’s collection, or is that quite separate?

Once they go to court, they are. So, for instance, I don’t know if you do know—I do—if you get a ticket, you’ve theoretically got 28 days to pay, but then you get another bit of paper in the mail saying “Come on, you’ve got another 28 days.” So if you don’t pay it within that second month, it goes to court, and then it becomes a court fee, which is recovered through the courts system.

Of the amount owed, your $600 million, what proportion would be traffic infringement? Have you got a sense of that? I’m very interested.

No, I haven’t, actually. Does anyone else?

OK. Maybe you could come back.

You mentioned in your presentation the issue of courtroom closures. I think I read in the e-brief this week that in Masterton there is now finally a shopfront replacement option that’s being opened.

That’s a temporary one, yes.

What are we now, 7 or 8 months on from the initial closure? It’s only now that we’ve got this shopfront option opening. Are you satisfied with the pace at which this issue is being dealt with?

Yes. I think there’s been some positive spin-offs from it too. Operating out of the Frank Cody Lounge in Masterton has been a bit different, but actually although it’s been a bit uncomfortable because it’s not the normal courtroom for people, it actually has operated quite well as far as being in the community goes. And also the Masterton court itself has got quite a number of structural problems, and it’s a bit like a lot of courthouses.
around the country, it’s a bit of a dog’s breakfast, because it’s an old building—I think it’s over a hundred years old, or about that—and the changes that have been made to it over time have meant that they’re not the changes that you would want for today. It’s not only a case of looking at the Masterton courthouse and saying “Right, we need to fix it.”; it’s a sort of a “Well, while we’re in there fixing it, what other changes would we make?”.

Chauvel So in terms of general courtroom utilisation, which is, again, something we’ve had some dialogue about, I think I told you, I was down in Queenstown on a Friday. I popped into the court to have a look. It was a nice-looking court, with two courthouses, and I said “Oh, would it possible just to go and watch the court in session?”. The woman at the registry said, with a kind of laugh in her voice, “No, the court only sits a day or two a month here.” I mean, two lovely courtrooms there, 2 days a month, it’s not ideal, is it?

Borrows No. So the courts were built in different times, and maybe the—

Chauvel I accept the apparent legacy issues, but I guess my question is that you’ve got these issues with seismic-related closures, you’ve got pretty poor courtroom utilisation statistics in many centres; do you have a plan to deal with these issues?

Borrows That’s exactly what we’re looking at now, a wider review of how we’re delivering those services.

Chauvel So when might we see some progress on that?

Borrows I would think probably in the next 2 months, 3 months. We will be looking at how we deliver those services and, as I said in my introduction, there are questions over some of those physical spaces. So if you don’t have to go to a courthouse to do all the things we did 20 years ago, and you’re going to engage with the justice system in a different way, and you can do it from anywhere, including at home, then—

Chauvel So you’re saying there’s pretty much a lot of scope for closures and rationalisations?

Borrows Well, for changes.

Chauvel OK, thank you.

Macindoe OK, well, Minister, thank you very much. We’ve come to the end of our time, but we do appreciate your attendance and your answers this morning. Thank you to all of your officials, particularly the secretary, for being with you. We wish you well with all the projects that you’ve covered this morning.
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Report of the Foreign Affairs, Defence and Trade Committee

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2012/13 ESTIMATES FOR VOTE CUSTOMS

Vote Customs

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Customs as set out in Parliamentary Paper B.5, administered by the New Zealand Customs Service, be accepted.

Introduction

The total appropriation sought in 2012/13 for Vote Customs is $201.667 million, an increase on the $191.818 million allocated in 2011/12. Most of this increase is for automated passenger processing technology, and the delivery of the first stage of the Joint Border Management System.

The New Zealand Customs Service is expected to collect $12.216 billion in 2012/13, compared with estimated revenue of $11.647 billion in 2011/12.

Customs’ priorities for 2012 are trade, travel, protection, and revenue. The service’s statement of intent details the priorities that the Minister has agreed for the coming year: disruption of organised crime, streamlining trade facilitation, more efficient passenger facilitation, and protecting and maintaining the Crown’s revenue base.

Joint Border Management System

A major project in the upcoming year is the establishment of the Joint Border Management System, which will provide Customs and the Ministry of Primary Industries with a single system, consolidating the major customs and biosecurity IT systems. The implementation of the joint system involves a major change management programme, as it will require new ways of working and potentially an increase in specialist staff.

We asked why the first tranche of the system is not going live until 2013, later than was forecast. Customs told us that the technology is being delivered by IBM in December, but the service does not want to risk trialling a new system in the peak travel season, so is phasing implementation.

We also questioned the large number of contractors used by Customs, and were told that it was exceptional and project-related. If the second stage of the system is given funding approval, consultants will continue to be employed in similar numbers for a further period. We asked whether the joint system will ultimately save money. The Minister explained that small savings are already being made, and larger savings will come when the second stage is introduced.

SmartGate

The SmartGate system, which automates passenger processing on arrival and departure, operates at New Zealand’s major airports—Auckland, Wellington and Christchurch. Each week over 40,000 passengers use SmartGate. The Minister said he was “ecstatic” with the...
implementation of this service and the way people are using it. Customs aims to continue
to increase its uptake to over 60,000 passengers per week by 2015, when the last of the
older-style passports, which are incompatible with Smart Gate, have expired. The Minister
did not expect the number of users to exceed 60,000, as SmartGate relies on facial
recognition technology which does not work for children, so families will continue to be
processed manually.

**Illicit goods**

**Drug smuggling**

We asked Customs what strategies are in place to combat drug smuggling, particularly
methamphetamine. The Minister said that the whole of government approach to fighting
the problem had proved effective. This multilayered approach involved police and
Customs, with the final responsibility with the health system to treat users to reduce harm.

International cooperation is also proving helpful. The Minister attributed success in
dramatically stemming the flow of the precursor ephedrine to a cooperation agreement
with China, which he considered remarkable as these products are not illegal in China.
However he said that new drug formulas are being created all the time and the technology
Customs uses to fight the crime must keep adapting.

**Internet**

The minister outlined targeted operations against prohibited materials such as child
pornography. Technology has become fundamental to investigations, as digital media have
made such goods harder to track and seize. An Electronic Forensic Unit now targets
participants in this traffic.

**Relationship with other border agencies**

Customs reiterated the importance of collaborating with other border agencies to disrupt
illegal border activity, increase access to overseas markets for New Zealand’s exporters, and
improve the experience of our citizens travelling overseas.

**United States**

The Minister saw a warming in the relationship with the United States border agency,
helped by a visit by the Secretary of Homeland Security Janet Napolitano in May. New
Zealand already had great advantages in its dealings with the United States (such as the tier
2 status which allows our containers to be processed at a dramatically faster rate than those
from most other countries); but the Minister suggested it stood to gain significant
additional benefits from this relationship. The United States distinguishes a category of
“global entry passengers”: American citizens whom they see as secure passengers and give
special clearance at US borders. The United States is interested in expanding our
SmartGate processing to include global entry passengers, leading to a reciprocal
arrangement for New Zealanders entering the United States.

The Minister read to us a letter from Ms Napolitano which stated that she was looking
forward to expanding the relationship between the United States and New Zealand.
China

The Minister visited China at the end of 2010 and signed a memorandum of understanding with its Minister of Customs. The Minister considers cooperation and a continued flow of information vital, as China remains the principal supplier to New Zealand of the precursor substance for methamphetamine.

Pacific Islands

The Budget appropriates $5.5 million for Customs’ arrangement with the New Zealand Aid Programme. Long-term funding allows them to develop partnerships and assist customs authorities in Pacific countries. The flagship partnership is with the Cook Islands, and there are three parts to it: developing modern border legislation, providing “leading edge” border management technology, and providing leadership training and technical development based on the New Zealand system. We heard, however, that ring-fenced security features mean that this arrangement could not affect New Zealand’s system. The lack of appropriate technology and resourcing continues to be a problem in the Pacific, and Customs have been careful to make the steps in any change processes manageable for small administrations.
Appendix

Approach to this examination
We met on 14 June and 19 July 2012 to consider Vote Customs. Evidence was heard from the Minister of Customs, Hon Maurice Williamson, and the New Zealand Customs Service and advice received from the Office of the Auditor-General.

Committee members
John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
Su’a William Sio
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Customs, received 12 June 2012.

Minister of Customs, response to standard Estimates questionnaire.

Minister of Customs, response to additional questions, received 20 June 2012.
2012/13 Estimates for Vote Defence and Vote Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

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**Recommendation**

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Defence, administered by the Ministry of Defence, and Vote Defence Force, administered by the New Zealand Defence Force, as set out in Parliamentary Paper B.5, be accepted.

**Introduction**

We heard evidence on the 2012/13 Estimates for Vote Defence together with Vote Defence Force.

The total appropriations sought in 2012/13 for Vote Defence increase to $172.396 million from an estimated actual expenditure of $166.792 million in 2011/12.\(^1\) The small movement in appropriations sought is mainly due to the new multi-class output expense appropriation *Policy Advice and Related Outputs*, of $5.97 million. The Ministry of Defence’s key priority is pursuit of the policy objectives set out in the Defence White Paper. They include the procurement and management of defence equipment to support the capabilities of the New Zealand Defence Force, and supporting the goal of establishing a joint amphibious task force at the core of the Defence Force structure by 2015.

The total appropriations sought in 2012/13 for Vote Defence Force increase to $2.9 billion from an estimated actual spend of $2.6 billion in 2011/12.\(^2\) Large increases are sought for the appropriations for *Fixed Wing Transport Forces* and *Naval Support Forces*, reflecting the cost of meeting capability expectations and operational pressures. The key priorities for the New Zealand Defence Force in 2012/13 are the continued implementation of the Defence White Paper and the development of the joint amphibious task force.

**Attrition and morale**

The latest results from the New Zealand Defence Force Ongoing Attitudes Survey indicate that morale in the NZDF is at its lowest since the survey began nine years ago. Engagement and morale have trended downward over the last two years, while intent to leave is trending upwards. We asked whether the Minister of Defence was concerned by the drop in morale. The Minister told us that engagement and morale statistics from the NZDF compare favourably with average results from the New Zealand workforce. He pointed out that personnel choose to leave the NZDF for many reasons, and dissatisfaction and low morale accounted for only a relatively small number of recent departures. He did not believe the decision not to give wage rises to the NZDF for the last four years was affecting morale and attrition rates.

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\(^2\) Parliamentary Paper B.5A, Vol. 4, p. 54
We asked the Minister if the record drop of 1,000 regular force personnel over the last two years was the result of a deliberate policy or if it was inadvertent; we did not receive a clear answer.

The Minister acknowledged that attrition rates are currently higher than usual, but told us that only a small proportion of departing staff were leaving because of dissatisfaction with their jobs, and recruitment figures are currently positive. The Chief of Defence Force believes the increased investment in training staff will make them feel valued and thus improve morale.

**Navy staffing**

We questioned whether staffing levels in the Navy, particularly for the operation of the inshore patrol vessels, were adequate. We noted that the Navy’s attrition rate is currently 22.3 percent and that for petty officers, chief petty officers, and warrant officers it is 30 percent. As a result, inshore patrol vessels are at sea for 120 fewer days than last year. The Minister told us that despite the drop in time spent at sea the vessels were delivering on their performance output measures, and the number of sea days is meeting requirements. The Minister acknowledged that the Navy needs more staff, but said that recruitment is currently above target, and efforts are planned to engage current staff more effectively. They include more investment in training personnel, and offering a more flexible work environment with mobility between the three services.

The Chief of Defence Force told us that Navy staff are being targeted by recruiters from Australian mining companies because of their experience with heavy machinery. NZDF staff are highly-regarded and desirable employees, and the recruiters offer very attractive incentives with which the NZDF cannot always compete.

**Savings and efficiency**

The New Zealand Defence Force is continuing to restructure its organisation in order to meet savings and efficiency targets, as set out in the White Paper. The goal is to achieve $350 million to $400 million in savings by 2014/15. Cost saving measures have already been introduced, the biggest being a reduction to 2011/12 wage adjustments, which saved $25 million in 2011/12, and is forecast to save as much again in 2012/13. The total forecast savings for 2012/13 are $199.8 million.

The NZDF also hopes to help reach the savings target through measures including reducing equipment, creating tri-service training programmes, reducing the use of consultants, and rationalising motor vehicle numbers. We were concerned that reducing equipment numbers may adversely affect serving personnel, but were assured that the equipment affected is used domestically and not on deployment.

**Defence Force civilisation**

The NZDF is expecting to save $17.4 million annually through its civilisation programme. We asked if the reduction in force numbers had affected the forces’ capability. The Chief of Defence Force told us that no capability has been lost, but acknowledged that there are depth of capability issues, and the reduction has affected the ability to sustain particular trades through operational deployments. The Minister said that the affected roles were mainly back-office ones that could be performed more efficiently by civilians.
However, the savings from the civilianisation process will allow more investment in the remaining deployable front-line forces. The Minister acknowledged that the civilianisation process has resulted in a large bill for redundancy payments, but believes that future savings will more than compensate.

The Chief of Defence Force told us that the civilianisation process was a part of the NZDF’s workforce strategy. It involved determining where staff numbers and roles exceeded requirements. The strategy also aims to create a more flexible work environment, where staff can move between uniformed and civilian roles, and tradespeople can move between the three services. The NZDF is still meeting its output requirements, and part of the workforce strategy is increasing while containing costs.

The Minister and Chief of Defence Force acknowledged that civilianisation had impacted on staff morale and indicated that the NZDF is now relying on attrition to implement its workforce strategy.

**Equipment upgrades**

The Ministry of Defence is responsible for the procurement and maintenance of equipment for the New Zealand Defence Force. It is in the process of replacing and upgrading a number of major items of defence equipment. Among current projects are the upgrades of the C-130 Hercules and the P-3 Orion aircraft to increase their capabilities. The UH-1H Iroquois helicopters are to be replaced by NH90 and A109 models. The first two NH90s have been delivered, and are being tested at Ohakea. We heard that the ministry is pleased with the progress of the testing programme. For the Navy, the ministry is looking at options for a support ship to replace the *Endeavour* when it is retired in 2018, and planning an ANZAC Frigate Platform Systems Upgrade to ensure the operational effectiveness and efficiency of *Te Kaha* and *Te Mana*.

In addition, the ministry is undertaking the Maritime Helicopter Capability project, to assess the options for replacing or upgrading the SH-2G Seasprite helicopter fleet. As the NZDF develops its joint amphibious task force, the maritime helicopter capability will become increasingly important. The current fleet is due for replacement, and the NZDF has received an unsolicited offer from the Seasprite manufacturer, Kaman, of 11 helicopters originally intended for the Australian military. Negotiations with Kaman are in their early stages, but the indications are that the helicopters will meet New Zealand’s requirements; they may represent a good deal which would greatly increase naval aviation capability.

We were told that the problems that hindered the Australian military’s purchase of the Seasprites were not relevant to the NZDF, and the purchase would not proceed unless the craft met the force’s requirements and were issued with airworthiness certificates. We were also concerned about the availability of personnel to operate new helicopters. The Chief of Defence Force said that staffing levels are sufficient to operate the current fleet, but if the force purchased the new helicopters it would have to request additional funding from Government within five years or so.
**New Zealand–US relationship**

The defence relationship between New Zealand and the United States is continuing to strengthen following the signing of the Washington Declaration on 19 June 2012. The two countries intend to work together regarding their shared interests in the Asia-Pacific region. The declaration indicated an intention to cooperate on a number of issues, including peacekeeping and humanitarian assistance. Another sign of the growing relationship is the participation of the New Zealand Defence Force in this year’s Rimpac exercise in Hawaii. It is the largest maritime warfare exercise in the world, and this is the first time New Zealand has participated in 28 years.

**Afghanistan**

The New Zealand Defence Force’s operation in Afghanistan is to wind down over the next year. Currently 140 personnel are deployed, mainly with the provincial reconstruction team operating in Bamyan province. The Minister told us that the NZDF has made a positive contribution to security and good governance in Afghanistan, and its service has been very well regarded internationally. The reconstruction team has supported a number of development projects in the province, including improving the runway at the local airport and providing security to agricultural improvement projects. Farmers in the area have now moved from using oxen for ploughing to New Zealand-supplied tractors, which should result in major agricultural productivity gains.
Appendix

Approach to this examination
We met on 28 June and 19 July 2012 to consider the 2012/13 Estimates for Vote Defence and Vote Defence Force. Evidence was heard from the Minister of Defence, Hon Dr Jonathan Coleman, and the Ministry of Defence and the New Zealand Defence Force, and advice was received from the Office of the Auditor-General.

Committee members
John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
Su’a William Sio
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:

Vote Defence
Briefing paper, prepared by committee staff, dated 12 June 2012.
Minister of Defence, Response to standard Estimates questionnaire.
Minister of Defence, Response to Vote Defence Estimates questionnaire.
Office of the Auditor-General, Briefing on Vote Defence, received 28 June 2012.
Minister of Defence, response to additional questions, received 16 July 2012.

Vote Defence Force
Briefing paper, prepared by committee staff, dated 12 June 2012.
Minister of Defence, Response to standard Estimates questionnaire.
Office of the Auditor-General, Briefing on Vote Defence Force, received 28 June 2012.
Minister of Defence, response to additional questions, received 16 July 2012.
2012/13 Estimates for Vote Economic Development

Report of the Commerce Committee

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Vote Economic Development

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Economic Development as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

Introduction

The appropriations sought for Vote Economic Development decrease by 20 percent to $311.279 million in 2012/13 (against an estimated actual for 2011/12 of $390.171 million). Gross domestic product grew by 1.7 percent over the past year. We asked about the difference between Budget forecasts for growth and the Reserve Bank of New Zealand’s downward revisions of forecasts for the economy. The Minister of Economic Development said there was a degree of flux in the global economy, and the Reserve Bank was concerned about the impact of international markets on New Zealand exports and investment. The Government’s focus was on reducing these risks by encouraging growth and competition so that New Zealand businesses could succeed internationally.

Reduction in appropriation

The Minister told us that Vote Economic Development decreased in 2012/13 mainly because some significant expenses no longer exist. Several appropriations relating to the Rugby World Cup 2011 tournament were reduced or disestablished in 2012/13, and an appropriation for the promotion of New Zealand regarding the America’s Cup was discontinued. The appropriation for the demand-driven Large Budget Screen Production Fund fell substantially by $41.104 million from the estimated actual of $91.66 million for 2011/12. The appropriation for the establishment and operation of the Food Innovation Network New Zealand was reduced by $3.05 million from the estimated actual of $4 million for 2011/12, as the network is almost established.

Business assistance funding

We asked why funding for the Seed Co-investment Fund has decreased. The Minister explained that the level of funding remains the same, but its lower capital expenditure reflected the sporadic nature of venture capital. The fund also received an unusual increase the previous year.

The Minister also explained that changes in appropriations for small business assistance through the Venture Investment Funds and the Regional and Industry Development Fund were related to the timing of funding from year to year rather than to cuts in the level of funding.

New Zealand Trade and Enterprise

New Zealand Trade and Enterprise helps New Zealand businesses to grow internationally. Appropriations relating to its work include the Regional Partnerships and Facilitation.
appropriation, the Sector Strategies and Facilitation appropriation, and the International Growth Fund appropriation, which increased by $4.193 million from the 2011/12 estimated actual to $30.027 million in 2012/13, due to under-spending in 2011/12. This fund is used for co-investing with companies to assist their international market development. The Minister believed the fund had been effective in helping smaller companies enter new markets. The New Zealand Trade and Enterprise appropriation of $172,000 in 2012/13 is to increase New Zealand’s in-market assistance for New Zealand firms in China, India, and Japan.

We asked whether New Zealand Trade and Enterprise was considering setting up an office in Chongqing, as that area is a growing market in one of the world’s largest economies. The Minister told us that New Zealand Trade and Enterprise had significantly increased its resources in China, which represented its largest operation overseas, with offices in Beijing, Shanghai, and Guangzhou. Although an office in Chongqing is possible in future, New Zealand Trade and Enterprise has enough resources in China at present.

**Ministry of Business, Innovation and Employment**

We asked about the costs of establishing the new Ministry of Business, Innovation and Employment, as no specific appropriations had been set aside for this purpose. The Minister told us that every effort is being made to minimise costs, and all the necessary changes are being met within funding baselines.

The Minister told us that the new ministry will confer financial benefits in two areas: in back-office services, which he expects to save about $5 million per year; and consolidation of policy analysis, which will save between $2 million and $5 million per year. He said that benefits will also flow from employees from previously separate departments working together in new ways to create more cohesive policy advice.

We asked when the full background analysis of the merger will be released. The Minister said he would check that all material had been supplied that could be, though some information would have to be withheld at this stage. To date, we have had no response from the Minister. The committee will be following this matter up.

**Job creation**

The Minister told us that good progress was being made towards the Government’s Budget 2011 target of 170,000 new jobs over four years, and that vacancies had increased in various sectors. We asked why a sector analysis for job growth forecasts had not been undertaken. The Minister said that job growth targets were set at a macroeconomic level, and it was very difficult to make predictions about specific sectors. We heard from the Minister that over the past year skilled vacancies increased 10 percent and all vacancies by 12.8 percent. Since August 2009 skilled vacancies increased by 77.4 percent, and all vacancies by 81.3 percent.

**Warner Bros’ withdrawal**

We asked about a recent announcement from Warner Bros that it was withdrawing business from New Zealand. The Minister acknowledged that he had not been briefed by Warner Bros, but understood that it pertained only to product distribution, and not its film-making business. He stated that the Government’s relationship with Warner Bros is a long-term strategic partnership to promote New Zealand as a film production and tourism
destination, and this relationship had not changed. Some of us expressed concern about the long-term strategic relationship if Warner Bros did not have a presence in New Zealand. The Minister had not been in communication with Warner Bros in his role as the Minister of Economic Development. He remained confident of the firm’s commitment to New Zealand, and said it had made substantial investment resulting in about 3,000 jobs.

The Minister said that although the Government liked to encourage companies to invest in New Zealand, it was not involved in their strategy at board or management level. He said the Government was pleased with the ongoing commitment by various members of the international film industry to New Zealand, as it had been a positive relationship with beneficial spin-offs in other areas such as animation and games.

**Green growth**

We asked whether the Minister agreed with Pure Advantage’s report “New Zealand’s Position in the Green Race”, which recently described the Government’s Green Growth Advisory Group’s report as “a missed opportunity”. The Minister said that Pure Advantage recommended a shift away from industries such as mining and intensive agriculture, which contribute a large amount to New Zealand’s gross domestic product. Doing so would require a significant change to how New Zealand earns its money. The Minister said that the challenge is to improve the environmental footprint of all of New Zealand’s industries without destroying value in the New Zealand economy. He said the Government did not exclude large businesses from its terms of reference, but emphasised that small to medium-sized businesses were facing particular challenges.

**Skycity convention centre**

The Government is negotiating with Skycity casino about construction of a national convention centre in Auckland, with $507,000 appropriated in relation to this purpose within the appropriation for Sectoral Leadership, Firm Capability, and Regional Development Operational Policy, Ministerial Servicing and Crown Entity Monitoring. The Office of the Auditor-General is currently undertaking an inquiry of the expression of interest process for the convention centre. We asked whether it would be better to wait until the inquiry was completed before concluding negotiations. The Minister believed that the best approach was to continue the inquiry and negotiations in parallel, and that the inquiry would have no impact on the negotiations process.

**Square Kilometre Array**

The appropriation for the Square Kilometre Array increased by 265 percent from $864,000 in 2011/12 to $3.15 million in 2012/13, mainly because of an expense transfer due to a delay in deciding the preferred site for the array of radio telescopes. The mid-frequency section of the array will be in Africa and the low-frequency section in Australasia. New Zealand can provide a long stretch of land for a section of the array. The Minister believed that New Zealand’s involvement was very positive news for New Zealand’s science community, and helped to underline New Zealand’s prowess in science and innovation.
Approach to this examination

We met on 21 June and 19 July 2012 to consider Vote Economic Development. Evidence was heard from the Minister of Economic Development, Hon Steven Joyce, and the Ministry of Economic Development, and advice received from the Office of the Auditor-General.

Committee members

Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Economic Development, Responses to additional written questions, received 9 July 2012.

Minister of Economic Development, Response to pre-hearing questions, received 19 June 2012.

Minister of Economic Development, Response to standard Estimates questionnaire.

Minister of Economic Development, Response to supplementary questions, received 19 June 2012.

Office of the Auditor-General, Briefing on Vote Economic Development, received 21 June 2012.

Vote briefing paper, prepared by committee staff, dated 12 June 2012.
Appendix B

Corrected transcript of hearing of evidence on 21 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Clayton Cosgrove
David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mark Mitchell
Dr Jian Yang

Witnesses
Hon Steven Joyce, Minister of Economic Development
David Smol, Interim Chief Executive, Ministry of Business, Innovation and Employment, and Chief Executive for Ministry of Economic Development
Liz MacPherson, Acting Chief Executive, Ministry of Economic Development
Mark Steel, Deputy Secretary, Economic Development Policy, Ministry of Economic Development

Young We do not need to introduce ourselves, but if you would like to introduce any of the team members we would appreciate it. [Introductions]

Joyce I will make a few comments to start with, and then go on from there. Firstly, some key objectives for the vote at this time. Firstly, obviously, leading alongside Treasury, the business growth agenda; the Government is activating and continuing ongoing development to deliver a number of specific priorities and actions in support of that agenda, and there are a number I would like to highlight for you this morning, and also contributing to the delivery of the business-focused objectives in the Better Public Services programme. We’re also very keen and have been focusing on value for money, to make sure that the agenda in this vote is consistent with the important agenda overall, which is very important from an economic growth and business perspective, which is bringing the deficit back to a balance, a surplus, by 2014-15 and keeping our net debt under 30 percent of GDP.

Fundamentally, if we are to do what I think every New Zealander wants, which is to improve our living standards and in fact maintain and improve our living standards, then we need to ensure that we provide our businesses with a platform to be more competitive and to succeed in the wider world. In fact, the recent loss of competitiveness in the last decade is something we have to reverse, and we are in the process of doing that.
We also need to be positioned—

Cunliffe I raise a point of order, Mr Chairperson. There is sometimes a tendency by the Ministers to make throwaway lines about previous Governments or previous areas for which they have no responsibility. That is outside the Standing Orders, and there’s also no evidence to support the Minister’s contention. So just a gentle warning that if the Minister is going to get all political on us, that goes two ways, and that will cause disruption.

Lotu-Iiga Speaking to the point of order, we’ve had this happen in numerous select committees. I think it’s kind of a robust forum, and I think it’s a bit early to be calling points of order.

Cunliffe (Inaudible) and “robust” goes two ways. If the Minister wants to be robust, we are quite ready for that.

Joyce That happens to be a matter of fact that New Zealand lost competitiveness in the last decade, irrespective of who the Government was. It made no reference to the Government of the time. That just happens to be the reality of the situation.

Cunliffe Productivity growth has been pretty constant—lower than our Australian friends.

Joyce If you look at some of our comparisons—I would like to go on with my own comments, but in comparison with some of the leading countries in the OECD we actually have had a loss of competitiveness, and probably one example is Germany. We’re not alone in that respect, because a number of other countries have experienced that as well, but it does go to explain what we need to do going forward, and what we need to do—

Cunliffe Of course, Germany being a famously low—

Young Excuse me, Mr Cunliffe. Could we just let the Minister present and then we can ask questions after his presentation.

Joyce And so, turning round that loss of competitiveness and improving our competitiveness is a crucial element to the Government’s business growth agenda going forward. We’ve identified six key areas, which are largely the six key inputs for businesses. Most businesses require access to most, if not all, of these inputs, if you like, that the Government has some influence over. These, of course, include access to capital, which is an important part of business growth, the access to innovation and ideas, the access to skills and skilled workers, to natural resources as they require them, to infrastructure, and supporting public infrastructure that they need. I think of things in that respect, like telecommunications, electricity, and transport, and also access to export markets, because of course New Zealand being a small country of 4.3 million people we very quickly get to the limits of our domestic market and have to have our companies grow quite quickly in the wider world, often when they are quite small.
So we’ve been working on all six of those items. We have informal groups of Ministers, portfolio Ministers, in each area who are working together to ensure that their individual initiatives line up with the overall agenda, and as we have previously publicly announced, we’re intending to release a set of progress reports over the next few months in each area, to update sectors and the public as to the progress in each one of those.

An important supporting aspect to the Government’s business growth agenda is the internal reorganisation and the development of the Ministry of Business, Innovation and Employment, which commences on 1 July. The new ministry is, I think, very important to bring a coordination of Government advice and increased momentum in the growth agenda, and I am confident that it will bring together a number of commercial business-facing agencies, will reduce the natural friction that occurs between separate agencies, and, more important, will bring us a more coordinated focus in policy areas such as increasing productivity and innovation, the skills area, and also capital markets development, to name but three.

As I said, it will reduce the complexity involved in working between agencies, which will improve the momentum and it will also have a very important role in terms of improving the links between business and the Government.

I am pleased with the progress to date. Of course, we have an acting chief executive and senior leadership team in place. I’m meeting with them regularly and they are providing me with good updates and are working through a detailed organisational design and implementation plan, and there will be the initial federation of agencies on 1 July, and then the expectation is that by around 30 September there will be a further consolidation of functions and a further appointment of the more permanent structure.

In terms of some specific areas of activity around sectors and regions, which I think is very important—because, of course, firms don’t live in isolation; they have some sectoral needs and also some regional needs—we are pretty focused on working with Auckland Council firstly on their economic development agenda, but also with other councils around the country. I have had now a number of meetings with stakeholders in various cities. I intend to achieve that in every city in the country by the end of this year, more or less. I’m going to Rotorua tomorrow—that’s where I’m heading—and that’s bringing together the local councils, some of the significant businesses in the region, and also, wearing one or two other hats that I have, tertiary institutions and research institutions. I’m really looking to leverage the opportunities that arise within those regions. They have been pretty productive and certainly very helpful to me at this point.

A couple of other investments to focus on. There’s the Government’s investment, firstly, in the food innovation network, including the FoodBowl in South Auckland, at Manukau, at the airport industrial park, which I visited not so long ago. It is still early days there, but the concept is a very
good concept that involves basically providing pilot plant and resources to companies that couldn’t otherwise afford it, and basically giving them access to resources and equipment that they otherwise wouldn’t have access to. So there’s been some good progress there.

The screen production industry—our relationship continues to go well. We’ve had a very positive relationship with the industry. As you would be aware, the *Hobbit* movies are currently being filmed in New Zealand. The latest estimates are that around 3,000 people are working on those films, which is very important. Another area which is important is the health technology space, where we’re investing in these health innovation hubs to make it easier for the health technology companies to work with the health sector.

High-value manufacturing, of course, is important. In the related portfolio of science and innovation, the big step there is the Advanced Technology Institute, which we will have more announcements on in the next little while. Tourism is a very important industry for New Zealand. One of the initiatives there that the ministry is leading, with me as Minister, is the development of an international convention centre in Auckland. Those negotiations continue, and have been covered a fair bit in the public domain, but the negotiations are positive and we look forward to a satisfactory outcome there.

There’s a number of cross-cutting themes that we’re very focused on. One is the area of Māori economic development. We’ve had a number of meetings with Minister Sharples and his panel, which is working to improve both the contribution and the benefit to Māori of economic development and doing some very good work around the contribution that iwi and trusts and so forth make to economic development more generally. Also, in the green growth area, the Government has received the report from the Advisory Group on Green Growth, and is working through business growth agenda streams on the development of those initiatives.

Crucially important, of course, is economic recovery in Canterbury, and the Government is very closely involved, not just through CERA but also through the different votes. The latest one that is particularly involved with myself is the further investment of $1 million to support business recovery in that city, and also an ongoing engagement across, as I say, a range of Government agencies.

Finally, if I could, I would like to note a couple of other areas that are crucially important. One is business-facing services. We have a range of ways in which businesses interact with Government, and members may be surprised to know that businesses sometimes don’t see that as simple as they would like, so we’re responding to that as one of our better public service targets with the development of a one-stop online shop where businesses can access all the Government support and advice they need,
and also provide interplay with the other agencies that they relate to. So we are working on that, and having an action plan there shortly.

The other area is in the area of procurement reform, in which there has been a real development with the ministry. A big part of that is simplifying processes, making it easier for businesses, particularly smaller businesses, to engage with Government agencies on their procurement. They have recently had a session in Wellington. We’ve brought in a lot of small to medium sized businesses for a “meet the buyer” session, which has been responded to very positively by businesses, and there will be others in other centres. But probably the more important area is simplifying all the procurement paperwork that Government agencies have to respond to, so there’s a much simpler process there and that work is ongoing.

So that’s a brief summary of all the things we’re working on. I would just perhaps like to report to the committee, in closing, that in terms of progress just prior to the committee meeting there’s a reasonable GDP number out for the quarter of 1.1 percent for the economy, which is great, and which takes the year to the end of March 2012 to 1.7 percent. So, we’ve got plenty of work to do, but there are good encouraging signs.

Young Thank you very much, Minister, and I’m sure that we’re keen to hear more about the business-facing agencies and that will come up in our questions. I will hand over to Mr Cunliffe, who’s going to start off with some questions.

Cunliffe Thank you, Mr Chairman, and just before we do, to note that the Minister has not yet provided the 5 years’ worth of historical data on costs and estimates, and that we will be reserving the right to bring him back if there is information in there.

Joyce There is; they are all publicly available, as you know.

Cunliffe Well, there is the normal process of providing (inaudible)

Joyce If the committee wants any more information, it’s welcome to ask.

Cunliffe We’ll follow up on that.

Young The Minister said that in terms of these comparative figures relating to previous years, he has referred the committee to previous estimates’ examinations of financial reviews because they are historically available to us.

Cunliffe Noting, as we’ve discussed, chair, that the ministry has not complied with the standard estimates questionnaire requirements, but we will follow up on that after the meeting.

Cosgrove With respect, Minister, you know, the same thing happens in the House with a number of you guys. You try to refer us to information which is
available, but committees ask for it in a particular form. You are actually duty-bound to provide it in that form, whether it’s publicly available or not.

Joyce

Well, the ministry has provided its responses to questions. I’ve been comfortable with those responses, so if the committee decides that it wants to change anything and ask for more, then obviously that’s the process, so feel free to do so, obviously.

Cunliffe

Budget 2011—the Prime Minister said there would be up to 170,000 jobs created over 4 years. Where are they coming from? What are your forecasts in terms of job growth in different sectors? And how are you tracking relative to your job growth targets?

Joyce

Well, actually, we’re making some very good progress. We’re very comfortable with that 170,000 job target, and in terms of where they’re coming from, well naturally enough they’re coming from a range of areas, and right across the economy you’re seeing significant growth in the numbers of vacancies.

Cunliffe

Can you give us some estimates, Minister, of particular contributions in particular sectors in the year since that last Budget forecast? It was 19 May 2011.

Joyce

Well, I don’t think you can necessarily say that this is how much the food and beverage sector will contribute, and this is how much say, for example—

Cunliffe

Do you have any targets, interim targets, by sector or by region for job growth?

Joyce

Well, no, because actually the environment is what’s really important for these firms to grow. What I can tell you is we monitor constantly the labour market, and just yesterday the Department of Labour released its Jobs Online monthly report which shows a continued upward trend. So, for example, in skilled vacancies we’re up 10 percent over the year, and all vacancies are up by 12.8 percent over the year. They’ve been steadily increasing since August 2009. Skilled vacancies since that time have gone up 77.4 percent, and all vacancies up by 81.3 percent. So we are seeing steady—

Cunliffe

How many new jobs have been created since Budget 2011?

Joyce

Well, I don’t know exactly at this committee, but there has been significant—

Cunliffe

How is it tracking compared with the 4-year forecast that the Prime Minister gave?
Joyce: Well, actually, just in the last household labour force survey the number of jobs—I'm doing this from memory—was up I think around 9,000, just for that quarter.

Cunliffe: There was 170,000 forecast over 4 years. Is that expected to be roughly linear, so that a quarter of that 170,000 would be more than 9,000, wouldn’t it?

Joyce: Well, Mr Cunliffe, I don’t know exactly how you see the Government running obviously a centrally planned economy, but no, it’s not necessarily linear; it progressively grows over time. What I can tell you is that the Department of Labour’s last report, wearing another hat that’s not strictly related to the Ministry of Economic Development, but the Department of Labour last reported to me they were comfortable with the long-term growth projections of Treasury, and of course they use a different model.

Young: Would you say that as the economy gains momentum, job growth will be more exponential as there is more activity, and our exports—

Joyce: Well, growth is (Inaudible) I don’t know whether we’d get exponential, but certainly we are seeing continued job growth, and the Government remains comfortable with the predictions of job growth. What I can, as is obvious, even from these GDP numbers—

Cunliffe: (Inaudible) 9,000.

Joyce: Well, if you will let me finish. David really just wants to talk. But, if you just look at those GDP numbers, the numbers do change from quarter to quarter, and we have seen some choppiness up and down, but over the year we’ve had GDP growth of 1.7 percent, and that does definitely feed from and to further employment.

Cunliffe: Coming to the GDP growth forecasts, what is the main reason for the difference between the Budget forecast of the growth and the downward revision in the Reserve Bank’s Monetary Policy Statement last week, to your understanding as economic development Minister?

Joyce: The Reserve Bank has some concerns, firstly about the international markets and the impact that will have on our export sectors. It also has some concerns as to the flow through into additional investment domestically, and therefore the potential restrictions on the growth potential, because of what's happening internationally. Again, I would stress that we are seeing a range of economic data every week, where some of it is positive, as we have just seen with the GDP and frankly the skilled vacancies data, and some of it is a bit more negative. If you look at the international environment and the level of uncertainty, I don’t think that’s a massive surprise.

From the Government’s perspective, we’re focused on particularly two key things. One is ensuring that we take a responsible approach fiscally at a
national level, to make sure that we reduce the risk that New Zealand has, both in a fiscal sense but also the risk of the Government fiscally getting in the way of the growth environment for firms, and then at a micro level by making sure we’re constantly working on this agenda for growth for businesses to ensure that they have a competitive platform by which they can succeed internationally. From any week to month, different prognostications appear, whether they be from the Reserve Bank Governor or from Treasury or from independent economists, and they are moving around quite a lot, compared with historically, and I think that’s an indication of the level of flux that’s appearing in the world economy.

Curran Minister, I just want to return to the projected job growth figures, which your Government declared was the objective in the Budget last year. With respect, when your predecessor came to this select committee this time last year, he was asked the same question around where that growth projection came from and what was the sector analysis that had been done. This committee was told then that there had been no sector analysis of where those jobs could come from. You’ve now had a year to undertake that, and surely providing a figure of 170,000 doesn’t come out of nowhere. I think we were given some figures around building the proposed convention centre and what job growth that might involve, and perhaps the Christchurch recovery might involve a few jobs. I put it to you, has a sector analysis been done, and why not? Why get up and talk about a figure of 170,000 when you can’t substantiate it? You come to this committee and say that you’re comfortable with the growth of around 9,000.

Joyce Well, firstly the member may not be familiar, but most of those targets are, naturally enough, set at a macro level for the New Zealand economy and are measured against that, and that’s certainly what we’re doing here. Now I can tell you, for example, the agriculture, fishing, and hunting employee count as at February 2011 was 104,160, but I can’t tell you necessarily exactly how much that will grow over the next 2-year period and I don’t think anybody could. If they do say they can tell you that, then actually they are probably dreaming because it’s not likely to be the case at all. What you can do on discrete individual projects, whether it’s a transport project or a building project or in fact a movie, for example, to state an example, is you can make predictions and also record the impact of employment in that particular area. But I would argue that it’s a reasonably “chasing your tail” type of exercise to just try and do that at a sectoral level, because actually we’re talking about the decisions of individual firms, and we can monitor the decisions of individual firms, and we can monitor pretty easily the national numbers, through all the different indicators. But to then go to another level and say, we’ve only been through a sector, well I think that is probably stretching it a bit, although I’m sure we could find some people to do the analysis.

Curran So do you still stand by that 170,000 figure?

Joyce Yes, that 170,000 job figure, yes.
2012/13 ESTIMATES FOR VOTE ECONOMIC DEVELOPMENT

Curran 170,000 jobs?

Joyce Yes, that’s correct, over 4 years.

Lotu-Iiga The labour force survey that I read had 2,223,000 jobs at the end of March—more women and men employed than at any time in our history.

Joyce That’s right.

Lotu-Iiga So jobs are being created, as the Minister said. In my own electorate, I just want to allude to where the jobs might be, because you know you’ve got BSL Buckley Systems with 200 jobs over the last 2 years, you’ve got Hansells Group with 30 new jobs. We opened Sistema Plastics in Maungakiekie—more jobs.

Cosgrove You can sit at the end of the table.

Lotu-Iiga No, no. My question is on those types of jobs—high-value manufacturing, which the Minister referred to.

Joyce Well, there’s any range of industries and I think that’s one of the things we’ve got to be very careful about, and don’t just say it will be in this industry or that industry, because—I will give you another example of the additional 500 jobs that have been created in Taranaki through Motunui restarting their second line at the Motunui plant, at the methanol plant. Now that’s been a very significant boost in the Taranaki region, and actually, because the Taranaki region—even though I come from there—is quite small, it has had quite a measurable impact at a macro level. But, basically, all these numbers are combinations of firms, and firms needing to have confidence, and I think that’s very important. And we are seeing firms around the country—and not only that but we are seeing international players—wanting to invest further in the New Zealand economy, so in Hawke’s Bay, for example, Heinz-Wattie are very active there. You’ve mentioned a couple of examples in Auckland, and I can also mention for you Ian McCrae’s outfit, where they are hiring people actively in Christchurch and Auckland right now. So actually that adds up to the skilled vacancy figures, which continue to show good growth.

Cunliffe If the Minister is so committed to economic and industry development, why has he reduced the MED budget from $429 million to $311 million, and if he is so committed to regional engagement, why has he virtually wiped out the Regional and Industry Development Fund, and things like the Seed Co-investment Fund, and major reductions to the Venture Investment Fund—all things that small and medium businesses in our regions use to scale up and become worthwhile exporters?

Joyce Well, we’ve had this discussion before, but I’m happy to go through it again.

Cunliffe Why don’t you go on public record?
Joyce  More than happy. I was; I was in the House.

Lotu-Iiga  Point of order. Can the Minister just answer the question? Some of us want to hear the answer.

Cunliffe  If the Minister did, he wouldn't get a chip.

Joyce  Yes, anyway. There are a number of changes that have occurred through this change. I think it's important to point out that significant processes have naturally concluded, so one of the significant ones is the Rugby World Cup.

Cunliffe  Point of order, chairman. I was very specific about the funds—

Joyce  Well I was going to go through it. You asked about the overall vote, Mr Cunliffe. Then you asked about some elements of it, and I'm giving you a summary of the overall vote. Now, if you just want to keep chipping, you just keep going, but you won't learn much.

Young  Can we just let the Minister answer the question? Thank you.

Joyce  So, just taking the overall vote the member requested why has it moved from $453 million to $311 million, and I'm going to give him some of the elements of that change. Firstly, a very significant one is the ending of the Rugby World Cup, because it concluded last year, and the Government's view is that we probably shouldn't invest more in the promotion and development of the Rugby World Cup, as if it was coming up, when it was actually concluded.

The second one is in the area of the Large Budget Screen Production Grant Scheme, which is a demand-driven fund, and it is very much the officials' best estimate of how much they might be asked to provide in this current year, and that has dropped off in the current year or the year about to start by about $56 million, that estimate. And that's because, of course, we've just had the Hobbit movies through, and there's a base level of activity, but until the next large blockbuster comes through, that one is the best estimate at this time. Another one is the promotion associated with the America's Cup, which was an amount of money voted by the previous Government, and the timing of that voted also by the previous Government. That concluded at the end of the 2011-12 year, that's another $20 million. The establishment under the Food Innovation Network is $6.5 million. That drops to $1 million with the conclusion of the establishment of that network. In the case of the VIF and the Seed Co-investment Fund, there has been no change to the allocations over the Budget period. Again, those are simply the officials best estimates each year of what will be needed in that year from a fixed envelope, which has not changed. It is simply—

Cunliffe  Point of order, chair. Just to contest that statement, the difference between Budget 2011 and Budget 2012 is $13.2 million.
I was acknowledging the veracity of the statement.

He’s debating that. It is not a point of order.

I am happy to get Mark to explain. It’s literally a capital transfer from one year out of the total pool. Is that right?

Yes, the capital is transferred between years to deal with the lumpy investment issues that the Minister has raised. And you get quite sizable capital transfers from one year to another.

So why has that not been taken up in the year in which it was budgeted?

Well, they are just allocated based on where they’re going to be spent. But your envelope over the projection period—

But officials are telling us that there wasn’t sufficient need in the business community to take up the Seed Co-investment Fund or some kind of dispensing arrangements weren’t effective.

It happens with deals in the venture capital industry, they fluctuate quite widely from year to year, and that’s why the appropriations are designed the way they are, so that you can allow for a considerable investment in one year and smaller investment in another.

Moving on, chairman. In respect of the new Ministry of Business, Innovation and Employment—“MoBIE”—

Are you comfortable with those previous answers?

No, no, we didn’t cover the regional development issue. We’ll come back to that. But in respect of “MoBIE”, Minister, what are the costs forecast of the merger, the post-merger integration, around issues like IT, human resources, rebranding, the use of consultants, and what cost-benefit analysis was undertaken, and why has it not been released to the public?

Well, the first point is that the changes are all being met within baselines and have also taken a very economic approach to it. I think the new signage is something like about $5,000 in total for the building up the road there, and also, for example, the interim websites for the new agency are being done internally, so every step is being made to absolutely minimise the costs, but they will be all kept within baselines, regardless. That’s been a very clear instruction from Ministers.

In terms of the benefit of the change, the financial benefit has been talked about in terms of two areas: firstly, the savings in back-office services, which I think, from memory, were about $5 million a year, and the second is the area of duplicated policy analysis, or the potential to consolidate
policy analysis, and that’s a range of between $2 million and $5 million, as well, going forward. So those are direct financial benefits that wouldn’t have occurred otherwise, had this change not occurred, and we’re confident, I think—have you seen anything to suggest that that’s—and then there is the non-quantifiable, if you like, system benefits. The opportunity there is really much more joined-up advice between what were previously separate agencies, and we’re already seeing positive signs in that respect, as officials who were in previous agencies are now starting already, without having actually completed the change, to work together in a new and different way around an overall agenda on the specific thing of the particular agency.

Cunliffe Chairman, through you to the Minister, when will the Government release the cost-benefit analysis that was done in respect of the “MoBIE” merger?

Joyce We have released, as I understand it, some of the due diligence.

Cunliffe A Cabinet paper has been released, but heavily redacted. None of the background analysis has been released.

Joyce I’ll check that. I think part of the due diligence document has been released? Is that right?

Cunliffe Only the Cabinet paper is on the SSC website. They first ascribed that as a due diligence, but as it did not contain the due diligence, it has been clarified that there must be other background documents. So, would the Minister be happy to provide to the committee the full set of—

Joyce Well, we’ll check back to see if there’s anything that hasn’t been produced, which could be produced. It is important to note, though, in terms of the redactions there are some elements that obviously are appropriate to redact at this stage, but we’re certainly happy to release anything that isn’t counterproductive.

Young I will call Kanwaljit Singh Bakshi.

Cunliffe I’ve got a couple more, Mr Chair.

Young In line with this?

Cunliffe Yes, it follows from that. This question is in respect of the Skycity merger, one of the major programmes that you have.

Joyce I don’t think it is the same thing.

Cunliffe I am going to take a supplementary on that. In respect of Skycity, why did the Minister say that the Auditor-General’s process will not impact on the Government’s negotiations with Skycity? Obviously it’s a very serious matter for the Auditor-General or, in this case, the deputy, to be investigating the propriety of a tender process. The Prime Minister himself
intervened, as is on the public record, to hold up an MED work stream, pending a particular—

Joyce I’m sorry. I just reject the member’s characterisation of that, but that’s fine.

Cunliffe I’ve got a time line here of publicly produced documents—August 2009 an OIA produced by the MED, executive summary—

Young What’s the question? Can we get to the question?

Cosgrove He’s responding to what the Minister said.

Cunliffe I’m responding to the Minister’s contention that there was no basis for the prior statement.

Young What’s the question?

Cunliffe The prior question is why does he believe that the Auditor-General’s process will not impact the Government’s negotiations? Wouldn’t it be respectful to the OAG to get the OAG’s view on the propriety of the process before concluding the negotiations, lest it be perceived as a fait accompli?

Joyce Well, we think, we believe quite strongly that the best approach is that they continue in parallel. We do respect the OAG process, and while we’re obviously confident in the process—the expressions of interest process and how it was conducted—obviously as in all cases the Office of the Auditor-General is entitled to, and should, investigate when they see it as something that should happen. But certainly there’s no harm being done in terms of continuing negotiations alongside that. I appreciate that there are those who don’t want to see it proceed, so it would be in their interests for it to be treated as a sort of sequential, linear matter, but certainly the Government’s view is that we’re comfortable for negotiations.

Cunliffe How can the Minister guarantee that there will be no impact on the negotiations with Skycity, when he doesn’t know what the Auditor-General is going to say?

Joyce Well, I didn’t say that. What I said was that it would have no impact on the negotiations process.

Cunliffe So the Minister is no longer standing by his earlier statement—

Joyce Yes, I am.

Cunliffe It will not impact on the negotiations?

Joyce It will not impact on the process of the negotiations. That’s correct.
Minister, you mentioned about the export market. My question is in two parts. What is the role of NZTE and, second, why did you think to invest in the FoodBowl? What is the advantage, and who are the users of FoodBowl?

Firstly, in terms of NZTE, they have a very strong role in terms of the international assistance to New Zealand businesses to grow, and I suppose the way that you would characterise that is that this is quite a small country and a lot of the companies that need to go and export don’t have the scale themselves, on their own, to be able to necessarily achieve everything that they could be working alongside NZTE. So NZTE provides the benefit across a range of companies for in-market relationships, and they do that, I think, pretty effectively around the globe. And certainly I’ve, in the last 6 or 7 months, met a lot of companies that are very supportive of the role that NZTE is playing for them, in assisting them with market access.

They also have some domestic roles as well, where they effectively reach back into the domestic market and assist some of the companies that want to export for trade with their own preparations in order to do so, which is an important role as well. But often people go to NZTE and say: “OK, I want to export.”, and then you actually look at their business plan, and they’re not necessarily quite ready, and that’s where the domestic engagement occurs as well.

In terms of the FoodBowl, that’s a slightly different approach. One of the big opportunities for New Zealand continues to be in higher levels of food processing coming off our agricultural background, and it has been described as getting a little bit further to the centre of the supermarket, where you can get increased value from brands and further processing, and we do that successfully in some areas and less successfully in others. So the opportunity of the FoodBowl is that small companies that otherwise would have to invest in quite cost-prohibitive infrastructure and equipment can try out their products in an environment where they can do it in a reasonably low-cost way.

The other important point, too, is that most companies that have production lines already would pay a huge price to stop a production line to run an experimental product for a short period of time, and to test that, then restart their own production line. So with the FoodBowl they can come out of their own environment, do their experimentation without affecting their main production line. The main production line continues and they can do the pilot, in stages, of the new product. I think that’s proving to be pretty useful for those firms, particularly in Auckland, where the FoodBowl is located. I think that’s pretty important, but again I’d underline the opportunity for New Zealand in that space, and again, a recent example is the investment by Heinz-Wattie back into the Hawke’s Bay.

I raise a point of order, Mr Chairperson. The Minister has had the opportunity to give quite a long introduction at the start. He’s fully taken
the time that Minister’s would normally take. There is a tendency for this Minister to—

Lotu-Iiga That’s not a point of order.

Cunliffe —giving speeches to soak up time, because he doesn’t want people to—

Young David, I can just count the number of minutes (inaudible)

Yang Firstly, I’m interested in NZTE. I visited China in March and April, and on both occasions I talked to NZTE officials. I think they’ve done a good job. Now, I understand—two questions—that NZTE has implemented a 3-year improvement programme. I wonder if you can give us an update on that, and, secondly, on China’s foreign market, for example, NZTE has three offices, in China, Beijing, Shanghai, and Guangzhou. In March, when I was visiting China with the Hon Tim Groser, we went to Chongqing, a new area. I just wonder whether NZTE is considering setting up a new office in Chongqing, because basically it’s such a growing market and such a big country.

Joyce I will refer that last part to NZTE themselves, to provide a comment. In the first part, we’ve seen a very significant movement of their resource into the China market over the last couple of years. They have appointed a new investment director, a second trade commissioner in Guangzhou, and a new trade commissioner in Shanghai. China is now, obviously, the biggest NZTE offshore office. They have a number of key initiatives into China and supporting the China strategy, which I think is very important. Just one example—a random one, if you like—is the Chef-in-Market programme. We have a chef, Robert Oliver, who’s promoting New Zealand produce in market in China to Chinese restaurants and to the public. So that’s just one example. They also have sessions back here to discuss with customers how they might best work in the Chinese markets. So I think they’ve been pretty active, but as it relates to the particular question—where is Mr Chrisp? Do you have a particular answer in relation to that market?

Chrisp Into China?

Joyce No. What was it? Into which region?

Yang Chongqing is in terms of a global strategy. Chongqing is a new area. The Hon Tim Groser and I went to Chongqing. I was thinking, maybe, in the future we might be able to have an office there because it’s the new, developing area in China, central and west.

Chrisp That is definitely can be possible. We’re happy with the current level of resources in China. We’ve just quite significantly increased those resources, and probably there are enough resources up there for the amount of New Zealand companies going up there at this point in time. But at some point in the future, if the demand is there and the companies are going there, then
we’d gear up resources (*inaudible*) within a fixed envelope of the total global resources. So it’d be one area, and then we’d take it to somewhere else.

Curran Minister, on 27 October 2010 John Key released a statement saying that the Government and Warner Bros had agreed to work together in a long-term strategic partnership to promote New Zealand as both a film production and tourism destination. Don’t you find it curious that Warner Bros pulled out of New Zealand recently, and that when John Key was asked about it he wasn’t aware that it had happened.

Joyce Well, I think you will find, and again I’m not aware of the exact details of that, but my understanding is it’s in relation to CD or DVD distribution, which you may have noted is actually declining everywhere in the world. That doesn’t apply to their motion picture business, and obviously with *The Hobbit* already there, ongoing, which is the relationship between Sir Peter Jackson’s companies and Warners, I think the relationship is very strong and I don’t think we should read too much into the altering of distribution arrangements of one small part of Warners, in terms of their overall relationship.

Curran Minister, Warners have closed up their New Zealand base and have shifted it to Australia. Were you briefed on this by them?

Joyce No, I wasn’t briefed on that by Warners, no, and I wouldn’t have thought so. I don’t generally get briefed on when companies rearrange their businesses.

Curran When was the last time that you met with Warners to discuss the long-term strategic partnership?

Joyce I haven’t met with Warners as Minister for Economic Development at this stage.

Curran Could you perhaps explain to the committee what the extent of this long-term strategic partnership is, given that Warners have moved out of New Zealand, and—

Joyce I don’t think that’s fair to characterise it that way.

Curran Perhaps, Minister, given that you haven’t met with them, you might be unaware that the recent resignation of Alan Horn, who’s the President of Warner Bros Entertainment, and who was a major proponent of the *Hobbit* movies, has actually resulted in a change in Warner Bros’ attitude towards the tent pole movie-making approach, which is appealing to international audiences, and Warner Bros have actually changed direction.

Joyce Are you suggesting that they might not complete the *Hobbit* movies. Is that the suggestion?
Curran You’re telling me that you haven’t met with them, you don’t have any contact with them, and yet you are unaware of their moving out of New Zealand. How does this reflect in this long-term strategic partnership to promote New Zealand as both a film production and tourism destination?

Joyce Well, I would point out, if you go back to the original release, some of the things that are talked about in terms of strategic marketing opportunities from New Zealand from the *Hobbit* movies, and also to make sure that movies obviously are here, to ensure there are opportunities in terms of the promotion of the movies, and my understanding is that there is to be a premiere here. So there’s a range of things, and none of those have changed. I’ll just check with the officials, but none of those have been moved away from by Warners so I remain confident that the commitments that they have made to New Zealand are very positive commitments. And again, I think because of their commitment to make the movies here and the number of jobs that it has created and sustained for our movie industry I think it would be a pity trying to suggest that that has not somehow been a carry-through, because I think it’s a very, very significant investment by that company and we’ve had about 3,000 jobs out of it. So I think we should be pretty positive about it.

Curran What I’m putting to you is that it is not a reflection on Warners, it is a reflection on the deal and the strategic partnership that the Government, your Government, trumpeted at the time as being such a huge long-term relationship and a long-term coup. I put it to you that you, at that time, actually used and manufactured a supposed union crisis in order to—

Joyce Sorry Clare, but that’s right out there.

Cosgrove That’s not true.

Joyce I’m happy to confirm that that wasn’t the case.

Curran You don’t meet with Warners. Where is this long-term strategic partnership, and how is it going to manifest itself after the *Hobbit* movies?

Joyce If you go back to the press release that you referred to—

Curran No, I would like to—

Joyce No, I think it’s important, because you’ve referred to a press release and then you’ve created a massive range of extrapolations from it, so it’s always helpful to go back to—

Curran I will read you a sentence.

Joyce Yes, well I was going to read you another one, if you would like, and that is: “A long-term strategic partnership to promote New Zealand as a film production destination and a tourism destination.”, and I can tell you that none of that has changed.
Mitchell  Minister, in line with that, do you see that there is actually a lot of opportunity in the future to work with companies like Warners in terms of making movies down here and promoting New Zealand as a tourist destination? And the other thing, too, is that we have a lot of international companies looking at New Zealand, at coming into New Zealand, sometimes they exit. Does the Government get involved at board level or management level of these companies, in terms of what their strategy is?

Joyce  No, we don’t but we do like to encourage companies to invest in New Zealand and we are proud of our association with the *Hobbit* movies and the clarification of employment law, which helped ensure that the movies be produced and occur here, and we are also pleased with the ongoing commitment made by various members of the film industry internationally to New Zealand. It’s been a very positive relationship, and it’s had positive spin-offs in a whole range of other areas. I visited an animation company in Auckland a few weeks ago, which is really only here because of the movies like *The Hobbit* and *The Lord of the Rings*, and those movies have spawned interest from a number of skilled international people who have come to New Zealand. This particular animation company, which I think—I’m doing this from memory—has 150-odd staff, in Auckland is being run by three or four American partners who have based themselves here, and an Englishman who came out here, because of their excitement about working in what they saw as an innovative industry across the whole screen sector. Two of them said to me that their initial interest in coming to New Zealand was what Sir Peter Jackson was doing in the film space. So those spin-offs have been very, very positive, and I think will continue to be, but not just in terms of the movies, but right through animation, games, and screen more generally.

Cosgrove  Minister, don’t you think it’s a bit of a slap in the face to the Prime Minister and yourself, given that you did the deal, you threw in the kitchen sink and the kitchen as well, and then Warner Bros up sticks after many, many years and pull up stumps, and they don’t even bother to let you guys know? You guys don’t seem to have the gumption to inquire as to the reasons why. You know, hear no evil, see no evil.

Joyce  Look, no, I just completely reject your suggestion.

Young  While we’re talking about movies, my favourite movie was—

Joyce  I’m sorry, but such a loaded question with so many different suggestions is hardly worth the response.

Young  I just want to shift the question line to the Square Kilometre Array. I understand South Africa has been part of that concrete agreement, but then Australia and New Zealand are also doing further work on this. Can you give us an update? This has been a project that we’ve been looking at for several years now.
Joyce It’s been a good outcome for practically all the countries involved. What they’ve done is they’ve split the telescope into two bits effectively, so they’ve got the mid-frequency part that’s going to be out of Africa, and the low-frequency arrays and dishes are going to be based in Australasia. That’s for phase one of the programme, which is from now to 2020, and then phase two will follow on from that.

New Zealand won’t have a big involvement in phase one, and in fact our overall involvement was never going to be, in terms of an infrastructural sense, more than about 2.5 percent, but in phase two we may end up with what they call a long baseline part, where effectively we provide an extended length of land—and I won’t start pretending to be a radio astronomer here—from Western Australia to New Zealand, and that’s apparently very helpful for investigating such matters as black holes.

But the exciting part of it, I think, really is the excitement for New Zealand science more broadly and astronomers, and just underlines the work being done in our science community in New Zealand. This is actually a pretty big deal for both groups, because this is probably the first time that such a large, world-scale infrastructure investment, like, for example, the CERN, that occurred, as we know, under Central Europe, has been. The spotlight is put on Australia and New Zealand, alongside South Africa, for that, so I think it’s very positive news and very positive for the science community, and just part of underlining New Zealand’s prowess in the innovation space. It’s just another opportunity to do that.

Lotu-Iiga You talked about new priorities and about promoting jobs opportunities, economic growth, and particularly exports. Can you just talk a little bit about the International Growth Fund that has been appropriated going forward—$30 million. It’s an increase in last year’s actual estimated spending, which was about $25 million. How does this sort of process work? What are the opportunities that the ministry is looking at, in terms of those investments in some of the companies that I spoke about earlier, some of the high-growth companies?

Cunliffe A quick point of order on that might help the Minister, through you, chair. Can the Minister please answer that, net of the cuts that he’s made—$25 million for the Economic Growth and Stability Fund, and the ones that we mentioned before about regional—

Lotu-Iiga That’s not my question.

Joyce But, for what it’s worth, he’s wrong; those cuts weren’t made. So anyway, the International Growth Fund—again I think it’s important to note that those vary from year to year, and that’s a $30 million appropriation in 2012-13. But what it’s used for is effectively co-investing with companies in terms of their international market development. It’s been pretty effective in terms of assisting a lot of smaller companies to get into markets. So as well as what I was talking about with Kanwal before in terms of, if you like,
the direct services of working with trade commissioners in the market, these are particular opportunities to allow companies to invest in perhaps a market development manager, or a marketing plan, or a marketing campaign—those sorts of things—in particular markets to get them on their feet. It’s been very well subscribed and is being used, I think, pretty well to enable a whole range of companies—I’ve met a number in recent times where they have really appreciated it. It’s effectively a bit of a leg-up to get themselves into international markets.

Cunliffe Does the Minister agree with the Pure Advantage New Zealand position in the Green Race Report issued recently, which described his Government’s Advisory Group on Green Growth report as a missed opportunity, and I quote: “There is little evidence of serious consideration by Government of alternative economic growth options—in particular, it seems, those associated with anything green.”, and, if not, why not, given that he constrained the terms of reference strictly to only growth-enhancing and grand-leveraging activities?

Joyce Well, no, it wasn’t what the terms of reference was finally to, at all, but in terms of the differences I think between the Pure Advantage group and the Government’s Advisory Group on Green Growth, is that the Pure Advantage group has continued down the path of ascribing good industries and bad industries, from their perspective. The bad industries are the extractives industries, the intensive agricultural industries, and so on and so forth, that just happen to make up the bulk of New Zealand’s income in the wider world, which is, I think, sadly something that is neglected in their report.

So the challenge with that is that they are basically arguing for a very highly dislocated shift in New Zealand’s approach to how it earns its income in the world, which would leave us—and this part is always under-weighted—poorer for quite a period of time, until such time as that change successfully occurred. That involves putting very big subsidies into industries and firms that would otherwise not be economic today, in terms of a hoped-for that they would be more economic in the future. Fundamentally, we disagree with that approach.

There’s many things about what the Pure Advantage people mention that we can agree with, but I don’t think we can agree with that. I think that would be far too value-destroying for the New Zealand economy. So, as the Advisory Group on Green Growth identifies, our challenge is to actually improve the environmental footprint of all our industries—not saying, on the one hand, this one is good and this one is bad, and that we should do more in this one and not in that one. Again, I would point out that roughly about 80 percent of our exports are in the so-called dirty industries.

Cunliffe Does he agree, then, with the Parliamentary Commissioner for the Environment in her report Green Growth Issues for New Zealand: Feedback to the Green Growth Advisory Group, which says, and I quote: “There appears to be
no reason for excluding large enterprises from the terms of reference.”, which is particularly interesting in light of the Minister’s comment just then about the 80 percent. “It is neither consistent nor equitable to encourage only small and medium enterprises to focus on green growth. Moreover, the potential for carbon-intensive growth by large enterprises to undermine the green growth achievements has been excluded from consideration. A stand-out example would be large-scale exploitation of lignite.” How did the Minister respond to the Parliamentary Commissioner, and why did the Minister exclude large business from the terms of reference, given that he’s criticised the Pure Advantage report for ignoring 80 percent of our export value?

Joyce Well, I think I would refer the member back to the terms of reference at the time. The Government was quite open with the bits that it was—I don’t have the terms of reference. Does anyone have the terms of reference in front of them? I’ve been told they didn’t exclude large businesses.

Cunliffe Well, no, terms of reference 3 says: “The options for our small and medium businesses to move to a lower-carbon economy …”.

Joyce Well, the analysis though didn’t exclude large businesses.

Steel That was the point of the emphasis, rather than a restriction of the terms of reference just to small businesses.

?? The reason for that was that those particular industries were facing particular challenges.

Cunliffe That comes back perhaps to the earlier question around why the small business assistance through Seed Co-investment Fund and the Venture Investment Funds and the Regional and Industry Development Fund have been cut, but—

Joyce Well, they haven’t. As I said to you, no, they haven’t. We’ve just been through that—

Cunliffe They’ve been scaled back.

Joyce No, they haven’t been scaled back. I’m sorry. That’s incorrect. That is simply incorrect and it cannot go unchallenged, Mr Chair. Those funds around Seed Co-investment Fund and the Venture Investment Fund—it doesn’t matter how many times Mr Cunliffe says it—have not been changed. It’s just about the timing, as they go from year to year.

Cunliffe The number in the forward budget is considerably less than the number in last year’s budget.

Joyce No, that’s not correct either.
A part of that may be a carry-over, but given that it’s a forward-looking number, it is a lower—

No, I am sorry. Again, I can’t let that go unchallenged.

Thank you, Minister. Thank you for the clarification on the last point. Our time is up. I appreciate your appearance and your answers to our questions. Thank you indeed.

**Conclusion of evidence**
2012/ 13 Estimates for Vote Education and Vote Education Review Office

Report of the Education and Science Committee

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Vote Education and Vote Education Review Office

Recommendation
The Education and Science Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Education and Vote Education Review Office as set out in Parliamentary Paper B5, administered by the Ministry of Education, be accepted.

Introduction
The appropriations sought for Vote Education increase to $9.605 billion in 2012/13 from an estimated actual expenditure for 2011/12 of $9.276 billion. The appropriations sought for Vote Education Review Office decrease to $29.012 million in 2012/13 from an estimated actual for 2011/12 of $29.957 million.

Achievement data and National Standards
We heard that the Minister believes that our top students compete very favourably with all of the top performers in the rest of the world. The Minister told us we consistently use PISA as an international indicator of how well New Zealand’s system is performing, which is a test of 15-year-olds in 65 countries on science, reading, and mathematics. New Zealand is, in general, the seventh on that measurement. The Minister expressed her concern that once this is disaggregated by ethnicity New Zealand Pākehā are second in the world, Asian New Zealanders are seventh in the world, Māori New Zealanders are 34th, and Pasifika New Zealanders are 44th. The Minister confirmed her focus to lift the achievement of all students.

The Minister also confirmed that in Budget 2012–13 there is targeted equity funding of approximately $47 million to increase participation of Māori and Pasifika and children from poorer homes in early childhood education. We heard the government has a target of 85 percent of all 18-year-olds to have achieved at least NCEA level 2 or its equivalent. The Minister told us that NCEA 2 is widely considered to be the minimum qualification that will allow a student to go on to further training, go into academic or tertiary study, or put their foot on the pathway of a trade or a career.

We believe that all children have potential and by investing in quality public education, their opportunities can be realised. We believe that the composition of New Zealand classrooms has changed and it is imperative that teachers are responsive to the diverse learning needs and teaching practices that will lift achievement outcomes for all learners.

The New Zealand Labour Party believes that this expectation can be achieved by lifting participation in particular of Māori and Pasifika children in early childhood education through the most appropriate settings that cater to their early year’s development. The New Zealand Labour Party does not agree with the current approach taken by the Government in which there is a reduction of qualified early childhood teachers to 80
percent in early childhood education centres. The New Zealand Labour Party believes our youngest learners deserve quality teachers and that expectation should be consistent throughout their schooling years.

The Minister noted that good-quality data and the use of it for the purposes of raising achievement is a consistent feature in the highest-performing education systems. Some members were concerned that the publication of this data would lead to a league table of schools, based on the moderated results, by the Ministry of Education.

The Minister confirmed that this information is already in the public domain as schools are reporting their National standards data in their annual reports. The Minister also confirmed that the report that the Ministry of Education will be preparing based on National Standards data will be focused on how to raise student achievement and that it is not her intention that the ministry will rank schools. The Minister told us that league tables that are used in other overseas jurisdictions rely on national tests. The Minister confirmed that New Zealand does not have a national test and there are no plans to introduce one in the future.

The Minister was asked whether she believes that the National Standards data set in itself is an adequate reflection of what counts as quality within a school. The Minister told us that National Standards data is a contribution to how well a school is doing but that the work that the Education Review Office does, both on its schools reporting and its national reports, is also relevant. The Minister stressed that understanding the particular context and challenges of individual schools is important.

The Green Party of Aotearoa/New Zealand and the New Zealand First Party do not support the Government's focus on lifting of achievement in primary schools via National Standards. Both parties are very concerned that the Minister will not protect the schools from media misuse of the school's data whether it is via media OIA or the Ministry publishing its own results.

The New Zealand Labour Party is concerned National Standards may lead to the presentation of information in the style of a league table. The New Zealand Labour Party believes that National Standards are a blunt measure that do not adequately assess the vibrant teaching practices that exist in many schools to lift educational outcomes of the most challenged and disadvantaged learners. The New Zealand Labour Party believes raising achievement in schools densely populated by Māori and Pasifika students will require a very different approach to get a school-wide, system-wide lift. The New Zealand Labour Party believes lower-decile schools will suffer the judgement of negative expectation if the Government pursues an agenda that presents limited data sets to parents and communities. The New Zealand Labour Party believes the information that will make a critical difference to children and parents are practical steps to improve learning progression during the school year. The New Zealand Labour Party believes that support in the home and through community initiated interventions can make a big difference to learning outcomes.
Teacher–student funding ratios—class sizes

Some members were concerned of the effect that larger class sizes could have on the achievement of disadvantaged and vulnerable Māori and Pasifika learners. The Minister told us that the original policy was intended to accommodate a new focus on quality teaching and “quality leading”, which the Minister said was supported by compelling evidence that the quality of teachers is a more important factor than class sizes in student achievement.

The Minister stated that the policy was reversed because of significant parent concern, and that it was getting in the way of the Government’s agenda for Education.

The reversal of the policy has had a significant fiscal impact, and some members questioned where the funding shortfall will be made up. We heard that the structure of Vote Education makes it difficult for the shortfall to be covered easily, as nearly 85 percent of the vote is already committed to property maintenance, salaries, and early childhood education. A final decision on how the shortfall will be made up is yet to be decided. If necessary, we heard that the shortfall will be booked against the Budget for 2013/14.

Some members inquired why the Minister pursued the proposed policy to change teacher–student funding ratios when advice she received indicated that schools with technology centres could lose up to six teachers. The Minister explained that 90 percent of schools would lose or gain one teacher, while 10 percent of schools would lose more than one. We heard that the Minister had made provision for transition options for the affected 10 percent of schools, and that a working group was to be established to work with them individually, to ensure that they could manage the transition.

The New Zealand Labour Party remains concerned that the Government ignored evidence-based research tabled in the House by the New Zealand Labour Party which showed that larger class sizes would be detrimental to learning outcomes for the youngest, disadvantaged, and most vulnerable learners. The New Zealand Labour Party believes the Government was advised that some intermediate schools and those with technology centres would lose approximately six teachers, and they were still prepared to accept that trade-off was reasonable. The New Zealand Labour Party is pleased with the policy reversal but will monitor the anticipated cuts to recoup the $114 million shortfall. The New Zealand Labour Party is also concerned in its belief that the Government began working on the class size policy before the election, but did not share its plans with the New Zealand public.

The Green Party of Aotearoa/New Zealand supports the issues raised by the New Zealand Labour Party about the policy reversal around class size increases. The Green Party of Aotearoa/New Zealand remains concerned that the Government decided to reverse the policy because of parental concerns about the impact on children, not because they recognise the harm this policy could cause. The Green Party of Aotearoa/New Zealand also supports the New Zealand Labour Party concerns that they believe the Minister was reluctant to explain when the New Zealand National Party decided to develop a policy of increasing class sizes.
Te Kotahitanga

Te Kotahitanga is a research and professional development programme to enable teachers to create a culturally responsive context for learning, in order to improve Māori students’ learning and achievement. It draws on the best evidence on securing successful learner outcomes. We heard that an average of $90 million per annum is being invested between 2009 and 2016 for professional learning development in schools, in addition to a further $33 million from Vote Education in 2012/13 which is targeted at priority learners including Ka Hikitia and Te Kotahitanga. These funds are contestable, and the regions specify what is needed in their schools.

Some of us raised concerns that requests for additional funding for this scheme from some schools in the Wairarapa region were being declined due to lack of ministry funding. The Minister said that Te Kotahitanga spending is prioritized to schools with a high proportion of Māori students. The Minister also queried whether additional funding was needed for Te Kotahitanga, as it is a method of teaching, without associated specific costs, the principles of which any school can adopt.

Some members were concerned whether schools that were early adopters of Te Kotahitanga were having their momentum slowed when the funding had to come from their operating budgets. The Minister responded that if the schools adjusted to the principles, then extra costs should not be incurred.

The Green Party of Aotearoa/New Zealand remains concerned that this useful professional development programme and others designed to assist teachers to become more culturally appropriate in their work (specifically with Māori children but ultimately with all children) is not universally available. The Green Party of Aotearoa/New Zealand is concerned that schools on tight budgets have to decide to prioritise these programmes and pay for their maintenance from operating budgets is a major concern.

The New Zealand Labour Party is pleased to see the positive progress of schools that have implemented the teaching, research and evaluation models promoted under Te Kotahitanga. However the New Zealand Labour Party is concerned about the sustainability of this initiative where there is feedback from early adopters of this initiative that resourcing co-ordinators within existing operating grants funding is coming under increasing pressure. The New Zealand Labour Party believes this is a matter of significant attention if the Minister wants to promote domestic exemplars that help to lift outcomes for Māori students in secondary school.

The New Zealand First Party also believes that the contestable funding model for professional development is not appropriate for recognised programmes that influence school-wide cultures such as Ka Hikitia and Te Kotahitanga. It is the New Zealand First Party’s view that many mainstream schools would benefit from and would like to participate in these programmes which enhance a culture shift in teaching delivery that benefits all students but that due to a low percentage of Māori or Pacific students are unable to access funding to provide school wide beneficial training.
Special education

We inquired about the Government’s driver for changes to residential schools. We heard that it is trying to apply its policy of “Success for all” to the sector, and help every learner achieve their potential, within as normal a context as possible. There are 40 “hub schools” throughout the country, which focus on winning contestable funding for their area. This complements the Ongoing Resourcing Scheme funding.

There are also four residential schools, offering 200 places for students. Although three of the schools are based in the South Island, the majority of the students that attend them are from the North Island. We heard that the ministry is undertaking consultation on the role of residential schools, with final decisions about their future to be made in October. We asked the Minister whether the same amount of money will end up being spent on these students. The Minister said that this was not a cost saving measure. The Minister stated that the purpose of the changes was to ask the question: “What is the particular service for the particular learner, and how do we provide that?” The Minister confirmed that she does anticipate that there will still be residential places in the future.

We inquired about changes to supplementary learning support. The Minister said that the new provision is more equitable by establishing 40 clusters across New Zealand, distributed according to population. She confirmed that clusters have been put around those hubs so that all schools have access, and that a process is under way to put in place practice managers. The Minister confirmed that the intention is instead of students travelling to the school to get the service, if they do not happen to be in the school, the hub will send out resource to the particular school. This is to ensure the learner in the particular school is getting in-school support as part of the normalisation of need and the provision of need. The Minister told us that the aim is to ensure that the school as a community can develop its own provision by having these expert interventions on an agreed and prescribed basis particular to the learner. The Minister confirmed that a formative evaluation is underway, and that she could provide a report to the committee in approximately 12 months on this evaluation.

Vocational pathways

The Minister confirmed that trades academies have been introduced in a number of schools around the country and that Youth Guarantee places have been provided. The Minister told us that clarification of vocational pathways together with the industry training organisations is yet a further step in that process of clarifying opportunities for young people. The Minister told us that currently some students are known to “credit-harvest”, enrolling in courses that provide the easiest NCEA credits, with the unintended consequence of being excluded from particular vocational pathways. The Minister confirmed that NZQA has been putting a lot of effort and resource into workshops for parents and school boards about this.

Some members queried the current measures of success applied to secondary schools in light of the Government focus of every student into employment, trade training, or tertiary study. The Minister was asked if she supported a broadening of these success criteria to include employment and Unitec or trade training. The Minister’s response was positive, pointing to the Better Public Service targets for 18-year-olds.
Board of trustee training

Some members were interested whether members of boards of trustees would benefit from better training, to improve their understanding of their role in the governance of schools. A member asked specifically whether the Minister supported compulsory training, and the Minister confirmed that she does not. The Minister confirmed that she does not support compulsory training in principle. We asked whether there could be strengthening of the skills and the framework of board of trustees. The Minister confirmed that funding has been made available for that purpose. She confirmed that she meets regularly with the Chair and general manager of New Zealand School Trustee Association to discuss ways to improve trustees’ performance because she is committed to ensuring that there is high-quality governance.

School newsletters

Some members were concerned that schools were unable to discuss issues like class sizes in their newsletters because they may be considered too political. The Minister explained that she endorsed a memorandum published by the New Zealand School Trustees Association, which specified that school newsletters should focus on educational issues, school issues, and community issues, and not include personal political polemic. She affirmed that schools are entitled to discuss with parents policies that are affecting the school, but that this should focus on informing, rather than conveying political messages.

The New Zealand Labour Party and the Green Party of Aotearoa/New Zealand believes discussion of controversial education policy such as school classes is a legitimate activity in school newsletter and it is not democratic to direct schools not to discuss these issues with parents.

Property

We inquired about the ministry’s new approach involving public–private partnerships in managing school. Some members were interested in the Hobsonville Point Primary and Secondary School, where a relationship manager has been appointed to focus on property management. Some members were concerned whether this approach would result in savings. The Minister told us that she was aware of a survey that showed that approximately 70 percent of principals could spend up to 30 percent of their time on property management. The Minister said that there are a number of elements of the PPP that give us the opportunity to see whether there is a better way of managing property as an asset, while at the same time facilitating a much more clear focus on student achievement.

The Green Party of Aotearoa/New Zealand was concerned that the Minister confirmed that $100,000 has been spent on a manager of the Hobsonville Point Primary and Secondary School public–private partnership. The Green Party of Aotearoa/New Zealand was concerned that this is in addition to the business case development funds spent which when costed by Radio New Zealand showed that the model is not cheaper than the public ownership of school buildings. The Green Party of Aotearoa/New Zealand questions the continuation of this public spending.

The New Zealand Labour Party does not believe that this PPP will deliver greater value for money to the taxpayer. The New Zealand Labour Party believes that if the governments intention is to reduce the amount of time schools spend on property management there are
more cost-effective ways to do so. The New Zealand Labour Party believes that public schools do not have $100,000 each year for a manager to oversee their properties, as the Hobsonville School will, and this undermines the very justification for the PPP in the first place.
Appendix

Approach to this examination

We met on 18 July and 24 July 2012 to consider the 2012/13 Estimates for Vote Education and Vote Education Review Office. Evidence was heard from the Minister of Education, Hon Hekia Parata, the Ministry of Education, and the Education Review Office, and advice received from the Office of the Auditor-General.

Committee members

Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Education, received 18 July 2012.

Office of the Auditor-General, Briefing on Vote Education Review Office, received 18 July 2012.

Minister of Education, Response to standard Estimates questionnaire for Vote Education.

Minister of Education, Response to standard Estimates questionnaire for Vote Education Review Office.

Response to additional questions for Vote Education, received 22 June 2012.

Response to additional questions for Vote Education, received 27 June 2012.

Response to additional questions for Vote Education, received 23 July 2012.

Response to additional questions for Vote Education Review Office, received 22 June 2012.

Response to additional questions for Vote Education Review Office, received 23 July 2012.

Vote Education briefing paper, prepared by committee staff, dated 13 July 2012.
Vote Education Review Office briefing paper, prepared by committee staff, dated 13 July 2012.
2012/13 Estimates for Vote Energy
Report of the Commerce Committee

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Vote Energy

Recommendation
The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Energy as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

Introduction
The annual and permanent appropriations sought under Vote Energy for 2012/13 total $219.483 million, an 11 percent decrease from the estimated actual expenditure in 2011/12. This decrease results largely from the transfer of the New Zealand Emissions Trading Scheme and Climate Change Register functions to the Environmental Protection Authority, the sale of the Whirinaki Power Station, and the allocation of funding in the Warm Up New Zealand multi-year appropriation.

Petroleum and minerals
We heard that the extraction of oil and gas was a high priority for the Government, and that although there is international interest in shifting towards biofuels and other renewable fuels, New Zealand consumers still appeared to be opting for petrol and diesel.

Exploration
New Zealand has about 16 known oil and gas reserves, but currently produces only from the Taranaki basin. The Minister told us that over 5,000 jobs in Taranaki were directly or indirectly related to oil and gas development, an industry which had good safety and environmental track records. We heard from the Minister that the oil and gas industry in Taranaki has worked well alongside the dairy and tourism industries. The Minister hoped that the Taranaki model might be replicated elsewhere in the country, for example in Northland and the East Coast.

Some of us were concerned that the proportion of jobs created in the oil and gas industry relative to its contribution to gross domestic product was lower than in the agriculture and hospitality industries. Some of us were concerned also by reported suggestions that development in regions other than Taranaki would not create similar numbers of local jobs, but would still expose those regions to associated environmental risk. The Minister told us that the exploration stage did not result in many jobs, but jobs were created once exploitation of the resources began. He said that any significant oil and gas find would benefit New Zealand as a whole, and benefit local communities with the creation of jobs in infrastructure and operation, as is seen in Taranaki.

We asked whether the Minister was concerned that oil industry jobs were being advertised overseas by Immigration New Zealand. He replied that many local oil, gas, and mineral workers had gone to Australia and elsewhere for opportunities, and he hoped that further development would entice them to return.
Overseas investors

The Minister said that overseas investors’ interest in New Zealand’s oil and gas industry was increasing, and that New Zealand’s political stability and competitive royalty regime made it attractive.

Regulation was another key factor, and the Minister expected the review of the Crown Minerals Act 1991 and exclusive economic zone legislation to be of interest to overseas investors. We asked whether it was premature to offer blocks for exploration before the exclusive economic zone legislation was finalised. The Minister said that 600,000 square kilometres had been offered for exploration over the past decade without such legislation. Some of us have grave concerns that the proposed regulatory framework in the draft exclusive economic zone bill is grossly inadequate to deal with the very substantial pollution risks around deep-sea oil drilling, and believe that the current approach is fundamentally flawed.

Consultation processes

We asked about consultation for oil exploration and fracking, particularly as we had heard reports of local councils not being consulted. The Minister told us that recent consultation had been wider than in the past, and councils with jurisdiction over areas being explored or developed were consulted. It was intended that in future councils without jurisdiction would be consulted if they were still near enough to development to represent a public interest.

The Minister agreed that some councils lacked the technical expertise to deal with resource consents for oil and gas development. He told us that as people in the Taranaki region had gained knowledge through exposure to the industry, New Zealand Petroleum and Minerals had discussed with Taranaki councils and iwi how to increase the expertise of other councils.

Royalties

We asked whether the Government was considering increasing royalties on minerals and petroleum, as New Zealand’s royalties-plus-tax charges are the fourth-lowest in the world. A review of royalties was undertaken within the last two years. We heard that New Zealand’s geographically isolated position and desire to encourage exploration and investment meant that the petroleum and gas royalty rate was pitched correctly, although the royalty rates for minerals may be increased.

Some of us find it very surprising that the current Government would take on the environmental risks of deep-sea oil drilling with such internationally inadequate royalties and the proposed weak regulatory regime.

Refining and oil security

We asked whether in the event of an oil crisis the Marsden Point refinery would be capable of refining New Zealand oil, which is currently processed overseas. The Minister said that the refinery had been substantially upgraded and could refine New Zealand oil, but that processing overseas was more economical at present.
Renewable generation

We heard that renewable generation is increasing, and that geothermal energy is the most cost-effective renewable option at present. New Zealand electricity generation is currently 76 percent generated from renewable sources, with the goal of 90 percent by 2025. We asked whether this target was possible with current policy settings. The Minister told us that the proportion of renewable energy was increasing, and many planned renewable generation projects have received resource consent. We asked why New Zealand did not have policies or a department to support renewable energy generation. The Minister told us that in the OECD only two countries generated a higher proportion of renewable electricity.

We asked whether it would be possible to prevent further gas base-load generation in order to encourage renewable generation, but heard that gas generation was still required to underpin security of supply.

Some of us consider the accelerated further development of renewable energy to be a major area of competitive advantage for the New Zealand economy, as well as conferring additional benefits in terms of energy security and diversification of energy supply. Some of us believe that there is a strong public policy case for consideration of further measures to encourage the accelerated development of renewable and clean energy technology. Some of us are disappointed in the constrained terms of reference and lack of progress on the recommendations of the Government’s Green Growth advisory group.

Efficiency campaigns

The website of the “What’s My Number” campaign, which encourages consumers to consider switching electricity providers in search of better value, had attracted 600,000 hits. Since it began 340,000 domestic electricity consumers had switched electricity plans, though the rate of movement is slowing. An equivalent campaign will target commercial users in July 2012.

Of the 170,000 houses insulated under the Warm Up New Zealand: Heat Smart insulation subsidy programme, 75,000 were those of low-income families, and about 25,000 rental properties were insulated. The Minister observed that people were not using less electricity, but their houses were warmer. The number of homes that the scheme can afford to insulate has risen from 188,000 to 230,000, as some houses insulated under the scheme were only partly accessible or already had some insulation.

The solar water heating subsidy scheme will be discontinued at the end of the 2011/12 financial year, because New Zealand’s renewably produced electricity is more energy-efficient than rooftop solar power units. The funding for this scheme will be transferred to a business energy efficiency scheme.

Some of us note the strategic importance of managing energy demand through efficiency measures, especially where this has related health and housing benefits such as in the case of home insulation. Some of us note the strong advice of the Parliamentary Commissioner for the Environment that a smart grid and smart, two-way electricity metering would make a very substantial contribution to future energy efficiency. Some of us urge the Government to accelerate its consideration of smart grid enhancements. Some of us note
that the cost of such measures is lower than that for the proposed grid upgrade, which is in part necessitated by the distance of major generation capacity from load centres.

**Effect of partial privatisation on domestic electricity prices**

We asked the Minister what research he had requested on the impact of partial privatisation of state assets on domestic power prices. He told us that Treasury was undertaking this work for the Minister for State Owned Enterprises, and that he had not asked for any specific advice on this issue.

Some of us note that the Minister declined our request to conduct research and seek advice on the domestic power price issue and then release that advice to the committee and publicly. The Minister stated that he was not the Minister responsible for that information.
Appendix A

Approach to this examination
We met on 14 June 2012 to consider Vote Energy. Evidence was heard from the Minister of Energy and Resources, Hon Phil Heatley, and the Ministry of Economic Development, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received
We considered the following evidence and advice during this examination:


Minister of Energy and Resources, Response to additional questions, received 21 June 2012.

Minister of Energy and Resources, Response to standard Estimates questionnaire.

Minister of Energy and Resources, Response to written questions 1–116, received 12 June 2012.

Office of the Auditor-General, Briefing on Vote Energy, received 14 June 2012.

Vote Briefing Paper, prepared by committee staff, dated 31 May 2012.
2012/13 ESTIMATES FOR VOTE ENERGY

Appendix B

Corrected transcript of hearing of evidence on 14 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Moana Mackey
Mark Mitchell
Jian Yang

Witnesses
Hon Phil Heatley, Minister of Energy and Resources
Bruce Parkes, Deputy Secretary for Energy and Communications, Ministry of Economic Development
Mike Underhill, Chief Executive, Energy Efficiency and Conservation Authority
Carl Hansen, Chief Executive, Electricity Authority

Young Thank you, Minister, welcome, and your team. If you would like to introduce your team, it would be appreciated. We will hear from you and then we will ask some questions. Thank you.

Heatley OK. [Introductions] What I thought I’d do is just traverse four things, maybe, for 15 minutes, and then you can have three-quarters of an hour of lots of questions. That’s what I thought, but I’m pretty relaxed. Is that all right, Mr Chairman?

Young Yes.

Cosgrove With respect, I don’t think we need 15 minutes.

Heatley No, we’ll see how we go.

Cosgrove Just try talking fast.

Heatley OK. First of all, I thought I’d look at the oil and gas block offer that we just announced. I will hand that round—that’s the map. What we have done is we went out for consultation; legislatively, we are compelled to consult with Māori around block offers for oil and gas. So we went out in April for a couple of months to discuss with them. We also this time round went to local authorities just to talk to them about, you know, where the blocks...
were proposed, sort of as representatives of the public, and then made it fairly pretty high-profile public knowledge, and some submissions were put in through emails and letters from the general public on those blocks.

What happened is we went out with 25 blocks, and those are laid out there on that map. The yellow space is blocks that have been put out for exploration tender in the last decade, and then the blue blocks are the 23 that we landed on. There are two that we ended up taking out. If you look down at that Taranaki inset down the bottom right there, the two blocks below the mountain are sitting there. There were two blocks above the mountain that we took out. The reason for that is there were a large number of wāhi tapu sites, or proposed wāhi tapu sites—or however you want to put it—that were in question. And rather than put out the blocks that would look like a Swiss cheese because you’ve taken out the wāhi tapu sites, what we’ve decided to do is with the Treaty settlement the local council’s working through making those wāhi tapu sites official, in a sense, and once that sort of work has been done, those blocks might be put out for tender next year or the following year. The beauty of the block offer process now is that it is an annual offer. Next year we will go through a consultation on more blocks, and then the year after that. The idea is if successive Governments want to do that, there is this annual block offer that both industry and the public and councils are aware of.

If we were to go through the block offer process again, and of course we are, one thing we won’t do is when we speak with councils or contact them directly what we did is we did it on a jurisdictional basis. So when you’re outside the 12 mile, of course, regional councils don’t have jurisdiction outside 12 miles, but the reality is they have got an interest in what happens outside those shores, because you’re using those ports and a whole bunch of other things. So we are just going to be a lot more careful. It won’t be a legislative requirement; it just makes sure that councils are consulted, even if they haven’t necessarily got a jurisdiction, but we can see clearly that they have got an interest. So, for example, in the Wairarapa, if we did that again, we’d have a much closer conversation with the Wellington Regional Council and the Wairarapa Council—that type of thing. In the end, we have had discussions with them. I have talked to Fran Wilde a couple of times and it sort of all worked through. But right from day one that’s what we want to do, and that’s what we will do.

Anyway, we have landed on those blocks, so the situation is we’ve gone out with that offer. We expect companies over the next 4½ months to look at it. They will come back with some plans and hopefully we’ll be permitting by the end of the year. It must be said that in terms of drilling, that shouldn’t be expected for several years yet. So in the sea area we are basically looking at acoustic and sonar surveying. If anyone wants to drill even an exploration well under the new EEZ legislation, they will require consenting. If it’s inside the 12 mile, clearly that’s through the council; if it’s outside it will be through the EPA. So that’s sort of how that’s going to
work. Did you want to me to stop there and do questions on that, or just move on to the next thing?

Cosgrove  Rattle through it.

Heatley  Rattle through it, OK. So that’s the block offer. We’re hoping—bids will close in October, permits awarded in December.

The second map is for minerals explorations, so that’s for Northland—that was released yesterday—which is quite an interesting process. The block that’s out for offer is described, I think it’s about 4,500 square kilometres, but each block that will be permitted is actually limited to 7,500 hectares, so one person just can’t apply for that one area. We think there will be a fair bit of interest up there. Recently I released an aeromagnetic survey which, essentially, the initial feedback looks like it’s more of a gold, silver, copper environment up there. Clearly, there is aggregates there already proven in Northland, and we’ll see how that goes. And there’s quite considerable interest from mining companies in the north.

But that aeromagnetic survey did much more than just identify minerals; it also can be used to identify aquifers, which is pretty useful for the north. I mean, everywhere in New Zealand is interested in water. And also where geothermal operations might be expanded or there might be new ones come on stream. So it’s a pretty handy piece of work. That block’s out for offer now, I think, for 6 months. So they’ve got till about December to come back with permit requests, and a decision on those will go out early next year. We think there’s quite a good opportunity in Northland.

You might be interested to know that although there wasn’t significant change in this one in terms of what the original proposal was, as there was with oil and gas—there were changes after submissions—with this one there wasn’t so much but when we initially drew the lines, of course, we’d already avoided schedule 4 land and Cape Reinga and Waipoua Forest, you know, and a bunch of other areas. It’s just sort of common sense; we didn’t want to wind the public up. Clearly, we are not going to mine those areas, so why would you put them out in the block in the first place? It’s just avoiding a bit of unnecessary angst. So that’s that one, so congratulations to the team for that as well.

The third thing I thought might be of interest to you is the Warm Up New Zealand: Heat Smart programme. What we have done there is an extension of the programme in terms of numbers of homes. So we were going to do about 188,000 homes over 4 years, but savings are such and the ability to sort of leverage some cooperation from councils and energy companies and the like has meant that with the same amount of money we can do an extra 40,000 homes, which is quite good.

So what it does is originally about a third of a billion was over a 4-year period, which ran out in June next year, so essentially all the contracts
would end at June next year. The difficulty for us and businesses providing
that is that next year's Budget is about May, so they wouldn't get certainty
until a month before the end of the contract. What this neatly does is what
it allows them to do is to keep doing installations through the rest of next
year. Those extra 40,000 houses I don't think will take a full financial year to
put in; it will probably be 6 to 9 months, so it will fill up all of next year. But
the reality is that they will have got certainty by May's Budget about the
programme going forward, so there will be a whole lot of time to adjust
things if there is an adjustment. So, yes, the Government is interested in
considering whether we extend the programme, but there's no guarantees
and I've certainly given no guarantees to the sector. So that's where that sits,
but it's been a pretty cool programme. I haven't seen anyone argue against
it.

Then, just lastly, on the electricity sector—have I handed out the third one?
I thought you'd be quite interested in this. I've been taking this to Cabinet
every week for the last 3 months. I don't know how much the general
public have been aware of the South Island storage situation. It certainly
hasn't been the political football that it has been historically. But as you see
in the curve there, the actual New Zealand storage there is in brown, and
the 1 percent hydro risk curves there. So what that means is that 1 percent
curve means that when you hit that curve, there's essentially a 1 percent
chance, put really simply, that there could be blackouts. Then you go down
to that line, that emergency storage guideline, and that's sort of a 10 percent
chance that there could be blackouts because of low lake levels. When you
hit that 10 percent curve, we start on conservation campaigns. So lake
levels, in fact we've had the lowest inflows ever to our lakes—that's ever,
which is for ever. So it's been pretty tenuous, but some rain over the last
few weeks has sort of lifted it up. As you can see, we are no longer tracking
through that 1 percent. We've cut it and now we've hit back up. So it's still
on my watch-list, but for your interest, I have taken it off the Cabinet
watch-list.

On that electricity stuff, I would have to say that the industry's handled the
situation very well. You know, I haven't had letters from the public, a
phone call from Radio New Zealand every day, people beating the drum,
questions in the House. And that's essentially because the companies
themselves have managed it well. We think the single thing that's had the
biggest effect on companies' mind-set to manage the water supply has been
the fact that they have to write out a $10 cheque to every consumer each
week should we go into some sort of conservation campaign. The incentive
for all those consumers to get $10 a week, you know, is a real driving factor
on generation companies. So that's worked well. That's where we sit there.

I will leave it at that. I don't think there's anything else that I can talk about
broadly, but if you have got any questions for me or the team.

Young Thanks, Minister, very much. Good presentation.
Mackey: Thank you, Minister. I found it very interesting that in all your introduction you didn’t once mention renewables. I would like to know, in terms of your priorities, are renewables less important, as important, or more important than fossil fuel extraction?

Heatley: Well, up till recently we have been tracking at about 76 percent—

Mackey: I’m talking about all renewables, not just electricity generation.

Heatley: Can I finish, though? Or can I get started?

Mackey: I’m giving you some guidance.

Heatley: I’ll get started. In terms of renewables, in terms of electricity generation, we are tracking about 76 percent renewables, and we’ve got a target of reaching about 90 percent renewables by 2025. So clearly it’s high priority. We want to move in that direction, and New Zealand has been. We start from quite a high base because of our investment in hydro. I think we are about the second and third in the world for renewables and electricity generation. We trail behind Norway, which has got heaps of hydro. So in terms of electricity generation, it’s clearly a priority. I think there was a bit of fuss yesterday because Huntly announced that actually they’ve been signalling for about half a decade about closing down one of their generators for coal. There was a bit of jumping up and down from the Greens, which we thought was ironic, that they’d be closing down coal in Huntly, but anyway that’s what’s been happening. So there is a move towards renewables in the electricity sector.

In terms of the fuel sector—I guess you are talking about transport and that type of thing—obviously there’s international interest in shifting towards biofuels and those types of products. We are taking an interest in that, but at the moment New Zealand consumers, clearly, are opting for petrol and diesel.

Mackey: Because they don’t have alternatives. But you didn’t actually answer my question. Are renewables less important, as important, or more important than fossil fuel extraction in terms of the Government’s programme?

Heatley: Sorry, are you talking about extraction or use? I was unclear, sorry, so the question is about extraction?

Mackey: Development of fossil fuel extraction in New Zealand—is that less important, as important, or more important than renewable technologies, which would replace the need for fossil fuels? It’s not a difficult question, Phil. If you don’t want to answer it, just say.

Heatley: Well, it’s a confusing question. Are you talking about extraction?

Cosgrove: We’re not confused. She said extraction.
OK, well, I’ll make it very clear. I’ve already dealt with use, so the extraction of fossil fuels—so oil and gas exploration—is a high priority for this Government.

Higher than the development of a renewables sector?

For electricity generation?

For everything.

Well, the renewable sector for electricity generation is as described, which is a very high priority. So the extraction of oil and gas is a high priority for this Government, and the extraction of oil and gas is for export. Some of the gas, a significant amount, is for electricity generation, but when we flick into electricity generation, clearly there is a drive towards renewables. And I think that completes that question. I think the question, unfortunately, confuses use with extraction.

It doesn’t, actually. In terms of renewable electricity generation, how do you think the sector is feeling, particularly in the areas of wind?

As I say, renewable generation for the electricity sector is only increasing. If you want to take the opportunities off the shelf—whether they are geothermal or hydro or wind—companies at the moment are finding that the most cost-effective renewable generation option is geothermal. So if they’re going to take them off at the shelf at the moment, they’d take geothermal off first. Wind would come next, and hydro would come next. The Parliamentary Commissioner for the Environment signalled the same thing about hydro—the difficulties. Look, all we have seen for a while now is an increase in renewable generation, a decrease in fossil fuel generation. It’s tracking in the right direction, and we’re really supportive of it.

The feedback that I’m getting from that sector is that they’re really concerned because you seem to think everything is hunky-dory because it rained a lot last year. So we had a particularly good year for renewable generation because the hydro lakes were going full tilt, when in fact—and, in fact, the regulatory impact statement on the national policy statement on renewable energy says that on current policy settings we have no chance of reaching 9 percent renewable by 2025.

All I can say is we’ve got about 2,500 megawatts consented on the shelf at the moment that can be pulled off the shelf. Much of it is for renewable generation. Consented wind farms, geothermal opportunities, small hydro—it’s all there. When investors want to do it, they can. The reality is that supply is meeting demand. Renewable generation is tracking up. You sort of can’t argue against the facts. There’s not much more for me to add.

OK. Well, in terms of the threats to renewable electricity generation, are you aware that one of the biggest threats is a major gas find? You have just said that you are quite keen on finding gas finds for electricity generation.
Even if we don’t find that, the industry are finding it really, really uncertain at the moment, because with you going out there and doing all the rhetoric about wanting to find more gas to replace what they’re doing, they’re finding it hard to get investment—all of the stuff that was consented, to be fair, not under your Government but under the previous Government. In fact, a major gas find of the type you’re very keen on finding is the biggest threat to renewable generation in New Zealand and meeting that target. So what are you going to do to allay their concerns there and to make sure we reach that target?

Heatley I guess the difficulty is you’re putting through what if this happens and what if that happens, and all that type of thing. But the reality is this Government has got oil and gas for export and electricity generation issues and gas consumption issues as a high priority. Renewable electricity generation across New Zealand, clearly, is a priority. It’s tracking in the right direction and you can’t argue against the facts. So, yeah, what if this, what if that—the fact of the matter is that gas at the moment underpins a whole lot of electricity generation in New Zealand. It supports baseload. That’s essential. When the lights go out, you’ll be the first to be jumping up and down. But all I can say is all the graphs are tracking for renewable electricity generation. That’s positive.

Mackey Why wouldn’t you do one single simple thing, which would be that you can use gas for gas consumption, for export, for peaking, which is what you are talking about in terms of making sure the lights don’t go out? Why would you not send one simple message, which is we will not have any more gas or thermal baseload generation, which gives the renewable energy sector the security they need to know that they’re not going to be priced out of the market overnight because of a major gas find? You can still use gas for everything else that you want to use it for and get the economic benefit, but that one thing that would also build up our renewable energy sector—why will you not do that?

Heatley Well, I’ve got to give assurances to 4 million New Zealanders that when they turn on the shower in the morning and the milking machines, there’s security of supply.

Mackey Well, you’ve just told us we’re absolutely fine at the moment with renewables.

Heatley The fact of the matter is that gas at the moment underpins that security of supply. And, as I say for the fourth time—and for those at the back of the room, if you haven’t heard—75 or 76 percent at the moment is renewable generation, tracking in the right direction. This year, actually, because of low lake levels it has flat-lined a bit, but on the whole it’s all going in the right direction.

Mackey So in terms of how we compare internationally on renewables, I mean, have you read the Renewables 2012 Global Status Report? Because it’s pretty sad
reading for New Zealand in terms of the 36 high-income countries that they have looked at where there’s renewable energy support policies. As you can see, there’s all these dots. All these countries that we compare ourselves to, who are our trading competitors, have lots of dots. We have one, but in fact that dot’s gone because it was a biofuel subsidy that you took out in this year’s Budget. How do you feel about the fact that we’re the only country amongst all the countries that we compare ourselves to that has no renewable energy support policies?

Heatley I think it’s really cool that those countries are way ahead of us with their policies, and I think if there’s a new Labour Government that sitting around and having committees and policies would be great. But the fact is that we’re the second or third-highest generator, on a percentage basis, of renewable electricity in the world. So where we actually sit compared to the world is more important to me than the bundles of policies that, you know, you might want to encourage me to pump out.

Mackey Why do we have so many policies to help increase fossil fuel exploration and extraction, but when renewables ask to be put on a level pegging, you say no, and you ridicule the kinds of policies that might support their development? For example, in 2010 you announced that you were beefing up the Crown Minerals Group in MED. Why do you not have a renewables group in the Ministry of Economic Development at the same level, or do you not see renewables as part of New Zealand’s economic future?

Heatley No, I just see results as more important than piles of pieces of paper and policy. The fact of the matter is we are 75 percent renewable electricity generation in this country. We are second or third in the world—we are, aren’t we? No one’s corrected me yet—and the results speak for themselves.

Mackey What—

Heatley Mr Chairman, I can’t—I mean, I’ve answered this question a lot of times. It’s up to you. I mean, I can keep answering it, but—

Mackey OK, so why are fossil fuels so unable to stand on their own two feet that they require a massive increased group in the Ministry of Economic Development, they get tax relief, they get subsidies? What is it about fossil fuels? Why can’t you let them stand on their own two feet if you’re not going to come in and assist renewables? Why do they get the assistance but the renewables sector doesn’t?

Heatley Mr Chairman, I think the committee needs—you know, maybe members need to be better informed. The oil and gas industry—

Cosgrove Point of order—

Heatley Sorry, I withdraw if that was taken as offence.
Young What’s your point of order?

Cosgrove My point of order is that there is a protocol here. A question was answered, you didn’t rule it out, and we expect a reasonable answer.

Heatley No, fair enough. OK, so the oil and gas industry, royalties and company tax combined, pay about 42 percent tax. So the idea that they get subsidies is absurd. Now, in there might be some sort of delay of payments or taxes or royalties, or whatever it is, and things like that, but as a general rule it’s 42 percent of their income. So New Zealand annually from the oil and gas sector collects about $400 billion in royalties, and almost the same again in company tax. So saying—you know, the question is just inaccurate.

Mackey But are you saying renewables don’t pay tax—renewable companies don’t pay tax?

Heatley No, I didn’t say that.

Lotu-Iiga We’ve talked about energy-efficiency initiatives. You alluded to it in your opening remarks, and a third of the vote is actually going towards, you know, those initiatives. So you talked about the expectation that, you know, more houses are going to be warmed up with the initiative. Can you give us a breakdown around, say, how low-income families are benefiting from this, maybe community services card holders, and what’s the sort of anticipated take-up in the next financial year?

Heatley Yes, I can. What I might do is provide the committee with a regional breakdown of what’s been taken up over the last 3 years. I’ll split that, for each region, into low-income, and then the third subsidy. But as a general figure, Mike? The low-income?

Underhill So for low-income we have done—just about 50 percent have been low-income. There’s been a significant enhancement in low-income houses being done than the original proposal, so it’s been a real success.

Lotu-Iiga The 50 percent—so what’s that volume-wise?

Underhill Volume-wise it’s about half of 170,000 houses that have had retrofits, and 150,000 houses that have had insulation, so it’s about 75,000 low-income houses.

Young A sup on that. This is the first time that the scheme has included rentals. Can you give us any update on that?

Underhill Yes, I can. About 25,000 rental properties have been done. You need to compare that with before the programme started, when there was only about a couple of hundred a year, so there’s been a real take-up in the rental area, and the biggest percentage of those have been low-income ones.
Cunliffe: Just a quick supplementary on that. As part of your insulation programme, which is designed to improve energy efficiency, are you looking at the use of solar hot water at all?

Heatley: I’ll answer that one. Just for the first part of your question, the interesting thing is that when we’ve done a bit of a review on the success or whatever of the scheme, we’ve actually found that electricity or energy savings have been, you know, not substantial. What’s actually happened is that people have simply lived warmer, so they are sort of using the same amount of electricity, but they’re living in a warm environment now. So the benefits have been much more health benefits—

Cunliffe: But that’s partly because people couldn’t afford to heat their homes. So in terms of solar water?

Heatley: In terms of solar water, the solar water scheme will end at the end of this financial year. There was $2.5 million going to that scheme, so what we’ve decided to do is transfer those funds into the business energy-efficiency schemes. The reason for that is that what we found when we did an analysis of that—and it might be why Australia and Nelson have dropped the scheme as well, although you’d have to ask them—is that actually, because we are 75 percent renewable electricity generation on the grid, “New Zealand Inc.” is able to produce that power cheaper and renewable than what you can off your roof at the moment. That’s not to say there isn’t solar water infrastructure that you can purchase that maybe might be a bit better than the average, but we’ve found that we think that we’re going to get better bucks out of the business—

Cunliffe: So we’ll take it from that that solar water heating is now outside—

Heatley: It ceases, yes.

Cunliffe: —will be outside the scope of the insulation programme.

Heatley: I’m not sure if you—you don’t give any advice on it, do you?

Underhill: If you go to our website, there’s a lot of advice on solar water heating—

Heatley: But actually funding the units is no longer.

Cunliffe: And likewise photovoltaic cells are outside scope, two-way meters outside scope—

Underhill: Yes, they are—yes.

Heatley: Yes. So we’ve just gone the way the same as Australia, and Nelson did the same recently too.

Lotu-liga: Sorry, just coming back to the retrofits, my understanding is that you’re getting more retrofits than expected—than the projected numbers—so the
average cost per retrofit is coming down. Is that correct? How is it happening, and do you see it being sustainable, you know, going into the future?

Underhill So the average cost per house has come down, and that’s why we’re able to do 230,000 instead of 188,000. So that’s sort of the ratio by which it’s come down. The thing we’ve found that drives it, sure, there’s an efficiency, and that’s great for people doing it. Secondly, you can’t get into all houses, so you can’t get under the floor of concrete-floored houses, and you can’t get into the ceilings of scallion-roofed houses. When we looked at the scheme at the start we said: “Let’s assume we’re going into a house that we’ll get access to the ceiling and under the floor.”

The other thing we found is that a number of houses had some poor insulation put in earlier on, so the amount of insulation that you need to put in is actually less than you would if it was a house with no insulation. But in essence, the effectiveness of the scheme is a 230,000 to 188,000 ratio. That’s the improvement there.

Young Just a supp on that. You’ve been able to do an extra 40,000 houses. In terms of the cost structure, the subsidy to the homeowner or the landlord, how is all that now being calculated?

Underhill Sure. So if you are on a general income, we will meet up to a third of the cost up to a maximum of $1,300. So typically you would spend about $4,000, and we would pay a third of that. If you have a community services card—i.e. the proxy for low income—we will pay 60 percent without a limit. So if you are in a large house and on a low income, we will simply pay 60 percent. Then we have a clean-heating element, where we pay a fixed sum.

Bakshi Minister, you mentioned that mineral and oil exploration is a top priority for this Government. Can you explain why it is so, and what are your plans for the future?

Heatley The oil and gas exploration industry is centred in the Taranaki, and it’s worth, to them, in terms of GDP, about $2 billion. Dairying is worth, to them, about $4 billion, and I think tourism is about $180 million or $150 million. So the three industries there work really well beside each other. There are lots of regions that have got, sort of, dairy farming and farming and tourism, and also there’s a high expectation they’ve got oil and gas reserves. So, quite simply, the 5,000 jobs, the environmental record, the health and safety record, and the fact that those industries can work side by side in Taranaki—the idea of transferring that to other regions, I think, is a really good idea.

There are about 16 or 17 basins in New Zealand. We only currently produce from one, and that’s in the Taranaki, so having all those other basins largely unexplored and certainly not producing just seems crazy. So
the opportunities are there for jobs, the opportunities are there for an industry to simply develop the way it has in Taranaki alongside those other industries.

Bakshi I don’t know whether you have the figures handy or not, but do you have the figures for the per capita income in Taranaki in comparison with the rest of New Zealand?

Heatley I don’t have them, but I can certainly get them. I think that off the top of my head the average sector salary or wage for oil and gas in the Taranaki is about $75,000. Is that about right? We’ll get the exact to you. So you can see that because of that sector, the income in Taranaki and the benefits of that are pretty substantial. To replicate that in the East Coast and Northland and other areas, we just think there’s a really good opportunity. But, quite simply, we’ve got to do it properly. Taranaki has done it well for decades. Health and safety records are pretty good, environmental records, you know, are pretty good, and we want to replicate that as well.

Mackey You’ve said that you believe that local government has the capacity to deal with these consents if they land on their desks. Local government outside of Taranaki, a number of them—

Heatley What consents?

Mackey Consents on oil and gas exploration or fracking. Local governments outside of the Taranaki region have told you they can’t, including the Gisborne District Council, which has currently had some consents dropped on them. They don’t have the technical expertise to deal with that. Would you consider calling in those applications where there are councils who are really concerned that they’re making long-term decisions that could impact on their local environment without the technical expertise to do so—remembering that Gisborne District Council is a unitary authority; there is no regional council.

Heatley Look, what we’re doing there—we’re quite conscious that as we want to transpose what’s happening in Taranaki, as I described, to other regions, there is that whole issue of technical expertise and experience, you know, that’s in the Taranaki region that’s not elsewhere. So the team at NZP and M have been in quite significant discussions with Taranaki Regional Council and the Taranaki councils, and, in fact, Taranaki iwi, and, of course, Taranaki industry about how we can improve and lift the standard of technical expertise across the other councils. So over the next 12 months that will be one of the priorities of NZP and M: to make sure that happens. So what we’re actually seeing is iwi coming across to Taranaki talking to Taranaki iwi, industry going out talking to councils a lot more, NZP and M doing the same. They need to do more, but also the Taranaki Regional Council is sharing that experience.
So look, what you point out is quite true. There is a lack of expertise throughout the country, a lack of public awareness, a whole lot of things that we need to lift. So, you know, it’s an excellent point. It’s quite interesting, actually, when you talk to someone who lives in Taranaki, their experience of the oil and gas industry is pretty day to day, and they’re pretty relaxed about it all. Outside Taranaki, there’s sometimes a bit of angst, and that’s just about familiarity.

Mackey So in terms of those jobs that have been created in Taranaki, no one can deny the enormous impact that’s had there—I mean, are you going to guarantee that we’re going to get that same kind of impact on the East Coast? Because Petrobras have already said no local jobs. And if that’s the case, then are you prepared to say no if we’re not going to get that level of economic benefit locally, but my local community is expected to carry all the environmental risk? That’s what they’re concerned about.

Heatley Look, it actually depends on what stage of the oil and gas development it is. For example, during the exploration stage the reality is that all that’s happening for the first couple of years is acoustic, so they’re out on the boat, they’re doing acoustic surveying, and so clearly there’s not jobs there. But if you get a significant gas line off the coast of New Zealand, they’re going to want to pipe that in the shortest as the crow flies place to land as they can, and that’s where you get infrastructure investment.

Mackey But they’re looking for oil—they’re looking for oil, not gas.

Heatley No, no. They’re looking for both.

Mackey They’ve told our community that they’re looking for oil primarily, and that there will be no local jobs.

Heatley Well, that’s because of the exploration stage, as I’m trying to describe to you. So look, a really good way of describing that is Marsden Point, for example. Marsden Point has upgraded—it’s not exploration, but it’s processing—its facilities over the last 50 years about four times. In the next 2 years it’s going to inject $360 million; 700 extra people will be employed to do that. But once it’s done, they’ll settle down to a core infrastructure there of operators. And it’s the same with oil and gas exploration. During the acoustic phase there’s not much employment; when you’re starting to build onshore facilities there is; as you operate the facilities there’s less—

Mackey Putting aside what they may or may not find, or may or may not do—it might be good, it might not be—will you make that local benefit and local jobs a bottom line to this stuff going ahead?

Heatley Well, no, it has to commercially work. So companies and the Government, if necessary, if there needs to be some sort of national infrastructure to run a gas pipeline or whatever from the East Coast—so gas and Government will invest in the required infrastructure, which will employ people, what they need to invest. So I’m not going to put bottom lines on number
employed. But the reality is that any significant oil or gas find across New Zealand benefits New Zealand as a whole. It benefits a local community as infrastructures put in, and then long term, as we see in the Taranaki, significant jobs. So 5,000 jobs in Taranaki in a fairly mature industry there. It’s pretty significant.

Hughes There won’t be that many jobs, though, will there? Given in Taranaki, which is a mature oil and gas region in the country, there’s only one job per $1.1 million of GDP, whereas agriculture is 15 jobs per $1.1 million, hospitality is 33 times. We won’t see that many jobs, will we? And that 5,000 figure is using the multiplier, isn’t it?

Heatley No, well, I think it’s about 3,700 jobs directly in the Taranaki for oil and gas, and just over 5,000—I think it’s something like 5,070—employed directly and indirectly. So the only experience we have in New Zealand of oil and gas exploration and production really is in the Taranaki. What that’s shown us over a couple of decades is a really good environmental track record, a really good health and safety track record, 5,000 people employed, and an industry that works well with dairying and tourism. The only national example we have is that, so it’s the only one I can point to. Now, will other regions develop that far in the same amount of time? I don’t know. What I do know is that we’ve got this block offer out. We’re going exploring; I hope there’s a find. If there is one, rather than be the Green Party public enemy No. 1, we might be national heroes. And I’m sure it will be everybody’s idea.

Mackey I highly doubt that.

Lotu-Iiga I love it. Say that again—sorry, I missed that.

Heatley If there is an oil and gas—what I said is if there is a significant oil and gas find in New Zealand it will be everybody’s idea.

Lotu-Iiga Everybody’s benefit.

Heatley That’s right.

Hughes Have you got any concerns, looking at the jobs issue, that Immigration’s put a dozen oil worker jobs on the skills shortages immigration list? So how many jobs are we actually going to see for New Zealanders?

Heatley Well, all I can say is that in the Taranaki there’s 5,000. Now, I’m sure most of them are nationals. Some of them will be international expertise. Sadly, I see many experts in the oil and gas and mineral sector going to Australia, so we’d rather they came back here and were involved in New Zealand - made gas.

Hughes Why are you making it easier for foreign workers to come to New Zealand if we’re concerned about Kiwis in the industry?
We’ve got a bit of an issue because politically we’ve got some parties beating the drum that they want the industry stopped dead in its tracks, so many are leaving to go to Australia. We’d rather they stayed here. The fact that we have to import expertise, you know, is damning, this message we’re sending to the industry. The message I’m sending to the industry is: “Hey, if you want to practise environmentally and in a safe manner, and you can create real jobs, then we really welcome you.”

Regarding Marsden Point’s significant upgrade, which you mentioned before, Minister, following that upgrade will Marsden Point be able to process condensate from New Zealand wells, and if not, can you comment on whether you’ve had any discussions with New Zealand Refining about that issue from the point of view of energy security?

OK, so Marsden Point at the moment is technically a very sophisticated station, so it can process quite low-value crudes which are imported. And the reason we do that is because low-value crudes are cheap, so they’re cheap for New Zealanders, cheap for the refining company, and the company is such that it’s so complex that it’s able to process that. So it can certainly process the sort of high-value sweet crudes that we tend to find in New Zealand.

At the moment what happens is, in terms of the sort of jet fuel that New Zealanders use and the fuel they use in their cars, the oil refinery at the moment processes about 55 percent of that. So what the upgrade will do is mean it will be able to process about 65 percent. So in terms of the improvements to the refinery, what they’re going to be able to do is refine more of the New Zealand fleet use of fuels, be able to refine a greater range of crudes, and also be able to refine fuels that are sort of set at a much higher standard in terms of, you know, sulphur and all the rest of it.

A quick point of order. That’s all very interesting and it’s been in the public domain. The question asked was a different one, which you probably recall, which is: will it be able to refine New Zealand concentrate? And I take it the answer to that is no. Has the Minister had any conversations with any interested parties in respect of the issue of energy security? The reason for asking that question is—

New Zealand concentrate, did you say?

Condensate. Oil out of Taranaki, right? Apparently it goes offshore. We import stuff. The implied reasoning is it’s cheaper to import it. That’s fine as long as it keeps flowing. If there’s a war in the Middle East, the Straits of Hormuz get closed. At the very least imported oil prices will go through the roof; at the very worst the boats might not arrive. So I just wonder—and I’m not dictating any outcome—what consideration the Minister has given to energy security issues, if any, and what discussions has he had on it.
Heatley  As the member might recall from my answer, I said that the refining company is so sophisticated it can actually process quite poor crudes, and it can certainly process crudes generated in New Zealand. So the answer is yes.

Cunliffe  So it could process New Zealand crude if it was economic to do so.

Heatley  Correct.

Cunliffe  And following the—right. So at the moment it’s a price-based decision.

Heatley  Yes.

Cunliffe  But it’s fully capable of refining the oil produced in New Zealand.

Heatley  From what I understand, and it’s only going to be able to do that more so.

Cunliffe  Right, so all of the oil produced in New Zealand could be refined there if needed.

Heatley  Well, I can’t guarantee what finds we’ll get and what types of crudes, but that is a very sophisticated refinery, and it’s only becoming more so. But your point about it’s sort of a price decision, my understanding is that’s pretty much right. We get—

Cunliffe  I have no information on that. I just gathered that from your comments.

Heatley  So we get more offshore from our rich crudes than, obviously, we’d be able to process offshore.

Cunliffe  I just wondered how you factored risk in.

Hughes  I should have said thank you for your presentation, as well. I’m just wondering about your 42 percent royalty plus tax figure. I don’t think we should be giving the industry a medal for paying their taxes, but why are you not looking at increasing the royalty overall take, given we’ve got the fourth-lowest Government take, royalties plus taxes, of any producing nation in the world. Pretty low, eh?

Heatley  Why I said the 42 percent—the 42 percent payment they do is sort of royalties plus tax—is because it’s sort of been batted around that they pay a really low royalty and they hardly pay their way and that type of thing, and it’s just factually not true. So I wanted to make that crystal clear. The fact that they pay company tax is a really good thing. In terms of the, as you said—

Hughes  They need a medal.

Heatley  Yes. So what we’re saying is in terms of the sort of royalty take off the mineral sector and the oil and gas sector, we are having a look at that across a number of departments, IRD and my own department, as we look at the
Crown Minerals Act. And where we’ve generally fallen is we think there is room to move in terms of royalty payments for minerals. So we’re looking at that quite seriously. We think that we’re internationally competitive, and probably too much so, but in terms of oil and gas royalties we think we’re pitched about right. On the royalty side of it, we’re slightly lower than average across the rest of the world, but then again we’re isolated, and because we want to encourage more exploration and make it attractive to investors we simply have to pitch the royalties just a little bit better than everywhere else. So could there be some change in the future? That’s a possibility, but as a general rule we think that oil and gas royalties are pitched about right when we consider the international market place.

Hughes So you’re comfortable having the fourth-lowest royalty plus tax regime of producing nations in the world?

Heatley Look, I think in terms of royalty plus tax it’s the fourth lowest. Is that right? Yes. We think it’s about right. So a 42 percent take for us, we think that’s pretty significant.

Parkes We did quite an extensive review of this a year or two ago, aimed at striking what would be the optimal rate to both attract investment and earn revenue. So if you set it too high you’re not going to attract investment, and if you set it too low you’re leaving revenue on the table. We got some independent review by some world-class experts to provide some input and we are comfortable that the settings for petroleum are about right. If we landed some big finds and we become more certain in terms of prospectivity, then I think we would probably look to revisit that, but that would be for the future.

Young Just a supplementary on Gareth’s question: where do we sit internationally in terms of attractiveness for investment from overseas?

Heatley Well, it’s done on a bunch of scales, and there’s measurable risk and then what countries can’t control. So in terms of political stability the international view for us is pretty good. We’re a pretty stable country. There’s no bloodshed on the streets when there’s a change of Government, which is good. In terms of the royalty regime, as we described, it’s competitive. It’s not over the top, but it’s pretty good.

One of the issues that they’re looking at, the international investors, is the whole issue around consenting. So what they want is not lower standards but a clear line of sight through the regime. Up till recently you’ve had the Crown Minerals Act, and then inside 12 miles the RMA, and they get that. But they’re taking quite an interest in three major changes. One is the review of the Crown Minerals Act, where we’re looking at the whole idea of perhaps pre-qualification of companies to make sure their health and safety, environmental, and technical track record is pretty good. So they are thinking about that, but a little bit of uncertainty until that lands. The EEZ
legislation, you know—where that’s going to land. And then the whole health and safety regime—where that lands.

So there are sort of three balls in the air for investment companies at the moment. All of them will land this year and get sorted out through the parliamentary process, we hope, which will provide them more certainty for next year. But from what I gather, the international interest in New Zealand is increasing. There’s a little bit of uncertainty because of those balls in the air, but it’s pretty positive.

Hughes Given we’ve got all those balls in the air and the Minister for the Environment is currently consulting on the regs for the EEZ bill, we may see deep-sea drilling made a prohibited activity. A bit premature, isn’t it, to go and put out 40,000 square kilometres of ocean for drilling?

Heatley The fact of the matter is 600,000 square kilometres has been put out for exploration in the last decade with no EEZ legislation, and all the EEZ legislation does at the moment is lift the game. It lifts the standard outside the 12 miles. So actually, given that all that will result in the next 1 or 2 years is acoustic surveying and sonar work, and all those other things will be in place by the time it comes to permit to drill, we just think we’re in a really good space. So now is exactly the right time to get people exploring, but no one’s going to go drilling any time soon, and all those things will be in place when they do.

Hughes Big risk, though, if the Minister for the Environment comes back and says drilling at a certain depth will be a prohibited activity.

Heatley Well, no, it’s not a big risk for me. I mean, that will go through its process. The fact of the matter is that companies are interested in the block offer. They’ve been interested in previous block offers, and now they’ve got an annual one we hope they’ll take it up. Over the next 1 or 2 years it’ll be acoustic survey work.

Hughes My last question is around the consultation, which you talked about in your presentation. Some councils found it very difficult to even get a look-in. You talked as if you’ve been consulting with a lots of councils, but Wellington councils didn’t get a look-in, Canterbury, Otago, despite all having block offers right off their coasts past the 12 nautical miles. Why is it so difficult for councils like Kaikōura District Council to get a consultation? They had to wait nearly 3 weeks to finally get information. All they got was a teleconference with officials for an hour, and their request for an extension was declined, only 2 days before the deadline.

Cosgrove More than what some submitters got on the SOE bill, though.

Heatley Look, historically with all these other block offers in yellow, essentially, under previous Governments, National and Labour, some iwi got a letter. This time round we made contact with affected iwi, those where the interest was in their rohe or they had an offshore interest, and that’s a legal
requirement. So we followed that. Overlaid on that we decided it would be a good idea to talk to and make contact with councils where they had a jurisdiction. In my view, next year when we do this again we’ll go further than that and make sure that we go to councils that don’t have a jurisdictional interest but a public interest, if you like. So the consultation will improve, and you’ll see that come through. So could it have been better and more widespread? Well, it was more widespread than it’s ever been. It was more successful, I think, in terms of the result than it’s ever been, and it will be better next year.

Mitchell  Minister, I was just wondering if you could give us a bit of a rundown on benefits of the What’s My Number campaign.

Heatley That’s pretty good. Essentially that’s been advertised over the last, well, it must be well over 12 months now. The figures I have are there’s been about 600,000 hits to the website—the What’s My Number website—and 340,000 consumers have swapped either plans or companies. So they’ve looked up on the website, they’ve done a bit of a comparator of what energy companies are offering, cost prices for their electricity, and 340,000 have swapped. That might be the same person doing it a number of times during the course of that campaign—you know, not necessarily 340,000 separate households—but it’s pretty significant, and we think the comparative suppression of electricity prices over the last little while, that’s part of the reason: there’s just much more competition in the market place.

Young  Looking forward, do you expect that to continue?

Heatley  From what I understand the watching of the websites pretty much maintained at those very high levels. The switching has started to slow down, so people get it now. Presumably households are having quite a watching brief on it. But I think erecting that site has been very, very successful. In fact, the team that have been running it are now looking at what we can do for commercial enterprises, and I know from my own electorate work that a lot of sports clubs and that type of thing would like to see what they can do for commercial premises. Is there anything you can add to that?

Hansen That pretty much covers it except for the request for pricing (inaudible) will be available in July.

Heatley For commercial. So the equivalent commercial of What’s My Number will be available in July.

Mackey  What work have you asked to be done on the impact on domestic power prices of partial privatisation of State assets?

Heatley Treasury is doing all that on behalf of the Minister for SOEs—so Tony Ryall. All that work’s been done. I haven’t asked MED to do any particular work. They’ve offered their expertise and that will—
Mackey You can provide us with that work?

Heatley No, that’s something you should request through Tony Ryall.

Mackey As the Minister of Energy you haven’t asked for any specific advice on what the impact on domestic consumers is going to be as a result of the State asset sales?

Heatley No, I’ve asked for an assurance that that type of work’s been done, and the Minister, Tony Ryall, who leads that work, is doing that with a Treasury team. Our team is obviously available to get involved in that work, and as a Cabinet Minister I am taking an interest, no doubt about it, but you need to ask Tony Ryall for that information.

Cosgrove Would it surprise you to know that at the FEC yesterday when we quizzed the Treasurer as to whether he’d done any work on evidence that had been presented to us, for instance, by an Oxford PhD economist that said that consumers sourcing electricity from a State-owned enterprise were on average paying $265 per annum less than a private sector source, and when we asked had he, because the FEC considering the ownership bill—the SOE bill—had received no advice, and I don’t believe the Minister had received any advice, nor was any advice available. So nothing had been done. So Treasury, you, and, we presume, because the same Treasury officials are advising the SOE Minister haven’t even bothered to ask the question—

Heatley Well, it’s no surprise to me that that type of argument is up for debate—

Cosgrove No, it’s not an argument. It’s a question put to the committee by an expert that we would have expected—

Heatley Who’s the expert?

Cosgrove The expert was, I think, Mr Bertram, from memory, a PhD from Oxford—

Heatley Your question was is it any surprise to me, so I’m just answering the question.

Cosgrove So you haven’t done any work, the Treasurer hasn’t done any work, the SOEs Minister hasn’t done any work, the officials haven’t done any work. You haven’t even bothered to ask the question.

Heatley I’ve already answered the question, so is there a further question?

Mackey No, what you said was that you were assured that that work was being done. What you’ve heard is it hasn’t been done.

Heatley What I’m saying is at a Cabinet level I am taking an interest. I should take an interest. The reality is that the Minister for SOEs, Tony Ryall, is in charge of that—all those work streams around that. He is talking to
Treasury officials. My officials are available to help with that work, and that’s what I’m saying.

Cosgrove  
So as a fellow Minister, given that we’ve told you that to the best of our knowledge, certainly no advice—I can tell you, absolutely—in respect of this issue has been tendered to the committee dealing with the bill, this does not worry you, this doesn’t perplex you? You don’t think—you’ve said you’ve taken an interest. Does that mean you’ve sort of put a finger in the air?

Heatley  
I guess in my position as I sit here I’ve heard you explain what happened, what may or may not have been said, and your interpretation of it, and I’m simply not going to comment. I wasn’t there. I didn’t hear what was said.

Cosgrove  
Let me apologise. Let me state this definitively for the record, and your own colleagues will verify this. I think a phone call will verify this, that no advice from the advisers—that is, Treasury in charge of the MOM bill—has been tendered to the select committee in respect of the issue I’ve raised. That’s not an opinion; that’s a fact. The second fact is that the Treasurer, when we asked him yesterday has he pursued, or received, or asked for any advice—no. So we’re asking you, because you’ve expressed the view that you have expressed an interest in these matters. Don’t you think it would be a good, you know—what level of interest have you expressed? Have you leaned over and said you like the colour of the paper the bill’s printed on, or have you said we should do some work on it?

Heatley  
As I said, I have an interest in all these things as a Cabinet Minister. I am not the lead Minister. MED is not—

Cosgrove  
You’re the Minister of Energy.

Heatley  
Look, I understand the question, and I’ve answered you clearly. Now, what may or may not have happened at FEC is something I’m not particularly privy to and I can’t dive into.

Mackey  
Can I then ask that the Minister take on board to report back to this committee? He’s told us that he was given an assurance that work was done.

Young  
We are 5 minutes over time.

Heatley  
No, no. I said I’m taking an interest.

Young  
We’ll discuss it at the end.

Cosgrove  
Could I just put this to you then, the same question I put to the Minister. Would you give us an undertaking that you would pursue this issue, seek advice, either from your colleagues or from your own officials, have some work done on this, and release that publicly?
2012/13 ESTIMATES FOR VOTE ENERGY

Heatley Given that you have put it to the correct Minister, and if you have and that's the case—

Cosgrove And he said he won’t do any work on it.

Heatley Well, that is up to that Minister, who is in charge of it.

Cosgrove I’m asking you from your perspective as the Minister of Energy.

Heatley I’m sorry; I’m not the Minister responsible for that.

Cosgrove I know. That’s why—

Heatley I’m taking an interest in it. As I said—

Mackey You’re the Minister of Energy. If the work’s not being done by someone else why would you not have an interest in it being done?

Heatley I think I’ve made myself clear, Mr Chairman. The members put it to the Minister responsible—that’s the right thing to do. The Minister either is or isn’t responding. I will leave the Minister to do that. Obviously, I’m taking an interest.

Cosgrove And your interest falls short of doing anything.

Heatley You’ve parked it squarely at the Minister responsible.

Cosgrove I’m parking it squarely with you as well. You’re in Cabinet. You’re the Minister of Energy.

Young Thank you very much, Minister. We’ve done a complete hour with you. Appreciate your time and input to assist us with our questions.

Heatley Not at all. Thank you.

conclusion of evidence
2012/13 Estimates for Vote Environment

Report of the Local Government and Environment Committee

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Vote Environment

Recommendation
The Local Government and Environment Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Environment as set out in Parliamentary Paper B.5, administered by the Ministry for the Environment, be accepted.

Introduction
From 1 July 2012 the former Vote Climate Change was merged into Vote Environment. The Minister for Climate Change Issues and the Minister for the Environment are the Ministers responsible for the appropriations within Vote Environment.

The appropriations sought for Vote Environment increase to $753.911 million in 2012/13. The environment appropriations total $143.47 million, 19 percent of the vote, while the remainder, for climate change, total $610.44 million or 81 percent of the vote.

New Zealand Emissions Trading Scheme
We note that the largest appropriation, of $558.15 million (74 percent of the vote), is for allocating New Zealand Units to sectors of the New Zealand economy under the New Zealand Emissions Trading Scheme.

A review of the New Zealand Emissions Trading Scheme was conducted in 2011. The Minister for Climate Change Issues told us that submissions were being collated, and that the Government had yet to decide how to proceed in response. He also could not tell us when agriculture might be brought into the scheme, but explained that such a decision would be based on the availability of abatement technologies and the overall reduction of emissions achieved.

We heard that the Government is concerned about increasing gross greenhouse gas emissions, but that reduction efforts will continue to target net emissions.

The Emissions Trading Scheme is the mechanism by which New Zealand aims to fulfil its Kyoto Protocol obligations. The first commitment period ends in 2012. The Minister told us that various European nations had signed up to the second period, 2013–2020, but that New Zealand and Australia had yet to make a decision. He said that an agreement capturing the 84 percent of emissions not currently covered by the Kyoto Protocol was essential for reducing the effects of climate change.

Enviroschools
The non-departmental appropriation Environmental Training Programmes is a new appropriation of $1.9 million for supporting training programmes that raise ecological awareness and encourage children, young people, and Māori to participate in environmental initiatives. Funding is due to continue for four years and total $7.6 million.
Originally part of Vote Education, funding for the programme ceased in 2009 and the Ministry for the Environment has been funding it since on an ad hoc basis.

We are pleased funding for the programme has been placed on a firmer footing, as it helps teach young people how to incorporate environmental concepts into daily life, and may indirectly influence their parents.

**Government block offers**

On 8 June 2012 the Government opened the 2012 tender for oil and gas exploration permits. The permits are to explore for oil and gas in specific areas, or “blocks”, including offshore areas in the Canterbury, East Coast, Great South, Pegasus, and Taranaki Basins.

The offshore areas in the Government’s 2012 block offer are in New Zealand’s exclusive economic zone. The Exclusive Economic Zone and Continental Shelf (Environmental Effects) Bill, which we recently considered, is currently before the House, and consultation on proposed regulations is in progress. We were told that the bill is intended to begin rectifying the paucity of protection for activity in the exclusive economic zone. Some of us expressed concern that the tender process has begun before the legislation takes effect.

The Minister for the Environment noted that the 2012 block offer operates under the same legislative framework as previous offers, and told us that drilling was unlikely to occur until after the proposed legislation was enacted. She said that if any drilling occurred before the legislation was enacted, there is a voluntary regime currently in place whereby drilling companies lodge impact statements with the Environmental Protection Authority. We note that a successful tender does not necessarily mean that a company would be granted a consent to proceed.

**Tui Mine remediation**

The multi-year appropriation *Tui Mine Remediation* commenced 1 July 2011 and is due to expire on 30 June 2014. The appropriation is for cleaning up the abandoned Tui Mine site on the western slopes of Mount Te Aroha in the Kaimai Range. Remediation of the underground mine workings is almost complete, and that of the deposited tailings from ore processing is due to be complete by June 2013.

In May 2012 the Department of Labour released *A report on occupational health and safety at the Fruitgrowers Chemical Company remediation site, Mapua*, which was critical of the lack of care shown by the Ministry for the Environment for workers’ health and safety when cleaning up the site, west of Nelson. The Tui Mine site, like the Mapua site, is heavily contaminated and we were pleased to learn that the ministry has accepted the recommendations of the Mapua report, and will apply lessons learnt from Mapua to the Tui Mine site.
Appendix

Approach to this examination

We met on 14 and 28 June 2012 to consider Vote Environment. Evidence was heard from the Minister for the Environment, Hon Amy Adams, and the Minister for Climate Change Issues, Hon Tim Groser, and the Ministry for the Environment, and advice received from the Office of the Auditor-General.

Committee members

Nicky Wagner (Chairperson)
Maggie Barry
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kaye
Hon Annette King
Moana Mackey
Eugenie Sage
Hon Dr Nick Smith
Andrew Williams

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Environment, Response to standard Estimates questionnaire.

Minister of Environment, Response to additional questions, received 26 June 2012.

Office of the Auditor-General, Briefing on Vote Environment, dated 14 June 2012.

Vote briefing paper, prepared by committee staff, dated 11 June 2012.

Report of the Finance and Expenditure Committee

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Vote Finance, Fiscal Strategy Report 2012, and Budget Economic and Fiscal Update 2012

Recommendation

1. The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Finance, administered by the Treasury, as set out in Parliamentary Paper B.5, be accepted.

2. The Finance and Expenditure Committee recommends that the House take note of the matters we considered in our examination of the Fiscal Strategy Report 2012 and the Budget Economic and Fiscal Update 2012.

Introduction

We have considered the Fiscal Strategy Report 2012, the Budget Economic and Fiscal Update 2012, and the appropriations sought for the 2012/13 financial year in Vote Finance. Our approach and membership, a list of the evidence received, and a transcript of our hearing of evidence with the Minister of Finance and the Secretary to the Treasury are appended to this report.

The total appropriations for Vote Finance are $4,822 million in 2012/13, a decrease of 3 percent from estimated actual spending in 2011/12. Most of this amount consists of appropriations under permanent legislative authority (PLA), of which the main component is debt servicing expenses, totalling $3,690 million in 2012/13. This represents an increase of 6.7 percent from estimated actual spending on borrowing costs in 2011/12, reflecting forecast movements in interest rates and the amount of debt outstanding. The Crown’s liability to the Government Superannuation Fund increases by 30 percent, to $673 million, as a result of changes in the discount rate.

Non-PLA appropriations under Vote Finance total $126 million. The main components are appropriations for the provision of advice and services by the Treasury and the Crown Company Monitoring Unit, totalling roughly $68 million, and expenses associated with the Crown’s support package for AMI Insurance ($30 million).

As well as examining the appropriations for Vote Finance, we discussed with the Minister of Finance the strategies behind the Budget, as outlined in his Fiscal Strategy Report 2012, and met with the Secretary to the Treasury to discuss the Treasury’s Budget Economic and Fiscal Update 2012, on which the Budget forecasts are based.

Economic and fiscal outlook

The Minister of Finance said Budget 2012 comes at a time of great uncertainty, particularly regarding events in Europe. He considers periodic crises likely to recur in Europe for at least a decade, given the size of adjustment needed to resolve long-term issues related to countries’ high debt levels and competitiveness, and the resultant political and economic tensions. However, he believes that European governments will “muddle through”. In the
short term, he does not rule out the possibility of a financial collapse, but believes there is
the necessary political commitment for the eurozone to continue.

In terms of New Zealand’s response to these uncertainties, the Minister of Finance said the
Government considers it vital to stick to plan and not be side-tracked by global difficulties
which we cannot hope to influence. He indicated that businesses would simply need to get
used to the presence of this dark cloud, and carry on with their investment plans. The
Government’s focus is on getting its own house in order and improving the
competitiveness of the economy, particularly the export sector’s ability to sell to the Asian
and Pacific markets, which are still growing rapidly.

The Budget’s focus on returning the Government’s accounts to surplus by 2014/15 is an
important part of its strategy, the Minister said. New Zealand’s high household debt has
started to fall, but the Government’s debt, though low by comparison, has been growing
rapidly and must be reined in. The Government believes it can achieve the necessary fiscal
adjustment with only a moderate amount of disruption. Meanwhile it is also seeking to
increase the economy’s competitiveness by adjusting the regulatory environment and price
signals, since the soundness of the Government’s books in the longer term depends less on
fiscal decisions than on the underlying strength of the economy. The Minister noted that
the IMF considers the balance of short-term and long-term priorities about right, and he
described New Zealand’s prospects as positive, if moderate.

Budget 2012 envisages relatively flat net spending over four years, but with priorities
adjusted so that significantly more investment is proposed in infrastructure and skills to
boost New Zealand’s long-term competitiveness, as well as funding for ongoing welfare
reforms, meeting cost pressures in the health system, and maintaining benefits and
National Superannuation. Additional funding is also proposed for rebuilding in Canterbury.

Core Crown tax revenue is forecast to increase over the next four years, driven by growth
in nominal GDP and by policy changes announced in Budget 2012, which include changes
to tobacco and fuel excises and road user charges. The combination of fiscal restraint and
the recovery of tax revenue leads to the Crown’s forecast operating balance reaching a
surplus of $197 million in 2014/15 (0.1 percent of GDP).

The Minister said that with a culture of expenditure control now embedded in the public
sector, he considers the Government’s expenditure reasonably predictable. However, there
is considerable uncertainty in the revenue projections because of potential changes in
commodity prices, and uncertainty as to whether consumers will maintain their improved
savings habits. As a buffer against such uncertainties and to provide for some unavoidable
cost increases, the Government is planning allowances for new spending of $800 million in
Budget 2013 and $1,200 million thereafter.

Reliability of the forecasts
The Minister emphasised that the projections entail more uncertainty than usual because of
the global situation. He said that forecasting always requires judgements, and that
“reasonable people can disagree” over how a scenario will evolve. We assume that he was
referring to recent Reserve Bank projections as part of its June 2012 monetary policy
statement, which envisage somewhat lower economic growth than the Treasury, and a
return to fiscal surplus two years later than predicted by the Treasury.
Since our hearing, the Prime Minister has commented that uncertainties arising from the European debt crisis may lead the Treasury to revise its forecasts. He said that the Government would not give up lightly on its target of returning to surplus by 2014/15, but nor would it pursue it at any cost.

**Growth and rebalancing**

The Treasury is forecasting real GDP growth of 2.6 percent in 2013, rising to 3.4 percent in 2014 and around 3 percent thereafter. As to what would drive this growth, the Minister said that in the short term the main factors were the rebuilding in Canterbury, a pick-up in private consumption spending and in housing investment, and relatively higher terms of trade than the long-run average. To ensure growth is maintained in the longer term, the Government is intent on improving the general competitiveness of the economy. Much work is being done to this end, involving careful assessment of the appropriate regulatory balance to foster growth in production and jobs while safeguarding important considerations like the environment.

**Public-sector productivity**

With a quarter of the economy falling under government control, the Minister stressed the importance of the effort being made to improve the productivity of public services. Several broad-based goals have been set, such as lifting the proportion of 16-year-olds with NCEA from the current 68 percent to 85 percent. Such results would have important flow-on effects, including a sounder base for industry training, and were desirable for New Zealand generally.

**Current account deficit**

We asked the Minister whether he is concerned that the Treasury’s forecasts show the current account deficit continuing to increase—from 4.6 percent of GDP in 2013 to 6.7 percent by 2016, resulting in New Zealand’s net external liabilities rising from 68 to 81 percent of GDP. This appears to indicate that New Zealand is failing to move away from debt-fuelled consumption toward export-led growth. The Minister acknowledged that the economy has not yet been rebalanced sufficiently. He attributes this to a relatively high exchange rate and the redirection of substantial resources to rebuilding Christchurch, making them unavailable to the export sector. However, the Minister added that he is more optimistic than the Treasury about the prospects for the current account, as the actual deficit has generally been lower than its forecasts. He also noted that some imports over the next few years for rebuilding Canterbury are unavoidable, and some should increase future earnings if they are used for business investment.

We asked whether the Canterbury rebuilding accounts for a large proportion of the forecast current account deficit, or whether a failure to rebalance is more significant. The Minister said he considers the 1 percentage point contribution from the rebuild in each year to be a material effect on the deficit.
**Taxation options**

We sought the Minister’s view as to whether a more equitable tax regime involving a capital gains tax, as advocated by the Treasury in a 2011 briefing, could help to achieve the needed rebalancing.1 The Minister said that several tax proposals had been put forward by the Treasury, such as a system that adjusted for the effect of inflation on income and made interest on debt deductible, or a Nordic system with differing tax rates on capital and labour. He was not convinced that such options met the criteria of being both desirable and workable. He also noted that the Treasury advocated a particularly pure form of capital gains tax, which was unlikely to find political acceptance in New Zealand; and if tinkered with, for example by exempting capital gains on housing, it was unlikely to achieve the objective of shifting incentives away from consumption and asset price inflation toward production, investment, and exporting.

The Secretary to the Treasury added that experience in other countries suggests that capital gains taxes tend to become very complex when exemptions are allowed, and the returns diminish rapidly. The Treasury favours a broad-based tax system in order to avoid distortions and maximise its impact. Several of its proposals were published in the Tax Working Group’s report in 2009.

**Investment in research and development**

According to a recent Treasury briefing paper, business expenditure on research and development in New Zealand is particularly low compared with other OECD countries.2 We asked whether the Government plans to increase economic incentives to encourage such investment by businesses. Some of us consider that businesses tend to under-invest in this area because they cannot capture all the benefits themselves; some benefits from research and development accrue to the economy as a whole, which strengthens the case for governments to step in. There is also a risk that businesses will choose to conduct their research and development across the Tasman, where it attracts tax incentives.

The Minister said that Government funding for research and development is the highest it has ever been, and it considers direct funding more effective than a tax credit. He cautioned against overestimating the benefits, as simply increasing spending on research and development does not translate directly into jobs and incomes. For this reason, the measures proposed in Budget 2012 were designed to improve the transmission mechanisms and linkages between research and development and business decisions, to try to ensure that such spending does flow through into economic growth.

**Mixed ownership model**

**Direct costs of the share sales**

Two multi-year appropriations totalling nearly $103 million were established under Vote Finance in December 2011 to fund the costs of implementing the planned sales of shares in state-owned enterprises. The expected costs have been assessed against historical precedent and similar transactions in the private sector and internationally. We understand that about half of the total amount is expected to be spent in 2012/13.

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1 The Treasury, Briefing to the Incoming Minister of Finance, 25 November 2011, p. 23.
Loyalty schemes

We asked whether a loyalty incentive is being considered here to encourage investors to hold their shares longer-term, noting that a scheme along the lines of the one used in Queensland Rail’s privatisation in 2010 would cost about $360 million.

We were told that Treasury officials have studied the Queensland Rail float, and have offered advice on various possible arrangements which will be considered when the Government comes to decide the parameters for a share offer. The Minister said that as well as retaining Crown control, the Government is keen to see wide New Zealand shareholding. In view of these objectives, it accepts that the Crown will not obtain top market value from the sales, but he would not indicate how much it might be willing to forego in proceeds. He noted that the Government has already made it clear that it will not prevent investors from on-selling shares. Final decisions on the structure of the float will involve balancing the objectives, which include getting good value for taxpayers.

Prices and competition in the energy sector

We asked the Minister whether he had received any advice, or could seek some from the Treasury, as to the accuracy of research indicating that the amount charged by State-owned electricity companies for an average consumer is $265 per annum less than that charged by non-SOE retailers. The Minister said that extensive analysis had already been undertaken by Professor Frank Wolak as part of the Commerce Commission’s 2009 investigation into the New Zealand electricity market.3 The Government was satisfied that the subsequent reforms have made the electricity market about as competitive as it can get, which he considers the best way of ensuring that prices are reasonable and the interests of consumers served.

Some of us are concerned that the proposed sales of shares could limit the Government’s ability to make regulatory reforms in the interests of consumers.

Local government financing of infrastructure investment

Some of us are concerned that the Government’s plans for the reform of local government would restrict the ability of local governments to fund infrastructure investment by borrowing against their very substantial asset base. Given the widely-acknowledged importance of investment in infrastructure as a foundation for long-term sustainable growth, some of us consider such leveraging to be a sound means of spreading infrastructure costs over the long term, and easing the funding burden on central government, as suggested in the 2007 Shand report.4

The Minister said that the Government’s proposals reflect ratepayers’ concerns about local government debt and increases in rates. Such issues would be canvassed during the consideration in the House of the Local Government Act 2002 Amendment Bill. He agreed that central and local government have a common interest in ensuring a sound regulatory environment and sustainable means of financing necessary infrastructure. He

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3 An Assessment of the Performance of the New Zealand Wholesale Electricity Market, by Frank Wolak Department of Economics, Stanford University, 19 May 2009.
believes that the Government has a good understanding of local governments’ needs, and the pressures they face, as a result of consultation on the National Infrastructure Plan.

**Superannuation**

We asked the Minister whether he is concerned about the increasing cost of national superannuation, which is projected to exceed total spending on education by 2016. We note that the Treasury has recommended increasing the age of eligibility, as Australia, the US, and the UK have announced they intend to do. The Minister said that the cost of superannuation is mainly driven by demographics, and adjusting the age of eligibility would have only a marginal effect on the total. The current structure of the system—a universal pay-as-you-go pension, supplemented by KiwiSaver and the New Zealand Superannuation Fund—represents a significant allocation of New Zealand’s total economic resources, and was settled on after decades of debate. The Government has made clear that it does not intend to increase the eligibility age. Instead, it is focused on reducing long-term welfare dependency and health costs.

The Secretary to the Treasury confirmed that the Treasury continues to favour a higher eligibility age for the long term, although it also considers that the importance of the age threshold will diminish as people increasingly tend to stay in employment longer. Such issues will be among those discussed in the next statement on long-term fiscal position which the Treasury is required to prepare by March 2013. He noted that the issue of the eligibility age is a long-term one; equally important is the shorter-term issue of welfare reform to get more people into the workforce and build a more productive and cohesive society, on which the Government has chosen to focus.

**Crown retail deposit guarantee scheme**

We recently reported to the House on the Auditor-General’s findings about the Treasury’s performance in implementing and managing the Crown retail deposit guarantee scheme, which operated from October 2008 to December 2011 in response to the global financial crisis. Some of our members remain of the view, expressed in that report, that there should be a full inquiry into the Treasury’s handling of the scheme, particularly regarding its inaction during the first five months when finance companies’ deposits, and hence the ultimate cost to the Crown, grew substantially.

Some of us consider that the Treasury should investigate and quantify the additional losses for which it was responsible, since it is accountable to the public. The Secretary, however, did not accept that any of the losses were avoidable, or that there had been any mismanagement on the Treasury’s part. Rather, he said, the risk of losses was inherent in the nature of the scheme, which was designed to protect the stability of the whole financial system, and it achieved this aim. While the precise cost of the scheme might not be known for another few years, he considered the return a pretty good one in terms of protecting $133 billion in investors’ savings.

Asked what lessons could be drawn from the experience, the Secretary said the central one was that time should ideally be invested beforehand in designing such a scheme and planning ahead; where this was not possible, the design should be reviewed as soon as possible. He added that the Treasury has accepted all the recommendations in the Auditor-General’s report, which it views as a thorough investigation of the scheme. He told us that
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he does not intend to undertake further analysis or investigation of the early months of the scheme as it is not a priority and he believes any findings would be highly hypothetical; nor has the Minister of Finance asked him to do so.
Appendix A

**Approach to this examination**

We met on 13 June and 18 July 2012 to consider Vote Finance, the Fiscal Strategy Report 2012, and the Budget Economic and Fiscal Update 2012. We heard evidence from the Minister of Finance, Hon Bill English, and the Treasury, and received advice from the Office of the Controller and Auditor-General.

**Committee members**

Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Dr Nick Smith

**Evidence and advice received**

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Finance, prepared by committee staff, dated 13 June 2012.

Minister of Finance, Response to standard Estimates questionnaire.

Minister of Finance, Response to additional questions, received 20 June 2012.

Office of the Auditor-General, Briefing on Vote Finance, received 13 June 2012.
Corrected transcript of hearing of evidence 13 June 2012

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Hon Dr Nick Smith
Andrew Williams

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, The Treasury
Andrew Kibblewhite, The Treasury

McClay  Minister, good morning. Thank you for coming to our committee. Sorry we have kept you waiting for a few moments. There were a couple of questions that we needed to deal with before we started this morning. Just as everybody settles, we have an hour and a half ahead of us, and have agreed to have an hour with you, if that would work, and then 30 minutes with Treasury thereafter. Can I offer you the floor, and ask you to maybe make some preliminary comments before we go to questions.

English  Thank you, Mr Chairman. I think it is pretty clear to the committee that the Budget’s been presented at a time when there is quite a lot of uncertainty, particularly with the situation in Europe. European Governments clearly have a long way to go to deal with not just shorter-term pressures that markets are putting on various Governments and banking systems but also to sort out their longer-term issues around very high levels of debt and the competitiveness of their economies. We take the view that there are going to be periodic crises coming out of Europe for at least a decade, perhaps longer, simply because the size of their debt problem is so large that the political and economic tensions that go with that will flow on for a long time. We also take a view that one way or another they will muddle through. There is a lot of speculation about whether there could be some kind of financial meltdown there. Of course, that is possible. There does appear, though, to be sufficient political commitment from Europe’s leaders to the European project such that they will end up, even
if under pressure, making decisions that enable the continuation of the euro and the European project. It has raised the issue, particularly in recent weeks, around the soundness of financial systems, given that the most recent discussion has been about the Spanish banking system. The Treasury and the Reserve Bank have spent a lot of time in recent years learning from the experience of 2008 when our banking system did handle a pretty stressful episode actually quite well, even though it hadn’t really expected it. And since then, the Reserve Bank, the Treasury, and the Government have worked on putting in place the measures that will improve the resilience of the banking system. Because, I think, the events of the last week remind us that whatever else is happening, a weak financial system these days means you are bound to get into significant trouble.

The Government, however, is continuing to focus on competitiveness in the economy. We want to ensure that we take every step we can to improve the ability, particularly of our export sector, to sell into the still fast-growing markets in the Asia-Pacific, and that means getting the regulatory environment and the price signals right within the New Zealand economy. We laid out in the Budget those areas, which we’re focusing on, half a dozen of them. None of them represent a silver bullet. Some of them are quite long term in nature, such as the investment in infrastructure and in skills. Others we would be looking for a bit more response in the shorter term—for instance, a focus on rebuilding Christchurch. So the Government intends to stick to that plan. In fact, I think it’s quite important when there is global uncertainty that we don’t get distracted by things we can’t influence, and we focus on things we can influence.

With respect to the Budget itself, we continue to focus on getting back to surplus. There is no doubt that when there’s so much uncertainty, there’s going to be a range of views about how economic growth actually plays out—a range of forecasts about that. Reasonable people can disagree about it. And how that’s going to affect the Government’s books. We are reasonably confident that the expenditure track is predictable. You know, there’s always going to be pressures on it, like a recent court decision about families caring for adult disabled children, for instance—just one item. Where the uncertainty is in the revenue track, and we’ll just have to keep an eye on that. I think we’ll get conflicting indications of it. You know, in a way, the forecasts are just forecasts. What will drive decisions is our views about what is actually happening.

Within that context, in the Budget we have invested some quite significant amounts of money in initiatives that the Government is keen on. So while the net spend is relatively flat across the 4-year period, there’s a lot of money shifting around, and that’s enabled us to be able to continue a significant infrastructure investment programme to beef up science and innovation spending, and to put a very significant investment into the ongoing welfare reform process, as well as meet those needs which aren’t really discretionary such as the indexation of benefits and national superannuation, and meeting ongoing cost pressures, particularly in the health system. So we think, coming
off with the Budget now out of the way, that New Zealand’s prospects are positive, if moderate. We have to keep reminding ourselves about the international context here. Of course, we don’t have as much job growth or income growth as we would want, but given the pretty challenging environment, we need to stick to the plan rather than try and look for magic bullets or one-off policy decisions that people erroneously believe might suddenly change the course of the economy. If there are any of those options, we are certainly keen to look at them, but having had a pretty good, hard look, we don’t see any. So building on that positive outlook is about considered and consistent change over time, a constant focus on improving competitiveness, and doing what every other business and household in New Zealand has been doing, and that’s getting our own house in order and making positive decisions where we can influence things. Thank you, Mr Chairman.

McClay

Minister, thank you very much. I might lead off and then David Parker has questions. Can you elaborate on the importance of the Government returning to surplus by 2014-15? I mean, is this an end in itself?

English

Well, no, it’s not an end in itself. If we just rehearse the picture for debt in New Zealand, we’ve got relatively quite high household debt that is starting to drop because households now understand debt’s a big risk in the world as it’s turned out. We’ve got relatively low Government debt, but it’s been rising fast. So the contribution Government can make to reducing the overall indebtedness of New Zealand is to get on top of our spending and revenue. And we’re going about that with a reasonably moderate adjustment by comparison even with state Governments in Australia, where you’re looking at thousands of public servant redundancies and so on in some places. But in the long run the soundness of the Government’s books is determined by the strength of the economy alongside the fiscal decisions the Government makes. So at the same time as focusing on getting back to surplus, it’s critical that we focus on those longer-term growth prospects, and I think getting that balance right is quite important. And the IMF, for instance, in the last week or so indicated that at least in their view we think we’ve got that balance about right.

McClay

And the ongoing problems in Europe, what impact is that likely to have on it in New Zealand?

English

Well, anyone can have an opinion about it, and most people do. I think, as I said earlier, we’ve got to be careful not to be paralysed about it. If I’m concerned about it, it’s as much about the effect it’s having on the confidence of New Zealanders making decisions about how and when to grow their businesses as anything else—just reading the stuff in the paper every day, and it’s not helping them. We want to do everything we can to maintain and grow their confidence that we’ve got an environment where making a decision to invest more and employ another person is going to work out OK for them. I think it’s important we get used to this dark cloud on the horizon. It is there and it’s not going away, and it’s not going to go away for a long time. It’s just now part of the environment in which we make economic policy and make business decisions.
McClay  Thank you.

Parker  Thank you, Minister, and Secretary. Do you accept that the economy hasn’t sufficiently rebalanced even by the end of your projection period to 2016? And before you answer that question, can I just note that your projections show that the current account balance increases every year from now to 2016, rising to 6.7 percent of GDP in that year, by which time our net international liabilities will have increased from 67 percent of GDP to 81 percent. In dollar terms I understand that that means that New Zealand’s net international liabilities will increase from $134 billion in the 2011 year to $205 billion in the 2016 year, and the projection is that they increase thereafter.

English  Well, I’d certainly agree that the economy hasn’t rebalanced sufficiently up to now, and there’s been, you know, a few head winds that make that a bit more difficult. Two in particular have been the relatively high exchange rate, and another has been what’s going to be, or it has started already, is a considerable redirection of resource into the rebuild of Christchurch, which therefore is not available for a growing export sector. So that is certainly the case. I think that there’s a bit of an issue here about getting our time horizons right. I mean, you mentioned the current account deficit. It’s forecast to increase. I happen to be a bit more optimistic about this. It’s one of the areas where our results have generally been a bit more positive than what forecasters have said over the last few years. New Zealanders are making more of an adjustment than forecasters have allowed for. But you’ve got to take a reasonably long time horizon. So the current accounts come back in the context of a recession, it’s moving out again. Even the forecasters don’t think it will get to where it was 3 or 4 years ago, but what’s driving it is different this time. It’s going to be driven by an unavoidable investment, and that’s the rebuild of Christchurch, and then desirable investment, which is strengthening business investment—

Parker  Just on the scale of those problems—

English  Hang on, let me finish. And then over time you would expect that investment would lead to bigger income streams in the future, in the same way as the Australian current account deficit has been moving out because of the strength of mining investment, which they then believe will lead to an improved situation.

Parker  Well, just in terms of the effect of the Canterbury earthquake, you said in your Budget documents and speech, in fact, that the current account deficit, 6.7 percent of GDP in the year ending March 2016 with a significant contribution from the Canterbury rebuild, which wasn’t quantified in these documents, but I asked the officials at the lock-up and they said that indeed in just about every year—in fact, I think they did say every year—the contribution of that to the current account deficit is only 1 percent of the 6.7 percent. So aren’t you a bit overstating the effect of that?

English  No. No, I think that is a material effect—no doubt about that. I mean, if you can get—
Parker Well, no, you've answered that. I'll ask another question. If you accept that we haven't rebalanced sufficiently yet, why is it that you've not implemented some of the recommendations from the Treasury in the briefing to incoming Ministers, and I'll mention two in particular. I'll read this: “As noted there’s a wide variation in the tax rates that apply to different types of capital and potential for capital tax changes to encourage a more productive allocation of capital.” Do you agree with the Treasury that that potential exists? We'd have a better investment signal into the economy if we had a more equitable tax regime?

English Well, there’s always potential. The Government’s taken a fairly significant step there, particularly with respect to property with the—

Parker Well, that was before this statement in the BIM. That’s your last term in Government, you did that. They’re saying after that they still think there’s a need for tax changes.

English Yeah, and some of the changes that are envisaged there are reasonably complex, for instance, and similar to what the Australian tax review came up with, and that is, for instance, allowing for the effect of inflation, both in the taxation of income and the deductibility of interest on debt. Now, that would be a huge shift in the tax system.

Parker You’ve no proposals for change there. The other thing that—

McClay I’m sorry. We have plenty of time, so if the Minister wants to finish answering, he may have—

Parker Well, he’s answered my question.

English Well, no, I haven’t finished.

McClay We still have plenty of time. Carry on.

English I think in answering the question we need to bear in mind what Treasury has in mind there, which are at least two propositions which are pretty radical changes to the system and would certainly need discussion not only about whether they’re desirable, because that’s an issue, but about whether they are practical. So one of them is sort of a real tax system, and that is inflation adjusted, and that would probably be a desirable shift but very difficult to execute. And the other is the Nordic system where you have significantly different tax rates on capital and labour. I’m not persuaded it’s desirable and it certainly is very difficult to execute. So as far as I understand, Treasury has got a range of things in mind and continues to debate whether they’d be effective.

Parker So you’re confirming that you don’t agree with any of those, or you’re not going to implement them. Their next suggestion was that the level of business expenditure on research and development is particularly low compared with other OECD countries. I tend to agree with that. I think the stats would show that that’s correct. Would you agree with that?
No, I don’t. Well, I mean the measure is the measure. I’m not exactly sure what it’s measured. I always find that analysis presumes that businesses are systematically stupid, and in my experience that’s not the case.

I’m not suggesting they’re stupid, but I would suggest that other countries encourage research and development by the private sector by having excellent incentives that we don’t have in New Zealand.

Yeah, but— We can argue about that, and the Government has got more investment in R and D than any Government in New Zealand has ever had. I just think we’ve got to be very careful about the assumption that businesses are systematically wrong about their mix of investment, because actually we sit in office blocks and get paid every 2 weeks; they’re out there managing exchange rate risk, weather risk, product risk, investment risk, all sorts of risks, and with very particular mixes of products and services. You know, the more you look into the sectoral analysis the more you see how unique individual businesses are, let alone how varied sectors are. So I don’t actually agree with the sweeping analysis that New Zealand businesses are foregoing some massive innovation opportunity.

Would you agree that Australia has more incentives for research and development, and businesses that operate on both sides of the Tasman would be, from a tax perspective, better off by doing that research and development in Australia rather than in New Zealand?

Well, that may be the case. I mean, there’s certainly lots of incentives for R and D around the world. There are lots of countries spending lots of money on R and D who are currently going back into recession. It’s not a silver bullet. It may make some difference at the margin. We’re not sure. The Government has taken the view that it is important to fund R and D and that it should be strongly influenced by business decisions, and so we’ve pursued that policy.

So you’re ruling out—

And we think that is more effective than the R and D tax credit was.

So notwithstanding our long-term current account deficit and your acknowledgment that we haven’t rebalanced even by the end of this projected period, you’re not planning to change taxes relating to the capital investment signal or to research and development, or I think you’re on record as opposing extensions towards, you know, a universal KiwiSaver scheme.

Well, none of those. In the first place, I didn’t say we wouldn’t be rebalanced by the end of the period. You said that. I said we haven’t rebalanced enough so far. I think it’s an open question about how far the New Zealand economy will rebalance in the next few years. Secondly, you know, you guys have a recipe for what you think is going to work. We don’t necessarily agree with that recipe. There’re aspects of it, I think, in Government policy. We have made a substantial tax change back in 2010, which we believe, because it affects everybody rather than just a few businesses at the margin, is going to be
beneficial in over a 5 to 7-year period. I mean, we could discuss it at some length the merits of the R and D tax credit. We decided it wasn’t effective. We’ve got other ways, we’re spending money, we’re certainly committed to the science and innovation. Capital tax, as I think as everyone knows, is a hornets’ nest. I find it slightly ironical that capital gains tax is advocated as a way of minimising investment in housing, except that most housing is exempt from it. In fact, the burden of capital gains tax falls mainly on business not on housing.

Parker I have to say, I’m astounded that you’re not concerned that from here on exports grow slower than imports and our external balance gets worse.

English I’m concerned about those forecasts. As I said, I’m a bit more optimistic than the forecast is, and those are the real issues for New Zealand. And I will give you a good example around exports, for instance. Right now regional councils around the country are taking steps to limit pastoral production. Now, that is a pretty big economic question for New Zealand, as to the extent to how we want to make those trade-offs between limits on pastoral production and water quality. Those are exactly the kind of issues we need to address over the next few years, because they are pretty difficult. We want both, and we’re going to need to find a better tool kit for achieving both, because that could end up being a significant constraint on resource, on export growth.

Smith I’m going to ask you about what advice you have received about a capital gains tax that exempts housing—as to whether, in fact, our primary industries that make up the bulk of our exports would be one of the hardest-hit sectors by a capital gains tax, particularly as there isn’t an account for inflation, so, i.e., the farm value would be one of the biggest contributors to a tax, and how such a tax would actually help the balance of payments when actually the biggest portion of our exports actually come from that primary industry. So have you had any advice about how a capital gains tax that would primarily affect the agriculture sector would, in fact, increase production and profitability of New Zealand’s most important exporting industry?

English Well, I haven’t asked that specific question, but the Treasury is on the record as favouring a capital gains tax. Of course, their problem with it is that politicians won’t put in place the pure version, which is comprehensive, adjusted for inflation, and based on accrued gains, which is sort of the theoretically perfect capital gains tax. And then as you then go through a political process, which knocks out investment housing, takes away inflation adjustment—

Parker Knocks out investment housing?

English Knocks out owner-occupied housing— inflation adjustment, ditches accrual because people can’t pay tax with money they don’t have, you end up with a bit of a muddle, and then exempting other small businesses, or people aged 55, or whatever. I mean, it’s a bit of a politician’s feast, and that’s why I think every time New Zealand has looked at this issue, it’s gone down that same path and said that this is the ideal, what would actually happen, and then come to the
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conclusion that what would actually happen may not achieve the objectives that we would all want for it. Which is not to say the underlying issue that it’s trying to get at isn’t an important one. That underlying issue is to shift the incentives in the economy so that there’s less incentive for excessive consumption and asset price inflation, and more incentive for production, investment, and exporting, and that’s a legitimate objective to be pursuing.

Norman Just talking about R and D—You’ve made a statement that assumes some kind of assumption that businesses are systematically stupid. What do you think about the alternative argument, which says that there is a market failure about investment in R and D, because there are all these positive externalities about R and D investment? So a business makes R and D investments, but it’s difficult for that business to capture all the benefits that come from that R and D investment, so there’s systematic under-investing in R and D across the economy, and so the State sector steps in to provide a bit of assistance for R and D investment, which has positive externalities for the whole New Zealand economy, and that’s why we subsidise it. It’s not that businesses are systematically stupid; it’s that businesses struggle to capture all the benefits from the investment. That’s why the State sector steps in. We’re not arguing that businesses are stupid; we’re just recognising an element of market failure and trying to fix it for the benefit of the whole economy.

English Yeah, and I think that’s the rationale for the very considerable investment the Government puts in. So over the last two or three Budgets, the last four Budgets actually, the Government investment in it has increased each time. I guess I just think we need to be a bit careful that we assume significant benefits from that. Yes, there are some benefits, but, you know, put it this way, doubling it, trebling it isn’t going to necessarily flow through to economic growth. And I think it’s the transmission mechanisms that are now the point of debate. Not so much whether you should do it; that debate’s over. Yes, we do it, and there’s more and more funding going into it. The argument now is whether you can get better transmission mechanisms into jobs and incomes, and that’s why in the Budget there’s quite a bit of money put behind two tools. One is these National Science Challenges, which are about sort of opening up the market of ideas around solving problems. One that directly affects my part of the country is around the whole science of effluent disposal, because it’s now a big issue and potentially a major constraint. We need a vigorous market place of ideas to solve that problem. And then the other tool in the Budget is the technology institute, which is trying to model on, I think, Finland or Denmark, one of them, and take IRL and turn it into a more business-orientated technology transfer organisation and on a much larger scale. So both of those initiatives will, I think, move the debate on.

Norman On a different issue—inevitably we’re going to talk about asset sales—I’ve been looking at the Queensland scheme around the privatisation of rail, as I understand Treasury has as well, which is probably a similar size privatisation or asset sale/mixed-ownership model, whatever language you want to use around it. They used a loyalty scheme, whereby if you bought 15 shares and
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you kept them for a year, I think it was, you got your 16th share free. Has the Government been looking at that option?

English Yeah, it’s one of many options that focus on getting wider consumer participation and encouraging people to take a longer-term view about the investment.

Norman So obviously there’s a cost that goes with that. So if you’re talking one share out of 15 or 16, basically it’s a 6 percent cost. So the hit on a $6 billion sale is $360 million. Are you willing to spend $360 million in order to introduce a loyalty scheme similar to the Queensland Rail privatisation?

Smith You’d pay more for the share if you think you’re going to get the 16th one free.

English Those decisions have yet to be made about whether you use that tool, and, if so, to what extent you use it. The way this share sale is working, though, is clearly not focused on getting the absolutely top market value. So we’re saying we want to sell it to particular people, with a strong preference for New Zealanders. You know, we’re not selling control; we’re selling down to 49 percent. So there’s a number of aspects, which because of the Government’s objectives for the sale, there’re going to be decisions that haven’t been made and will be made that mean that there’s a lesser theoretical value, lesser than the theoretical value of it. So that’s just a matter of balancing up the financial considerations against the Government’s objectives.

Norman Can I just ask, what’s the cap? How much are you willing to spend on something like this?

English Well, again, I wouldn’t want to prejudge that. We’ve got to get value for taxpayer, for what are, you know, potentially reasonably valuable assets at the same time as meet the objectives which I think even those opposed to the sales would like to see us achieve, and that’s widespread New Zealand ownership of them.

Cosgrove A two-part question—So are you considering some sort of loyalty-type bonus scheme similar or relatively similar to the Queensland Rail one?

English Well, as was pointed out, there’s any number of examples, particularly in Australia, of different consumer-orientated—

Cosgrove Sure, but are you considering a loyalty-type scheme?

English Well, it’s one of a number of options. I wouldn’t go any further than that, because the decisions haven’t been made

Cosgrove Sure. Could I put this to you. If you are considering a loyalty-type scheme, isn’t that an absolute admission of defeat? Because that suggests that you know that Kiwis, quite logically, if they make a capital investment and that increases are likely to onsell that, and you’ve already told us through Mr Ryall that you have no intention of dealing with the pass-on. Because all a loyalty scheme does is
put off the fateful day. People take the loyalty share. Once they’ve got it, they flick it on.

English  No, it’s certainly not an admission of defeat. I mean, we’ve been quite clear all the way through. You go on to a market called a share market, and the participants in that share market are going to, according to their own objectives, you know, make their own decisions, and we’re not going to stand over that.

Cosgrove So why have a loyalty scheme? Why even consider it?

English  Well, because there is, you know, a range of options here for fulfilling the Government’s objectives. The Government’s objectives—

Cosgrove But if you’re not worried about pass-on, why bother?

English  As I said before, the Government’s objectives aren’t pure market objectives. Because if you really want to maximise the value of these things, you might—and we haven’t had any advice to this effect, because it’s not the policy—just say we’ll sell it to whoever turns up to buy the whole thing. Well, clearly, we’re not doing that, so, you know, there’s a number of ways in which the Government is shaping the offer, and widespread longer-term consumer ownership is one of those things that we want to achieve alongside Government control. And it’s all just part of the mix.

Cosgrove Could I ask you, if your objectives aren’t solely the market, we’ve had submissions from at least two energy analysts. One is a Mr Bertram, who—before anyone tries to sort of discredit him—has got a PhD in economics from Oxford University. He’s indicated, for instance, that, on average, consumers purchasing their energy sources from SOEs pay, on average, $265 a year less than they would if they made that purchase from a private sector energy source. Have you had any advice in regard to that?

English  No, not particularly on that, because I think that—

Cosgrove Have you asked for any advice?

English  Well, the advice has been on—the most relevant advice there is advice received a few years ago that demonstrated that the market as it was operating from when these entities were set up through to 2008 wasn’t that competitive, and that was one of the explanations for the rapid rise in electricity prices under 100 percent Government ownership of most of the industry. And we felt that was unsatisfactory. Others felt it was quite satisfactory that because it was publicly owned it didn’t matter if prices went up 8 percent per year. We thought that probably wasn’t a good thing, so we got advice that led to significant changes in how the market is structured and the allocation of assets,
which have had some effect, I believe, on more competitiveness and therefore much smaller price increases in recent years.

Smith Just what advice you might have received about where you need to be careful in the analysis of power prices in that if a State sector company like Meridian is providing a customer like Comalco on bulk supply and for very long terms might distort an analysis of pure price in an assumption that somehow the State-owned companies are providing a higher price than the private companies, and the analysis that the select committee received on the submissions.

Cosgrove This is residential only.

English Yeah, and I think you’ve got to be pretty careful about that kind of analysis. I mean, what the Government has said from when it became the Government was that we wanted the most competitive market we could get, because in the long run that’s what serves the interests of consumers. And if you do want to take some simplistic views of it, the rate of price increase has slowed dramatically since those changes were made. There’re other reasons. There’s less demand for electricity. You’re seeing companies pulling out of proposed projects because demand is flat. So that’s clearly contributed as well.

Norman Yeah, just to follow up on that— So you made these changes to the electricity market in order to improve competition within the market. What you did, though, was you used your power as the owner of those two companies to force one to sell assets to the other. Are you concerned that if you haven’t got this right a future Government, I mean possibly your own Government, will no longer have that ability because you’ve partially privatised the companies? You can’t shuffle around assets in the same way that you forced Genesis to buy Meridian’s assets in the Waitaki scheme. You just can’t do that any more once you’ve partially privatised them. So what if you discover that the changes you made haven’t given you a good electricity market, and you want to make further changes? You’re not able to do it in the same way. Does that concern you?

English Yeah, well, we would still have effective control of the entities, but we saw it as—

Norman But the minority shareholders have to be taken into account now.

English Yes, that’s right. So it is different, no doubt about that. We saw it as—just remember the transition you’re in here from what was a, you know, ECNZ going right back to the 1990s or late 1980s through to a competitive market. So we made the judgment that those changes that have been made about the asset reshuffles plus market rules took us to a position where it was about as competitive as you could get it under the ownership structure that’s there. So that’s a matter of judgment, and we think it’s about right.
Bennett Minister, you talked about uncertainty in the revenue track and the Budget returning to surplus in 2014-15, do you just want to elaborate on that a little bit more?

English Well, we’ve had quite a lot of focus on the surplus, and that’s important as a measure of sound fiscal management, and I think to the wider public. They want to be assured that the politicians aren’t going off on some debt binge at the same time as households are tightening their belts and getting on top of their debt, and the surplus is a way of them seeing that. Given the amount of uncertainty that everyone’s dealing with, when we’re looking ahead about how to manage that track, I was just making the point earlier that I think the expenditure control has become reasonably embedded across the Public Service. You’re seeing a lot of very professional public servants making strenuous and successful efforts to meet the demands for more and better services with less money and so we don’t expect blowouts. You can never be absolutely sure, but that culture’s reasonably good, and our grip on some of the longer-term drivers of Government expenditure is improving. For instance, in the law and order sector, which was one of the fastest growing spending areas, that’s flattening out. Early childhood was another one, very fast growing and unpredictable. It’s still growing, but it’s now at least predictable. So the greater uncertainty is actually on the revenue side, not the spending side. And you’ve only got to read the paper for a few days to see why that is. The commodity prices, export prices, going up and down, uncertainty about whether households are going to increase their spending or not increase their spending or keep saving more as they are and how long that will go on for, whether companies have rolled out of the losses over the last 2 or 3 years—all of those things are going to influence the revenue track, and that’s significantly more difficult to predict.

Bennett How does that relate to their operating allowance for the next 2 years, which in the second year goes up a little bit more? Is that a reflection on spending in any way or—?

English Yeah, well, the Budget has maintained operating allowances for the next couple of years of $800 million and $1.2 billion, so if you think of the 4-year period, we’ve had minus a couple of hundred million dollars and zero, and then $800 million and $1,200 million. We’ve still got choices out ahead of us. You need that kind of buffer, both for cost pressures, because as the system gets tighter you’re going to get to a point in some services where you have to accommodate rising costs, whether they’re wages or technology or whatever, and there’s also, of course, uncertainty about the revenue track. Now that’s a matter you have to make judgments about as you go, because we don’t want to be in the position of making big changes on your spending because the milk price dropped a long way, if you think that’s going to come back, so you’ve got to deal with those circumstances as they arise. It’s pretty difficult to have a rule about how much you buffer any change in revenue.

Williams Minister, I would like to bring you to the question of infrastructure spend in the country with only 4.5 million people, and I’d refer you to your leader’s
speech of several years ago, where he said: “One of the biggest challenges facing both central and local government over the next 10 years”—and that is investment in infrastructure—“I see investment in infrastructure as one of the absolutely key ways to improve New Zealand’s long-term sustainable growth rate. Put simply, if we want to enjoy living in a First World country we need to have First World infrastructure. If we don’t, then an infrastructure deficit is going to be a wheel clamp on our economy.” He went on to say, and this was at a local government conference, that it was a shared partnership with local government and central government, and that between them they were going to spend $60 billion—$30 billion from local government and $30 billion from central government—to provide the necessary infrastructure.

Why is it, Minister, that in recent weeks we’ve had all this criticism of local government of taking its debts from $2 billion to $8 billion, when local government has $100 billion in assets or thereabouts, and where the Shand reports of 2007-08 recommended to Government that New Zealand was one of the most healthiest local government situations in the world, and we should be leveraging our balance sheets of local government to provide for the necessary infrastructure in New Zealand and using it in terms of longer-term intergenerational financing of infrastructure so that all the costs did not fall back on to central government to provide the necessary infrastructure, but that both central and local government will work in tandem to better leverage the balance sheets that were available. What is your comment to that?

English

Primarily, that’s a matter for ratepayers, and ratepayers, we know, get concerned about two things: compound rate increases and they do worry about whether their local council looks like it’s got the right amount of debt. And you’re right, local government has a relatively low level of debt, but it’s been rising pretty quickly. That’s all going to get discussed through the passage of the bill that was at its first reading in Parliament yesterday, about exactly these issues. By and large, through the process of the infrastructure plan over the last 2 or 3 years, central government has, I think, a much better understanding of local government’s needs and pressures than it used to, and there’s a lot of what local government has done about its longer-term view of infrastructure that central government can learn from, and there’ll be an update of the infrastructure plan before too long, which I think demonstrates our common interests in a sound regulatory environment and viable and sustainable means of financing for both central and local government.

Williams

So giving a specific example, where the Government is helping to subsidise something like $500 million of electrified trains in Auckland to provide a more efficient network of public rail, do you not think that it would therefore be a wise investment to invest in having a through rail system that allows the 58 new trains, or whatever there are, to go through the railway station and out through Britomart and onwards, rather than coming to a dead end, and so unlocking a $500 million investment in new trains, which otherwise they might be 25 minutes faster getting from Pukekohe to Auckland or West Auckland to Auckland but they’ll sit for 20 minutes waiting to get into a dead-end station. Is that good use of public money to spend $500 million for trains to back up at
Newmarket and try and wait to get into a railway station, or should we be thinking long term in terms of a $3 billion spend and thinking for the next one or two generations? Should we get on with it? And, as your own leader said, we need to think about the economy for the future and unlock the opportunities with correct investment.

English  It sounds like a launch of a mayoral campaign for Auckland. Look, that issue’s being pushed and shoved a lot between central government and Auckland at the moment. I think we’ve just got to bear in mind that heavy rail is a very expensive transport system, and, you know, there is an element of an argument that says, well, if you’re going to have a very expensive system, you may as well have the whole very expensive system. Well, I guess that’s part of the Auckland Council’s view. In terms of actually moving people, you know, roads and buses are usually much cheaper options for doing it. And we’ve just got to make sure that there’s a great deal of thought goes into those projects to make sure that there’s some value for money in them.

Goldsmith  Just looking at your active economic outlook and looking at real GDP growth up around over 3 percent in the 2014 and 2016 years, I just wondered if you could summarise what your thought would be the main drivers of that growth, and what, in particular, the Budget was doing in terms of building a competitive growth within the economy.

English  Well, I think that the first caveat around any projections these days is the uncertainty that forecasters have to deal with but more importantly that businesses have to deal with. Forecasters just get to make their best estimate, but businesses have to make real decisions based on their view, for instance, about where export prices or the exchange rate are going to go. So we’ve got to bear in mind all that uncertainty. But the drivers of that—I mean, in the shorter term the drivers of that growth are the Christchurch rebuild, some pick-up in private consumption and housing investment, which is probably needed, and still relatively higher terms of trade—that is, higher than our long-run averages. So that’s the drivers in the shorter term.

In the longer term we have to focus on the broader competitiveness of the economy, which is why we’re focusing on issues like the one I raised before around the trade-offs of primary production growth and environmental quality. So the Government’s doing a lot of work in that area—and Dr Smith will be very familiar with that—because if you want long-term growth potential with the jobs and incomes that go with it, then you need to have the kind of regulatory environment that gives people the reassurance it’s not reckless, on the one hand, but, on the other hand, their kids can get jobs. Parallel with the mining debate, minerals and resources, you know, you can do nothing. Well, if we do nothing, there’s no job. But, again, people reasonably want to see responsible environmental framework for that. So alongside the shorter-term drivers of growth, those are the types of issues we’ve got to grapple with to ensure that our longer-term potential is positive.
Goldsmith: Just to quickly follow up on that—Obviously, productivity growth is an essential part of it all, and one area that Government has a big impact is productivity of the public sector, and I wondered if you could just quickly give a bit of an understanding of the effort that’s being made there, in terms of getting better results for less, which presumably is a lot around productivity.

English: The Government has direct control over roughly 25 percent of the economy, being all the actual real material of the public sector—people, IT systems, vehicles. So there is a strong focus on that because that productivity needs to be lifted, but it’s got to be lifted relative to sensible goals. So that is why a couple of months ago the Prime Minister went out and talked about these 10 results for the better public services. So to use the education example, I think it’s currently 68 percent of kids getting NCEA by the time they turn 18, and we want to lift that to 85 percent. Now, everyone in education knows that that will have an impact right through the system to reach that goal. We’ll have to be doing a better job with more of the kids who struggle from early on, in order to get them to that threshold. And that level is important because it’s the prerequisite, industry tell us, for further training, and actually the prerequisite for competent citizenship. So that’s just one result; there’re nine others. So the productivity, yes, it’s increasing, but not just for the sake of it. We want to get better results for it, and what more of the Public Service is learning is that you don’t need a whole lot more money to get better results. If you’re focused on the result, you can reorganise your current resources, often to have a positive impact on it.

Cosgrove: Minister, you pulled the pin on mining because people wouldn’t wear it. You pulled the pin on Hekia in education because in the Prime Minister’s own words people wouldn’t wear it. The question’s simple. Given 80 percent of the people in New Zealand, and I think 99.9 percent of the submitters to this committee won’t wear the sale of assets, why won’t you pull the pin on that and use the same criteria?

English: Well, you’re wrong about the first two, and I guess we don’t need to go into a whole lot of the detail about that. But actually the—

Cosgrove: The Prime Minister did say the rationale for pulling the pin on education was because people wouldn’t tolerate it.

English: Well, it’s not pulling the pin on education at all—

Cosgrove: Sorry, reversing your decision.

English: —that’s the type of exaggeration to which you’re prone.

Cosgrove: Your flip-flop, I should say, to be more specific.

English: With respect to the asset sales, I mean I guess the political critics have the opportunity to give the voters a choice—that is, to campaign on buying them back, and that’s going to be a wide open opportunity in 2014. I mean, the Government, you know, in the context of its large-scale debt issues and the
need to rebuild our capital markets, has made a set of decisions. Those arguments have been well rehearsed. And I’m assuming and waiting to hear that the opposition parties are going to spend their first $6 billion or $7 billion buying back the energy companies, and that means probably they’ll have to borrow it or they’ll have to stop building other infrastructure—one or the other.

Cosgrove I want to return to the question I asked you before, because you didn’t answer it, and that is we got advice from eminent expert submitters that, as I said to you, consumers purchasing electricity from SOE sources were paying $265 per annum less than if they purchased through private sector sources. You confirmed to us, one, that you hadn’t had any advice, because we didn’t get any from your department; two, I presume you’re going to confirm that you never asked for any advice. You then talked about historic advice from some years ago; I’m talking about the here and now. So two questions—Given that you didn’t ask for any, given that you haven’t received any contemporary advice, are you prepared now to go to Treasury and instruct them to do the research to either verify those figures and then make that research and that advice public prior to the passage of the legislation?

English Well, I’m still unsure just what the point of such advice would be. I mean, the fact is that you set out to—

Cosgrove It might be politically uncomfortable for you to get the answer, of course.

English Well, you guys can’t have it both ways. If you think the prices were too high—Well, you claim there’s very large returns on these assets, but the only way you can get very high returns on assets is to charge very high prices.

Cosgrove Let’s not have a debate about it. Will you ask the Treasury for the advice?

English In that respect, you are correct because when you did have a full 100 percent ownership and a non-competitive market, electricity prices increased at a compound 8 percent per annum for most of a decade. So, you know, we can argue—

Cosgrove Well, let’s not have an argument. My question’s simple. Will you ask, for the public record, Treasury to give you advice on that matter, and if you will, will you make that advice public, and if you’re not prepared to ask Treasury for that advice, why not?

English Because we’ve already asked for the advice around the competitiveness of the market. We got very detailed advice about that 2 or 3 years ago, and we acted on it, and there’s some evidence—

Cosgrove You’re not concerned about it power prices or checking historical advice?

English No, we were very concerned to stop the rort of consumers that was going on under the 100 percent ownership.
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Cosgrove
OK. You’ve answered my question. You won’t ask for the advice.

English
Hang on. Your question was are you concerned about prices for consumers? We were so concerned about the maladministration of the electricity market under your Government that we instituted a review of the market—

Cosgrove
So you won’t ask for the advice? We got that. We got that.

English
No. Wait till I’m finished. We instituted a review of the market, which looked into all these issues in great detail. We then acted on that review, and we are satisfied the market is much more competitive and that consumers now have greater protection from the kind of racket that your SOEs were running when you were the Government.

Smith
Just a quick supplementary question. If the assertion was correct, and the price of electricity was substantially higher from the private electricity providers, the wholesalers, as compared with those in the public sector, wouldn’t we be expecting to see consumers acting quite logically in a huge drift from the so-called expensive private companies like TrustPower and Contact over to the others when, in fact, over the last 3 or 4 years we’ve actually seen more of a drift of domestic consumers in the opposite direction?

Cosgrove
Why don’t we test it and ask for advice?

English
Well, you would expect consumers to follow the prices, and in recent years there has been much more shifting. Consumers are much more likely to shift companies because the market hasn’t become more competitive. In fact, it’s quite a good indication that it’s more competitive. They’ve got more choices, and they’re moving around, and they’ve got better information.

Smith
In terms of power prices—

Cosgrove
Minister—hang on, that’s one supplementary; you only get one—Minister, you’ve made reference to productivity. Can I ask you whether the salaries of the following SOE CEOs are worth it, in productivity terms: Mighty River Power, a 34 percent increase—$450,000 increase, that’s the increase; Solid Energy—$140,000, an 11 percent increase; Meridian Energy, a 42 percent increase—$370,000 increase, these are all increases; and Genesis, a 21 percent increase—$200,000—under your stewardship. Do you think that meets the productivity test, given that private sector CEO salaries have decreased, on average, by 0.4 percent?

English
Well, I think there’re two issues there. One is that the boards have responsibility for that, and they’re expected to exercise accountability over performance. It’s our view that, actually, under the 100 percent ownership that kind of responsibility and accountability is not that focused, actually, and that one of the benefits for these companies with some market ownership would be a great deal more scrutiny of the performance of those chief executives and boards, because, actually, snuggling up to the Minister, which has been the history for some of these boards and chief executives, shouldn’t be the
measure of their performance. And it’s quite possible that in the past they’ve been getting away with things because they were politically favoured, for instance, as the front-end of a Government’s renewable energy campaign. When they’re floated that kind of politicised approach won’t work, and they will be openly and transparently accountable week by week through a share price, and I think that will work better.

Parker I want to come to the issue of superannuation, and can I say that I feel like I’m with my GP with the carefully modulated tones of my doctor not alarmed about anything. And I just wonder if you can express some concern about superannuation, and I will give you a couple of reasons. This year your Budget says that superannuation cost goes up by $750 million, and your Budget shows that by the end of 2016 we are spending more on superannuation than we spent in the total of our education system through Government— preschool, primary, intermediate, secondary, and tertiary combined. We’ve got the Treasury telling you in their BIM that this is a terrible problem. They say that other countries including Australia, the UK, and the United States have already given advance notice to their people that they have to adjust to an increase in the age of superannuation. I want to ask you if you agree with the Secretary to the Treasury that we have to increase the age of eligibility for superannuation.

English Well, the Government’s position on that is quite clear. We’re not increasing it, so in that sense we disagree with them. But Treasury are always saying things are going to be terrible. That’s part of how they try to convince people of things.

Parker Have you advised the Prime Minister that in your opinion as Minister of Finance we should be increasing the age of eligibility for superannuation?

English No, I haven’t, and I’ll be interested in what policy you’re suggesting is going to cut the cost of super by 2016. Let us know. Well, let the public know.

Parker Do you think that advanced notice should be given to New Zealanders if the age of eligibility for superannuation needs to be lifted?

English Oh, if it was going to be lifted, yes, advance notice would be a good idea, but I think we’ve just got to step back a bit here. We’ve been saying for a long time that the cost of national super is going to go up; that is happening now. We’ve had a 30-year debate over what the structure of that system should be, and where it’s arrived is a universal pension, pay as you go, supplemented by two things: the New Zealand Superannuation Fund and KiwiSaver, and that amounts to a reasonably significant allocation of the total economic resource to supporting people over the age of 65. And, of course, there’s potential for adjustments to that at the margin. The Government took the view a while ago that stability in those arrangements, given the tension there had been around them for a long time, was desirable. Of course, no one’s suggesting, unless you are today, that there’s going to be any steps taken to reduce that cost any time in the next decade. So we believe that regardless of the parameters—
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Parker Actually, we are. We’re saying that the transition needs to start from 2020, which is only 8 years from now, and you’re saying you won’t give people even that notice.

English Regardless of the parameters, and any shift in the parameters will have a marginal effect on the cost, because in the end it’s driven primarily by the demographics, more than the entitlement, that you need a bigger cake so that the share that’s available for over-65s is going to give them a reasonable standard of living. At the same time we’re focusing on some of the other long-term and more difficult fiscal costs, such as health care and welfare dependency.

Parker Can we ask the Secretary to the Treasury while you’re here what he thinks?

English Well, you can ask him any time, whenever he likes.

McClay We’ve got one supplementary—

Parker Mr Speaker, we’ve got him seated at the table here, next to the Minister. He’s presumably there to answer questions. I’m asking whether we can ask—

McClay Thank you, so the supplementary question—

Cosgrove Can he answer the question?

McClay Quiet for a moment. Thank you. Order for a moment. Thank you. We’ve got one more supplementary question. We have the Minister for an hour. I’ve given the Opposition more than a fair amount of time. We then have 30 minutes with the head of the Treasury.

Hayes My supplementary question to the Minister is—

English Sorry, I think it’s pretty clear what the Treasury—

Parker I can’t ask the question, but he gets the opportunity to go on if he covers his tracks and you don’t go to the Opposition.

English It’s pretty clear what the Treasury think because it’s in their advice to the Government. I don’t think there’s any secret about that.

McClay So, actually, John, sorry, we’re out of time now. We had an hour for the Minister, so we’re going to have to finish now.

Hayes It’s a very fast supplementary. Minister, have you seen the—

McClay No, John. John Hayes, John Hayes. No, you’re out of order. Minister, can I thank you for your time. We’ve actually gone over the hour that we had for you, and thanks for the information. We’ve got questions the committee has adopted we’ll be forwarding to you. We now have the head of the Treasury for 30 minutes. Minister, thank you very much for your time.
Thank you very much. You may have some preliminary comments. I think my colleagues have a line of questioning they would like to pursue, so if I can ask you to make some comments but be as brief as you can, because I am sure there’ll be a lot of questions.

Makhlouf: Good morning, Mr Chair. Good morning, committee. I am very happy to go straight to questions.

McClay: Good. Thank you.

Parker: In the briefing to the Government you noted that—in fact, I would say that this is probably one of your primary recommendations—New Zealand needed to increase the age of eligibility for superannuation in order to maintain a sustainable and fair superannuation system in the future. Do you still hold to that view?

Makhlouf: Yes. The one addition I’d make, which I think is— I’ll make two further comments. One is that we’re in the process now of putting together our long-term fiscal statement, which we’re required to by Parliament and which we’re planning to publish next March. So we will be exploring that issue, amongst others, which have got quite big implications for—

Parker: But would it be fair to say you don’t need that to know that it’s already going up by $750 million—

Makhlouf: No, no, which is why I said I agree with your view. The other point I would make is that my expectation, and this is sort of a personal view, is that as time goes on, the actual issue of the age will become less significant as people increasingly decide to stay in employment once they pass 65. We’re seeing trends that show that participation rates for the over-65s are increasing. So I think this is a healthy debate. The Treasury’s views are well known, and they haven’t changed since the briefing.

Parker: Has the Minister explained to you why he hasn’t taken your advice?

Makhlouf: Not particularly. I mean, I think it’s just not the Government’s policy.

Cosgrove: Cotton wool in the ears.

Hayes: Secretary, have you seen the news poll today on the XTRA website, which asks the question should the pension age be raised? The answer is no it’s fine how it is. Well, that’s how 53 percent have respondents are voting.

Cosgrove: How many times did you vote? How many times did you push the button?

Hayes: My question is do you think that your Treasury view is in step with public opinion?

Cosgrove: He’s been voting as you speak, I think.
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Makhlouf: The Treasury view is about the long term. I don’t know what the question asked of those—

Hayes: The question is should the pension age be raised?

Makhlouf: Yeah, well, I mean, I think there’s a different question of whether it should be raised for people tomorrow, or whether it should be raised for people over the longer term.

Smith: Can I ask one supplementary, and that is in respect of the comparison of New Zealand with OECD counties. Looking at the proportion that we’re spending on retirees relative to the number of people who we are supporting of working age, on benefits, that shows that actually New Zealand has a significant and large pool of working age people. Does the Treasury think the welfare reforms around trying to get more working age people engaged in the workforce are a higher and more urgent priority than the longer-term question about the sustainability of superannuation? Which in your view is the more urgent priority for the Government to address?

Makhlouf: I think they’re both important issues, as we put in our briefing for the Minister. I think from our perspective the critical thing is Ministers have chosen one of those two issues to focus on, and that’s where we, along with other agencies, are putting a lot of effort into. So to the extent that some of those—the age issue—is to do with long-term fiscal sustainability, welfare reform is as much to do with a productive workforce and a more cohesive society. So there are shorter-term benefits from that, whereas there are probably longer-term ones from the other.

Norman: I just want to follow up on some of the questions I asked the Minister, which was around the Queensland Rail experience. Have Treasury sent staff to Queensland to study the Queensland Rail privatisation experience?

Makhlouf: We’ve sent people to Queensland, yes.

Norman: And so have you looked at the loyalty scheme that the Queensland Government has run, which is the 16th share for free after 12 months?

Makhlouf: I think we’ve looked at a range of things. I’ll invite Andrew Kibblewhite to answer that specifically, because I don’t know whether we’ve looked at that specifically. But we’ve certainly looked at a whole range of things in Queensland.

Kibblewhite: Obviously, we’re aware of what they did in Queensland and elsewhere, and basically that is all being pulled together in advice that Ministers haven’t yet considered. They’ll make those sorts of calls as they get closer to the time, and we’ll assess market conditions and the like.

Norman: Have you done costings on it? So this is a 6 percent cost on the scheme if it was applied to all shares—$360 million cost on a $6 billion privatisation. Is that where you’d spend $360 million? Is that a priority for spending for Treasury?
Kibblewhite  We’ve certainly, in any advice we give, we will be taking account of what we think the likely impact on their overall sale will be and on the overall value.

Norman  But it’s not just that. You have to give away another share free. That’s how the loyalty scheme works—the 16th share free.

Kibblewhite  There’s actually a whole range of options, and we would want to take into account all the different sort of considerations. To some extent that will be picked up in the share price that goes out in the first place but probably not fully. We do think that some of those schemes would have an impact on the total value raised, but it varies a lot depending on the specific design parameters that you put around them.

Norman  So what’s your advice about the value— The aim of a loyalty scheme is to stop stagnating, as it’s called—you know, to stop people selling their shares straight after they purchase them. What do you think is the value to the Government? What number are you going to put on that? Because there’s a price tag, right? If you do that kind of loyalty scheme, it’s not free. So what is the value to Treasury of that kind of loyalty scheme—$100 million, you’re willing to spend on it? Because we’re pretty tight for money at the moment, and these loyalty schemes are very, very expensive.

Kibblewhite  Basically, when Ministers get to the decision about how they structure the offer, they will be wanting at that point to weight up all of those things, and based on the specifics that we’re looking at we’ll be giving them advice on what we think the impact of it would be.

Norman  You’d weigh it up so— The class sizes thing I think was going to save $170 million or something over 4 years or whatever, right? So presumably your job is to go “A dollar’s a dollar’s a dollar. We’re the Treasury; our job is to weigh up spending and what’s the benefit of spending in different areas.” The Government might want to spend $360 million on a loyalty scheme. Do you think that’s a good way to spend $360 million?

Kibblewhite  Well, certainly, our advice will weigh up what we think the cost implications of the different options will be, and then Ministers, who have a range of objectives, will make a decision on it. Certainly, we’d be wanting to give the advice as to what we think the consequences were.

Hayes  I would like to return to the macro environment and seek your view. If you look at what’s going on in Europe: Greece is pretty much a failed state; Spain 50 percent of those under 25 unemployed, banking system in the doo doo; and Italy not looking very sharp. What is going to be the impact on New Zealand over the next few years of the situation in Europe, do you think? And what I’m also keen to know is, if there is another crisis in Europe, of major proportion, what sort of policy options are open to New Zealand?

Makhlouf  There is already a crisis in Europe, so I don’t know whether you mean another crisis or the one that we’re currently in.
Hayes  Worse.

Makhlouf  There’s a number of parts to that question. If I can just say something generally about the sort of outlook and the forecast, I mean, forecasting is a particularly difficult task. The expectations of the consumers of forecasts are extremely high because they think they’re getting a scientific, perfect prediction. But, actually, there’s a bit more judgment required. This particular period that we’re in at the moment is probably one of the most difficult periods to forecast that I know and that many people across the world that I’ve spoken to know, so we are in particularly difficult times to make sort of perfect projections. But, clearly, the impact of what’s happening in Europe is pretty serious. Our focus is on two aspects. One, because a lot of it is a banking crisis, what are the potential impacts on the financial system? Our view on that is that actually New Zealand’s financial system is in a fairly good state. The other impact— I mean, all this is of course relative depending on what sort of crisis we get, but if we just sort of keep it within the bounds of what we read and what we understand. The other issue is, of course, the likely impact on trade. I mean, we are predicting a recession in Europe of 0.6 percent of GDP this year. That’s more pessimistic than some other commentators; less pessimistic than others still. But it’s not impossible that a full-blown collapse in Greece followed by others depresses that further. And the impact on that will be a depression, you know, a slow-down in world trade, which will impact China, which will impact Australia, and which will ultimately impact New Zealand. We’re seeing a bit of reflection on that in what’s happening to commodity prices at the moment. While their demand’s still pretty high, they’re a bit soft.

The one thing we know absolutely certainly is New Zealand is part of the international community and cannot be completely immune to what happens in the rest of the world. It requires serious action by the European authorities. We’re also reliant on what happens in countries outside of Europe—the United States, and obviously China is critical for us. But almost the whole world is waiting to see how the Europeans manage their particular problems. In some respects one of the more depressing features of the current crisis is that I think we’re entering a world, or have entered a world, where this sort of uncertainty and fragility of the world economy is probably going to carry on for 5 to 10 years. There are some deeply structural problems in Europe, which, even if they get round their current problems in the next week but also in the next month, there’s still some pretty fundamental changes which are required, and I can’t see those being fixed in 1, 2, or 3 years’ time, so I think this is a long game. It reinforces the need for us in New Zealand to actually make sure that, one, our own financial systems are in order; two, that the Crown has a balance sheet that can withstand shocks; and, three, that we focus really hard on building a competitive and productive economy. So we have to be aware of the risks, and where we have to sort of manage them.

Parker  Yes, I want to ask you, Mr Secretary, and before I do this, can I acknowledge you weren’t the Secretary at the time when the Crown guarantee scheme, in my view, went wrong. I want to ask you whether you have any plans to or whether you are willing to investigate what was the additional loss caused to taxpayers
by the mishandling of the Crown guarantee scheme, particularly during the initial months when there was no monitoring of deposits. And before you respond to that, I'll just say again what the Auditor-General said in respect of that period when there was no monitoring of the increase in deposits. We saw one example where a finance company deposits grew ten-fold, and they saw South Canterbury Finance deposits grow by 25 percent, which was more than $100 million of deposits that would have been their most risky lending, and would have substantially added to the losses borne by taxpayers. So I want to know whether, in this money you are getting voted from Parliament, you are planning to or willing to investigate what was the additional loss caused to taxpayers by the errors that the Auditor-General found and that this select committee thinks, in fact, indeed across the committee, even though we might disagree as to—

Smith    Don’t assert to the Treasury the Government members’ view, because you’re incorrect.

Parker   OK, well, the select committee report goes into this, but are you willing to look at and quantify those losses? Because they seem to me to be the biggest avoidable loss caused by a Government department mistake that I can recall.

Makhlouf I’m not sure I would accept your assertion just at the end there. At the moment I think the main—and the answer to your central question of whether we’re going to do any work to try and work out the cost of what happened in the early period of the scheme, I don’t have plans to actually do that sort of analysis, primarily because it’s not one of the priorities that we have in front of us at the moment, but mainly because I think the answers are likely to be highly hypothetical. The focus I am putting on is to make sure that we learn the lessons of the whole scheme. I mean, I have already accepted all of the Auditor-General’s recommendations, but I am going to go further to make sure that we understand exactly what happened, to make sure that the changes that are being put in place in the sort of prudential regulation area generally are in line with best practice, and to make sure that if in the unfortunate position we get into this sort of situation again, that we avoid the problems.

Parker   You could be right that the losses aren’t as high as the top end of the range that I’ve given, which is between $100 million and $500 million according to me, but I find it astounding that you won’t inquire as to what the actual range should be, because no one has looked at that issue yet.

Makhlouf Well, I’m not absolutely sure what would be achieved by—

Parker   Well, we’d know how much money had been lost.

Cosgrove It’s called accountability. Taxpayers are entitled to know.

Parker   It’s what we’d know. We’d know whether the mismanagement of the scheme caused $20 million, $100 million, or half a billion dollars.

Makhlouf    Well, I’m not sure there was mismanagement of the scheme.
Parker Well, the Auditor-General—OK, so you still say that—

Makhlouf No, no. The Auditor-General, if I may say, said the scheme was ultimately a success, and she absolutely—

Parker No, no. The Auditor-General said that the financial system didn’t collapse, and to that extent it was a success.

Makhlouf That was the point.

Parker They said it was mismanaged during the initial periods because for the first 3 or 4 months you did not even monitor whether there was increased risky lending on the back of the guarantee given by the Crown. Now, are you trying to assert that the Auditor-General has given you a clean bill of health on your management or Treasury’s management of this scheme?

Makhlouf No. I’m not saying that. You use the word “mismanagement”.

Parker Then why is it that you will not have an investigation to quantify what that extra loss to taxpayers was?

Makhlouf Well, for the reasons that I explained, which are that I’m not sure what exactly it would achieve and because I suspect that some of the numbers would be extremely hypothetical.

Parker It’s called, actually, accountability.

Smith Specifically on the issue of the deposit guarantee, didn’t the Treasury face an awful dilemma in that if it publicly took away the Crown guarantee for any particular finance company before it had got to the bottom of whether it was robust or not, it would effectively, by creating doubt, cause the instant collapse because nobody would be furthering to make deposits? And that there was always a risk with the Crown deposit scheme that there would be some losses in institutions that were not robust? And wasn’t that really the core of the conclusions of the Auditor-General—that by its very nature it carried risks of that sort?

Makhlouf Yes, and that’s certainly for me one of the central reasons why I’m sceptical about trying to arrive at a figure of what may or may not have happened in those first few months, because I think you’d have to absolutely consider whether removing a company from the scheme early on, for whatever reason, what the implications that would have had on the central objective of the scheme. So I think certainly that was a very important factor in the way the Treasury managed the scheme early on. I mean, the focus was absolutely on protecting the whole financial system. And, you know, the Auditor-General has made some very good recommendations on how we could have done things better, which I absolutely accept. But it doesn’t mean that the scheme was mismanaged.
Smith: When will we have the final crystallisation of the assets from those finance companies for the taxpayer to know what the complete cost was, i.e., there are still assets that are being liquidated from, I think—?

Makhlouf: Absolutely. Yeah, and we’ve just managed into a new regime for managing the residue of those assets. How long the very final bit of this is going to take I’m not sure. Do we know?

Kibblewhite: Could be 3 years before the whole thing works through.

Makhlouf: But we’ve now reached the position, which I think I reported to the committee last time, that we think the sort of net loss overall is just over $500 million. That’s still our feel, having started at $2 billion, once you take off the receipts from the receivership and the fees paid. So that’s still the number we’re at, but it’s going to take a while to completely finish the liquidations. And, of course, one of the unknowns, as you know, there are criminal charges in some of the cases here, and where that may ultimately lead, and what claims the Crown may have, the liquidator may have, on individuals—those are complete unknowns.

Cosgrove: You raised an issue, that you couldn’t quite see the value or the point of investigating. Can I put this to you: there is anywhere between $100 million and $500 million additional losses. The reason you’d have an investigation is, one, so that you could work out what mistakes were made, like the Auditor-General telling us that for 5 months there is no written record of any written advice between your ministry and the Minister of Finance; and, secondly, you might want to reassure taxpayers that you are accountable to them. Or do you share the view of Mr Hayes, who before this committee described the losses as “loose change”?

Makhlouf: I absolutely think that the money the Crown has had to pay over in the deposit guarantee scheme, it would have been preferable not to have paid any of it. But with the benefit of hindsight we wouldn’t have had the global financial crisis.

Cosgrove: My questions was what is the—

Makhlouf: Can I answer your question? I don’t know where the $100 million to $500 million numbers come from. I absolutely accept that the Treasury—

Parker: What’s your number?

Makhlouf: Well, I don’t think I have a number, actually.

Cosgrove: That’s the reason for an investigation.

Parker: You haven’t got one and you won’t find one.

Cosgrove: Hear no evil, see no evil.

McCay: Let him answer the question, please.
The number I’ve focused on is ultimately what have we paid out, and can we maximise the return from the receiverships and liquidations, and can we absolutely minimise the cost. What I think everybody is absolutely entitled to is an assurance that the Treasury has learnt the lessons of the scheme, and that it has plans to address what didn’t go right. I mean, some of the things absolutely belong to us; some of the things are inherent in the system that require information to travel from, you know, trustee to the Reserve Bank to the Treasury—I mean, those are sort of structural things. We have—

With respect, how can you assure taxpayers of anything if you’re not prepared to investigate the issue? Are you just going to stand there and say: “The public trust me. I’m the Secretary to the Treasury. We lost an additional $500 million. We’re OK.”?

Questions please.

To just kind of turn it round to—you say it’s important that people know that you’ve learnt the lessons, and I think we’d all agree on that. So what are the lessons, in particular, in relation to the Auditor-General’s criticisms of Treasury, which were pretty strong?

I think that the lessons were—well, firstly, she made four recommendations. I’ve accepted all four recommendations. And they’re around making sure that we put in place good project management methodology, that we have good governance arrangements, for example. I mean, all four recommendations—she hasn’t made any other recommendations that I’ve declined to accept, so I’ve accepted all four of them.

And is that the limit of your learning? That’s it?

No. I have—

I’m giving you an opportunity to tell us what are the lessons that you’ve learnt, because you’re critical to this.

Thank you. The central learning—and I don’t want to be flippant about it—but the central learning is that you should always invest time in designing and implementing any scheme that you do before you introduce it.

But you didn’t have that opportunity, did you? And it could happen again? So that’s not a good lesson to learn, because it might not happen again—the same thing could happen again.

Well, I think it’s a lesson for everybody, and with the benefit of hindsight, could we have done something different in the circumstances? Hindsight is a fantastic thing. But for me the main thing—absolutely the main thing—is that we should to the extent that we can plan ahead for eventualities like this, then we should do so. But I think, as Mr Parker said, I wasn’t here at the time, but looking back and having read what I’ve read, it strikes me that the Government having been forced to make a decision as quickly as it had done, it should
probably have reviewed that decision pretty quickly after that, and asked itself some more questions than it did. These are hindsight things.

Smith You’ve advised the committee that you think the total cost of the Government’s credit guarantee scheme is going to pan out and wash over the next 3 years at about $500 million. How would it be possible, then, to assert that the growth that occurred in some of those finance companies post the institution of the commission cost all of that $500 million, except to assert that all of those finance companies were completely solvent, magically, in November 2008? Isn’t it highly unlikely that the share of the $500 million total loss to the taxpayer was, in fact, because those finance companies were already in difficulty when the Crown guarantee scheme was put in place?

Makhlouf The $500 million I was referring to is a different $500 million to the one that’s been mentioned here.

Smith That’s right, but it would be a subset.

Parker The gross loss was $1 billion.

Makhlouf One of the important numbers for me is the fact that we were protecting $133 billion worth of savings, and, depending how you want to look at it, the rate of return on that is pretty good. But the critical thing, at the end of the day, on the success of the scheme is what was it that Ministers, when they decided to introduce it, were trying to achieve? What they were trying to achieve was the protection of the financial system in New Zealand. As the Auditor-General said, at the end of the day, that happened.

Clark My question is in two parts, Secretary. You said: “Hindsight’s a fantastic thing.” There is also a saying that if we don’t learn from our history, we are bound to repeat our mistakes, which I think builds towards an argument of having a full and thorough transparent investigation of the Crown Retail Guarantee Deposit Scheme. Given that there was no monitoring for 4 or 5 months, given that there was no written advice to the Minister, and given that, in fact, there was also no allocation—as I understand it—for specific fiscal risk until the following June, which is quite some time afterwards, there must be some lessons to be learnt from it. How can the Treasury plausibly claim to represent the taxpayer interest when it refuses such an investigation, or can I take it that that really lies with the Minister, and that the Minister hasn’t asked for an investigation, or hasn’t asked for those additional losses to be quantified?

Makhlouf He hasn’t asked me, but my— Just to be clear, I have taken the Auditor-General’s report as the review of the scheme. It’s a pretty thorough review, and, as I said, you know, I’ve learnt the lessons from it. But I mean you want a different review—

Parker We want to quantify the loss.
We often hear about a capital gains tax—how the Opposition says that Treasury’s in favour of a capital gains tax, and you heard the Minister say that a pure form may be something that you would be in favour of, but the form that has been presented, that would probably have the most impact on the productive part of the economy is something that might not be so favourable. What’s your feeling about the proposed types of capital gains tax that you’re seeing?

We haven’t reviewed particular types of capital gains tax. I mean, we put forward proposals which were published by the Tax Working Group in 2009, so those are our views. I mean, basically, in a system that operates on a lower-rate broad-based system, a capital gains tax would be consistent with that. The Treasury’s view is, of course, that once you start building exemptions into any tax, including capital gains tax, you start to create new distortions and you potentially diminish the impact of the original intention of the tax. Most of my experience of capital gains taxes around the world is that once exemptions of all sorts are put into it they become quite complicated things to run, and there’re diminishing returns from them. So we’re in favour of in the, in the same way across a lot of these taxes, we’re in favour of very broad-based taxes, and that would apply to capital gains tax as well.

In terms of infrastructure, my question is of the Minister. Australia, of course, has three levels of government, including their state Government, and has far more mechanisms for taxing and rating the population to pay for infrastructure. What is your comment in relation to my questions to the Minister, in that do we need to work in his Treasury modelling and do an analysis of how the balance sheets of local government could be better leveraged to provide for future infrastructure in tandem with funding from central government? Is Treasury analysing this and working out how best New Zealand, with only 4.5 million people, can actually provide for the future requirements of our country in terms of our available finance?

I mean, our views are set out in the national infrastructure plan that we published last July, which involved a very inclusive process of engagement of people across New Zealand. We’ll be publishing later this year, I think we’re calling it, a state of the nation - type report, an update report. Those are our views. We think, by and large, New Zealand’s got a pretty good infrastructure. We’ve got challenges ahead, but we’ve got plans for them, and they’re all set out in the national infrastructure plan.

So supplementary to that, would you, in your opinion, feel that it is wise use of public money for the balance sheets of local government to be better leveraged to provide and assist central government to provide infrastructure for New Zealand, and do you feel that the current $8 billion in debt of local government compared with their $100 billion in assets is a fairly reasonable state of the fiscal situation for the local economy?
Makhlouf  I’m not going to get drawn into that specific issue, because I’m not briefed on it, but it’s pretty clear that in the infrastructure space central and local government need to work together.

Norman  Should the Roads of National Significance go through the Treasury guidelines for capital expenditure? Because they haven’t. Should they be put through it?

Makhlouf  I don’t know the answer to that. I’m not briefed enough to know what does happen and what doesn’t happen.

McClay  All right. Thank you very much. We’ve gone a bit over 30 minutes because there were a lot of questions. Thanks for your time, Secretary, and to your colleagues and staff who have come with you.

*conclusion of evidence*
2012/13 Estimates for Vote Food Safety
Report of the Primary Production Committee

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Vote Food Safety

Recommendation

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Food Safety as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

Introduction

The total appropriations sought this year for Vote Food Safety amount to $91.903 million, slightly more than the estimated actual expenditure in 2011/12 of $91.327 million. Appropriations totalling $56 million (61 per cent of the vote) are for delivering assurances on compliance with legislation and to meet overseas market access requirements. 22 per cent of the vote, $20 million, is allocated to setting standards for the development, implementation, monitoring, and review of food safety measures; assessing related scientific evidence; and developing compliance tools.

Self-regulation

The Minister has modified the system for monitoring compliance with regulations in the meat industry. Previously, the ministry employed meat inspectors to monitor meat quality and food safety along the slaughter chain. Under the new system, an organisation can choose to have AsureQuality train some of its employees as monitors of meat quality for the inspection part of the slaughter chain. Some of us are concerned that the reduction in government oversight could have adverse economic consequences. We heard that the Ministry for Primary Industries will still monitor regulations regarding the food safety aspects of the process, and conduct audits of the system to ensure it is producing the desired outcomes.

Food labelling

An appropriation of nearly $4 million is for providing information to consumers and industry about food safety and suitability issues. We asked whether the Government intends to follow Australia’s example in requiring mandatory country-of-origin labelling. Under mandatory country-of-origin labelling requirements in Australia, food product labels may state that they are made from “local and imported ingredients”. The Minister said that country-of-origin labelling is not a food safety issue, and pointed out that the Australian model does not provide consumers with the necessary facts to determine where multi-ingredient products come from. Mandatory labelling is complicated by the fact that some products are produced and processed in different countries, making a country of origin difficult to specify. Some of us believe that the lack of country-of-origin labelling presents a risk to New Zealanders, who may be buying products from countries with less stringent food safety requirements. The Green Party member is also concerned about inadequate compliance to labelling requirements for some consumer products that may contain genetically modified components.
Consumer forum

We asked about the status of the consumer forum in the new Ministry for Primary Industries. We heard that it was disbanded when the New Zealand Food Safety Authority merged with the ministry, but has since been re-established. The forum is being integrated into the structure of the ministry. The membership of the forum was raised, and the Minister said that she would be open to nominations.
Appendix

Approach to this examination
We met on 27 June and 19 July 2012 to consider Vote Food Safety. Evidence was heard from the Minister for Food Safety, the Hon Kate Wilkinson, and the Ministry for Primary Industries, and advice was received from the Office of the Auditor-General.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Hon Shane Jones
Colin King
Ian McKelvie
Hon Damien O'Connor
Eric Roy

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister for Food Safety, Response to additional written questions, received 5 July 2012.

Minister for Food Safety, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Food Safety, received 25 June 2012.

Vote briefing paper, Vote Food Safety, prepared by committee staff, dated 25 June 2012.
2012/13 Estimates for Votes
Foreign Affairs and Trade, and
Official Development Assistance

Report of the Foreign Affairs, Defence
and Trade Committee

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Vote Foreign Affairs and Trade, and Vote Official Development Assistance

Recommendation
The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Foreign Affairs and Trade and Vote Official Development Assistance as set out in Parliamentary Paper B.5, administered by the Ministry of Foreign Affairs and Trade, be accepted.

Introduction
The appropriations for Vote Foreign Affairs and Trade in 2012/13 total $501.9 million, constituting a 20 percent increase on the previous year’s estimated spending of $417.6 million. The overall increase is largely due to increased funding for policy advice and representation, increased subscription costs to international organisations, and the carrying forward of capital expenditure. Of the total vote, 70 percent is for departmental outputs provided by the Ministry, most of which relates to policy advice and representation.

The appropriations for Vote Official Development Assistance in 2012/13 total $554.1 million, which is a 7 percent decrease from the previous year’s estimated spending of $596 million. The Ministry’s management of the Official Development Assistance programme accounts for 10 percent of the vote. The remainder is for the funding of development assistance and international agencies, which is now managed entirely through multi-year appropriations.

Organisational change
The ministry is currently undergoing what the chief executive describes as “the most profound structural, cultural, and technological reform” in its history. On 17 May 2012, the ministry released to staff its final decision on the planned changes. The key proposals included a reassessment of the number of policy positions required; continuing a rotational model for junior foreign policy staff; adjustments to remuneration proposals to ensure that overseas postings remain attractive for staff, including incentives to encourage staff with families to seek posting; and outsourcing of property management, to be trialled in Europe.

The aim of the revised organisational structure is for the ministry to be modernised and to be more flexible, more focused, and less expensive to operate. The ministry says that the change programme and ongoing cost savings initiatives are on track to deliver $24 million in savings per year, and that the cost of the change programme will be recovered in the first year. The restructure will reduce the current establishment of 917 positions to 785. Under the new model, 69 percent of the 785 staff are considered front line and 31 percent back
2012/13 ESTIMATES FOR VOTE FOREIGN AFFAIRS, AND VOTE ODA

office. The 132 job losses include 23 foreign policy positions and 56 corporate services positions, some of which have already occurred through attrition.

**Provision of information**

We asked why the Minister had not released budget information relating to Votes Foreign Affairs and Official Development Assistance, and noted that every other Minister had made this information available on the Treasury website. The Minister told us the decision not to allow the release of information had been made between himself and the Minister of Finance, because he had retained the right to release such information where appropriate. The Minister noted that this approach had been used in the previous year, and that information had been provided when it had been specifically requested. This year no requests had been made for the information.

The ministry’s publicly released briefing to the incoming Minister had large sections of text withheld on security grounds under the Official Information Act. We asked who had decided to withhold the deleted parts. While the Minister took responsibility for the deletions, he did not know who was immediately responsible and said that it had not been done at his request. He told us the decision to withhold had been made between the ministry and his office. After receiving complaints about the deletions and the involvement of the Ombudsman, the Minister released a new version which revealed far more information. The Minister said he would be happy to check what precisely the basis was for withholding the information and convey it to us.

Some of us noted the unsatisfactory quality of the responses to committee questions, citing question 2 of the committee’s questions to the Minister which asked how much is budgeted for restructuring costs and how much will be saved; no specific reply was received. The Minister said the question could not have been answered accurately because the restructuring is still in progress, and savings would become apparent only once the change process was complete. The Minister cited the budgeted figure given for consultants’ costs for the period of $2.8 million, and noted total savings were expected to be around $24 million annually.

**Staff engagement**

The most recent staff engagement scores are low, with only 14.4 percent of staff reporting they were engaged at work, while 57.2 percent reported feeling ambivalent and 28.4 percent felt disengaged. The chief executive said this was an old survey and that morale and engagement had improved significantly since then.

**Capital expenditure**

The Minister has recently announced a temporary halt to capital expenditure of a non-essential nature under Vote Foreign Affairs and Trade; however the ministry’s appropriation for capital expenditure is budgeted to rise from an estimated $22.8 million in 2011/12 to $71.1 million in 2012/13. This is largely due to transfers between years because of delays in starting, progressing, and completing capital projects.
**Consular services**

The appropriation requested for consular services in 2012/13 is 4 percent ($808,000) lower than the estimated spending for 2011/12. One of the major movements in this appropriation is a decrease by $1.046 million as a result of decisions arising from the baseline review.

The ministry’s goal is to provide a consular service that is flexible and agile, and can respond to the needs of New Zealanders overseas who are in distress. A 2011/12 satisfaction survey established that 83 percent of respondents were satisfied with their experience with consular services, and the ministry is pleased with this result. The performance target for satisfaction in 2012/13 is significantly lower than that already achieved; having achieved an 83 percent satisfaction rate in 2011/12, the ministry’s target for 2012/13 is 70 percent of customers satisfied with their consular services’ experience.

**Official Development Assistance**

The cost of administering Vote Official Development Assistance amounts to a little over $55 million. As of 2012/13 Vote Official Development Assistance has two multi-year appropriations: International Agency Funding ($282 million over three years) and International Development Assistance ($1,207 million over three years). The total Vote Official Development Assistance has decreased by 7 percent in 2012/13 ($554 million) compared with $596 million for 2011/12.

The ministry’s Overseas Development Assistance programme is delivered through its International Development Group, the successor of the former stand-alone New Zealand Agency for International Development (NZAID). Following the incorporation of NZAID into the ministry, a new organisational structure for delivery of New Zealand’s aid programme was formally implemented in May 2011. This new structure includes a new policy statement with a focus on sustainable economic development, a stronger focus on key economic development sectors, international and domestic partnerships, and sharing of services with the broader ministry where appropriate. The ministry is undertaking a business model stock-take review in 2012 to look at the new operating model for the purpose of making further refinements to improve business performance.

We noted a 7 percent drop in funding in New Zealand’s overseas aid as a percentage of Gross National Income, and compared this with Australia’s expanding aid budget. New Zealand’s aid is projected to drop from 0.32 percent in 2011/12 to 0.26 percent in 2015/16. Australia is projected to increase its aid budget as a proportion of GNI to 0.5 percent by 2016/17. The Minister noted the differences in the aid approaches of the two countries. New Zealand has a major Pacific focus for its overseas aid funding, whereas Australia has a more global approach. The Minister was still committed in principle to achieving a 0.7 percent target of GNI given as overseas aid, but noted this will flatline over the next three years due to funding pressures, including the Christchurch rebuild. Some of us are concerned at the effective decline of ODA expenditure and would urge the Government to consider a programme to achieve the 0.7 percent of GNI goal over time.

We were told that the Aid division at the Ministry now engages with both the state and private sectors to provide aid projects, and Meridian Energy building solar plants in Tonga.
and initiatives with Customs to improve Pacific nations’ revenue collection methods were cited.

**Bid for United Nations Security Council seat**

We asked what the Ministry of Foreign Affairs and Trade’s strategy was for the New Zealand Government’s campaign for a non-permanent seat on the United Nations Security Council in 2015. Over the next two years the Minister and senior officials are seeking mutual support agreements with a number of countries, and are working to increase New Zealand’s profile internationally. This work includes increased participation in and attendance at meetings of international organisations including the African Union, the Caribbean Community, and the Non-Aligned Movement. The Minister believes the campaign is going well, but it will be a tough race against larger and better resourced nations. Spain and Turkey are also currently bidding for the same seat.

The Minister told us that New Zealand is promoting itself as a representative of smaller countries, many of whom feel they are being squeezed out of the Security Council decision-making process by the larger permanent members. He feels that the Security Council is in need of some modernisation and reform, as he said recently to the New Zealand Institute of International Affairs. He is strongly against “buying” a seat, with either cash or policy changes. We were interested to hear that the Minister believes that parliamentarians can play a role in supporting the process; current and former members of Parliament can promote New Zealand’s bid abroad, and the Minister also believes that showing cross-party support for the bid sends a strong signal to other countries that New Zealand’s stance will be consistent through electoral changes.

**Fiji**

In response to questions about the governance in Fiji, the Minister said New Zealand was chairing the Forum Contact Group, and he thought an election would be likely but questions remain over whether it would be fair. A constitution was being prepared by a constitutional expert, Professor Yash Ghai, in preparation for the next election. Voter registration is being carried out by a Canadian company, with assistance from New Zealand and Australian election officials and supported by New Zealand funding, and was progressing well. The Minister felt the outcome in Fiji was likely to be better if the region maintained its engagement.

**Regional stability**

In response to a question, the Minister said the region of Papua New Guinea had endured a period of difficulty but with the current election almost completed he was optimistic of a more stable future.

Discussions were underway with the Australians and government in the Solomon Islands about removing the military component of RAMSI by the end of this year, which would free a New Zealand platoon. A significant police contribution would remain necessary to ensure stability.

Good progress has been made with a successful election process in Timor.
The Minister pointed out that New Zealand had a very good relationship with China and we are the only western country with a free trade agreement with China. That relationship we hope will enable New Zealand, China, and various Pacific countries to engage in positive development cooperation across the region.
Appendix

Approach to this examination

We met on 19 July 2012 to consider Vote Foreign Affairs and Trade, and Vote Official Development Assistance. Evidence was heard from the Minister of Foreign Affairs, Hon Murray McCully, and the Ministry of Foreign Affairs and Trade, and advice received from the Office of the Auditor-General.

Committee members

John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
Su’a William Sio
Lindsay Tisch

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Votes Foreign Affairs and Trade and Official Development Assistance, received 12 June 2012.

Minister of Foreign Affairs, Response to standard Estimates questionnaire.

Minister of Foreign Affairs, responses to committee questions for Votes Foreign Affairs and Trade, and Official Development Assistance, received 16 July 2012.
2012/13 Estimates for Vote Health

Report of the Health Committee

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Vote Health

Recommendation

The Health Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Health, as set out in Parliamentary Paper B.5, administered by the Ministry of Health be accepted.

Introduction

Vote Health is the second largest vote in the Budget and the largest in terms of services, with appropriations sought totalling just under $14.125 billion. Approximately three quarters of the appropriations sought are for the funding of health services for DHBs. Only 1.4 percent of the vote is for departmental functions.

We heard evidence from the Minister of Health, the Hon Tony Ryall, and officials from the Ministry of Health.

Funding reprioritisation

The Minister told us that $405.232 million has been appropriated in 2012/13 for new policy initiatives, with $1,631.844 million allocated over the next five years from 2011/12 to 2015/16. We recognise that “new initiatives” does not necessarily mean “new money”, as the total allocated over the next five years includes $386.113 million of reprioritised savings. This includes $174.729 million for the period 2012/13 to 2015/16, from cost shifting from the Crown to the patient for pharmaceuticals ($140 million), and from a change in the aged care assessment level ($34.729 million).

Capital expenditure

The appropriation for capital expenditure in Vote Health rose from 2008/09 to 2010/11 and has dropped again in 2011/12. The appropriation sought for 2012/13 is approximately the same, and is estimated to be well below this level in 2013/14, 2014/15, and 2015/16. In Budget 2012, $124.064 million is sought for Equity for Capital Projects for DHBs, and Other Crown agencies, and $106.510 million for Loans for Capital Projects. Expenditure per year is expected to be around $240 million to $280 million, with changes to the forecasting and funding processes likely to lead to more accurate capital asset management planning in 2012/13 and beyond.

Canterbury

The Minister said that the Canterbury DHB faces significant challenges, and that the Government will need to consider a hospital rebuilding programme, estimated to cost up to $600 million. The Minister told us that $400 million of these costs will come from sources outside the DHB. We are aware that a public-private partnership is under consideration for Canterbury DHB.
Health workforce training and development

We are aware that a number of workforce appropriations have been centralised into Health Workforce Training and Development, with a reprioritisation of a projected under-spend of $32 million from 2011/12. The Minister informed us that the under-spend included $30 million set aside for an increase in elective surgery which was not needed.

The appropriation for Health Workforce Training and Development has increased from $148.787 million budgeted in 2011/12 to $169.189 million in 2012/13. We asked why the targets for nursing trainees have decreased from 2,678 in Budget 2011 to 2,400, with Māori trainees decreasing from 230 to 200.

The Minister said that training services have recently been rationalised, as targets have consistently proved unrealistic. The Minister assured us that the intention is not to reduce staff numbers, but to ensure that more staff are in fact being trained, and the new targets in Budget 2012 represent a return to more realistic goals. Despite the Minister’s assurances we are aware that funded training places have decreased.

Nurses

The Minister told us that it is very difficult to place graduate nurses as turnover and vacancy rates have dropped dramatically. The Ministry has been funding additional places in aged care to help circumvent this challenge. We consider that any improvement in the economy will create an exit risk in nursing, and are pleased that the Ministry is researching ways to retain nurses.

A centralised electronic database is being developed to match graduates with available positions, in an effort to minimise lost opportunity. It is due to go live in December 2012. We hope that it will improve the placement rate, and thus retention of nursing expertise.

Family caregivers

We are aware that the recent court ruling that family caregivers of those with disabilities are entitled to monetary payment presents financial and policy challenges. We heard from the Minister that a technical advisory group has been set up to develop policies for ending discrimination while saving costs. The Minister told us the group is determined to ensure a high standard of care, and achieve the best value for every dollar spent. It will be working closely with the disabled community.

District health board funding

We are aware that the DHBs have considerable funding pressures, and some will struggle to meet the costs of Kiwisaver contributions; costs for Canterbury, for example, will absorb 40 percent of the extra funding the DHB will receive in Budget 2012. Costs arising from the requirement to pay overnight carers at hourly rates rather than a flat allowance will also place financial pressure on DHBs. We asked whether consideration had been given to these factors, along with rising costs, population growth, and the ageing population, in the allocation of funds to DHBs.

The Minister told us that the DHBs are funded demographically, and that $350 million has been allocated to help absorb cost pressures. We also heard from the Minister that the
DHBs have been preparing for the additional Kiwisaver costs for some time now by making efficiencies. We were assured by the Minister that “sleepover costs” for overnight care are fully funded by the Ministry.

We asked whether pressure to make increasing efficiencies will result in an erosion of service quality. The Minister disputed this, and said that in “challenging times” efficiencies are essential. The Minister suggested we are in a privileged position compared with the struggling healthcare systems in the United Kingdom, Australia, and Portugal, which are responding to tough times by making countless layoffs, in contrast with Budget’s 2012 approach of protecting and growing New Zealand’s health service.

We note an increasing emphasis on primary health care, and shifts in service delivery to primary care will affect models of care, and capital investment needs.

**Ministry of Health**

The Minister acknowledged that, like many public service departments, the Ministry of Health has to cope with a reduction in funding. Efficiencies designed to reduce the burden of the reduction in funding have been the capping of staff numbers, reviewing vacancies carefully, and using fewer consultants and contractors. The Ministry is also reducing travel by staff and the cost of its office accommodation.

**Well Child Tamariki Ora**

In the 2011/12 Supplementary Estimates, there was a $12.726 million transfer of Well Child Tamariki Ora funding from DHBs to National Child Health Services. We note that this affected the DHBs disproportionately. The Minister said there was no overall reduction in “Well Child” funding; contracts had been changed to improve their consistency.

**Immunisation**

We recognise that timely immunisation is important to reduce the risk from preventable childhood diseases such as whooping cough and measles. The Minister also pointed out that immunisation visits increase contact between health care providers and the caregivers of young children, so other health care issues are more likely to be properly managed.

We congratulate the ministry on achieving world-standard immunisation rates with 92 percent of New Zealand two-year-olds now fully immunised, up from 80 percent in 2009.

**Aged care**

We note that a change to the asset threshold for subsidised aged residential care will make rest homes and other aged-care facilities more expensive. The Minister said that the savings predicted from this policy change will go towards comprehensive clinical assessments in rest homes and enhancing the quality of care.

In addition, the Minister noted that $12 million has been allocated to provide additional support for older people, and $40 million is being provided over the next four years for dementia services, which will go towards funding extra beds, and providing community support. We also heard that older people are benefiting from shorter waiting times for elective surgery.
Prescription charges
Some of us were concerned that following the co-payment increase on subsidised prescriptions from $3 to $5 some patients would be unable to, or refuse to, collect prescriptions. We heard that the Ministry consulted a number of pharmacists in high-deprivation areas, and that the rate of refusal to collect prescribed items is currently very low. We were assured that if people cannot cover the costs of their prescriptions some primary health organisations or Work and Income can pick up the cost.

Cancer services
The Minister told us that patients diagnosed with cancer will receive care from a dedicated cancer nurse throughout their illness from the referral process right through to recovery after treatment. Data is also being collected at key points to measure patients’ progress against established standards.

We congratulate the ministry on reducing the waiting time for chemotherapy and radiation for cancer patients to one month. The Minister also told us that $16 million has been allocated to reducing the backlog in diagnostic testing. We welcome the significant improvements in the care of cancer patients.

Alcohol-related harm
We were interested in an alcohol screening initiative in hospitals. It involves identifying patients who are admitted to hospital as a result of alcohol abuse or an alcohol-related injury, and following up with a phone call to offer assistance in addressing alcohol issues. The Minister informed us that the ministry has been working with the Royal College of General Practitioners to develop behavioural change initiatives for alcohol intervention. We heard that research suggests alcohol screening and brief intervention initiatives in primary care produce a behavioural change in one in eight participants, compared with the one-in-20 rate of behavioural change resulting from smoking screening.

Suicide
We are concerned about the large numbers of young people, particularly young men, who are taking their own lives, and asked what is being done to curb this worrying trend. We were told that Budget 2012 has reprioritised funding to enable an additional $8 million for suicide prevention, and the Ministry of Health is contributing to a cross-agency package of initiatives to help prevent mental health problems developing. The package will also improve access to specialised treatment, and is designed to reach young people through multiple avenues such as their families, communities, schools, the health system, and the internet.

Obesity and related illnesses
We asked what is being done to prevent obesity and related illnesses. The Minister said that the Government is focusing on proven preventative measures, and earlier intervention, including nutrition and exercise projects. For example, a large investment has been made in Kiwisport for school-aged children. Efforts are being made to improve maternal and newborn nutrition, as studies have proven that this is the most effective point for intervention.
2012/13 ESTIMATES FOR VOTE HEALTH

Project Energise is a current initiative in Waikato primary schools designed to improve children’s physical activity and nutrition. The project has had very positive results and the ministry would like to see it rolled out in other regions. We support the ministry in expanding such initiatives across the country.

We note that targets for diabetes and cardiovascular related diseases have not been met. We look forward to improved progress in this area.

**Tobacco**

One of the Government’s health targets is to provide better help for smokers wishing to quit. Targets have therefore been set for reaching specific groups of patients with advice on and support for quitting: 95 percent for those in public hospitals, 90 percent for primary healthcare, and 90 percent for pregnant smokers. We look forward to seeing progress in this area.
Appendix

Approach to this examination
We met on 13 June and 18 July 2012, to consider Vote Health. Evidence was heard from the Minister of Health, the Hon Tony Ryall, and the Ministry of Health, and advice received from the Office of the Auditor-General.

Committee members
Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Health, Response to additional questions, received 11 June 2012 and 26 June 2012.

Minister of Health, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Health, received 13 June 2012.

Organisation briefing paper on Vote Health, prepared by committee staff, dated 19 June 2012.
2012/13 ESTIMATES FOR VOTE HOUSING

Vote Housing

Recommendation
The Social Services Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Housing as set out in Parliamentary Paper B.5, administered by the Department of Building and Housing, be accepted.

Introduction
Vote Housing is administered by the Department of Building and Housing. The Minister for Building and Construction, Hon Maurice Williamson, and the Minister of Housing, Hon Phil Heatley, are responsible for various output expenses within the vote. Appropriations sought in 2012/13 total $1,023.264 million, a slight increase from the estimated actual expenditure of $1,019.911 million in 2011/12.

Canterbury rebuilding
Over 90 percent of state houses in Canterbury suffered some sort of damage in the Canterbury earthquakes, and thousands of repairs have been done. Housing New Zealand Corporation will be building 200 to 300 new houses in Canterbury over the next 18 months, as just under a third of existing state houses cannot be repaired.

Some of us were concerned that the provision for emergency accommodation is being wound down when the state housing sector in Canterbury is still in crisis. The Minister of Housing said the corporation’s priority was to bring as many damaged houses as possible back into habitable order, and the corporation is looking for land to build “substantial developments” on.

Temporary accommodation villages
There are two Crown-funded temporary accommodation villages in Canterbury, at Linwood and Kaiapoi, with a third, Rawhiti Domain, ready for occupation in mid-July. Some units at Linwood and Kaiapoi have been constructed for people with disabilities or mobility issues. Some of us are concerned that the disability access to the units does not extend to some important areas, such as the kitchens. The corporation conceded that, while the units have features including wheelchair-accessible ramps and doorways, toilets, basins, and showers, the kitchens cannot accommodate a person confined to a wheelchair. Residents whose needs are not met by these units can be matched with more suitable accommodation by the Canterbury Earthquake Temporary Accommodation Service. So far the 15 people who have advised of such needs have been accommodated in the villages, by the private rental market, or in district health board-owned facilities.

Social Housing Unit and third-party housing sector
The Social Housing Unit is a semi-autonomous body set up in May 2011 to work with housing providers, allocate funding, and facilitate partnerships for purposes such as land transfers. The Social Housing Fund, which administers four sub-funds—Niche, Rural,
Māori, and Growth—receives a three-year appropriation of $104.1 million to increase third-party provision of social housing. The Minister of Housing noted that the three-year funding round allows providers time to purchase land, apply for resource consents, and build houses. We heard that although most of the housing that has been built so far with this funding has been in the Auckland area, there is money set aside for Christchurch, the East Coast, the Bay of Plenty, and Northland.

Some of us are concerned that the amount of money set aside for the Social Housing Fund is insufficient to meet the growing need for social and affordable housing in New Zealand. The Minister of Housing said that if the same amount had been given to Housing New Zealand Corporation as capital to build houses, considerably fewer houses would have been built than were forecast to be built by the third-party housing sector.

**Call services centre**

Housing New Zealand Corporation has reviewed its call services centre and introduced new technology to make the service more efficient. We had heard anecdotally that a number of full-time employees were made redundant by Housing New Zealand Corporation, then rehired for its call services centre. We heard that the relocation of some call centres caused redundancies in some centres, but that no full-time equivalents were lost as a result of the changes. The corporation said the full-time equivalent count increased as planned from 74 to 108 in April–June 2012. We look forward to being provided with a full picture of staffing for Housing New Zealand Corporation when actual job losses, relocations, or rehiring are taken into account.

We asked about the number and cost of unanswered calls to Housing New Zealand Corporation. We were told that an “unprecedented” number of calls were received in April 2012, when the corporation introduced its new technology, and that resourcing had been pitched “a bit low”. The volume of calls was expected to settle, but meanwhile staffing had been increased to cover the unexpected demand. All staffing costs were being funded out of existing operational budgets. In May 2012 the corporation’s call services centre answered 61 percent of the 145,498 calls “offered”. We questioned the Minister about the cost to the corporation of unanswered calls. The Minister and Housing New Zealand Corporation claimed they could not make this calculation.

Some of us were concerned that the requirements of callers needing assistance with English, especially the Pacific Island community, were not being addressed. We were told that the corporation can arrange an interpreter through its language line. With prior notice, interpretation services can also be arranged for face-to-face meetings.
Appendix

Approach to this examination

We met on 13 June and 18 July 2012 to consider Vote Housing. Evidence was heard from the Minister of Housing, Hon Phil Heatley, the Minister for Building and Construction, Hon Maurice Williamson, and the Department of Building and Housing (now the Building and Housing Group within the Ministry of Business, Innovation and Employment) and Housing New Zealand Corporation, and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for Building and Construction and Minister of Housing, Response to standard Estimates questionnaire, received 25 May 2012.

Minister for Building and Construction, Response to additional written questions 1 to 155, received 3 July 2012.

Minister for Building and Construction, Response to written questions 1 to 112, received 14 June 2012.

Minister of Housing, Response to additional written questions 1 to 155, received 10 July 2012.

Minister of Housing, Response to written questions 1 to 112, received 12 June 2012.

Office of the Auditor-General, Briefing on Vote Housing, dated 13 June 2012.

Vote briefing paper, prepared by committee staff, dated 6 June 2012.
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Vote Immigration

Recommendation
The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Immigration as set out in Parliamentary Paper B.5, administered by the Department of Labour, be accepted.

Introduction
The total appropriations sought for Vote Immigration in 2012/13 have increased to $209.214 million, a very small increase from the estimated actual of $208.077 million in 2011/12. The main increases in appropriations relate to costs associated with the Immigration Global Management System (Immigration New Zealand’s new computing and communications system); these are balanced by cost savings and transfers to other votes administered by the Department of Labour.

Immigration Global Management System
Immigration New Zealand’s computing and communications systems are 15 to 20 years old. The Minister told us that $75 million is being invested in an Immigration Global Management System (IGMS) which will replace the existing largely paper-based system. The system is expected to be in operation by 2015 and should improve the responsiveness and integrity of Immigration New Zealand’s processes by speeding up the processing of visa applications and allowing applicants to do more on line. We were told that the system represents best practice internationally, and provides the foundation for a modern service.

Refugees and asylum-seekers
Managing mass arrivals
We asked about the purpose of the Immigration Amendment Bill, which is currently before us. The Minister told us that the primary objective of the bill was to deter people-smugglers from choosing New Zealand as a destination. The department told us that managing any mass arrival would involve a whole-of-government response. Part of the work towards the bill has been the estimating of the cost of managing such an arrival; funding would be sought only if one actually took place.

We heard that if a large vessel should arrive in New Zealand, initial processing would probably be conducted somewhere like Devonport. Those assessed as high-risk would be detained in a corrections or similar facility, while those posing a lower risk would be housed in a refugee centre such as Māngere or at Waiōuru. After individual processing, asylum-seekers who did not pose a risk would be integrated into the community, and others would be deported.

Outcomes for Refugees
We asked how Government was planning to achieve better results for refugees. The Minister told us that the current six-week process for new arrivals through the Māngere
centre works well—several Government agencies, including the Ministry of Education, Housing New Zealand, the Ministry of Social Development, and the Inland Revenue Department, contribute to the programme—but that subsequent integration into the community could be managed better.

The Minister has taken a proposal to Cabinet, which is being developed into a detailed business case, for better support for refugees when they leave the centre. The Minister envisages setting targets with Government agencies for refugees’ employment, health, and language skill outcomes, among others. It also considers the future role of the Māngere centre. The result of this consideration should be publicly available by the end of this year.

**Residence Categories**

The Minister of Immigration can classify groups of applicants into “tiers” as part of residence policy, assigning specific processing priorities to different tiers. Tier 1 now consists of people who have been found to be genuine refugees, skilled migrants, and partners of returning New Zealanders; they will effectively be queued ahead of others. The department does not expect the current tier 1 category to account for the full number that may be approved for residence each year.

We heard that residence applications are subject to the department’s most extensive checking process, and we note that it is easier to obtain the necessary information from some countries than from others. The department believes that this factor probably lies behind any perception of differential treatment of nationalities or ethnicities.

**Close family members**

We asked whether any contingency planning had been done following the Minister’s announcement of 10 May 2012 that the Sibling and Adult Child category would close on 15 May 2012, and that the Parent category would also close on that date, to be replaced by a new two-tier Parent category in July 2012. The Sikh community has sought judicial review of the decision to allow only three working days’ notice of the policy change. The department said that the outcome of the application for interim relief was not yet known, but confirmed it would follow any judicial direction. If the judicial decision were to re-open the categories for a period of time, one possibility was an appeal to a higher court as it would be unusual for the courts to suggest that immigration policy was not in the hands of the Minister.

The department noted that the Sibling and Adult Child category was already capped, with more demand than could be met, so even if a large number of groups took similar legal action, the queue would continue to be managed in the same way. The time it took to be granted a residence permit and accompanying visa to enter New Zealand might get a little longer, but not by many years.

**Skilled migrants**

We heard that residence applications in the skilled migrant category could be subject to different levels of checking depending on the nature of the job, whether the employer was an accredited employer, and whether a skills shortage was subject to regional variation in
New Zealand. It was intended that jobs on a national skills shortage list with an accredited employer should not be subject to testing to determine whether any New Zealanders could do them, since such checking was part of drawing up the skills shortage list.

**Recognised Seasonal Employer scheme**

The Minister told us that the Recognised Seasonal Employer (RSE) scheme is a good one, which has improved over time. A maximum of 8,000 workers may be employed under the scheme each year, each working in New Zealand for a maximum of seven months of the year. We heard that this maximum number has never been reached, and that the average stay is three to five months.

The department told us that the scheme is in its sixth season, and that it is considered by the World Bank to be one of the best temporary migration schemes in the world, benefiting New Zealand industry, the workers, and the countries and communities they come from; and any displacement of New Zealand workers is minimal.

The department has a dedicated RSE team, and regional coordinators who work with local labour inspectors. An RSE employer must demonstrate good employment practices with New Zealand employment contracts, and meet requirements for accommodation and pastoral care. The scheme still primarily employs workers from the Pacific Islands, but is gradually expanding its catchment.

**Migrant workers**

The department told us that it is very conscious of ways in which migrants can be exploited, in the labour market, and through people smuggling or human trafficking. It does much work to inform incoming migrants of their rights and obligations, how to get help, and where to go if they have problems. It is increasingly working with sectors that employ large numbers of migrants, such as the dairy industry and the aged-care sector. The department noted a possible upward trend in cases of migrant employers exploiting migrant workers.
Appendix A

Approach to this examination

We met on 14 June and 19 July 2012 to consider Vote Immigration. Evidence was heard from the Minister of Immigration, Hon Nathan Guy, and the Department of Labour, and advice was received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Immigration, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Immigration, received 12 June 2012.

Responses to additional questions, received 12, 25, and 29 June 2012.

Vote briefing paper, prepared by committee staff, dated 13 June 2012.
Appendix B

Corrected transcript of hearing of evidence 14 June 2012

Members
David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Jan Logie
Simon O’Connor
Scott Simpson
Phil Twyford
Dr Jian Yang

Witnesses
Hon Nathan Guy, Minister of Immigration

Department of Labour
Nigel Bickle, Acting Chief Executive
Steve Stuart, Acting Deputy Chief Executive, Immigration Group
Christine Hyndman, Manager, Immigration Policy

Bennett Well, welcome Nathan, and to your team. Welcome to select committee and we’ll just give you a little bit of space at the start to just give us a briefing, and then we’ll open up for questions OK?

Guy OK. Thank you very much Mr Chair. On my left is Nigel Bickle, acting CE of the Department of Labour. On the right is Steve Stuart, acting chief executive of immigration. I might get Nigel to introduce the rest of his team very quickly.

Bickle A couple of key members of the team are George Mason who’s the general legal counsel at the department, Geraldine Woods who heads up the chief executive’s office, and Christine Hyndman who is the manager of the immigration policy area at the department.

Guy Thanks Mr Chair. What I propose to do is give you some introductory remarks, probably take us about, sort of 7 to 10 minutes, and then I’m very happy to have a chat, take any questions or comments. As you’re all aware immigration is a very big business. Around 10 million border movements per year. Immigration New Zealand makes around 500,000 immigration decisions each year, the majority of which are visa decisions. Immigration has a very positive effect on our GDP, our export sector, and our labour force. Immigration is an important facilitator for key sectors. You’d all be
aware inbound tourism is worth around $9 billion a year. Export education is worth around $2.3 billion a year. Migrants are extremely important to New Zealand, for example new migrants add an estimated $1.9 billion to New Zealand’s GDP every year. One in four of New Zealand’s workforce are migrants, and one in three in Auckland. It’ll be interesting to see the change when we get around to the next census.

So I’m working to ensure that immigration—that the system delivers the maximum value to New Zealand, and that we contribute to a strong, stable, and internationally connected economy and society. So to achieve this direction the key priorities are to strengthen immigration’s contribution to the economy and to implement a new service-delivery model. If I can just take a moment to address both of those things. A key part of strengthening immigration’s contribution to the economy is to attract capital investment to New Zealand. To achieve this we have got a couple of new categories. One is the Investor category where an individual contributes $1.5 million over 4 years. Or Investor Plus, which is $10 million invested into New Zealand over 3 years. Set realistic levels for the time spent in New Zealand, English language requirement, and investment vehicles also; these changes have worked very well. Around $296 million invested to date, with a further $620 million being processed. You can compare that with the scheme of the previous Government, which yielded about $62 million over 2 years. So these policy changes have worked extremely well.

The contributions to the economy are attracting and retaining skilled migrants. It has been more difficult in the current environment, and the committee would understand that. We still had 18,663 people approved under the business skilled stream in 2011-12. That’s for a period of about 11 months. Supporting Christchurch rebuild to supplement the New Zealand workforce where necessary. Supporting the growth export sector. We’ve reduced red tape for students and strengthened the overall reputation of the sector. Health changes I announced in May reduce red tape for low-risk students, but reduce risk to New Zealand by requiring health insurance as a condition of their visa. We’re managing our overall immigration risk through the Immigration Amendment Bill. We’ve got Exercise Barrier coming up—well, it’s currently under way, and I’ll be out with the Minister of Customs next week doing a live exercise. We’ve also brought in airline infringement fees as well.

As I set out before, our second key priority is to implement a new service delivery model. The department and Immigration New Zealand in the past were underperforming, and the committee would be well aware of that—issues around the Auditor-General’s report—things have improved a hell of a lot since then. There’s been a focus of improving the quality of decisions, timeliness, standards, and customer satisfaction. We just look at quality for a moment, it was around 71 percent in 2009, it’s now 92 percent in late 2011. These are as a result of accurate decisions. The timeliness of decisions for the month of May, decisions made within 90 days, for the work visa 90 percent, for the visitor visa 97 percent, and students at 89 percent. Overall
customer satisfaction is gone from 67 percent in 2009 to 85 percent in 2011. So I guess what I’m indicating to the committee is that immigration performance has come a long way in a short period of time under this Government’s regime.

As outlined also, there’s been a significant improvement with the existing system in the last term of Government. We want to maintain and enhance these improvements. Immigration New Zealand has a large global network, which is expensive to maintain and operate, and at times slow to respond to variations, such as application to volumes and changing needs of employers, tourism and others. It’s very much a bricks and mortar focus, and the current set-up results in relatively high cost of delivery. There is a need to introduce a new service-delivery model to improve the system further. It’s pretty hard to squeeze much more performance out of our current, clunky paper-based model. But there has been quite a big turn-round, if we just look at the call centre that I visited in Auckland where they were operating 14 minutes turn-round, now they’re down to below 2 minutes. Earlier on this year I introduced with Nigel Bickle, and outlined the new service-delivery model. Our Vision 2015 document it’s about having a more flexible, responsive, and efficient approach to attracting the best people to New Zealand. I’m happy to talk more about that later on.

A practical example of this is the delivery of this model, which is commonly called IGMS, the Immigration Global Management System. We are making this major investment because we need to continue to improve and evolve our overall systems. Basically, it’s a swept-up IT system, investing $75 million. The current system is around 15 to 20 years old, and it needs to be updated. It is expected to be fully operational by 2015 and the first service line for students will be planned to be introduced next year, in about April. Datacom is the prime contractor that has been chosen. Thank you very much, Mr Chair.

Bennett Thank you, Minister. I appreciate the very full explanation and the many good things that are being achieved, especially in some of those statistics around customer satisfaction and also your Investor Plus category, which looks like it’s been very successful. I’m sure members will have some questions.

Fenton Good morning Minister, morning everybody—how are you? One matter first off. I asked some supplementary questions, and that was around the budgets for travel and also conferences, and the answer was that you haven’t concluded those budgets. When will that be done, and can we get a copy of that, when that’s done, please?

Bickle Yes, you can. We are just in the final stages of that now, and as soon as they are finalised, we are happy to provide those.

Fenton I wanted to deal with a couple of hot issues. One is the Immigration Amendment Bill, which is before this committee, and what planning is in
place around that. If we start with that; and the second one is around the changes to the adult child and sibling category. In terms of the Immigration Amendment Bill and the changes in terms of mass detention, have you got any appropriations in this Budget, and are there expected to be costs around the implementation of that bill?

Bickle The major cost would come in the event that we had to manage a mass arrival. So part of the work that’s been done has sort of estimated what those costs would be, but the expectation would be that we would seek funding in the event that we had a mass arrival to manage.

Fenton How far are you along with the planning for Waiōuru to be the detention centre?

Bickle As you’ll probably be aware, the last Government initiated a whole-of-Government plan through the Department of Prime Minister and Cabinet in terms of a whole-of-Government response if we had to manage a mass illegal arrival. That has been updated over the last 18 months and that plan is currently being tested. The Minister referred to the fact that we’re doing an 8-week exercise at the moment, called Exercise Barrier, which goes from desktop testing all those plans right through to a live exercise next week. Part of that plan has a range of facilities where we would, in the event that we had a mass arrival to manage, hold those migrants, one of which is Waiōuru.

Fenton Because I know that there’s been people going down to Waiōuru and there’s been discussions about that. Is the Defence Force expected to contribute any money in the event of a mass detention?

Bickle Yes, as I’ve said this is a whole-of-Government plan. All of those agencies have been involved in developing and involved as part of testing, but the understanding, as part of that plan that’s been signed off, is that clearly there would be costs in the event that there was a large mass arrival, and at that point we would be seeking the appropriations we needed to manage that.

Fenton Right, so, have you been thinking about who you might be contracting to run such a detention centre?

Guy Can I just answer that? At the moment you’ll be aware that we’ve got the refugee centre business case. I took a proposal to Cabinet. We’re working on a detailed business case around how we can make some improvements to refugees, and you were, indeed, at the breakfast this week where we were celebrating World Refugee Day in advance. So there is quite a bit of work going on around a detailed business case for the future of the Māngere centre. I’m looking forward to taking some options back to Cabinet towards the end of the year. How it would practically work if we did have a large vessel coming to New Zealand, we would probably look to try to do some initial processing at somewhere like Devonport, work out what was a high
risk or not. Then those who were determined to be a higher risk would then be detained in somewhere like a corrections facility or, indeed, if they were a lower level of risk, you’re right, it could be somewhere like Waiouru; and others, once they’re processed on an individual basis, integrated into the community.

Fenton Would you look to use some of the contractors that the Defence Force currently have, such as Lockheed Martin?

Guy I don’t know the answer to that. I think the important thing is that we’re going through this exercise as the moment, Darien; that’s going to be a practical exercise next week. There’ll be some learnings from this exercise where we will be able to, as Mr Bickle mentioned, the whole of Government will be able to review that and be better prepared.

Fenton The reason I ask that question is because Lockheed Martin has a 10-year contract with the Defence Force already, and it has a base at Waiouru. I’m concerned that Lockheed Martin’s reputation is not that great. They had one of the contracts at Guantanamo Bay and at Abu Ghraib. I’d like some assurance that we wouldn’t be getting into that sort of situation in New Zealand.

Bickle Yes, so I think the point that I’d make is what we’re not proposing here is to run detention centres. If we take a scenario that said, for example, we had a Canadian-type venture where 500 people arrived in a steel-hull boat. We’re clearly looking to make some determinations around—because we still regard ourselves to be a good international citizen and have a lot of regard for international convention, we are not looking to put everybody into detention or correctional facilities. You would be trying to make the assessments as early as possible. Clearly, Mangere refugee centre is a sort of—

Fenton Detention centre

Bickle Well, but open detention. Clearly the way that Mangere operates at the moment, the maximum that we can have, like when we run our refugee intakes, is around 175. We have to have plans in place around where the range of facilities are that we could use in the event, that we had well thought-through plans if a mass arrival happened.

Fenton Yes, I think you’ve got some work to do, because obviously we have been looking at the submissions, and there is a very strong impression out there, including from the UNHCR, that you are talking about detention centres, and you are talking about the model of Australia, so you’ve got some work to do to convince the public, and us, in that. Let’s move on to the issue around adult child and sibling category, which you changed on 10 May, I think. That’s left a lot of very aggrieved people. What contingencies are in place for the court action that the Sikh community has taken?
Hyndman: There was a hearing yesterday, but we don’t have the outcome of that yet from the judge who heard it. If the judge were to find that the application for interim relief sought through the judicial review should be upheld, then obviously we would follow the judicial direction. I think what the appellant was seeking was to effectively have the categories re-opened for a period of time. If that was the judicial decision, then I guess that would need to be considered. Depending upon the decision that was made, I mean there is always, I suppose, the possibility of further appeal to a higher court, or their going ahead and the Minister re-opening them for a period of time. I don’t think that the appellant was seeking permanent reinstatement of the policies. I think that that would be an unusual thing for the courts to say that immigration policy was not in the hands of the Minister.

Fenton: There is a risk there will be others too, isn’t there, that will take court action? I understand there are about 7,000 people who had already applied under that category, and they have been told—and it costs $780 for each application, it’s quite considerable. Many of them see themselves as having entered into a contract in terms of applying for that. What I’m interested in is how you’re going to manage those 7,000 people. I know you are telling them that they’ll still be in the queue, but you’ve actually changed the queue. You are giving priority to another group, so how can they be assured that they’re actually ever going to get case-managed and their cases concluded?

Hyndman: There are going into a managed queue. I think one thing that I would just like to point out is that that queue was growing in any case. It was a capped category, and it had higher levels of demand than could be met within the numbers of people able to be approved residence each year. It has been a longstanding capped category, in that the contribution that the skilled and business migrants can make to New Zealand’s economy and community has always been highly valued by administrations. The thing of people being in the queue for a long time is not at all something that happens only in New Zealand. The queue in Canada now, I think, is around about 15 years, and similar in Australia. The queue that we are predicting for the people who had applied under the previous category will not be anything like that long. So it may move out by a period of some years, but it will not move out to many, many years.

Bennett: Is that 15 years, you said, for Canada? So basically, what happens there in those situations?

Hyndman: People apply, and at some point their case is assigned and a decision is made.

Bennett: Do they stay that long?

Hyndman: No, most would be offshore, I would think.

Fenton: So how does that work though, now you’ve created a new category of tier 1s? How does that mesh with the people that have already applied?
The Minister of Immigration already has the capacity to assign different priority processing to different tiers within residence policy. For example, tier 1, at present, are people who have been found to be genuine refugees, skilled migrants, and partners of returning expats. Tier 3 have been people in the capped category for some time. This is a similar mechanism where the people who apply, who meet the tier 1 criteria—

Fenton

The new tier 1 criteria?

Hyndman

The new tier 1 criteria will be effectively queued ahead. We are not anticipating with our modelling that they will take up the full numbers available for approval each year, which is several thousand.

Simpson

Minister, you mentioned in your presentation that the Immigration Global Management System—IGMS is it—represents a very significant investment, was it $75 million? Replacing a 20-year-old system. I can’t believe that it has taken 20 years to address this matter, but can you give me some idea, please, on what are the expected benefits to accrue from that investment?

Guy

You are probably aware—I touched on it in my opening remarks—that we launched this vision for 2015. You’ve probably all had a look, but in essence it says that currently we’ve got very much a paper-based system, we’re not that responsive. We have a model that’s pretty much paper-based, and we need to change with our markets. Our markets are growing in Asia, as we can all expect. Currently we have a system that we can’t get a greater performance out of it than what we are currently getting. So what this will mean is that we will look to centrally process more applications. We’ll look to outsource some of these lower-level applications with third parties. We’ll look to increase online access—currently working very well with our student visas in Palmerston North, where they are processing half of those in a turnaround of about 48 percent, it’ll be even better—beg your pardon? [Interruption] Sorry, 48 hours. What did I say? Currently processing them within 2 days. So that is in the current system. IGMS will bring more integrity into the system. It’ll be more responsive, and it needs to happen, because currently we can’t work. Immigration have done well in the last few years under Minister Coleman, and Mr Bickle and his team, and the performance level, the integrity in the system, has improved to a point where we need to actually get some bigger gains. We can’t do that with a system that’s 15, 20 years old. It’s a big piece of work.

Bickle

Further to that, at a pragmatic sort of level for the organisation, aside from the online channels, one of the issues that was raised through the Auditor-General’s inquiry is that our staff had 70 or 80 different databases that they had to use; we don’t have a single view of the client. The new Immigration Act 2009 that was passed provides for biometric capability, which is one of the ways around assuring, again, some of the concerns that were raised about knowing the identity of people. It’s a foundation piece in terms of being able to move to online, risk-based decision making and processing. But it’s designed to really support, also, practical things, where, because we
are so paper-based at the moment, our ability to easily move, work around, that’s quite variable, and fully utilise our staff. It will give us things like an electronic, global work queue. It’s really some modern technology to try to underpin a fairly modern way of operating, and, particularly for our clients, giving them access to a greater range of channels than they have now, which is pretty much limited, with the odd exception—like the student product—to paper-based and quite intensive processes.

Simpson And presumably it represents best practice internationally?

Bickle Yes, it does. The technology is a significant investment. If I contrast it with the Australians, who have just recently spent $1 billion on new technology, what it does give us is just the basic foundations in place to run a more modern service going forward. As the Minister said, one of our big challenges is that we are a global business, operating between ourselves and Ministry of Foreign Affairs posts in around 60 locations around the world. Volumes change all the time, new markets emerge, and the traditional approach of having to open up a physical office, employ a whole lot of staff—

Simpson So there’s a bricks and mortar efficiency, as well as a system efficiency.

Bickle As well as a system.

Logie I am just wondering what time and percentage targets you might have around residency applications? For the different tiers?

Bickle At the moment we strive to make—and I’ll have to come back to you on the exact percentages—within 6 months of the residency application being lodged. We’ve had a really big focus over the last 2 years of trying to address some of our performance, particularly in the temporary area of the migration system, where we’ve made some pretty good progress. To be fair, the next area of focus for us is around the residency area. What we’re hearing a lot, whether its from business or other skills that communities need, I think what’s been reflected are some questions around how well we are making good triaging decisions at the front end and making residence decisions as quickly as possible, and quite often we probably get some observations back that it’s a little bit in the resident’s face sometimes: “Right, well, now go to the back of the queue.” So that is, in terms of our overall focus on improving both the timeliness and the quality of our decision making, residence is an emerging area of focus for us now.

Logie So you’ll be able to give us the figures?

Bickle We’ll be able to give you the figures, yes.

Logie I am also interested in, for the skilled migrants there is the list. Why has the extra layer been introduced of having to check against job availability? It used to be pretty much if your job was on that list, then the employer could apply and it was a match, whereas now people are being told they still need
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to check whether there is somebody local, which seems to be putting an extra layer of bureaucracy, which will slow things down?

Bickle One of the things that we are constantly balancing is the balance in the immigration space. The fundamental underpinnings of immigration is immigration’s supply to what’s in the New Zealand labour market and New Zealanders first, and I think that's been a constant feature of the immigration system forever—in the current context around New Zealand unemployment, even more so. We have designed the way that the skill shortages and the essential skills and accredited employers to work in a way that you don’t have to go through all of those checks. But in the areas where we need to test that there aren’t New Zealanders available to do those jobs, that’s why we have those processes.

Logie So it’s a geographical—

Bickle Yes, there are regional variations, but we have national skill shortage lists and essential skills in demand. They don’t require—

Logie I’ve heard that even with those, that the check is being applied, which seems to be just kind of defeating the purpose of a list for prioritisation.

Bickle Well, if you can give some of the specific cases, I’m quite happy to follow up on that. I guess the whole reason that we have, particularly for things that are on the long-term skills shortage list and if you’re accredited employers, the whole idea is not to have to then go through further levels of checks. But we have the labour market checking process for the reasons that I outlined in terms of making sure that what we don’t have is migrants taking jobs that New Zealanders are available to do.

Logie Also around the time frames in residence, and whether different ethnic or nation-based groups have been affected differentially.

Stuart Residence applications go through the most extensive checking process we have. Oftentimes, you are dependent on gaining information from third party sources in other countries. It probably will be quite dependent on the ability for us to do proper checking process to determine that these people meet the criteria for becoming residents. And so we’re happy to get back to you on that, but I do think you will find some variations in that.

Auchinvole Following on from that, really, my experience as a local MP has been that immigration is one of the busiest things we do. I’d like to compliment the service on its improvement over time. It’s been good, although people do look at us when we say we have the paper-based system and they’re scratching their heads, quite often. However, it’s great to know that that’s being invested in. The RSE, the Regional Seasonal Employment scheme that operates in Motueka and other parts, including Hawkes Bay, occasionally I hear criticism of it, that it’s displacing New Zealanders who would be able to do the fruit if they didn’t have people coming over from
the Islands. I just wonder whether I could ask how is it working, the RSE scheme, and does it, in fact, displace New Zealanders?

Guy Well, it’s a good scheme. It has been evolving over time. Maximum of 8,000 allowed on the scheme, maximum time period of 7 months. On average, it’s sort of 3 to 5 months. We’ve never actually hit 8,000. In fact, numbers have softened, particularly in the Bay of Plenty with the kiwi fruit Psa issue. There has been some recent research showing that employers are really satisfied with the RSE scheme—better quality, more productive, more stable workforce. In some cases, it has even allowed the business to further expand. Half of the RSE workers return to work another season back in New Zealand. The average income for that work, that they can take back home, for that period of time—which is normally peak season—is about $12,700. So these RSE workers are making a great contribution in New Zealand. There will always be tension between New Zealand workers and the RSE guys, but at the end of the day, we need the RSE workers to come in because at the peak of certain harvests they are only 10 to 15 percent of the total workforce.

Bickle I have a couple of comments. I actually think the RSE scheme is something that New Zealand can be really proud of. By reference, it has been going now for, I think this is its sixth season. The World Bank are basically holding it up now as probably one of the best temporary migration schemes in the world, in the sense that they talk about it in terms of triple-win outcomes. So it’s actually been good for New Zealand industry, it’s actually made meaningful contributions to the individuals and in terms of both money and skill transfer going back into the home countries that the workers are coming from, and that there’s been minimal, very little displacement of New Zealand workers. Again, we take that pretty seriously in terms of the governance that was set up around RSE. The numbers that are agreed regionally are, basically, we have the Ministry of Social Development, the industry, and the Department of Labour basically making recommendations around what the numbers should be regionally, but again, trying to balance what numbers should be coming in from the RSE sending countries with what’s the local availability of labour. I think, related to that in the broader sort of labour space, one of the things that RSE has also done is tidied up some of the labour practices that were at play in the horticulture industry not that long ago, that were pretty unattractive.

Little Just on that point, actually, Nigel, I was going to ask: in the early days of the RSE there were some cases of some pretty exploitative behaviour. I was interested to know the capability of the department to respond to complaints of that nature, and to intervene and ensure a good standard of management of those workers.

Guy You’re doing a lot more pastoral care now, aren’t you, with the employer and engagement?
Bickle We have a dedicated RSE team and regional coordinators out there that work very closely with labour inspectors on the ground. Obviously, part of the deal for being an RSE employer, the things that we’re interested in, are around good employment practices, New Zealand employment contracts, the accommodation requirements, pastoral care. We’ve recently had a provider that we’ve basically said “Sorry, you’re not meeting the standards, and you’re gone.” So we still take that stuff seriously, and it’s what, actually, the industry is demanding now. It’s part of the deal.

Yang Basically, I want to know do you have any target countries or regions for these workers, or is it just anywhere?

Bickle It’s predominantly the Pacific Islands, but it’s also moved now into a number of other countries. I’m quite happy to provide the list of countries and numbers where RSE workers are coming from, if the committee would be interested in that.

Fenton Just talking about those sorts of stories of exploitation and so on, there was one on the news last night and this morning. I’ve heard that not the guy that’s on the news, but someone behind it was actually involved in a similar scam last year but was never prosecuted. Can you tell me a little bit about how much effort is put into following up those sorts of abuses? They do hit the headlines.

Bickle They do, and I think we’re really conscious around exploitation of migrants full stop, whether it’s in the labour market or people smuggling, or human trafficking. I guess the starting point for us is around the policy, legislative and regulatory frameworks, and making sure that we’ve got that right. We do a lot of work in—Minister, you might want to talk to like the recent dairy industry initiative. But we do a lot of work around trying to inform incoming migrants around their rights and their obligations, and how they can get help and where they can go to if they’ve got any concerns. We’re increasingly trying to target specific sectors, like dairy. We’re starting to work with the aged-care sector as well, so trying to get some targeted sector strategies in place where we’ve got a lot of migrants coming into the sector. Then, obviously, we’ve got our compliance and enforcement functions, where I think you’re right, there is noise around this, and things that hit the press. We’ve got an unnamed Fijian woman before the courts at the moment, and again, that’s a situation where the migrants came forward to us. We were able to work with them and have laid charges around some pretty bad exploitation. There is a big compliance and enforcement focus. I think one of the things that has probably evolved a little bit over time is where initially we came at things from minimum wage and labour practices. It’s sort of evolved a wee bit now into, again, the international space where we’re looking for particularly organised exploitation, smuggling, where we’re having to be quite vigilant. Whilst we say that we haven’t had any recorded cases of human trafficking, I think it’s the third-largest criminal earner now, behind drugs and guns. That’s increasingly where we’re focusing our compliance and enforcement activity.
Fenton: Yes, but it’s the smaller stories as well. How many employers—are you involved in stopping employers being able to employ migrants? Is that part of your role? When you talk about enforcement, what’s the role of the department in that?

Bickle: One of the things—and these are early conversations—but interestingly, and you might recall this, Darien, through the development of the Immigration Act 2009, one of the really interesting trends in this space tends to be potentially migrant employers exploiting migrants. You’ll recall that in the old Immigration Act, we had provisions in that Act for any migrant that came here that was found guilty of offences that were exploiting migrants, we could basically deport. Those provisions got removed from the Immigration Act in 2009, so there are some things, I think, that are going to constantly evolve in this space. Obviously with the numbers that we’re talking about now, our diaspora is the second largest, behind Ireland, in terms of the numbers of New Zealanders living away. We have large in-flows coming into New Zealand. As the Minister said, one in four workers in the labour market is overseas-born, and one in three in Auckland.

Guy: Can I just very quickly make a comment. The department has worked really well with key industry players—the list’s on here: Rural Women, DairyNZ, Federated Farmers—to get these two documents out. One is focused on the migrant worker, and just what they can expect when they come to New Zealand. It goes through from driving on the side of the road, right through to understanding more of our slang and even our laws.

Fenton: Has it got the right to belong to a union in there?

Bickle: I don’t know.

Guy: Do you want more union members, do you?

Fenton: No, it’s about what people’s rights are, actually.

Guy: The other one has an employer focus. So here’s a great example where the industry stepped up with the department and worked on a couple of publications, and there’s some in train for aged-care workers, as well. So—

Fenton: Just on that note—just quickly—why have we got so many aged-care workers—migrants working in the aged-care industry?

Guy: Why?

Fenton: Why?

Bickle: Well, I think there’s some obvious reasons around, we’re an ageing population and the numbers that are in, and some of it gets to, I think again—
Fenton Low pay.

Logie Just a supp in terms of the enforcement aspect and looking at smugglers. Noticing how few cases have been prosecuted, and then the very low, I guess, legal consequences—you know, it’s kind of home detention’s one of the toughest consequences for people smuggling. So in terms of the department’s effort in enforcement, if that’s the outcome, what—does it pay off?

Bickle So there are two, yeah. So it took me a little while. There’s a distinction between the two—the smuggling and human trafficking—and we’ve taken a number of cases recently around people smuggling, so cases in the public domain where we’ve got Mr Dong for basically keeping a brothel with bringing—smuggling in sex workers. And you’re right: there was a big effort from the department, and he got 300 hours’ community service, but that’s—just have to respect the judgment of the courts. And we had a big focus on that. In the trafficking space, we haven’t taken a prosecution there yet. I mean, what we are very, very clear on, and that the legislative framework that’s been put in place in New Zealand, it is a Crimes Act offence. It is punishable by up to 20 years in prison, and we see it as the most serious form of offending. So, yeah, it’s one of the priority areas for us in terms of our enforcement.

Logie I guess I was interested in terms of the new bill coming in and parts are supposedly addressing—

Bennett Well, we’ll have time to discuss that.

O’Connor I think it is the context of the new bill that’s coming through, and obviously we’ve indicated earlier the processes you’re going through at the moment investigating how it might be applied. From your side, what was the catalyst, in your mind, the incidences that perhaps have happened overseas which have brought about this amendment bill from your perspective—what’s sort of been the catalyst?

Guy Well, this bill’s all about deterring and dissuading those from coming down to New Zealand and having a go. We realise that we’re an island nation, a long way away, and it’s a treacherous trip on a boat to get here, but we know the example where 500 made it all the way across to Canada in a steel-hulled vessel—very well organised—and that could easily happen here. In the last few months we’ve had the 10 Chinese that ended up in Darwin who were indicating they wished to come here, so we want to send a very strong message that New Zealand’s not a soft touch and that if these people do decide to have a go through this process, we have the capability to detain them. That means that we can go back to the District Court judge for a maximum of up to 6 months, so the District Court judge will decide, will process them individually. We’ve got the exercise happening currently, as we speak, and a live part of that happening next week. So the risk is real and we need to be prepared for that and send a very strong message that we
have correct channels for 750 refugees to come in, appropriately, and this is all about dissuading and deterring and managing if, indeed, there is an event at some time in the future.

Yang

Refugee issues—I know we have a strong sense for the humanitarian, but at the same time we consider economic implications for the Government for refugees. The Government is committed to better results for refugees coming to New Zealand. What is being done to address that?

Guy

Yes, so we've currently got the strategy—I've touched on it before—where I've taken a proposal to Cabinet. We're now working on a detailed business case, and in part of it, it talks about the Māngere centre in the future. So currently you'd be aware we've got 750, our quota that's signed off by UNHCR plus or minus 10 percent. Those numbers have softened a bit in the last year or two because of Christchurch and the implications of housing etc. We run what is considered a pretty-well world-class operation, but in my view and in other departments' view we need to do even better than what we're currently doing. So currently we have a 6-week introductory process through the Māngere Centre, whereby several Government departments are involved in that—so that’s Education, Housing, MSD, IRD, and more. We do that system very well, and then we integrate into the community, and I think where there’s a slight disconnect is when we integrate the refugees into the community, we need to be doing better. Ideally, we need to continue to grow our economy and put our refugees into the communities where there is a job opportunity for them, because we all know, and research has shown—I talked about it at the forum last week and I touched on it when we were acknowledging World Refugee Day in advance this week—that the benefits for these refugees holding down employment is hugely important for them and for their community. It’s also hugely important for our society and the Government as a whole, so we need to be, I think, doing more support when the refugees leave the 6-week programme to make sure that they are ending up in communities where they can hold down a job. Ideally we’d like to put some targets with the various Government departments, so we can lift the level of overall achievement, whether it’s English language, whether it’s better health outcomes, etc., etc. So there’s quite a bit of work currently going on and I’m very supportive of making some change there.

Fenton

When will we see the outcome of that? Because, of course, you’re aware—

Guy

End of this year.

Fenton

End of this year. Because people are waiting to know what’s going to happen to that centre.

Bennett

Oh, well, thank you very much, Minister. We appreciate your time. Thank you to you and your staff, and the way you answered the questions. Thank you very much.
conclusion of evidence
The Government Administration Committee has examined the 2012/13 Estimates for Vote Internal Affairs: Attorney-General and recommends that the appropriations in respect of Vote Internal Affairs: Attorney-General for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote Internal Affairs: Minister of Civil Defence, and recommends that the appropriations in respect of Vote Internal Affairs: Minister of Civil Defence for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
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Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Internal Affairs: Minister for the Community and Voluntary Sector as set out in Parliamentary Paper B.5, administered by the Department of Internal Affairs, be accepted.

Introduction

Vote Community and Voluntary Sector ceased to exist on 1 July 2012 and was merged into Vote Internal Affairs, which is administered by the Department of Internal Affairs. All the appropriations in the former vote have been transferred to Vote Internal Affairs. The Minister for the Community and Voluntary Sector retains responsibility for some appropriations within Vote Internal Affairs relating to the community and voluntary sector (these together form this item of business—Vote Internal Affairs: Minister for the Community and Voluntary Sector), while the Minister of Internal Affairs is responsible for others aspects such as policy advice.

The appropriations for which the Minister for the Community and Voluntary Sector are responsible provide funding for grants to community and voluntary organisations, and for the Charities Commission to fulfil its functions under the Charities Act 2005.

The total appropriations sought relating to the community and voluntary sector in 2012/13 amount to $39.109 million, a slight increase on the 2011/12 estimated actual of $38.654 million. The increase is due mainly to an expense transfer for the Community Development Scheme appropriation.

Disestablishment of Charities Commission

The Charities Commission was disestablished on 1 July 2012 and its registration, education, and monitoring functions were transferred to the Department of Internal Affairs, with the aim of improving the delivery of services to the public and reducing duplication. An independent board of three people has been appointed to make independent decisions about the registration and deregistration of charities. The members of the new Charities Registration Board are Roger Miller (chairperson), Caren Rangi, and Kirikaiahi Albert.

The Minister noted that she expects back-office services to be more robust now that the commission’s functions are discharged by the Department of Internal Affairs. We acknowledge that it will be some time before the effect of this structural change can be measured, but we emphasise the need to monitor how the new arrangements are working, since the merger is designed to improve the delivery of services to charities and the public.
Kia Tūtahi

The Kia Tūtahi—Standing Together Accord is intended to support the Government’s working with communities. A reference group of government and community groups has been established to examine the practices of government agencies that are setting good examples. We note, as did the Minister, that a number of community groups want to be actively involved in determining the principles of the accord. We look forward to seeing the development of the accord in the coming year.

Review of the Charities Act 2005

A review of the Charities Act is due to be completed by 2015. The Minister said that the review’s terms of reference—which we assume will include reviewing the definition of “charitable purpose”—are being scoped. She noted that the review would avoid duplication with the Law Commission’s reviews of trusts and of the Incorporated Societies Act 1908. The review of the Charities Act—particularly the rules for trusts and incorporated societies—is likely to have a significant impact on the community and voluntary sector. Some of us would like it to focus on charitable organisations that have additional advocacy roles.

Community funding

The Minister advised that although there was no new money for digital literacy and connection initiatives in 2012/13, the digital initiative was still delivering well and the Computers in Homes programme was still being rolled out. However, some of us are concerned that the Minister has made no commitment to future resourcing, and we intend to monitor this issue.

We note an increase in the Community Development Scheme appropriation reflecting an expense transfer of $635,000 from 2011/12 to 2012/13, because of delays in the development of community-led initiatives. Although we appreciate the main cause for the delay being the need to balance each community’s individual requirements and procedures—such as time to consult with stakeholders and draft a community plan—with the need to meet the milestones required for a Government-funded programme, some of us think it will be hard to assess their effectiveness because there has been no formal evaluation and the information provided to date has been very general. We hope to see formal evaluation of such initiatives introduced in the near future.

The Minister said that there are advisers in 17 centres around the country advising on the Community Organisations Grants Scheme, which last financial year received over 5,000 eligible applications and approved over 4,000 grants. Some of us are concerned that government funding cuts may result in the number of staff located in communities being reduced, and, since there is no guarantee of private-sector or other forms of funding, poorer communities with fewer resources will suffer the most. We hope to see resourcing levels maintained in the coming year.
Appendix

Approach to this examination

We met on 20 June and 18 July 2012 to consider Vote Internal Affairs: Minister for the Community and Voluntary Sector. Evidence was heard from the Minister for the Community and Voluntary Sector, Hon Jo Goodhew, and the Department of Internal Affairs, and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for the Community and Voluntary Sector, Response to standard Estimates questionnaire, received 25 May 2012.

Minister for the Community and Voluntary Sector, Response to additional questions, dated 27 June 2012.

Office of the Auditor-General, Briefing on Vote Internal Affairs: Community and Voluntary Sector, dated 20 June 2012.

Vote briefing paper, Vote Internal Affairs: Community and Voluntary Sector, prepared by committee staff, dated 7 June 2012.
The Government Administration Committee has examined the 2012/13 Estimates for Vote Internal Affairs: Minister for Ethnic Affairs, and recommends that the appropriations in respect of Vote Internal Affairs: Minister for Ethnic Affairs for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote Internal Affairs: Minister of Internal Affairs, and recommends that the appropriations in respect of Vote Internal Affairs: Minister of Internal Affairs for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
2012/13 Estimates for Vote Internal Affairs: Minister of Local Government

Report of the Local Government and Environment Committee

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2012/13 ESTIMATES FOR VOTE INTERNAL AFFAIRS: MINISTER OF LOCAL GOVERNMENT

Vote Internal Affairs: Minister of Local Government

Recommendation

The Local Government and Environment Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Internal Affairs: Minister of Local Government as set out in Parliamentary Paper B.5, administered by the Department of Internal Affairs, be accepted.

Introduction

From 1 July 2012 the former Vote Local Government has been merged into Vote Internal Affairs. The Minister of Local Government is the Minister responsible for the following appropriations within the vote: Local Government Services, Rates Rebates Scheme, Chatham Islands Council, Crown-owned assets at Lake Tekapo—Maintenance Costs, Te Oneroa a Tohe Beach Management, Tūwharetoa Māori Trust Board PLA, and Capital Investments—Lake Taupo.

The appropriations sought for Vote Internal Affairs: Minister of Local Government are $75.597 million in 2012/13. The total amount appropriated for the former Vote Local Government in 2011/12 was $81.893 million.

Local Government Act 2002 Amendment Bill

During the 2012/13 financial year the Department of Internal Affairs will be heavily engaged with local government reforms, including the Local Government Act 2002 Amendment Bill which was referred to us on 12 June 2012. The bill seeks to introduce financial prudence requirements for councils and graduated mechanisms for Crown assistance, and to streamline local government reorganisation (that is, amalgamation) procedures.

A number of local authorities have been considering the possibility of amalgamation. Some are in favour, some are not. While the Minister feels that the current amalgamation regime is too restrictive and in need of reform, he assured us that widespread community support would be required before any amalgamation could occur.

We expect a high level of interest in the proposed reforms of local government, and look forward to discussing them during our consideration of the bill.

Local Government Efficiency Taskforce

On 7 June 2012 a Local Government Efficiency Taskforce was appointed. The eight-member taskforce will focus on improving local government consultation, planning, and financial reporting requirements and practices.

The Minister said that, while it is important not to lose focus on local authorities’ long-term plans, strategies for achieving further efficiencies need to be explored. He agreed that they
could include more use of shared services models such as that employed by the Rotorua District Council and the Bay of Plenty Regional Council.

The taskforce is due to report back to the Minister in October 2012, and we learnt that the Minister hopes to introduce into the House a further Local Government Act amendment bill based on its recommendations.

**Kaipara District Council**

The Kaipara District Council is estimated to have the highest debt of any local authority in New Zealand, much of it attributable to the Mangawhai Community Wastewater Scheme which was completed in 2009. In order to reduce this debt, the council has proposed increasing rates by an average of 31 percent.

The Minister told us that he would soon be announcing the establishment of a review team to assist the council. The three-person team will help decide matters including appropriate rating levels, but will not have decision-making powers. The Crown has elected to pay the costs of the review team.

We heard that the Government decided it could not wait for the Controller and Auditor-General to complete her inquiry into the council’s development of the scheme before assisting the Kaipara District Council. The Minister considers that the proposed graduated Crown assistance provisions in the Local Government Act 2002 Amendment Bill might allow Governments to help councils in trouble much earlier than it has been able to in this instance.

We look forward to the Controller and Auditor-General’s report, and will monitor the council’s progress towards resolving its difficulties.
Appendix

Approach to this examination

We met on 14 and 28 June 2012 to consider Vote Internal Affairs: Minister of Local Government. Evidence was heard from the Minister of Local Government, Hon David Carter, and the Department of Internal Affairs, and advice received from the Office of the Auditor-General.

Committee members

Nicky Wagner (Chairperson)
Maggie Barry
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kaye
Hon Annette King
Moana Mackey
Eugenie Sage
Hon Dr Nick Smith
Andrew Williams

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Local Government, Response to standard Estimates questionnaire.

Minister of Local Government, Response to additional questions, received 26 June 2012.

Office of the Auditor-General, Briefing on Vote Internal Affairs: Minister of Local Government, dated 14 June 2012.

Vote briefing paper, prepared by committee staff, dated 12 June 2012.
2012/13 Estimates for Vote Internal Affairs: Minister responsible for Ministerial Services

Report of the Government Administration Committee

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Vote Internal Affairs: Minister responsible for Ministerial Services

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Internal Affairs: Minister responsible for Ministerial Services as set out in Parliamentary Paper B.5, administered by the Department of Internal Affairs, be accepted.

Introduction

Following a Cabinet decision, Vote Ministerial Services has been merged with seven other votes into a single Vote Internal Affairs, effective from 1 July 2012. The appropriations in Vote Ministerial Services have been restructured to fit into Vote Internal Affairs. The Department of Internal Affairs administers this vote.

The appropriations sought in 2012/13 for which the Minister responsible for Ministerial Services is accountable total $58.768 million, which is a decrease from $60.546 million appropriated for Vote Ministerial Services in 2011/12. The Minister is responsible for one departmental output appropriation, Services Supporting the Executive, for which $37.310 million is sought. The Minister is also responsible for six non-departmental output expense appropriations, for which $21.458 million is sought. These appropriations are for salaries, travel, and annuities to members of the Executive, the Governor-General, and former Prime Ministers, as well as for depreciation on official residences owned by the Crown. In addition to these appropriations, the Minister of Internal Affairs is responsible for an appropriation that provides Ministerial support services to Ministers to enable them to discharge their portfolio responsibilities relating to Ministerial Services.

We invited the Minister responsible for Ministerial Services to attend our hearing of evidence, but he was unable to do so. We heard evidence from the Department of Internal Affairs.

Department’s response to supplementary Estimates questionnaire

We were disappointed that the responses we received to supplementary Estimates questions from the Department of Internal Affairs focused on Vote Internal Affairs, and did not provide answers specific to the Ministerial Services portfolio. We consider that this approach hindered our ability to conduct a thorough examination of the appropriations for which the Minister responsible for Ministerial Services is accountable.

We were pleased that the chief executive of the Department of Internal Affairs appreciated our concerns, and was committed to providing us with answers to supplementary Estimates questions specific to the Ministerial Services portfolio.
Services supporting the Executive

The multi-class output appropriation Services Supporting the Executive provides for the coordination of official visits and events; support services to members of the Executive, primarily office personnel and administrative services, information and communications technology, and residential accommodation; and VIP transport services.

Ministerial office staffing

We are aware that the Government intends to amend the State Sector Act 1988. Consequential changes to allow the State Services Commissioner greater flexibility in applying the State Services code of conduct to different Government agencies are likely. Core ministerial office staff work in a political environment and much of their work is political in nature. Changes to legislation would enable the code of conduct to apply to core ministerial office staff while taking into account that their work is of a political nature. The department has discussed with the State Services Commissioner the way the proposed changes will affect such staff. We are interested in these changes, and we urge the Department of Internal Affairs to provide us with the information we require to monitor the situation.

The Department of Internal Affairs has recently reviewed the support it provided to Ministers, and as a result the number of support staff was reduced from 165 to 155. We were interested in whether this reduction had led to a compensating increase in the number of staff seconded from departments to Ministers’ offices to perform administrative tasks. The department said that it did not believe seconded staff currently undertook such duties.

Royal visit

His Royal Highness the Prince of Wales and the Duchess of Cornwall will be visiting New Zealand at the end of this year to mark the diamond jubilee of Her Majesty Queen Elizabeth’s ascension to the Throne. The Visits and Ceremonial Office, located in the Department of Internal Affairs, will be the lead agency overseeing the visit, providing logistical and other support. The visit will be funded from the output class Coordination of Official Visits and Events. The department did not know yet how much the visit was likely to cost, as the itinerary was yet to be finalised; but it was likely to be more expensive than recent visits by heads of state.

VIP Transport

The Department of Internal Affairs is reviewing the pricing regime for VIP transport, with a view to making it more transparent. We were interested in the proposed changes. At present users pay not only for the cost of the journey but also that of bringing a car to their location and returning it to base subsequently, so that the amount charged for similar journeys can vary considerably. This arrangement may be replaced with a pay-as-you-use service, where users are charged only for the distance they travel.

The VIP vehicle fleet was recently upgraded, and the old fleet was disposed of in March. We were pleased to hear that the new fleet is more fuel-efficient than the old, but it is too soon to say whether this has resulted in cost savings.
Appendix

Approach to this examination

We met on 20 June and 18 July 2012 to consider Vote Internal Affairs: Minister responsible for Ministerial Services. Evidence was heard from the Department of Internal Affairs, and advice received from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Eric Roy
Holly Walker

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Internal Affairs: Minister Responsible for Ministerial Services, received 18 June 2012.

Minister of Internal Affairs, Response to standard Estimates questionnaire.

Minister of Internal Affairs, Response to supplementary standard Estimates questionnaire.

Responses to additional questions, received 26 June and 3 July 2012.

Response further additional questions, received 3 July 2012.
The Government Administration Committee has examined the 2012/13 Estimates for Vote Internal Affairs: Minister for Racing, and recommends that the appropriations in respect of Vote Internal Affairs: Minister for Racing for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
2012/13 Estimates for Vote Justice

Report of the Justice and Electoral Committee

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Vote Justice

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Justice as set out in Parliamentary Paper B.5, administered by the Ministry of Justice, be accepted.

Introduction

The Minister of Justice, Hon Judith Collins, is responsible for the appropriations within Vote Justice, which is administered by the Ministry of Justice. The total appropriations sought for Vote Justice for 2012/13 amount to $384.795 million. This represents a decrease of $21.175 million from the estimated actual expenditure in 2011/12, mainly attributable to reduced funding for electoral services (after the 2011 general election and referendum) and a decrease in legal aid costs, and is partially offset by increased funding for the Public Defence Service.

Better Public Services programme

The Better Public Services programme represents the next stage in the Government’s public sector reforms. The programme has seen the establishment of justice-sector targets seeking to reduce re-offending by 25 percent by 2017 and to reduce rates of total crime, violent crime, and youth crime. Since the hearing of evidence, the Minister has released a six-point action plan to achieve these targets. A justice sector leadership board, made up of the Secretary for Justice, the Police Commissioner, and the chief executive of the Department of Corrections, has been established and will oversee the delivery of the action plan. In Budget 2012, the Minister has also established a flexible Justice Sector Fund to allow any savings to be transferred between justice agencies. We heard that the sector’s targets will determine how the funding will be allocated. We are concerned about safeguards to ensure that such funds are directed to an appropriate purpose. We will monitor the Better Public Services programme and the Justice Sector Fund with interest.

Alcohol Reform Bill

The committee has reported back to the House on the Alcohol Reform Bill, which has now passed its second reading. We heard that the Government is drafting a supplementary order paper, which will address some of the recommendations made by the committee.

Legal aid reforms

The Government has been reforming the legal aid system in an effort to reduce the costs of legal aid. Fixed fees for criminal legal aid providers and new Family Court user fees have been introduced, and other changes are proposed in the Legal Assistance (Sustainability) Bill.

We asked about the balance between implementing the legal aid reforms and maintaining access to justice. We heard that, although the changes to the legal aid system were intended
not to reduce access to legal aid for vulnerable people and people who could not cover the costs themselves, there had been some delays in payments to legal aid providers, particularly regarding Waitangi Tribunal proceedings. These problems were attributed to staff changes, and the introduction of a new invoicing system and a new operating policy. We heard that the ministry is working hard to address these problems and has already halved waiting times for payments since February. By the end of July it expects to have returned to its usual payment cycle to Waitangi providers. We look forward to seeing further progress on this matter.
Approach to this examination

We met on 21 June and 19 July 2012 to consider Vote Justice. Evidence was heard from the Minister of Justice, Hon Judith Collins, and the Ministry of Justice, and advice received from the Office of the Auditor-General.

Committee members

Tim Macindoe (Chairperson)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Alfred Ngaro
Denis O’Rourke
Katrina Shanks

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Justice, Response to standard Estimates questionnaire, received 25 May 2012.

Minister of Justice, Response to additional questions, received 11 July 2012.

Office of the Auditor-General, Briefing on Vote Justice, received 21 June 2012.

Appendix B

Corrected transcript of hearing of evidence 21 June 2012

Members
Tim Macindoe (Chair)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Hon Tau Henare
Denis O’Rourke
Denise Roche
Katrina Shanks

Witnesses
Hon Judith Collins, Minister of Justice
Andrew Bridgman, Chief Executive
Robert Pigou, Deputy Secretary and Tribunals
Tony Fischer, General Manager District Courts

Macindoe Good morning, everyone. Welcome particularly to the Minister of Justice and, again, to the Secretary for Justice and to all the officials who are with the Minister this morning. This is a hearing of the estimates into Vote Justice for the year ahead. We’re grateful to have the Minister, and we’ll invite the Minister to make some opening comments, and then look forward to a period for questions—and hope that the tissues and her voice hold up.

Collins Thank you very much. Given we are discussing the estimates for Vote Justice, I thought it might be useful for the committee for me to set out my broad priorities as Minister of Justice. The most significant change from previous Ministers is that I now have a formal leadership role across the justice sector, which includes the New Zealand Police, the Department of Corrections, Crown Law, and the Serious Fraud Office.

For some time justice agencies have been working together, recognising there is a pipeline across the criminal justice system—from crime prevention, investigation of crime, to arrest and prosecutions, through to court sentencing and sentence management, and rehabilitation. Policies and approaches in one part of the system can have significant effects on others. The key focus has been to reduce flow into the criminal justice pipeline to prevent crime, reduce its impacts on people, and enhance public safety. It has delivered results. Crime is at a 30-year low, prosecutions were down 10
percent last year, and the prison population is forecast to fall 7 percent by 2020. Crime resolution rates have increased. The Government and justice sector Ministers are determined to continue those trends.

We have set better public services results for reducing total crime, violent crime, youth crime, and reducing reoffending. In the Budget the Prime Minister announced a goal of reducing prisoner reoffending by 25 percent by 2017. Reaching this target would mean 18,500 fewer victims of crime that year. An announcement will be made soon on our targets for reducing total crime, violent crime, and youth crime.

Results to date mean we have an opportunity to build on what works. Fewer numbers in the system is a real sign of success. It also means less pressure and provides a chance to look at how agencies operate and to take different approaches if they improve results or effectiveness.

Across the sector we want money invested in the areas where it’s going to make a real difference. If we can get better results for less money, that’s much better for taxpayers. Can everyone hear me?

Macindoe Not that well. We need some quiet in the corridor, but we’re not getting a lot of cooperation, I’m afraid.

Collins I’m sorry, I don’t have a Taser.

Macindoe Well, I gather today is the first day for crushing, so maybe that’s an option.

Collins It can be arranged. You’ve no doubt heard about the need to modernise the courts system. We’ve also seen how Corrections is getting rid of outdated prisons, investing in fit-for-purpose facilities and results. What I’m talking about is ensuring we have an accessible justice system. By “accessible justice” I mean a system that’s built around the public and users of the system, so it’s about everything from police being on the front line and victims receiving appropriate support, through to people being able to access court services faster and more conveniently and people being able to find the information that allows them to sort their basic issues out.

Justice sector Ministers have developed a cross-agency plan to achieve that goal. This is supported by the leadership board, comprising the chief executives of the Ministry of Justice, the Department of Corrections, and New Zealand Police, to ensure that required results are delivered. A 4-year budget plan to integrate all of our spending, operations, and change through to 2016—this is a new approach for the public sector in the justice sector fund so that money saved in one justice sector agency can be used in another to meet the highest justice sector priorities.

If I can turn briefly to the Ministry of Justice—I am driving through a full legislative programme to deliver on the law and order commitments in the Government’s post-election plan. Legislation that this committee has or will see includes the Crimes Amendment Act to better to protect children and
vulnerable people, which took effect on 19 March this year; the Bail Amendment Bill to improve public safety by reversing the burden of proof on defendants charged with violent sexual and drug offences; public protection orders to protect the community from a small number of high-risk offenders; increased penalties for child pornography; and the Privacy (Information Sharing) Bill to put in place a framework to encourage information sharing between agencies. As well, I have asked the Law Commission to fast track proposals to stop cyber-bullying, and I will soon be taking the Alcohol Reform Bill, to reduce alcohol-related harm, back to Parliament.

The big shift in terms of Vote Justice, however, is in terms of the ministry’s role with the sector in operational delivery. The key focus over the next 3 years will be the operational transformation needed to modernise the ministry and improve its service delivery. Parts of the court system are outdated—for instance, 90 percent of courts nationwide are in the same location as 100 years ago, when New Zealand was a much different country, and people travelled by horse and cart. The court system is one of the last areas of the Public Service to use technology to substantially improve its services to the public. I want people to get access to justice faster and to reduce unnecessary delays in the system. Time wasted in court or waiting for court is no good for anyone. That’s why we’re implementing the Criminal Procedure Act, moving to an electronic operating model in courts, creating the right incentives in the legal aid system, and making changes to fully utilise the scale of the ministry in the sector. I’ve set a target of speeding the progression of criminal cases through the court system by 15 percent within 3 years.

The same issues of timeliness and service apply in the civil justice area. A review of the Family Court will ensure that the court is sustainable, efficient, and cost-effective, and meets the needs of children and vulnerable people who most need its services. A whole system, wider than family justice, has been built around the court. There is broad agreement that it needs refocusing. Where possible we want people to sort out their minor problems outside of court, and this review will put incentives in place for that to happen.

Delivering results means deciding what works and what doesn’t, and shifting resources to front-line services. Everything we do needs to be geared towards keeping crime falling and ensuring that those who need justice get access to it. A good example is a $10 million per year investment in a package to increase access to alcohol and other drug treatment. This includes $2 million for a 5-year alcohol and other drug court pilot in the Auckland region, which will start this year. Investment is about services and technology in the right infrastructure.

Restoring justice services in Christchurch is a priority. In the last year nearly $10 million has been invested in earthquake recovery operations in Christchurch, and courts were operating from more than 20 temporary,
permanent, or hired premises as of March. This includes the District Court operation at Ngā Hau e Whā marae, a new temporary courthouse on Cambridge Terrace, and going into the existing court tower building in central Christchurch.

The ministry is also investing up to $40 million in expanding the Manukau court, and it’s two other major property projects of strengthening the Masterton courthouse and considering options for strengthening the Dunedin combined court. I have here some pictures and drawings of the Christchurch operations and building investment plans that committee members may find helpful. My intention, Mr Chair, is just to pass these around and just take some questions. So I will just pass these around to show you, so you can have a look, because I know particularly Miss Dalziel from Christchurch and Mr O’Rourke from Christchurch might be interested in these.

That’s the current courtroom at the marae. I’ll just pass those around and you can just look at them at your leisure. And the weatherproofing that’s going on. This is a shared facility for Ministry of Justice and ACC’s Dispute Resolution Services in Christchurch. It’s good to see them working together. The Cambridge Terrace courtroom, which actually looks pretty good. They’ve got the names on the back of them, too, so you don’t have to worry about it. And that’s the Cambridge Terrace courthouse. It looks a bit like a Portakabin on the outside, but, as you can see, the inside’s pretty flash. And this is at the marae. This is looking at a proposed Youth Court facility, and the registry at the marae. And for those of you from the South Auckland area, including myself, the Manukau precinct project, which is probably best shown on here. I can start those ones going round the other side, if you like. So this is the Manukau courthouse, everyone. This is the existing court here, and so what we’re doing is building on this entire new wing here, a three-storey wing. So this is the existing one, and this is the new one, and that will help deal with the fact that we simply don’t have enough courtrooms there. But I am happy to pass those around too. So it’s looking quite good. I’m happy to take some questions.

Macindoe  Thank you, Minister, for that overview of a broad range of topics affecting your portfolios—plenty of substance. For questions, there, I think—

Collins  Plenty of time for questions.

Macindoe  Yes, plenty of time for questions, and thank you, also, for showing us the range of facilities. We particularly appreciate the challenges that those working in the Canterbury area are working under, and I would like to thank all of the officials who are involved with that. So, I’ll open it up for questions. I know Mr Chauvel has several. Mr O’Rourke, do you have any?

O’Rourke  Yes—

Macindoe  I’ll kick off with you, because you didn’t ask anything in the previous—
Thank you very much for that. Minister, the proposal to provide flexibility to redirect funding within the justice sector’s overall operation—

Yes.

—it’s a very good idea, I think, and it—

Thank you.

—makes sense, but there is a danger, isn’t there, that if the funds are there and available, they’ll just be used, because they’re there, without really being required, perhaps? What safeguards will you put in place to make sure that, where funds become available for redistribution, they are actually directed to good and proper purposes?

It’s a sensible question. The fact is, we don’t have new money, so we’re having to live within our means, which is—and do all the things we need to do. So we’ve got $3.8 billion, within the justice sector area, across our different allotments or allocations of money—our different votes—so where there’s some spare money, for instance, Corrections, because we’ve actually seen a drop in the last couple of years in the prison population, Corrections had some spare money this last year, budget round. So what we’ve been able to do is to look at more money going into drug and alcohol rehabilitation, particularly education, in the prisons, but we’ve also been able to say, well, some of this money can stay in the justice sector, and we can use it for where we need it.

So, what happens is that the leadership board, which is led by Andrew Bridgman, on my right here, they meet together—the leadership team—and they—Corrections and Police—sit down and say: “This is what we’ve got”—you know, basically they take bits, essentially—“this is what I think we should be doing.”, and they have to come to us, as the Ministers, to show how that money is being best spent—

So, do you get competition for it—

—so there’s a lot of, let’s say, healthy—healthy!—discussion around it, and because we have these targets, most of which are going to be announced reasonably soon, there’s a real incentive for us, because if one of us falls down, in terms of a target, it actually means everyone else falls down. If the Police stopped making the great progress they have under the Policing Excellence, then actually, that’s going to end up with more people in prison, or it’s going to mean further stress in the court system, and the court system isn’t operating to the level that we’d like, and we’ve got some changes that we want to make there. That means that, actually, everything else falls down too. So there’s a real incentive. So it’s the first time this has been done in any sector, so we’re taking that as a real vote of confidence, because we’ve worked so well together in the past, that we want to keep doing that.
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Chauvel Obviously, the role that you’ve described as having ministerial leadership across Police, Corrections, Crown Law, Serious Fraud, Courts—you would expect that that would mean that you and the Secretary for Justice would be, effectively, calling the shots when important decisions about resource allocation are made. I mean, I suppose it begs the question—because I happen to agree with Denis, it’s a sensible thing, on its face—why have the separate votes, in the end?

Collins I think there’s a reason. I wouldn’t say that we’re calling the shots. I mean, it might help my ego, but it’s not, it’s not like that, because we’re actually—what we’ve seen so far, and I expect this will stay like this, is that Andrew is one of three people on that board. I am one of a group of Ministers, in terms of our sector ministry meetings. I don’t call the shots.

Chauvel But you did say you had leadership across the sector—

Collins But it is the leadership of actually—the leadership is not a “thou shalt” sort of leadership. It’s more of a leadership in terms of making sure we have the plan, or we’re working together. So, yes it’s a leadership, but it’s not a—the fact is that each Minister has their vote, and they need to have that, I believe, to get the best results out of them and out of their areas. And for instance, if you look at police—police have operational independence, and I’ve been a strong supporter of police maintaining their separateness, as well as their inclusiveness. So, as we know, the police work well. All sorts of other things can work well too, through the system.

Chauvel So, for example, you could see, easily, a scenario where the police would want to make a call on that, by the budget—

Collins Yes.

Chauvel—that’s available, but it would be quite difficult for the other sector agencies to make a call, or try to make a call, on the police budget.

Collins Oh, it would be very difficult—and because, too, the police budget is so dominated by salary and personnel—

Chauvel Yes, 70 percent.

Collins—and there’s very little leeway there. But also, if the courts are not operating to the peak of efficiency—which is what we’d like to get them to—it causes delays and cost, all the way through the sector. So everyone has to work well.

Chauvel Given that there’s saving from Corrections, as you’ve said—and they’re not planning to make a bid for money from the fund—they told us that at the select committee yesterday—

Collins Sorry, I didn’t hear that.
Corrections, as you say, have made some internal savings. They’re not planning to make a call on this wider fund—

Not at the moment, no.

—not for the next year, they tell us—

Yes, that’s right.

—but, obviously, you’ve got an issue as the lead Minister here, in respect of the police wage round—I mean is this, for example, likely to be the pot where that money comes from?

Well, I wouldn’t have thought so. We also have huge costs, as well, in the court system, and whatever decisions are made are going to be made across—by the Ministers.

I’m just trying to get an idea where you think, looking forward over the year, you and Andrew think the money is going to—where the calls are going to come from, for this money. You must have a general inkling.

Well, there’s lots of things we’d like to do, but I mean, just even—particularly around the new technology that we need in the courts, that’s going to be major. I cannot stress enough how the justice system is pretty much the last bastion of big, fat, thick, paper files, and the fact that things get put on wrong files, they’re stuck in the wrong courts—all sorts of things happen—and they’re just physically hard, they’re not indexed—there’s all sorts of things going on, so—

Yes, Chester showed us eBrief before you came.

Yes, and so, you know, that’s going to, obviously, cost money, but Andrew, did you have any other things you want to comment on that?

Well, I think the idea of the fund, really, the way we will work it, is we’ll be looking at the priorities of the sector, so that’s really how we intend to prioritise the money that ends up in the fund. And so, the Minister’s alluded to the targets that will come out shortly, and those targets will then drive, obviously, our focus. Looking at that, we’ll be asking ourselves—Ray and Peter, we’ll be asking ourselves—well, if we’re going to recommend to Ministers that we invest this money, then how will that money that we invest relate to the targets that we are trying to achieve?

OK, thank you Mr Bridgman. We’ll move on to another topic. Cam Calder—

Minister, you touched upon a pretty sizable legislative programme in Justice. What are your key priorities in this programme, and how do you propose to manage it?
Well obviously the Alcohol Reform Bill is something I’d like us to be able to get through, at some stage this year, if we can. But obviously it’s a minority Government—we’ve got to get the votes to do it. But I do know there’s a great call, particularly from local government, for us to enable them to have the local alcohol policies, and I think that’s really important.

The Bail Amendment Bill, the Juries (Jury Service and Protection of Particulars of Jury List Information) Bill, the Human Rights Amendment Bill, the Lawyers and Conveyancers Amendment Bill, the Legal Assistance (Sustainability) Amendment Bill, the Prisoners’ and Victims’ Claims (2012 Expiry and Application Dates) Amendment Bill—which hopefully will be back in the House this afternoon—the Prisoners’ and Victims’ Claims (Redirecting Prisoner Compensation) Amendment Bill, the Privacy (Information Sharing) Bill—that’s really important, particularly around vulnerable children—and we’ve got the Sentencing (Aggravating Factors) Amendment Bill, and the Victims of Crime Reform Bill.

That’s just this year. And, of course, there’s a programme after that as well. But there are big issues that we come across and every now and again something turns up—you know, front page of the paper—suddenly we discover there’s a problem and we need to correct that as well.

Cyber-bullying is a major and, of course, the Law Commission’s been working on this—their paper on new media and everything else. I have asked them to fast track, basically, the work they’re doing on cyber-bullying. We’re in politics, so we get used to people trying to bully us in the cyber-sphere, and basically we don’t generally care, because we understand that that’s their behaviour and they’re normally anonymous, so it shows how brave they are.

But when you’re talking about teenage kids, in particular, who are naturally most likely to become emotionally distraught and taken over by this sort of thing, we’re talking about kids who are suiciding on this. Over the years we’ve gone through phases of not talking about suicide. I think we’re now wanting to talk about it and how awful it is, obviously, if someone kills themselves. Their entire families, all their friends are all devastated by this and this is intergenerational damage that occurs.

When we were at school—I say “we”, because we’re about the same age—if there was some schoolyard bullying, it could be very traumatic, but actually, ultimately, parents could take their child out of school or bullies could be sent home or expelled, or whatever. Now that’s all different. This bullying is there for life. It’s there for as long as the internet is there and these kids are absolutely being bullied. We’ve had that instance and it’s been through the courts now so I can refer to the one in Rotorua, where that young girl was bullied by text bullying.
So I think we’ve got to give the authorities the ability to actually prosecute these people—what they’re doing and set a very strong example. But, frankly, I think we should be talking about it. I think we should talk about the danger that happens to kids and the inability that they often feel that they have to access anything. This 14-year-old’s just an example. Where do they go? They can go to their parents, but quite often they don’t want to tell their parents, because they’re so worried about something else, or some other kid’s got some other information on them, or they’re telling lies about them. You know, we can take actions, as adults; it’s very hard for them. It’s something we should all feel very, very firmly about.

Dalziel
It’s kind of a supplementary off the whole question, which started off with you referring to the Alcohol Reform Bill. Now, that had a Law Commission report that recommended far more extensive changes than the ones that are promoted in the legislation that’s currently before the House, and in terms of young people killing themselves, and it being a key driver of the crime, and the impact that could be had if far more substantial moves were made—I’m just wondering why we’re not seeing far more substantial changes coming through in that law that would make a real difference?

Collins
I think the Government SOP hasn’t actually been completed yet. I can tell you generally that we are tightening up on some of the recommendations from the select committee. But also the vast majority of people—

Dalziel
Can I just ask a supp on that point, because I was speaking to Iain Lees-Galloway yesterday, who was at a supermarket opening and he spoke to the supermarket owner, or the manager, or the particular company about the location of the alcohol, which was right at the front door as people walked in. He said: “Why are you doing that, given the law that’s going to come in around the thoroughfare argument?”. And he said that he had an assurance that the Minister’s SOP—and he specifically said “the Minister’s SOP”—would be corrected to allow for that kind of display to continue as long as it was all in one place. The fact that it was the first thing that you saw when you walked in the door and had to walk past it wouldn’t matter, because the Minister was going to correct it in the SOP. Is that true?

Collins
Well, I guess he must know more than I do what the Minister’s going to do.

Dalziel
Are you saying that’s not true?

Collins
What I’m saying to you is that the point of sale will have to be in specific areas. It won’t be at ends of aisles, it won’t be at checkouts, it won’t be in parts where it’s amongst other food and other things. But in terms of where it’s going to be, the fact is this is a legal product, it should be in an area that’s specifically for alcohol.

Dalziel
But the Law Commission report and the current bill actually requires it not to be displayed on a thoroughfare. So are you saying that what Iain Lees-
Galloway was told yesterday is true, that the SOP will legalise the process that he saw?

Collins  Well, at the moment it can be anywhere. So the SOP is likely to—

Dalziel  I’m asking you to respond to the bill.

Collins  I’m sorry, Lianne, but the SOP—the drafting has not been completed. It has not gone through Cabinet. It has not gone through caucus. What I’m saying to you very clearly, though, is that this is a legal product, the vast majority of New Zealanders—I’m told around 85 percent—use or have used alcohol. They will want to be able to access alcohol at no greater expense than they do now. In terms of—

Dalziel  I’m sorry, but you’re sidetracking off the direct question. Are you going to make changes to the thoroughfare? Have you been lobbied by the Food and Grocery Council on this particular matter? And have you or your officials indicated to anyone that the thoroughfare provisions will allow for the situation that I described.

Collins  Well, I haven’t seen the exact situation, so I’m not going to make a judgment call. I am saying to you that I am most concerned about alcohol being placed in amongst food, at the ends of aisles, in places where people can’t avoid it if they want to. So there needs to be a provision for people to be able to avoid it if they don’t want to access it.

Dalziel  So it couldn’t be at the front door as you walk in.

Collins  Well, it might be on a part that’s away from, that people can avoid, but I don’t expect people to have to walk amongst bottles to get through to what they want to buy. I think you also need to take into account that there are other places which are smaller and there is going to be, obviously, some variation for them.

Blue  I am very interested in the drug treatment courts—

Collins  Are you?

Blue  Yes, I am really interested.

Collins  Me too actually.

Blue  The sector’s very, very enthusiastic about it and I’d like some more detail. Those have been very successful overseas.

Collins  We’re trialling the first drug and alcohol treatment courts—not actually treatment courts, but courts—in Auckland and we’re just working out quite where it’s going to be and how they’re going to operate in terms of when we’re starting. I think it’s about September-October. I’m just confirming. Essentially they’re courts but the judges will have the ability to be able to
say: “Look, this is the sort of sentence or whatever, but if you go off and do this course, if you come back, if you stay drug-free as you go through this, then it might be a suspended sentence.” They may not end up having their sentence fulfilled.

It’s going to be quite different for us here, although they have been used in places like parts of California and other places for some time with success. They might sound to be a bit of a soft option, but the reality is, I am assured by judges who’ve been involved in it, that they’re not, and that they actually, in fact, encourages and helps offenders to address their offending and the drivers of that offending. At the end of the day, though, people who abuse alcohol or abuse drugs don’t necessarily go off assaulting people or committing crimes against others. Where people are obviously suffering from addictions and that is a driver of their offending, this is, I think, a smart way of doing it. We want to trial it for 5 years and if it’s successful, as I am very hopeful it will be, then it’s the sort of thing that we’d want to mainstream through the courts.

Blue I mean, 5 years—my feeling is it’s going to be very successful. Is it likely you could break that 5 year pilot and just start rolling it out?

Collins You see, one of the problems with having it for a shorter time is that it’s really about reducing recidivism rates. So if you have it for too much less than 5 years, then you really can’t tell. I mean, it might be successful this year, but you’ve got to see the next year. So I’m quite keen on that and I think it’s the sort of thing that a lot of people think is pretty sensible. And, of course, we’ve got the extra money going into drug and alcohol treatment, because that’s always the issue. Auckland’s quite a good place to start it, because of the volume. But also, there are quite a lot of providers of drug and alcohol addiction services there.

Genter I’ve two questions and perhaps they’ve already been covered before I got here. One is about the review of the community law centres. I was just wondering if you could comment on what’s driving that review. So, for example, I’ve talked to the Ngāi Tahu community law centre whose total cost is something like $260,000 a year—so it’s not very much. They’ve been meeting their targets, but they’ve had some indication, potentially, that they may no longer receive funding. So I was just wondering how that review was proceeding.

Collins Julie Anne, I’m just going to ask Jeff Orr, who has more detailed information, to speak on that one.

Orr Good morning. Jeff Orr, acting deputy secretary, policy. We are reviewing community law centres and we are looking at keeping the funding the same—I think it’s about $11 million a year. And we’re looking at centralising some services and making the services more accessible to users by phone service, and the community law centres have just launched a new web site to make things more accessible for people.
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Collins So one of the things the community law centres are aware of it that some of them have some particular issues around infrastructural backup. So the ministry’s trying to make sure that we support them in that, because they do fill an important role and it’s important that we assist them where we can. But also, most people ring up by phone these days.

Genter So you’re not looking at any overall cost savings—just reallocate funding in a way that will meet users’ needs more. That’s the driver?

Collins Yes.

Genter My other question was about Legal Assistance (Sustainability) Amendment Bill, which has been put on hold. I was just wondering what progress you intend on those changes to be made.

Collins Well, I thought it was important that we actually put that on hold while the Family Court review and family law review, really, was being undertaken, because it was a bit “cart before the horse” in my opinion. So we’re coming to the stage reasonably soon that will have the results of that Family Court review, and I think that will be the time when the bill will come back, and I’ll ask for it to come back to the House. But what will happen is that it will be important for this committee to look at those Family Court reviews, and if they can perhaps consider those options around it.

One of the things we’re trying to do in the family law area—and, of course, this review’s still ongoing at the moment so I can’t report everything it’s done—is we’re trying where we can to encourage parents, in particular, to keep matters out of court involving children, if we can possibly do it. But that’s really important, obviously for children, because I think court is a very traumatising thing for children—anything to do with their parents fighting, or anything like that’s terribly traumatic for them—but also to free up the court time so that they can spend it on these very vulnerable children, in particular, on Child, Youth and Family issues. So we’re trying to make sure that we encourage people into alternative dispute resolution. It’s no secret, I think, to say that we’re very keen on the parenting through separation courses—very much about trying to get people to understand that any disputes around themselves or their children, it’s much better if we can do it outside a court, and have court as a backstop, obviously.

Macindoe A further question from Denis.

O’Rourke It’s really just a supplementary to that on legal aid. I understand that the appropriation for legal aid decreases between 2011-12 and 2012-13 by more than $125 million. I’m really concerned, with the changes being proposed to the legal aid regime, that people who do not meet the threshold for eligibility for legal aid but still face serious charges may not get genuine access to justice. So I’d like to know what work you will be doing to satisfy yourself that with these changes people will still have genuine access to justice and won’t effectively be shut out for economic reasons.
So you’re talking about the criminal legal aid situation?

I am.

I’ll ask Stuart White to come forward, because he has the detailed information.

Stuart White. I’ve recently vacated the position of legal aid commissioner or Legal Services Commissioner. The changes to criminal legal aid, in particular, are not designed to change access to legal aid for those who are the most vulnerable and have a need for legal aid. It is to strip out legal aid payments to those who can otherwise afford to cover the cost themselves. It is also about reducing the cost of legal aid, so the introduction of fixed fees for criminal is designed to reduce the overall cost by 10 percent, and a number of other initiatives across family and Waitangi are also designed to have the same effect. So it’s about applying a reduced amount of funding to those who are in most need of legal assistance.

Do you accept that there’s been a real problem in terms of implementing the new system, particularly in terms of staff resources in the ministry? We’ve got countless items of correspondence from legal aid providers about delays in payments approvals, people missing out on access to justice because you simply haven’t had the resource to process properly their claims.

We’ve certainly been undertaking a comprehensive programme of reforms, which have demanded a significant amount of resources. We introduced changes—

Which you haven’t had staff available to process.

We’ve in general been able to meet timeliness standards. For instance, approving criminal legal aid, 95 percent of approvals for criminal legal aid are achieved within 1 day. We accept that there have been some payment issues, particularly in the Waitangi area, which have been predicated by some staff changes, the introduction of 3-month invoicing, and the introduction of the new operational policy, which was designed to apply legal aid more consistently in that area. We’ve reduced the issue there by about 50 percent since February, and by the end of July we will be making payments on our normal payment cycle to Waitangi providers. But there are a few other payment issues with legal aid providers. Some occur because there are issues in the way in which providers actually present their invoices to the ministry.

Thank you for that. We were slightly late starting and we are slightly late finishing. I know the Minister has another commitment, and we also have other items of business. Minister, I thank you very much for being here. Mr Bridgman, Mr Orr, and all the officials, we’ve appreciated your attendance and your answers to our questions. Good luck with the many different tasks you’ve outlined to us this morning.
conclusion of evidence
2012/13 Estimates for Vote Labour

Report of the Transport and Industrial Relations Committee

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2012/13 Estimates for Vote Labour

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Labour as set out in Parliamentary Paper B.5, administered by the Department of Labour, be accepted.

Introduction

The total appropriations sought for Vote Labour in 2012/13 have increased to $144.607 million from an estimated actual of $112.209 million in 2011/12. This increase of almost 30 percent is related mainly to additional spending on health and safety services, and capital expenditure. The latter covers an IT renewal programme, support for the Immigration Global Management System, and improvements to leasehold accommodation in Wellington and Christchurch.

Ministry of Business, Innovation and Employment

From 1 July 2012, the department became part of the new Ministry of Business, Innovation and Employment. We asked the Minister how the department’s traditional role of ensuring the protection of employees would fit into the new “business-facing” ministry.

The department assured us that, while the ministry was charged with creating the right conditions for economic growth, it was understood that this was not to be at the expense of the environment, workers, fair conditions, or safe workplaces. The possibility of real or perceived tension between regulatory functions and business growth had been recognised, and regulatory practice will be a distinct area in the new ministry.

We asked how employment mediation functions would be handled in the new ministry, and were told that there are no plans at this stage to contract mediation out. However, the agencies being brought together have various mediation functions, and it might be possible to align some of the related functions between tenancy, weather-tight homes, and employment relations.

Employment law

The Minister told us that she hopes to bring an Employment Relations Amendment Bill before Parliament and passed by the end of the year. A Cabinet paper has been completed and the detail is now being worked through. We were told that it is possible that the Employment Relations (Rest Breaks and Meal Breaks) Amendment Bill, which has been on the Order Paper since 2010, could be rolled into the new legislation now being contemplated.

Other employment legislation that is planned or will be reviewed includes part 6A of the Employment Relations Act 2000, the Health and Safety in Employment Amendment Bill (No 3), the Health and Safety in Employment (Rate of Funding Levy) Regulations 1994,
the Health and Safety in Employment (Petroleum Exploration and Extraction) Regulations 1999, and a Minimum Wage (Starting Out Wage) Bill.

**Health and safety**

We welcomed the establishment by the department of a High Hazards Unit to focus on safety in the extractives and petroleum/geothermal sectors; we understand it is doing a good job. The report from the Pike River Royal Commission is due later this year, and we hope that the resultant debates will avoid political point-scoring, which could detract from focus on safety and productivity issues.

We were pleased to note that the department is to invest $37 million in health and safety over the next four years. We were briefed on an independent task force that has been set up to undertake a fundamental review of workplace health and safety; it is to report back to the Minister later this year with practical measures to reduce the rates of death and serious injury by at least 25 percent by 2020. The task force is funded by departmental appropriations, which we note are also intended to cover responses to at least some of the recommendations of the task force.

We asked the Minister about long-term trends for accident rates. The five most dangerous work sectors are agriculture, fishing, forestry, manufacturing, and construction, and we were told that action plans and harm reduction plans are now being introduced in some of these areas.

We asked the department for its view on workplace culture as a factor in health and safety, and were told that this has been covered in consultations with counterpart organisations in Australia and Canada. We asked whether some elements of an employment relationship could run counter to health and safety requirements, discouraging employees from raising concerns, for example. The Minister agreed that a culture in which workers are not afraid to raise safety concerns is needed, and said that she was open-minded as to whether action was needed to encourage its development. The task force may be the appropriate place to consider these issues.

**Minimum employment standards**

We asked the department to elaborate about its plans to complete an employment relations harm reduction programme in an industry where there is a significant failure to meet minimum employment standards.\(^1\) The department said that it is working with immigration on a project concerning groups of migrants at risk of exploitation. We were told that industries with a high incidence of failure to meet minimum employment standards typically include those such as horticulture and restaurants in which student migrants work, and that one of these areas might be the initial focus of the project.

**Ninety-day trial periods**

We asked the Minister about recent surveys of the impact of ninety-day trial periods. We were told that two reports have been completed. One by the New Zealand Institute of Economic Research reviewed the scheme’s first six months and credited it with increased

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\(^1\) Department of Labour, *Statement of Intent 2012–2015*, p. 28.
hiring in small and medium-sized enterprises. The second, by the Department of Labour, assessed knowledge about trial periods, their impact on employers and employees, and employers’ perceptions of their costs and benefits. The published reports are available on the department’s website.
Appendix A

Approach to this examination

We met on 27 June and 19 July 2012 to consider Vote Labour. Evidence was heard from the Minister of Labour, Hon Kate Wilkinson, and the Department of Labour, and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received

We considered the following evidence and advice during this examination:

Department of Labour, Statement of Intent 2012–2015

Minister of Labour, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Labour, received 25 June 2012.

Responses to additional questions, received 25 June and 11 July 2012.

Vote briefing paper, prepared by committee staff, dated 27 June 2012.
Bennett Thank you very much, Minister. We appreciate the chance to come in and be part of the estimates for Vote Labour. We’ll just open it up for you to give us a bit of an introduction, and then members can ask questions.

Wilkinson Thank you. Thank you, Mr Chair, and thank you for the opportunity to address your committee and to answer members’ questions. I’m sure there’ll be some interesting ones. Can I first of all just introduce my team that will be assisting me. [Introductions] They will be here to answer, perhaps, any technical or operational questions that you might have. But I am sure they’re probably all very familiar with you—you’re very familiar with them anyway.

Can I start by just restating that our overarching goal is to build a brighter future through a more competitive economy with less debt, more jobs, and higher incomes. Ensuring safe and skilled workplaces is crucial to achieving this goal. It is important that our health and safety system is working well and that employment relations policy is fair and flexible. We need to provide businesses with the confidence to take on staff, but at the same time we need to ensure that the rights of employees are well protected.

At the beginning of this year I set four main priorities for the next 3 years. These are achieving efficiency savings and better public services through the Department of Labour; delivering on our election manifesto commitments
to improve flexibility and fairness in the labour market; improving labour
standards on foreign charter fishing vessels; and, fourthly, responding to the
royal commission on the Pike River tragedy and strengthening our health
and safety system.

As you will all know, these priorities within the labour portfolio exist within
the wider context of a changing departmental structure. From 1 July, which
is just next week, the new Ministry of Business, Innovation and
Employment will officially come into existence. MBIE will support
businesses in spearheading growth and productivity and seizing
opportunities as the global economy begins to grow again. It will be a one-
stop shop for business to interact with Government, making it easier for
businesses and companies to access innovative ideas, markets, capital,
skilled workers, and resources. This structure is not, of course, unusual
internationally. The inclusion of the Department of Labour’s labour market
policy functions will create better linkages between labour market policy
and microeconomic policy advice. It will allow for better engagement with
other agencies responsible for delivering labour market and developing
labour market skills, including the Ministry of Education and the tertiary
education sector. Safe and skilled workplaces are vital as part of that.

I thought I would mention briefly the pragmatic and fair changes that we’re
looking at in the employment relations area. The bulk of our work
programme was clearly spelt out in our election manifesto. We are going to
extend the right to formally request flexible working arrangements to all
workers, not just those with caring responsibilities. We are also removing
some of the existing limitations of that, such as the current one per year
limit on the number of times a worker can make such a request. Flexible
hours are often agreed to informally, and by extending eligibility to all
employees we hope to encourage agreement without having to go through a
formal process. It’s about trusting employers and employees to actually talk
to each other.

We’re also introducing a starting out wage, as per our campaign promise, to
encourage businesses to take on young workers. The policy of this is in the
process of just being fine-tuned, and we expect it to be in place come 1
April next year. Modest changes to collective bargaining will address the
fact that some of the current rules are overly bureaucratic, limit choice, and
reduce the effectiveness of the bargaining process. These changes include a
return to the original position in the Employment Relations Act where the
duty of good faith does not require the parties to conclude a collective
agreement. We are simply returning the ERA back to how it was in 2000
when it was originally passed.

Allowing employers to opt out of multi-employer bargaining at the
beginning of the process rather than force them to attend a first meeting
even when they’ve decided that MECAs are not for them. All we’re doing
here is allowing those who don’t want to be involved in bargaining with
their competitors, and their competitors’ employees, to opt out of
negotiations at the start rather than waste everyone’s time by being forced to attend a meeting. What it actually does is align the rules of MECAs with the rules of MUCAs where unions get to choose whether or not they participate at the start. If unions can get to choose, then why can’t employers?

Little Because there’s a power difference.

Wilkinson Allowing for—

Little You don’t recognise that? No. OK.

Bennett No, Andrew—

Little Well, we’re getting a party political broadcast. This is not a very good estimates speech, I am sorry, Minister, I am sorry, chair.

Bennett If the Minister will just carry on, yeah. We’ll come back to that.

Little It’s disgraceful, Minister, I’m sorry. It is a disgrace.

Bennett No. No, we’ll just carry on, but we’ll come back to it.

Wilkinson What we’re also doing is allowing for partial pay reductions in cases of partial strike action to provide a proportional response from employers to lower-level industrial action. We’re also removing the 30-day rule that forces non-union members to take union terms and conditions regardless of whether they wish to join or not. Actually, this was recommended back in 2003 in a Cabinet paper brought by the then Minister, Margaret Wilson. We think it makes sense to remove that rule, just as she did then.

Our 90-day trial periods continue to be successful, having been credited with the creation of 13,000 jobs in one independent report, and that was when it was limited to SMEs. It does make sense that it gives confidence for businesses to take on workers who they may not otherwise have given a go—young workers, older workers, new migrant workers, etc.—and it gives those workers the opportunity to get their foot in the employment door. It’s not radical nor is it unusual in other jurisdictions. Although it’s interesting to hear that the UK is currently proposing to extend their current 12-month job probation period—the equivalent of our 90-day trial—to two full years, we’re not looking at doing that.

Little Ah, hooray, hooray. Aren’t we impressed!

Wilkinson Actually, the TUC even said that there was no evidence that the 1-year limit caused job losses or hurt recruitment.

Finally, in the employment relations area I am looking at Part 6A of the Employment Relations Act, and I know, Darien, you’ve asked questions about this. Having recently received advice on how the clause has operated
over the past few years since its introduction to law, what I can say is that although its intentions may be admirable, it has been described as relating to, essentially, a list of workers represented by the Service and Food Workers Union and a State-imposed employment relationship taking away the employer's right to choose employees. Regardless, however, of ideology, it is a complex, badly drafted piece of legislation with some definitional uncertainties, procedural complexities, and unintended consequences. It requires a thoughtful response to what improvements, if any, are needed to improve the law in this area. Case law is certainly developing, with the Crest Cleaning case released only last week, and other cases are being appealed—one at the moment to the Supreme Court. So with that background I can say that I am considering the issue, but I am not going to be rushed into making a bad law even worse.

Foreign chartered fishing vessels—in May we announced the re-flagging of foreign-owned fishing vessels operating in New Zealand waters to address labour safety and fisheries practice concerns following the ministerial inquiry into foreign chartered vessels. Actually, we went even further than what the inquiry recommended. Our response to this very complex and challenging issue demonstrated a whole-of-Government approach involving work from the Department of Labour, Ministry for Primary Industries, Maritime New Zealand, and Ministry of Foreign Affairs and Trade. We were not prepared to see foreign crews and New Zealand's reputation suffer. Once vessels are flagged to New Zealand, our employment relations and workplace health and safety and criminal law will automatically apply and be enforceable.

I would also like to talk about Pike River and the wider health and safety system. This mining tragedy, with the loss of 29 lives, has been devastating for the families and their community, and we must ensure that workplace accidents like this never happen again. As you will be aware, we are waiting for the royal commission to report back in September, and we'll then respond with the necessary changes.

In the meantime, whilst we are waiting for that, on the regulatory side we have established the High Hazards Unit last year, and this is now in full operation. I must say, I think we're pretty pleased with this work, and believe that it is sending a clear message that safety is paramount, and it is gaining the industry's attention.

But Pike River has also shone the spotlight on general workplace health and safety in New Zealand. I think we can all agree that too many New Zealand workers are killed or injured at work. Our official rate in the latest Statistics New Zealand data is 4.1 fatalities per 100,000 workers. This compares with about 2.1 for Australia and 1.7 for the UK. So our rate still remains stubbornly high. It is time to do something significant to address the problem. So I have set up, as you will be aware, an independent task force that will undertake a fundamental review of the health and safety system. It will report back to me later this year with a package of practical measures to
bring down the figures, and I am certainly expecting and hoping for fresh thinking and new approaches. I have also set a bold target to reduce deaths and serious injuries in the workplace by at least 25 percent by 2020. We need to change the culture of health and safety in New Zealand. It is a big ask, and it will require everyone to play their part.

We’ve also invested an additional $37 million from the HSE levy account to improve health and safety over the next 4 years. This will enable the inspectorate to increase the numbers from 148 to 180 over 4 years, which will bring us back up to par with Australia for inspectors per 100,000 workers. I think the High Hazards Unit has shown the importance of having the right people with the right skills on the ground, and sending that right message. It will also enable other initiatives, including more investment in health and safety information, targeted at employees and in training for health and safety representatives in the workplace.

One of the other major challenges, of course, that we have in New Zealand is the Canterbury rebuild. In Canterbury we are in an ideal position to get health and safety right, and it is important to do so. And I certainly want to acknowledge the valuable input of the EPMU, and I acknowledge you, Andrew, as a past officer of that. They are working very, very constructively to ensure that we do rebuild Canterbury as safely as possible. Over the coming years, tens of thousands of workers will take part in rebuilding the region, and we have to make sure it is done as safely as possible. The construction sector has some of the highest injury rates, with more than 45 workers killed on construction sites over the last 5 years. Given the size and complexity of the Canterbury rebuild, minimising harm to workers will be a challenge, but it has been done before. It is interesting to note that the safety programme for the Olympic build in London has had outstanding success, with no deaths, only 150 reportable injuries, yet 62 million hours of work, and I want a similar success story for Canterbury. The department is delivering workshops on working safely with asbestos through the Canterbury rebuild safety forum, as well as a range of other activities that combine health and safety and employment relations education. It has also established strong working relationships with CERA, the Stronger Christchurch Infrastructure Rebuild Team (SCIRT), and SafeRebuild Canterbury.

Bennett: We’ll have to wrap it up soon.

Wilkinson: Yeah, I know. I am on my last page, Mr Chair, but you do have a whole hour. For example, SafeRebuild Canterbury, a group comprised of union and business interests, and supported by the department, is training hundreds of subcontractors on health and safety obligations and supporting them to develop health and safety systems. As I said earlier, we want our workplaces to be safe and skilled. As part of our whole-of-Government response to Canterbury, $42 million has been set aside to create thousands of new places for construction-related trades at polytechs and ITOs, and that’s a part, of course, of Minister Joyce’s Canterbury skills package. So in
summary, Mr Chair, we do want to build a more efficient Public Service, a more competitive economy with less debt, more jobs, and higher incomes for all New Zealanders. The creation of MBIE, improvements to the employment relations regime, creating safer working environments, and rebuilding Canterbury are all important steps to help us reach that goal. So thank you, Mr Chair. Thank you for your courteous attention to my preamble, and I look forward to questions.

Bennett

Thanks very much, Minister.

Fenton

Thank you, Minister, and may I say I do have some sympathy with colleagues out there. However, I'm polite, and I'll stick to the questions. Just dealing with the MOBIE, I have found it very difficult to get to—

Wilkinson

MBIE?

Fenton

MOBIE—very difficult in the standard financial questions and supplementary questions to get answers about how this is going to work—even things like your plans, your budgets for the year, and so on. But I'm primarily concerned with how the Department of Labour is going to fit into this new department, this mega department. And I noticed in the Cabinet paper there was some expression there of concern that on the face of it the Department of Labour may not fit well with the business focus of the new ministry and may create some risk of conflict of objectives with the new ministry. How are you going to ensure that the interests, not just of business, but of employees and workers are dealt with, you know, given the primacy they deserve in this new business-facing ministry?

Wilkinson

I think what we're seeing already—and I might ask Nigel, who can address some of that more operational stuff, if you would like, but certainly from my point of view we're already seeing meetings of Ministers with the different responsibilities, meeting regularly, which just gives a more whole-of-Government approach to it. It's a bit like the skills pipeline and everything else. It's to make sure that actually we know what everybody else is doing, there's no replication, no duplication, and actually that we are doing what we can to have safe and skilled workplaces, but also as a business-facing ministry to make sure that actually businesses can be successful, because we know if businesses are successful they will employ more people, and that is good because we want more people in jobs.

Fenton

But the department has some independent and specialist advice functions. How are you going to go about making sure they're preserved? I'm talking about the functions that give advice to people, like the woman I'm dealing with at the moment, who's been sacked under the 90-day trial—I'm happy to tell you the story if you want me to, but there are many. How are going to make sure that those functions are preserved in this department?

Bickle

So at a pragmatic level, the ministry starts next week. In the first instance the four agencies that make up the new ministry, basically, in the first
instance are, if you like, unplugged and plugged into the new legal entity. So the Department of Labour, for the first period of time in the ministry, will continue to operate as an agency within this new legal entity. As we sort of work through how is the best way to integrate some of these functions, given the objectives that the Government has for the ministry, I think that what you would see—one of the things that is out being consulted with staff across the agencies now around some of those options for how we might integrate some of these functions recognises very much so that one of the fundamental premises for the new ministry is that we want to create the right conditions for the economy to grow, recognising that it’s, I guess, businesses that are going to create the growth and revenue. But that is not at the expense of the environment or workers, or in terms of there being a fair set of conditions or safe workplaces to work in.

I think what you’re probably referencing in the Cabinet paper is either the real or perceived tensions that might exist between some of the regulatory functions that sit in this new ministry with clearly a focus that we also want to get alongside business and to support growth, and that what is proposed now, and we’re out consulting with, is actually recognising that, and to establish within the new ministry a very distinct area that is around, basically, regulatory practice and recognising that that is a really important part of a set of functions, including some of the labour-related functions that are coming into this new ministry.

Fenton: So one of the things I’ve heard is that mediation could be contracted out under this new ministry. Can the Minister assure us that that’s not going to happen?

Wilkinson: Well, I haven’t heard that.

Fenton: OK. So you’re telling me it won’t happen?

Wilkinson: I haven’t heard that and—

Fenton: So you’re saying it won’t happen?

Wilkinson: Well, I haven’t heard it, and there are no plans at this stage to contract out mediation.

Fenton: No plans at this stage.

Bickle: What is being proposed is, obviously, recognising that between the agencies that are coming together we have a range of mediation functions—clearly, mediation in the employment relations context that supports the labour market to work well, and for employers and employees to sort of resolve their problems and uphold their rights. We have a mediation service that supports the functioning of the housing market, and so between some of these functions that are coming together, clearly there are opportunities in terms of thinking about how you can perhaps align some related functions, and that, clearly, between tenancy, weathertight, and employment relations.
mediation, you’ve probably got 95 percent of the Government’s mediation capability. And that represents some opportunities to think about how you might, you know, sort of leverage some of that expertise.

Little So DRSL—will they have a role to play, or potentially a role to play?

Bickle Well, they sit outside. They’re not part of the new ministry.

Little They’re a Crown agency. They are not just doing ACC any more; they’re doing housing, and they’re doing other dispute resolutions in other areas. They are being set up as the Crown’s big dispute resolution agency—is what their name is. So what is the possibility that they will take over the, currently, the Department of Labour mediation?

Bickle Certainly not part of the sort of scope of work that I’m aware of in relation to the new ministry.

Wilkinson And it’s not under my responsibility either, so—

Fenton Obviously, we want to ask about health and safety, and Andrew and I will share those questions. But I just wanted to go on to the employment law changes that you’re proposing. So when can we expect to see an employment relations amendment bill before Parliament?

Wilkinson Well, I’m hopeful very shortly. I mean, I’ve said publicly that I would like it before the House and passed before the end of the year, so it doesn’t—

Fenton So you’re going to have to get a move on, then, aren’t you.

Wilkinson We’re just at the moment working through. I mean, obviously, you’ve seen the Cabinet paper, and just the next process after that is going through the finer detail of it.

Fenton Yes, having seen the Cabinet paper and the advice, the RIS, I’m just wondering why—

Wilkinson Where did you get the Cabinet paper from, Darien?

Fenton Off the back of a truck—you know how this works. Can I just ask why you didn’t take your department’s advice to look at lowering the threshold for facilitation, given that we’ve had huge disputes this year? You know, it’s very, very difficult to get into facilitation.

Wilkinson Well, lowering it or changing the threshold for facilitation was not part of our manifesto. I have to say, whilst the issue has come up every now and then it hasn’t really sort of been flagged as a large issue. I know the Ports of Auckland did use facilitation, and, you know, they seem to have resolved their issues. I’m happy to look at it. I don’t have a closed mind in relation to it. It’s just one of those issues that had not really been brought to the fore of my attention.
2012/13 ESTIMATES FOR VOTE LABOUR

Fenton  So the issue of giving notice around strikes, which is also part of your proposal, that wasn’t in your manifesto either, was it? So where did that come from, and why are you doing that?

Wilkinson  That was a bit of a pragmatic one, and it was really because it was in relation to the partial pay for partial strikes. So it’s linked with that, and it’s putting some detail around that, and it was really as a response to the postal workers who went on partial strike, didn’t post the mail, and the employers didn’t know that they were on partial strike. So it seems sensible that if you’re not actually going to do the work, you should at least tell your employer that you’re not going to do the work so that they know. It’s just common sense really.

Fenton  You’re going to require notice for every strike, whether they’re partial or full strikes.

Fenton  Well, that’s some of the finer detail that, I mean, you can sort out at the select committee, yes.

Fenton  Well, it’s in the paper. It’s in the recommendations. So why did that come about, because that’s not linked to partial strikes?

Wilkinson  Well, I guess the question then is that if you require a notice for partial strikes, so that your employer can know whether or not your employees are working, then it makes sense to actually extrapolate that and expand it to all strikes.

Fenton  And the Employment Relations (Rest Breaks and Meal Breaks) Amendment Bill, what’s happened to that? That’s been sitting on the Order Paper since 2010. I mean, I’m very pleased it hasn’t come forward, but can we look forward to that being integrated into a new bill, or what are your plans for that?

Wilkinson  Well, we might roll it in at some stage to this ERA amendment bill. I’m not quite sure if there’s procedure to do that, actually, but I agree with you that it’s been sitting on the Order Paper for some time now.

Fenton  Well, it was so urgent at the time. I remember. It was all a crisis, and obviously it wasn’t, so—

Wilkinson  Well, I think what it did though it sent a signal, actually, that there was some confusion around rest and meal breaks, and that signal was enough to change behaviour. At the end of the day we’d rather have behaviour change because they wanted a behaviour change, rather than have them infringe any regulatory regime.

Fenton  Well, if I can just start on health and safety, and then I will hand over to Andrew, if that’s OK, Mr Chair. I have just one question on health and safety, on this task force that you’ve created too. Have you got any
appropriation in the Budget for both the work of the task force and any possible outcomes from that?

Wilkinson

Well, as you know, we invested an extra $37 million over the next 4 years into health and safety. Some of that is to increase the inspectorate, and some of it is to upskill some of that inspectorate as well. Lesley, do you want to explain where the funding for the task force comes from? It's not a very large task force, because I didn’t want a huge monster, but I wanted it focused and experienced enough and professional enough and small enough so that we would actually get some good positive outcomes that I think we actually all want.

Haines

And just to add to that, the task force is being funded from departmental appropriations. The department is providing in kind the secretariat of the task force, which will do a lot of work and will also enable the task force to commission independent work should they want it. So in terms of the task force itself, it’s being funded from existing departmental appropriations. In terms of a capacity to respond to the recommendations of the task force, some of the $37 million, which the Minister refers to, will provide a capacity for some response to the recommendations of the task force. I think, you know, we’ll just have to see quite how wide the recommendations of the task force are, and what the Government decides to do in response to them.

Little

I just want to move into health and safety, and, Minister, I acknowledge your points about Pike River and acknowledge the establishment of the High Hazards Unit. I think that’s been very welcome. The evidence is that it's doing a very good job. Certainly, on the mining side, the feedback I get is very, very positive. So I’d like to acknowledge that. Perhaps in relation to the report back of the royal commission, a bit of a plea—at least out of respect for the dead men and their families and the communities of Greymouth—that when we come to debate what comes out of that that we don’t get into the political point-scoring, because I happen to think that health and safety is one of those issues that—

Wilkinson

Couldn’t agree more.

Little

It’s not just about people’s safety; it is about productivity as well, and it’s good for business.

Wilkinson

Absolutely.

Little

Just in that regard, I am just intrigued by your comments—well, I’m pleased to hear about going from Pike River and extrapolating that out to a broader view about improving health and safety, because I think some of us have noted a deterioration in that at all levels—workplace, Government, regulatory, and so on. And you’ve set the target. Now, you made the comment about culture, that the culture has to change. I’d be interested to know what the department and what your thinking is about culture as a
contributor to improved health and safety, and what you think the important elements might be.

Wilkinson Well, at a very basic level, my view is that it’s everybody’s responsibility to look after their workmates and to make sure that they all go home safe to their families at night, whatever level of operation they are in the workplace. When you look at the health and safety regulatory regime, by the time you sort of almost need it—we don’t want it to be the ambulance at the bottom of the cliff. We want, actually, people to be thinking about health and safety. But also to extrapolate that back into the home as well.

Lesley and I have actually had some very interesting health and safety meetings with the Australian counterparts. I would have to say, working with Gavin Taylor from Queensland, it’s been great to see how they do it and actually to work closer with like-minded jurisdictions, because it seems that all jurisdictions, especially in the High Hazards Unit, have difficulty recruiting the qualified—I’m sorry, I’m going away from the culture question a bit—

Little No, I actually understand what you’re saying. It’s all right.

Wilkinson —but if we can work closer with international jurisdictions and work with the Australians and others. We’ve also had meetings in British Columbia to see what they are doing over there with their Worksafe BC, and things like that. So there’s a lot of contacts and information that actually we want to feed into the task force. Some of that is culture.

One of the issues might be that because we have a no-fault ACC system, what impact does that have on culture? Because is it a question of “Oh well, we can get compensation anyway. Therefore, we don’t have to look after ourselves so much.”? There are other issues about working closer with ACC on an operational level as to if they’re dealing with slips in the home and we’re dealing with slips in the workplace, why can’t we work a bit closer together, and things like that.

Little I understand all that, and that’s good. I suppose I want to hone in what I think is a critical part of culture, and that is the nature of the relationship in the workplace. That is as much about the workforce feeling they have the means and—let me use the word—the “power” to react and respond to hazards and dangers in their workplace, and to challenge management. I raise that, Minister, with all due respect, because I think when you talk about your labour market reforms, they contradict that. I think the department or MOBIE or MBIE, whatever you want to call it, when it is trying to pull together, this is the tension that I think is going to become outwardly manifest now of what creates a good health and safety culture. Mining is the classic example, Pike River was the exception; it wasn’t the rule. Solid Energy is the rule, and they have had a very strong workplace culture where it has been acceptable, if you are a worker, to say “I’m not going to risk that.”, and there are clashes with management and all that sort
of stuff, but actually Solid Energy, certainly since the late 1990s, has actually
been a very productive business, very profitable, but very good. There is a
lesson there, I think. And I think the health and safety stuff has to go hand
in hand with your employment relations stuff, and I see two divergent
paths.

Wilkinson

I’m going to disagree with you that our employments relations amendments
will have a detrimental effect on health and safety, but I do agree with you
that we need to have a culture that workers should not be afraid to put their
hand up and say “We don’t think this place is safe.” How that is done,
whether we need to, say, strengthen some whistleblower provisions that
actually give them protection or whatever, I am pretty open-minded about
that, and that is some of what I would like to feed into the task force.

Little

Well, I think that’s where the Pike River royal commission report is going to
be very helpful, I’m confident, because that has to have been a key part of
their deliberations. So let’s see what it says. But let’s also be bold enough,
whatever side of the political divide we are on, to learn the lessons from
that, and make sure that we can do something that works for everybody.

Wilkinson

And I’d welcome cross-party work with that. I know I’ve already spoken to
Kevin Hague. I would suspect that there’ll be some areas that we will not
agree, but my plea is to take those issues off the table and let’s work on
what we can agree on, so that we can actually refine what we can’t agree on,
or don’t necessarily agree on, but really work positively so that we do have a
good health and safety regime.

Haines

Can I add a few comments around mining, just in terms of the High
Hazards Unit and our experience over the last few months. I think
notwithstanding your comments about mining practice in other mines, what
we’ve seen is a really engaged and better-resourced inspectorate in the
mining area.

Little

It’s been very important.

Haines

It is actually engaging more with the health and safety reps in workplaces,
and what we are finding is that we’ve actually got now informal information
flows going between employees in workplaces and the inspectors. So I think
that’s really positive in terms of enabling us to follow up on issues and
employee concerns. I think the other part is that as a regulator our job is to
make the health and safety system good for business and good for people,
and I think there is a lot more we can do to provide really good guidance
for employers who want to do the right thing, to make it easy for them to
do that, and also for employees, in addition to having the ability to raise
issues, having information about, on building sites, for example, what the
nature of the risks are, what actually happens to their workmates because it
never happens to me—that’s part of our culture—and doing more around
information about the risks in their workplace, the consequences of those
risks, and also what their rights and responsibilities are, is a really important part.

Little I suppose if I just add that the thing I would say is that don’t, in your policy development, make the assumption that workers aren’t capable of managing that themselves, because actually they are. They are the front line of risk all the time, and they are often know more than managers. The point I’m making is that actually you do need an environment where it is OK for a worker to challenge management and not feel as if they’re going to lose their job or be dumped on.

Bennett That’s a very good point, and that’s probably the thing Solid Energy’s so good at, the staff actually have that role.

Ross Minister, you spent a bit of time in your opening remarks talking about health and safety, and we’ve discussed it a bit as well. Can you talk to us about the long-term trend that we’re seeing in accident rates and whether the work we’re doing there is having an impact and what—?

Wilkinson It would be nice to say it is having an impact. When I talk about health and safety, I basically say we lose one worker a week, we lose a farmer a month, and a farmer worker is injured every half an hour. Those are pretty stark statistics.

Little What was the half an hour one, Minister?

Wilkinson A farm worker is injured.

Auchinvole Injured—every half hour?

Wilkinson Every half hour.

Little They make up about a quarter of the fatalities, don’t they, in farming?

Wilkinson Yes. So although the last figures, we lost 41 for the year, it sort of fluctuates. We certainly want the trend to go down, and it’s not going down. What we did do is we highlighted the five most dangerous sectors. That was agriculture, fishing, forestry, manufacturing, and construction. We have produced some action plans for those, but we’ve got also, under that, harm reduction plans. One of them was the quad bike harm reduction plan. Farmers just don’t wear helmets, and things like that. When we launched that, we found what I call a couple of poster boys and poster girls, who actually had had quad bike accidents and who may have been killed or at least severely brain damaged if they hadn’t been wearing a helmet. If we can showcase those sorts of stories and, again, get people thinking that actually accidents might happen to me—“Today, when I go out, it might happen to me.” And it is changing that behaviour. My dad’s 86. He is on a farm, his farm, and he bought a quad bike helmet last year. He’s gone through that culture of “She’ll be right.”, typical New Zealanders, but it is trying to
change that culture bit by bit that actually says “Accidents happen; let’s make sure we all go home to our families safe at night.”

Bickle I think the cultural bit that you raised is a really interesting sort of area, where I think, with the task force where Paula Rose in her role as national manager of roading for the police, and really trying to draw on what’s been big cultural changes around driving and drink-driving. I think that is all part of what we’ve got to think about.

Little I wish her well, but we don’t need a police mentality, with all due respect, I have to say.

Wilkinson Well, we can’t have a labour inspector on every farm.

Little No.

Roche I’ve actually got three questions on three separate issues, if you don’t mind. First off, I note that there is some good stuff that’s coming out through the reports and through the appropriations, including the High Hazards Unit, the work around foreign charter vessels and the increase in inspectors. I note the focus on health and safety as well. But there was one aspect in terms of your fair and sustainable employment relations that piqued my interest, and that was around your comments in terms of what you will achieve. You will complete an employment relations harm reduction project in an industry where there is a significant failure to meet minimum employment standards. I am wondering what this is, and I have also got in mind the fact that you’ve got some figures in there which show that the trend is for fewer employees to have written employment agreements. I’m wondering if these are tied up, and what sort of actions the department will be taking.

Wilkinson We made it compulsory in our last tranche of improvements that you had to have a written employment agreement, in an effort to encourage that good behaviour.

Roche But the trend is going down. There are fewer.

Haines Can I answer that question? Just generally, our labour inspectors are the people who are responsible for the enforcement of minimum employment standards, including minimum wages, for example. Two years ago the Government passed amendments to the ERA which give them some tools and give us more teeth in terms of enforceability and also enable us, when our inspectors identify problems with an employer’s payroll system, for example, they can be fixed in a way which isn’t just responding to an individual person’s situation but provides a more general solution. Those tools, we know, have increased workplaces’ readiness to comply—just the fact that there’s a little bit more pressure in the system than there used to be, a little bit more teeth on the part of the regulator. What we are planning to do and the work that you refer to around harm reduction is that the approach that we think we’ve been taking quite successfully in health and
safety with our quad bike campaign and also now our fall from heights we’ve just launched as well in the construction sector is to take a similar approach in the minimum employment provisions space, and to do so in a way which we team up with immigration to develop a project where we focus on particular groups of migrants who we think are at risk of exploitation. We are looking at the data. We want to be really data-driven and focused on areas of high risk, and use that to send signals to broader industry as well. We haven’t actually decided exactly where we’re going to focus yet, but that is something that we’re developing now so that we actually target a particular area and actually up the ante and raise the information about it. Meanwhile, we wanted to make sure that whenever anyone is aware of people—whether it is them or whether it is somebody they know—they feel are being short-changed to let us know, because we investigate all complaints and will take action where those things are substantiated.

Roche If I could just tease that out for a minute. Your comment in your report says that you’ll be focusing on an industry. The data that you’re looking at at the moment, what sort of industries are not meeting minimum employment standards so far?

Haines There are some areas of contention—where student migrants work is often a place. That’s sometimes horticulture; that’s sometimes in the hospitality industry.

Bickle Restaurants in particular.

Haines Restaurants in particular. So we haven’t made our decision yet, but that’s the sort of area that we’re likely to go in.

Roche Thank you. Minister, I noted your answer to the question in the House today, and also you have referred to it in your briefing as well, about the 90-day trials. When you were talking in the House, you said that, firstly, you had independent research, and I presume from what you were saying that there was a survey. Have you been surveying the employees, or is that just the employers? And are we able to see that research?

Wilkinson Absolutely. The first piece of research was NZIER, which was the one that was credited with the trial period creating 13,000 jobs. That was done when we introduced the 90-day trial for SMEs but before we had actually expanded it to all businesses. The last report that I quoted in the House today is a Department of Labour one. It involved surveying employers. There is another one coming that will be surveying employees.

Fenton The NZIER one was only able to reach about six employees, wasn’t it? It was a very, very small number.

Little It didn’t take account of the policy changes either. It assumed that all the change was attributable to the law change, not to a range of other policy changes.
Just to note, those reports—the ones that have been published—are available on the department’s website.

You’ve talked about flexibility, and the flexibility arrangements being extended, which is good for families. I was quite interested to see, given that we as a country are progressively falling behind other comparable economies in terms of our employment relations arrangements that support families, whether the Government was going to come out and support the EEO commissioner’s pay equity recommendations at all as a Government bill—if that’s any intention that you’d have?

Apparently, we are considering it at the moment.

So when can we get some feedback about that?

When we’ve considered it.

Well, OK, let me put it this way. There have been other recommendations, particularly from Sue Moroney’s bill around paid parental leave and extending the provision.

There’s been discussion about that and the cost of that, especially at the moment. I think the cost was estimated at about $320 million. We just stated that it wasn’t a priority of ours at this time. But I certainly think that extending the flexible working arrangements, because it was very narrow in terms of just those with caring responsibilities, and I think what we can see in terms of what’s happening in Canterbury is that actually there are ways that employees and employers can think more flexibly about what is happening. When you have 55,000 workers displaced from the CBD, some of them sometimes have to work from home. It could be just flexibility like that as well. It just gives us the opportunity to really look at things perhaps a bit differently.

Minister, you answered a question in the House today about the 90-day trial regime, and also mentioned it in your presentation to us. Was I right in hearing you say that there were 13,000 jobs created as a result of the new scheme?

Yes, that’s been credited. That was only when it was with small to medium enterprises. We extended it last year to larger enterprises, to all businesses, so it certainly doesn’t take that into account, but common sense says that if it is credited with 13,000 for SMEs, then it must be a lot more once we extended it.

So you don’t yet have further statistical information?

No, no, we don’t.

Just on the issue of young people. It is really interesting that you have these surveys but actually I guess unemployment is among some of the highest in
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the OECD. But anyway you mentioned, Minister, about the starting out wage. When is the introduction of that, and what evidence are you relying on that that will make any difference to youth unemployment?

Wilkinson Well, we think it will make a difference. In a way, it’s got similarities to the current training 200-hours provision. The difficulty with that was that employers found it too difficult to work out when the 200 hours started, when it finished, and it had no bearing to experience. It’s reasonably apparent that if an employer has the choice of employing a 16-year-old or a 26-year-old at the same rate, then they may be more likely to go to the 26-year-old who has got more experience and perhaps more life skills. We want to just reduce that gap. It is only for 6 months, so it is making it simpler. It is also for those 16 and 17-year-olds and those on long-term benefits.

Fenton 18 and 19-year-olds.

Wilkinson On a benefit.

Fenton That’s new. It’s not an extension.

Wilkinson For 16 and 17-year-olds and, I think, 18 and 19-year-olds and for those on a long-term benefit.

Fenton We haven’t had a youth rate for 18 and 19-year-olds for 10 years.

Wilkinson I think we’ve done some pretty good work, which is not in my portfolio, in reducing the number of those on benefits. We really want to encourage those on long-term benefits to actually get a job, because that’s really good for them. It’s good for their well-being, and it’s good for their self-esteem. We think that this will help do that.

Fenton When will the bill be introduced?

Wilkinson I think, again, later this year.

Fenton Are you hoping to get that in place this year?

Wilkinson We’re hoping to have it in place for implementation by 1 April—the start of the next financial year.

O’Connor I just want to take it down a different direction from my side, Minister. It’s a question around the minimum wage. I know that we have increased it recently and there are starting out wages and so forth. I was just wondering if you could give us some context of how New Zealand performs, in terms of its minimum wage, internationally.

Wilkinson Yes, it’s an interesting one. It’s the old political debate at the beginning of every year that it’s never enough for employees and it’s too much for businesses. So it’s trying to get that balance. When you compare it, our minimum wage compared with our average wage is actually at the top of the
OECD, so it’s actually pretty good. That’s in a comparison with the average wage. Compared with 4 years ago, workers now get an extra $1,800 a year more in their back pocket, which is after tax and after inflation. So we’re trying to get that balance right, but certainly as a comparison with the average wage, actually we’re not doing too badly.

Auchinvole Minister, just to bring us closer to home for you—what do you see as the essential qualities that have to be introduced to make sure the Canterbury rebuild is done well and done safely?

Wilkinson It’s really interesting because you get some issues that pop up, like with the old buildings and asbestos and things like that, and we’ve got to be really, really careful.

Auchinvole That’s what I was thinking about.

Wilkinson We’ve got strategies round that as well. A lot of Christchurch, as you know, at the moment is in the deconstruction stage. It’s really important that that’s done safely. What we are seeing—and I think there are probably pluses and minuses—is that the unions, in particular the EPMU, the construction sector, construction companies, plus the department, and Canterbury Employers’ Chamber of Commerce working together to actually get some safe workplaces. For example, with the falls from heights, when I launched that, we had about 200 people actually at that launch. That’s actually quite good for workplace safety. The media don’t like to report good news workplace safety stories. If I had a wish list, it would be that the media could actually help us sell the importance of workplace safety, rather than report when something tragic has happened.

Little There’s no headline in “Everybody went home tonight”.

Wilkinson No, there’s not.

Bennett On the subject of everybody going home, and ending on a positive note, we appreciate your comments. And thank you very much to all your officials for coming in. Thank you, members, for your questions.

Wilkinson Thank you.

**conclusion of evidence**
2012/13 Estimates for Vote Lands

Report of the Primary Production Committee

The Primary Production Committee has examined the Estimates for 2012/13 Vote Lands and recommends that the appropriations in respect of Vote Lands for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Shane Ardern
Chairperson
2012/13 Estimates for Vote Māori Affairs

Report of the Māori Affairs Committee

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Recommendation

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Māori Affairs as set out in Parliamentary Paper B.5, administered by the Ministry of Māori Development (Te Puni Kōkiri), be accepted.

Introduction

The total appropriations sought for Vote Māori Affairs in 2012/13 amount to $209.454 million and represent a $6.133 million increase on 2011/12.1 Departmental output expenses decrease by $931,000 to $60.492 million. Non-departmental output expenses account for 67.5 percent ($141.392 million) of the vote, an increase of $6.291 million from 2011/12, which is partly attributable to the total $13.933 million increase for the Whānau Ora-based Service Development multi-class output appropriation.

Whānau Ora

Over $48 million is being sought for the Whānau Ora initiative in 2012/13, comprising $9.021 million for Whānau Ora administration and $39.590 million for Whānau Ora-based Service Development, accounting for approximately 23 percent of the total appropriations sought in Vote Māori Affairs. Changes made to the Whānau Ora-based Service Development multi-class output appropriation in 2011/12 include a decrease of $3.943 million due to an expense transfer of $10 million, in two parts, from 2011/12 to 2013/14 and 2014/15, offset by an expense transfer of $6.057 million from 2010/11 to 2011/12. This change reflects agreed work programmes and the expected implementation of the Whānau Ora Provider Programmes of Action.

Service delivery

The Minister for Whānau Ora told us that Whānau Ora is not a programme; it is an inclusive, culturally appropriate conceptual approach that places the whānau at the centre. It seeks to support whānau in deciding and implementing their own preferred processes for addressing issues.

We asked whether, since Whānau Ora’s conceptual approach differed from that behind conventional service delivery models, providers of services faced particular challenges working with Government agencies. The Minister explained that there had been considerable resistance from some agencies. We heard how standard practice, which focused on the individual, has been challenged by Whānau Ora’s attention to the whole whanau. The Minister said that, while she is pleased with Whānau Ora’s progress to date, she is disappointed that some agencies have failed to embrace this transformive

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approach. She said that building trusting relationships between Government agencies, providers and whānau is imperative to the success of Whānau Ora.

Funding implications

We are aware of concern among community organisations that Whānau Ora might remove or reallocate funding for existing programmes. The Minister said, however, that community organisations have begun to see that Whānau Ora is less about money than about changing practices. We heard that resources have been directed into building the capacity and capability of community service providers. We understand that providers are encouraged to engage with each other and work collectively.

We asked whether providers that did not conform with Whānau Ora practices or disagreed with the policy approach would be penalised. The Minister assured us that it was not the intention to exclude certain providers, but funding was necessarily limited.

Whānau Integration Innovation and Engagement Fund

The Whānau Integration Innovation and Engagement Fund supports activities that build whānau capability, strengthen whānau connections, develop whānau leadership, and produce the best outcomes for whānau. Such activities include the development of whānau plans. We are aware of negative perceptions of funding for whānau planning, particularly the wānanga process where whānau meet for several days to seek broad solutions to long-standing issues. We asked about the efficacy of whānau plans and heard that high-quality whānau planning is transformative.

Refocusing Te Puni Kōkiri

In May 2012, the Minister of Māori Affairs announced proposals to refocus and strengthen Te Puni Kōkiri. A working party has been formed to review the ministry and its report is imminent. We asked the Minister how Te Puni Kōkiri could move towards a more strategic role. We heard that the Minister is aware of changes in the Māori landscape, especially regarding the role of iwi, which have influenced thinking about the direction of Te Puni Kōkiri. He was considering how Te Puni Kōkiri can best serve both urban and regional communities.

We asked about the regional role of Te Puni Kōkiri, and were told by the Minister that retention of the regional offices was essential at this stage. We understand a group has been established to conduct consultation on the future of Te Puni Kōkiri in the regions. We intend to monitor this process and expect to be furnished with the report once it is available.

Māori economic development

The Minister of Māori Affairs told us that the Māori economy has untapped economic potential in its small businesses, in addition to the substantial assets held by iwi. We heard that a Māori Economic Development panel has been established to develop strategies for harnessing this potential. The Minister told us that he was encouraged by the amount of entrepreneurialism among Māori, but more could be done to take advantage of scientific advances and technical innovations. We also heard about Ngā Pū Waea, which has been set up to support development in telecommunications and information technology, including
ensuring connectivity and coverage for the Māori community under the Rural Broadband Initiative.²

Māori Business Facilitation Service

We asked how the Māori Business Facilitation Service could continue to support Māori business. We heard that there were no immediate plans to decrease this funding; it may have to be refocused to achieve the Government’s expected 3 percent efficiency savings in the coming year. We understand that although parts of the overall funding package may be redirected to provide more strategic support, the Minister intends to continue to support Māori business development fully.

Relationship building in China

The Minister of Māori Affairs told us about relationship-building with China, including the three Māori delegations he has overseen. We asked if investment in and interaction with China were producing measureable benefits. The Minister told us that although relationships are in their early stages and the return on investment in terms of jobs has yet to be to be quantified, the potential is strong. He is confident that New Zealand has much to offer China, particularly in terms of primary resources, and this will provide many economic opportunities for Māori.

Treaty of Waitangi

We asked how Te Puni Kōkiri carried out its statutory role of securing and enhancing the Māori position as a Treaty of Waitangi partner, and particularly ensuring that Treaty obligations are considered by Ministers and Government agencies. The Minister of Māori Affairs said that attitudes towards the Treaty are steadily improving and the ministry is playing a key role in influencing this shift, for example through its lead role in the constitutional review.³ We also heard that the ministry worked to ensure the Treaty was given appropriate consideration in the development of recent Mixed Ownership Model legislation.

Māori language strategy

In the Māori language strategy review, ideas were sought from throughout the country on how to develop and grow te reo Māori. Feedback indicated that Māori wanted more ownership of the language at a hapū level, with less control by Government. Like the Minister, we support efforts for iwi and hapū to take more control and an active role in strengthening their own language.

Māori wardens

We asked the Minister of Māori Affairs how the excellent work of Māori wardens in local communities could be enhanced or integrated, for instance through the Whānau Ora approach. We heard that Māori wardens have a strong kaupapa and there are clear

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opportunities for collaboration in the context of Māori non-government organisations, but he said that any change needs to be carefully managed and subject to consultation with iwi.
Appendix

Approach to this examination

We met on 20 and 26 June, and 18 July 2012 to consider Vote Māori Affairs. Evidence was heard from the Minister of Māori Affairs, Hon Dr Pita Sharples, the Minister for Whānau Ora, Hon Tariana Turia and the Ministry of Māori Development, and advice received from the Office of the Auditor-General.

Committee members

Hon Tau Henare (Chairperson)
Te Ururoa Flavell
Hone Harawira
Hon Parekura Horomia
Brendan Horan
Katrina Shanks
Rino Tirikatene
Metiria Turei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Evidence and advice received

We considered the following evidence and advice during this examination:

Briefing paper prepared by committee staff, dated 5 June 2012.

Minister of Māori Affairs, Response to standard Estimates questionnaire.

Minister of Māori Affairs, Presentation to the Māori Affairs Committee, received 20 June 2012.

Minister of Māori Affairs, Response to additional questions, received 18 July 2012.

Minister of Whānau Ora, Presentation to the Māori Affairs Committee, received 20 June 2012.

Office of the Auditor-General, Briefing on Vote Māori Affairs, received 20 June 2012.
Ngā Whakapae mō te Pōti Take Māori o te tau 2012/13

Te pūrongo o te Komiti Whiriwhiri Take Māori

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Ka tūtohu te Komiti Whiriwhiri Take Māori kia whakaaetia ngā wāwāhanganga moni ka mutu hei te 30 o Pipiri 2013 mō te Pōti Take Māori e whakahaerea nei e Te Puni Kōkiri, e ai ki te Pepa Pāremita B.5.

Kupu Whakataki

Hui katoa, e $209,454 miriona ngā wāwāhanganga moni e rapua nei mō te Pōti Take Māori i te tau 2012/13, ā, e $6,133 miriona te pikinga ki tērā i te tau 2011/12. 1 E $931,000 te hekenga o ngā whakahaunga putanga o te tari ki tērā e $60,492 miriona. E 67.5 ōrau (tērā e $141,392 miriona) o te pōti ka haere mō ngā whakapaunga putanga o waho tari, he pikinga e $6,291 miriona ki tērā o te tau 2011/12, nā tētahi wāhi o te katoa o tētahi pikinga e $13,933 miriona mō te wāwāhanganga putanga wehenga-tini maha Whanaketanga Ratonga-i-taketake mai i a Whānau Ora.

Whānau Ora

E $48 miriona neke atu, kei te rapua mō te mahi hou Whānau Ora hei te tau 2012/13, me ēnei hoki i roto, tērā e $9,021 miriona, kei te Whakahaerenga o Whānau Ora, tērā hoki e $39,590 miriona mō te Whanaketanga Ratonga-i-taketake mai i a Whānau Ora. E 23 ōrau tata atu pea o ngā wāwāhanganga moni i rapua i te Pōti Take Māori. I roto i ngā whakarerekētanga ki te wāwāhanganga putanga wehenga-tini maha Whanaketanga Ratonga-i-taketake mai i a Whānau Ora i te tau 2011/12, ka uru atu tētahi hekenga e $3,943 miriona nā tētahi whakawhitinga whakapaunga e $10 miriona. E rua ngā wāhanga, ko tērā atu i te tau 2011/12 ki te tau 2013/14 me tērā i te tau 2014/15, tae atu ki tētahi whakawhitinga whakaineine e $6,057 miriona atu i te tau 2010/11 ki te tau 2011/12. Ko ngā hōtaka mahi i whakaeatia me te whakatinanatanga o ngā Hōtaka Hohenga Kaituku Whānau Ora i tūmanakahia tēnei whakarerekētanga.

Tuku ratonga

Mō ngā kōrero e pā ana ki a Whānau Ora, ka mea mai te Minita mō Whānau Ora, ehara a Whānau Ora i tētahi hōtaka; he ahunga ariā kē, he ahunga ahurea tika, he ahunga kei roto te katoa, ā, kei waenganui te whānau e noho ana. Tautoko ai a Whānau Ora i te whānau ki te whakatau me te whakatinana i āna ake hātepe o tōna hiahia hei kōkiri take.

Nā te rerekē o te ahunga ariā o Whānau Ora ki ngā tauira tuku ratonga o mua, ka pātai mātou mehe mea i ara ake anō ētahi āhuatanga wero i te hunga tuku ratonga e mahi ana i te taha pokapū Kāwanatanga. Ka whakamārama te Minita, i kaha ātete mai ētahi pokapū. I rongo mātou, i werohia te tikanga mahi takitahi noa o mua e te aronga o Whānau Ora i te

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1 Pepa Pāremita B.5A, Pukapuka.8, whārangi 136, Raingai Māori, Ėtahi Ātu Tautori me te Taha Ahurea–Pārongo Tautoko i ngā Whakapae o te tau 2012/13
whānau katoa. Ka kī mai te Mīnīta, ahakoa tana hari koa i te wā nei mō te Whānau Ora e haere whakamua ana nei, e pōuri tonu ana a ia ki ētahi pokapū kore āwhi nei i tēnei ahunga whakahoun. Ki a ia nei, ko te whakatūtūhononga pono i waenganui i ngā pokapū Kāwanatanga, i ngā kaituku, i ngā whānau hoki te mea nui rawa atu kia angtu ai a Whānau Ora.

Ngā whakahīrautanga e pā ana ki te pūtea āwhina

Kei te mārama mātou ki te māharahara i waenganui i ngā rōpū whakahaire o te hāpori, tērā pea ka tangohia e Whānau Ora te pūtea āwhina mō ngā hōtaka e tū nei, ka whakahūhau rānei ki wāhi kē. Heoi anō, ka kī te Mīnīta kua tūmata kē ngā rōpū whakahaire o te hāpori ki te kīte i nāia nei, ko te whakarerekē tikanga mahi kē tā Whānau Ora e whai nei, ēhara ko te taha moni. I rongo mātou, kua neke a kē ngā rawa ki te whakapakari i te rōrahi me te kaha o ngā kaituku ratonga o te hāpori. Kei te mōhio anō hoki mātou, kei te whakatenatenahia ngā kaituku ki te māhi i waenga i a rātou me te māhi ngātahi hoki.

I pātai mātou mehemea ka hāmenetia ngā kaituku e kore ū ana ki ngā tikanga mahi a Whānau Ora, e whakahē ārānei i te ahunga o te kaupapa here. Ka whakatūtūru mai te Mīnīta, ehara te koronga ia ki te aukati i ētahi kaituku engari, ititi noa ana hoki te pūtea āwhina.

Tahua Pūtea Tūwhakamahinga Wairua Auahatanga, Whakakuhunga Whānau hoki

Tautoko ai te Pūtea Tahua Whakamahinga Wairua Auahatanga Whakakuhunga Whānau hoki i ngā tūmahi whakakaha i te whānau, whakamārō i ngā hononga whānau, whakawhanake ai ki te kaiaharitanga o te whānau, me te whakaputanga putanga pai mō te whānau. Ka uru atu ki aua tūmahi te whanaketanga mahere mō te whānau. Kei te mārama mātou ki ngā kitenga huakore e pā ana ki te pūtea āwhina i te whakatakoto mahere mō te whānau, oti rā, te hātepe wānanga e hui ai te whānau mō ngā rā e maha ki te kimi otinga whānui mō ngā take kua roa kē e tū ana. Ka pātai mātou mō te tika o ngā mahere whānau, ā, me te rongo hoki he huringa hou te whakatakoto mahere kounga-teitei mō te whānau.

Whakahāngai anō i te arotahi o Te Punī Kōkiri ki wāhi kē

I te mārama o Haratua i te tau 2012, ka pānuitia e te Mīnīta Take Maori ngā kaupapa ki te whakahāngai anō i te arotahi o Te Punī Kōkiri ki wāhi kē, ā, kua whakatūria tētahi ohu mahi ki te arotake i te manatū, ā, kua tata tonu tana pūrongo te puta mai. Ka pātai mātou ki te Mīnīta me pēhea Te Punī Kōkiri e nei kia tara atu aia ki tētahi tūranga he kaha kē atu te rautaki. I rongo mātou kei te mārama te Mīnīta ki ngā whakarerekētanga i te ao Māori, oti rā, e pā ana ki te tūranga o te iwi, kua whakaawe nei i te whakaaaro me ahu pēhea Te Punī Kōkiri. Ko te whakaaaroa o ia, me pēhea e pai ai te āwhina tahi a Te Punī Kōkiri i ngā hapori i te tāone me ērā hoki i ngā rohe.

Ka pātai mātou mō te tūranga o Te Punī Kōkiri i te rohe, ā, ko tā te Mīnīta ki a mātou, ko te pūpuri tonu i aua tari ā-rohe te mea nui i tēnei wā. Ki tō mātou mōhio kua whakatūria he kohinga ki te rūnanga i te wāhi o Te Punī Kōkiri i ngā rohe i ngā rā kei mua i te aroaro. Ko te aro turuki i tēnei hātepe tā mātou koronga i runga anō i te tūmanako, ka whiwhi i te pūrongo i te wā ka wātea mai.
Whanaketanga ōhanga Māori

I mea mai te Minita Take Māori, arā noa atu te pūmanawa nohopuku o te ōhanga Māori i roto i āna kaipakihi pakupaku, tua atu hoki ki ngā rawa nunui kei te iwi e pupuri ana. I rongo mātou kua whakaturi he rōpū whirihviri mō te Whanaketanga Ōhanga Māori ki te whakahiauto rautaki hei whakamahi i te pūmanawa nohopuku nei. I kī mai te Minita, ko tērā e whakatenatena i a ia, ko te rahi o te rakahinongatanga i waenganui i a ngā Māori ēngari, arā noa atu te mahi mā tātou kia whai painga ai i ngā kōkiringa whakamua o te ao pūtaiao, i ngā wairua auahatanga hoki o te ao hangarau. I rongo hoki mātou i ngā kōrero mō Ngā Pū Waea, ērā kua whakaturiā hei tautoko i te whanaketanga o te ao torotoro waea me te ao hangarau mōhiohio tae atu ki te āta titiro i te whakahonotanga me te kapitanga o te hapori Māori i raro i te Mahi Hou Aunui2 i te Taiwhenua

Ratonga Whakangāwarī Kaipakihi Māori

Ka pātai mātou, me pēhea e tautokonatia tonutia ai ngā kaipakihi Māori e Ratonga Whakangāwarī Kaipakihi Māori. I rongo mātou, kāore he whakaaro i te wā tonu nei mō te whakahere i tēnei pūtea āwhina; tērā peā me whakahangai anō i te arotahi ki wāhi kē kia tutuki ai te penapena āhei e 3 ōrau o te Kāwanatanga i te tau e tū mai nei. Ki tō mātou mōhio, ahakoa ka tonao ētahi wāhanga o te mōkīhi pūtea āwhina katoa kia kaha kē atu ai te rautaki tautoko, ko te koronga o te minita, kia haere tonu ai te katoa o te tautoko mō te whanaketanga kaipakihi Māori.

Whakatūtū hononga i Haina

Ka mea mai te Minita Take Māori i ngā kōrero mō te whakatūtū-hononga i Haina, tae atu ki ngā apatono Māori e toru nāna i tirotiro. Ka pātai mātou meheamea i puta anō he painga i ngā haumi me te mahi pāhekoheko i Haina. Ko tā te Minita ki a mātou, ahakoa kei ō rātou wāhanga moata tonu ngā hononga, ā, kāore anō hoki te huanga o ngā haumi e pā ana ki ngā mahi kia oti te ine, he kaha tonu te āhua o te pūmanawa noho puku. Kei te ngākau titikaha a ia, arā noa atu ngā āhuatanga ka taea e Aotearoa te hoatu ki a Haina, otirā, e pā ana ki ngā rawa matua. Mā tēnei hoki te huhua o ngā mea angitu ōhanga e whiwhi ai i a ngāi Māori.

Te Tiriti o Waitangi

Ka pātai mātou, i pēhea te kawe a Te Puni Kōkiri i tōna tūranga ā-ture kia whita ai, kia niko ai te tūnga o ngāi Māori hei hoa o te Tiriti o Waitangi, otiirā, ki te āta titiro ka whakaaroarohia e ngā Minita me ngā pokapū Kāwanatanga ngā herenga o Te Tiriti. Ka kī mai te Minita Take Māori, kei te pai haere ake ngā whakaaro ki te Tiriti, ā, he tūranga nui tō te manatū ki te whakaawe i te tēnei nekehanga, hei tauira, mā roto i te tūranga kei a ia ki te ārangi i te arotakenga ture kāwanatanga. I rongo hoki mātou, i mahi te manatū ki te āta titiro i whakaaroarohia tikanga te Tiriti i te whanaketanga o te ture ārahi Tauira Rangatiratanga Whirirua o nā noa nei.

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2 Pepa Pāremata B.5A, Pukapuka 1, whāragi atu i te 96 ki te 98. Te Mahi Hou Aunui i te Taiwhenua e whakahaoa nei e Manatū Ōhanga, ā, māna hoki e aumui e tuku ki ngā kāinga i te taiwhenua i ngā utu, me ngā tautata ratonga rite anō ki ērā i ngā wāhi o te tāone. Rainga Whanaketanga Ōhanga me ngā Whakatauranga Tikanga—Pāringa Tautoko i nga Whakapae o te tau 2012/13.
**Rautaki Reo Māori**

I te arotakenga rautaki o Te Reo Māori, i rapungia ngā ariā puta noa i te motu me pēhea te whakapoipoi me te whakatō i Te Reo Māori. Ka whakaatu i te urupare i te kaha hiahia kē o ngāi Māori kia hoki anō te rangatiratanga o Te Reo ki a rātou ki te taumata hapū, ā, kia iti iho te mana whakahaere ki te Kāwanatanga. Pērā ki te Minita, ka tautoko mātou kia kaha kē atu te whakahaere a te īwi me te hapū i tō rātou ake Reo me te kawe tūrunga kakama i te whakapakaritanga o taua Reo.

**Ngā wātene Māori**

Ka pātai mātou ki te Minita Take Māori, me pēhea te mahi pai rawa atu a ngā wātene Māori i ngā hapori hau kāinga e whakaniko, e whakauru haere rānei, hei tauria mā roto i te ahunga Whānau Ora. I rongo mātou, he kaupapa kaha tō ngā wātene Māori, ā, mārama ana ngā mea angitu mō te mahi tahi i te horopaki rōpū whakahaere kore-kāwanatanga Māori engari, me tana kī anō, ki te hiahiatia he whakarerekētanga me tūpato te whakahaere, ā, me rūnanga hoki i te taha īwi.
Tāpiritanga

Ara ki te āta tirotirohanga nei
I hui mātou i te 20 me te 26 o Pipiri, i te 18 o Hōngonoi hoki i te tau 2012 ki te whakaaaroaro i te Pōti Take Māori. I rongo taunakitanga mai i te Minita Take Māori, a Hōnore Tākuta Pita Sharples, mai i te Minita mō Whānau Ora, a Hōnore Tariana Tūria, mai i Te Puni Kōkiri hoki; me te whiwhi whakamaherehere mai i Te Tari o te Tumuaki o Te Mana Arotake.

Ko ngā o te komiti, ko
Hōnore Tau Henare (Heamana)
Te Ururoa Flavell
Hone Harawira
Hōnore Parekura Horomia
Brendan Horan
Katrina Shanks
Rino Tirikātene
Mētīria Tūrei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
I te wā o tē nei āta tirotirohanga ka whakaaaroaohia e mātou ngā tauanakitanga me ngā whakamaherehere ka whai ake nei.

Pepa whakatakoto tohutohu nā ngā kaimahi o te komiti i takatū, i te 5 o Pipiri i te tau 2012.

Urupare ki tētahi rārangi pātai Whakatau Tata noa a Te Minita Take Māori.

Whakatakotoranga ki te Komiti Whiriwhiri Take Māori a Te Minita Take Māori, i whiwhi i te 20 o Pipiri i te tau 2012.

Urupare a Te Minita Take Māori ki ētahi pātai i tua atu, i whiwhi i te 18 o Hōngongoi i te tau 2012.

Whakatakotoranga ki te Komiti Whiriwhiri Take Māori, a Te Minita o Whānau Ora, i whiwhi i te 20 o Pipiri i te tau 2012.

Whakatakotoranga tohutohu a Te Tari o te Tumuaki o Te Mana Arotake, i whiwhi i te 20 o Pipiri i te tau 2012.
2012/13 Estimates for Vote Office of the Clerk

Report of the Government Administration Committee

The Government Administration Committee has examined the 2012/13 Estimates for Vote Office of the Clerk, and recommends that the appropriations in respect of Vote Office of the Clerk for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote Ombudsmen, and recommends that the appropriations in respect of Vote Ombudsmen for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote Pacific Island Affairs, and recommends that the appropriations in respect of Vote Pacific Island Affairs for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Local Government and Environment Committee has examined the 2012/13 Estimates for Vote Parliamentary Commissioner for the Environment, and recommends that the appropriations in respect of Vote Parliamentary Commissioner for the Environment for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Nicky Wagner
Chairperson
2012/13 Estimates for
Vote Parliamentary Counsel

Report of the Justice and Electoral Committee

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Vote Parliamentary Counsel

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Parliamentary Counsel as set out in Parliamentary Paper B.5, administered by the Parliamentary Counsel Office, be accepted.

Introduction

The Attorney-General, Hon Christopher Finlayson, is responsible for the appropriations within Vote Parliamentary Counsel, which is administered by the Parliamentary Counsel Office. The total appropriations sought for Vote Parliamentary Counsel for 2012/13 amount to $23.026 million. This represents a decrease of $1.420 million from the estimated actual expenditure in 2011/12. The change is largely explained by changes in capital expenditure, with the phasing of expenditure associated with the development of the New Zealand Legislation system.

Quality of work

The Attorney-General had no issues to bring to our attention, other than to formally acknowledge the consistently high quality of work produced by the office. He considers its staff to be the best statute drafters in the world. We are similarly satisfied with the performance of the office.

Secondment of Chief Parliamentary Counsel

The Chief Parliamentary Counsel, Dr David Noble, is on a two-year secondment to the United Kingdom. Bill Moore is acting Chief Parliamentary Counsel in his absence. The Attorney-General reassured us that this arrangement was not problematic and was beneficial to both jurisdictions. However, if Dr Noble does not return in September as planned, the Attorney-General will review the arrangement. We will follow this matter with interest.

Legislation Bill

We asked the Attorney-General for an update on the Legislation Bill, currently awaiting its second reading in the House. This bill seeks to update and consolidate the law relating to legislation (publication, availability, reprinting, and revision) and provide a proper statutory base for the work of the Parliamentary Counsel Office. The Attorney-General told us that he is considering withdrawing this bill and combining it with the ACT-Party-initiated Regulatory Standards Bill, incorporating various recommendations from the Law Commission’s report on the Interpretation Act 1999. We are concerned that there may be opposition to this move, as the Regulatory Standards Bill is perceived by some as too ideologically driven to create sustainable legislation. The Attorney-General acknowledged that it would be undesirable to have ideologically-based regulatory standards, which would be subject to amendment under successive governments. We will continue to follow this matter with interest.
Appendix A

Approach to this examination
We met on 28 June and 19 July 2012 to consider Vote Parliamentary Counsel. Evidence was heard from the Attorney-General, Hon Christopher Finlayson, and the Parliamentary Counsel Office, and advice received from the Office of the Auditor-General.

Committee members
Tim Macindoe (Chairperson)
Dr Jackie Blue
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Alfred Ngaro
Denis O’Rourke
Katrina Shanks

Evidence and advice received
We considered the following evidence and advice during this examination:

Attorney-General, Response to standard Estimates questionnaire, received 25 May 2012.

Attorney-General, Response to additional questions, received 16 July 2012.

Office of the Auditor-General, Briefing on Vote Parliamentary Counsel, received 28 June 2012.

Macindoe

Good morning to everybody and welcome to this meeting of the Justice and Electoral Committee. At this stage our item of business is hearing the estimates from the Attorney-General and his officials, and I understand that the Minister will also include his comments on the Parliamentary Counsel Office, for which he has responsibility, in the same presentation. So although they are two separate items we will roll them into one. Our usual format is to invite the Minister to make some opening remarks, and then I know that all members will be keen to engage in some questions. So thank you, Minister. Welcome, the floor is yours.

Finlayson

Thank you, Mr Chair. I have two sets of officials here. The Acting Solicitor-General, Cheryl Gwyn, is in court today, which is why she’s not here, but I’m accompanied by Dr Matthew Palmer, who is the Deputy Solicitor-General for Public Law, and Andrew Hampton, who’s the new Deputy Chief Executive, who comes from a long and lengthy career in most aspects of the Ministry of Justice over many years. I also have with me a number of officials from the Crown Law Office. I have with me Fiona Leonard, from the Parliamentary Counsel Office—she’s the Acting Deputy Chief Parliamentary Counsel—and a number of her colleagues are with me. Mr Moore sends his apologies as well, but he is in Darwin, I think, for a meeting of parliamentary counsel in Australasia.
I'll make a few comments first about my responsibilities as the first law officer of the Crown, working with the Crown Law Office on a variety of matters, and then I will make some comments about the Parliamentary Counsel Office, and then, obviously, questions may flow.

As Attorney-General and the responsible Minister for Crown Law, I've communicated my priorities for the coming year and they have been included in the statement of intent of the office. These priorities include ensuring that the recommendations of the three recent reviews—and I'll say something about them shortly—are progressed so that Crown Law is as effective and efficient as it can be; enhancing the oversight of public prosecutions, particularly the work of the Crown solicitors, to ensure high-quality and cost-effective services are delivered; developing the Government Legal Service to contribute to better management of the Crown legal risk; and, in collaboration with the Minister of Justice and the Minister for Courts, working to improve the operation of the courts to ensure that justice is delivered as speedily and inexpensively as possible.

I want to comment first on the first two of these priorities, the recent reviews of Crown Law and the oversight of public prosecutions, as each relate most directly to the estimates under consideration today. As the committee may be aware, in the last period three significant reviews have considered and reported on aspects of the work of Crown Law. These reviews were the review of the public prosecution services, which I commissioned and was undertaken by Mr John Spencer; a performance improvement framework review commissioned by the State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet; and, thirdly, the review of the role and functions of the Solicitor-General and the Crown Law Office, which I commissioned Miriam Dean, who is president of the New Zealand Bar Association and a very highly respected Queen’s Counsel, and Mr David Cochrane, formerly of the firm Chapman Tripp, now with Simpson Grierson, and they undertook that review.

All three reviews commented on the generally very high quality of the services provided by the Crown Law Office, but each also made recommendations for improvement. I welcome the findings of these reviews and I am very pleased that Crown Law is making good progress on implementing the various recommendations. This work is a top priority for the Crown Law Office in the coming year.

Implementing the recommendations are largely operational matters for which the Acting Solicitor-General and her team are responsible. By way of an update, staff consultation has just been completed on a proposal to improve the effectiveness and the efficiency of Crown Law by changing the way it’s structured and the way it operates. Work is also well under way to reduce Crown Law’s accommodation costs, which is its third largest expense.
Of particular interest to me is the work under way to progress those review recommendations that relate to the scope and the nature of the Crown Law’s legal work, with a report to Cabinet due later this year. Officials are available to answer any questions the committee may have about any aspect of this work.

As already noted, oversight of public prosecutions, in particular the work of the Crown solicitor network, is of particular importance to me. As John Spencer found in his recent report, the quality of the work of the Crown solicitors, which is a very old PPP—arguably, it’s the first PPP in the history of the country—is very, very high, but the cost of the network has increased considerably in recent years. By recent years I mean the past 5 or 6 years. There’s a very high degree of variation between the costs of different warrant holders, and that’s being looked at.

The Government has signalled for some time now its intention that the level of funding available for Crown solicitors return to the base appropriation as it was in 2008-09, prior to the ad hoc increases that have occurred since then. This is a significant change to make in a single year, especially when case volumes for serious crime are not coming down at the same rate as summary offences. As a result the Government agreed to a one-off allocation of $4 million in the estimates to assist with this transition.

I’ve met with the Crown solicitors, both individually and also as a group, on a couple of occasions, to discuss the need for the service to be financially sustainable without quality being compromised. In recent weeks the Deputy Chief Executive and the Deputy Solicitor-General have also met with each Crown solicitor individually to discuss their plans for managing within the new level of funding. Crown Law itself is in the process of significantly improving its financial management and business analysis capability in order to provide better support to the Crown solicitors.

Chauvel Chris, just on the injection of supplementary funding that you mentioned, is that what the $4 million from the justice fund is?

Finlayson That’s exactly correct.

Chauvel Thank you.

Finlayson Under the change proposal referred to above, these functions will be included in a small, dedicated public prosecution unit to be established within the Crown Law Office. So they are the preliminary comments I wish to make about the Crown Law Office.

About Parliamentary Counsel Office, there are no particular issues I wish to raise this morning, although members may have questions of me. The work output of parliamentary counsel continues unabated, some of it needing to be done in conditions of great urgency. So far as I’m concerned, it’s an opportunity for me publicly to state how all of us, legislators and the executive alike, can be very proud of the work that the Parliamentary
Counsel Office does. I think they’re the best statute drafters in the world. I think the quality of their product is unmatched, and I think we’re very lucky to have them. So that’s really all I wish to say about the PCO. They are a very dedicated and skilful group of specialists.

Macindoe Wonderful. Well, thank you, Minister. That’s a very concise and clear introduction. I appreciate your comments and it allows plenty of time for questions.

Chauvel Just looking at the appropriations for the Crown Law Office, down $9 million for this year and $4 million for the following year, yet you’ve had to, as you say, inject $4 million from the Justice Sector Fund. I mean, I think in previous years we’ve heard at the committee that there’s been an issue about the sustainability of funding, particularly for the conduct of Crown prosecutions line that used to exist as a separate part of the vote. I think the concern has to be that despite the fact you’ve got a forecast for demand dropping in that area, the reality is that hasn’t started to kick in—quite the reverse, which is presumably why you’ve had to put more money in. Have we got an issue with the ongoing viability of that line?

Finlayson No, I believe that there’s been a lot of work done in terms of reviews in the last 12 months, and Mr Hampton’s been appointed as Deputy Chief Executive to work with the leadership team in Crown Law to address some of these issues. From my point of view the bullet has been bitten, so I believe that the next 12 months will see a significant improvement, and I’m very happy at the work that’s been done to date.

Chauvel But in the financial review process it seemed that even if there is a bit of a drop in volume, one of the problems with particularly the larger Crown solicitors’ offices is that they are encountering much more complex cases. Any comment on whether simply cutting the funding will continue to allow them to service the cases as they’re required to do?

Finlayson No, I’m confident that what Mr Hampton’s doing individually with the Crown solicitors—keeping a very close eye on litigation and on the forecasting models—will enable us to address those very issues. Because you are absolutely correct. There have been a lot of legal changes in the last couple of years, and as the Criminal Procedure Act reforms are rolled out we’ll have to keep a very close eye on developments. And it’s certainly true, as you say—and I believe your assessment is accurate—that at least some crime has become much more complex and the front-loading of criminal litigation is quite apparent. So that’s why there’s been this move away from, instead of my going cap in hand to the Minister of Finance and saying: “Oh well, I think—”

Chauvel “I need an extra $11 million this year.”

Finlayson “I need an extra X.” I have to say it’s the only reason why one would want to be Attorney-General and Minister of Finance, as Sir Michael probably
knows, is because he could have a chat to himself and sort it out. But I
don’t have that luxury, which is why we’ve had to adopt a more rigorous
approach now.

Hampton Just further to the Minister’s comments, as well. With regard to the
numbers, the number of cases that the network disposed of was only 2
percent higher last year than it was 5 years ago. So the volumes aren’t going
up—if anything, they are trending down, just not as fast as the earlier
forecast said. There are those issues of complexity, definitely, which have
added to that increase in costs, but, as the Minister touched on, there is
considerable variation between Crown solicitors on the average costs. Some
of them dispose of cases for half the price of others. So what we’re trying
to do is work with the Crown solicitors to understand what are the actual
drivers of the cost, identify what is a reasonable cost for that activity
without compromising the quality, and then have a more sustainable
funding model, because, as I think everyone would accept, a 60 percent
increase in funding over a 5-year period when the number of disposals
haven’t increased anything like that suggests there is some efficiency there.

Chauvel But isn’t it obvious that the Crown solicitor at Auckland is going to have
more complex cases, not simply because of the sort of criminal work that
arises, but because of the sort of litigation that hangs off high-profile cases?
You think about the Urewera litigation, you think about Dotcom, you think
about the teapot tapes. I accept that they didn’t manage all of those through
all stages of their litigation, but high-profile cases where the Crown’s
interested in a good outcome—where you may or may not get a good
outcome—don’t those just have to be well resourced? You’re not going to
cut those at the Crown solicitor’s office in Napier.

Hampton The funding model that the Government has confirmed for the coming
year factors in past billing practice. So a firm like Meredith Connell in
Auckland, their funding available for the coming year takes into account
that they already do a higher proportion of these cases. The problem we
have, though—

Chauvel And yet they’re going to have to make do with 9 percent less this year.

Hampton All Crown solicitors have to make do with 9 percent less. We differentiate
between the Crown solicitors based on their average costs over time. But I
think the key thing to be emphasised is that a 9 percent drop only takes you
back to what it was 2 years ago. When you have a situation where you have
two Crown solicitors only a few hundred kilometres apart in similar-sized
centres, doing the same job for significantly different costs, suggests that
there isn’t a clear understanding of what’s actually driving the cost, so what
we’re trying to do is move from what essentially has been an accounts
payable model, where the Government has paid the bills that come to us, to
one that goes: “OK, what is the cost?” But it’s got to be one that
differentiates between the standard predictable work of the court and the
more complex cases that you get in Auckland.
Finlayson: The outliers. The complex fraud cases would be an example of that.

Hampton: And this year is all about gathering the necessary data to be able to implement that type of model. So that's why in the coming year we've had to be blunt, we've had to do percentage cuts based on people's previous billings to get us through the current year with the help of the $4 million, so next year we'll have the data to have a more sustainable model in place.

Chauvel: But complex fraud cases would be done by the Serious Fraud Office.

Finlayson: Well, I'm thinking of Mr Dickey from Meredith Connell—he'll do some.

Chauvel: Not as part of this vote, though.

Finlayson: You are quite right. Much of his work would come out of the FMA.

Hampton: For post-committal serious fraud work, it does come out of the pool of funding that Crown Law has. There is a separate line for serious fraud prosecutions for people off the panel, and that hasn't been reduced. So it's stayed the same from year to year.

Chauvel: On a case—say, a mutual assistance case like the Dotcom litigation, where you've had to effectively devote a lot of resource to it without much choice, because you have to do it, the American—the treaty we have with the United States requires it. There are many mutual assistance cases like that, just not as high profile, that the Crown solicitor in Auckland will just have to deal with that. It's really very difficult to kind of estimate it.

Finlayson: No, you're quite right. Extradition, mutual assistance—they're ad hoc and there's no pattern to them. That funding comes out of the Crown Law vote. Although it is fair to say that Ms Gordon, one of the Senior Counsel, she is dealing with an aspect of that particular case.

Chauvel: So is that now entirely in the hands of the Crown solicitor in Auckland, as far as day-to-day management of the litigation’s concerned?

Finlayson: No, that's out of Crown Law.

Chauvel: So what's Ms Gordon's role?

Finlayson: She's acting as counsel.

Chauvel: So she's instructed on the day-to-day litigation.

Finlayson: That's right.

Hampton: And the funding for her doesn't come out of the Crown solicitor funding pool either, because of the nature of the proceedings.

Finlayson: The nature of the instruction.
Chauvel Just one other question on this general issue. Do you agree that it’s desirable to get the leadership of the office finalised as soon as possible?

Finlayson Yes, and that’s an operational matter, which the team are working on.

Chauvel No, I mean do you agree that it’s important to appoint a new Solicitor-General promptly?

Finlayson Oh, yes. Yes, indeed.

Chauvel And is that in train? Do we know when we might see—

Finlayson I can tell the committee that interviews have been conducted. I had a discussion yesterday with the State Services Commissioner and Helene Quilter, his deputy, and hopefully I’ll be in a position to talk to my parliamentary colleagues about that within the next week or so.

Calder Supplementary on that, Minister. Do you think with the new appointment may come a change in the role of the Solicitor-General at all? Do you envisage any change?

Finlayson My candid view about the role of the Solicitor-General as it’s developed in recent years is it’s a huge job. I’d venture to suggest it’s one of the biggest jobs in government. The Solicitor-General has been required to be a chief executive of a Government department, provide sometimes instantaneous advice to Ministers, and has to be an advocate. So I pose this hypothetical to you, Dr Calder, that the Solicitor-General’s appearing in the Supreme Court on a matter, comes back to the Crown Law Office, instead of being able to sit down and review matters in preparation for the next day’s hearing, might be called over to a meeting with Ministers, and then may have to deal with a chief executive matter.

So what we’ve tried to do, and what the review—I had originally thought that one could separate out those positions so that the Solicitor-General would be primarily advisory and as the nation’s top lawyer appearing in the Court of Appeal, sometimes the High Court, and the Supreme Court, whereas there’d be a Chief Executive in State Sector Act terms. The review commissioned by me and conducted by Miriam Dean and David Cochrane concluded that, no, that would be a mistake for the person who was Chief Executive to be someone other than the Solicitor-General, but that there needs to be a Deputy Chief Executive to assist—almost like the managing partner of a law firm, to do much of the management. And that is why Mr Hampton was brought across from the Ministry of Justice.

Blue Thank you, Minister. Last week we had the Judicial Conduct Commissioner and his deputy with us, David Gascoigne and Mr Alan Ritchie, and they described the challenges their offices face. I’d be very interested to hear if you have issues or concerns about the judicial complaints procedures.
I’m keeping a very close eye on that because there’s certainly been an explosion in the number of complaints. I guess one could categorise them this way. There are those who have a genuine grievance: they are concerned at—I’ll refer to something Sir Robin Cooke once said in a case—the cetacean-type gestation period of a case from the time of trial to the time of judgment, and they complain about that or the way they’ve been spoken to in court. Then there are those who individually decide they are going to pay someone—the presiding officer—back for the way they were treated. And then there are those who have declared war on the system. And the number of complaints has exploded in recent times. There are a number of those complaints, and I can think of one person—I’ve been told—who has about 47 complaints. In other words, the case is heard and then a complaint is lodged. It’s almost standard interlocutory procedure.

So I’m having a look at the legislation. I’ve yet to talk to the Minister for Courts and the Minister of Justice about it, and to other parties in Parliament. I think there does need to be a mechanism by which legitimate complaints are raised, and if you simply go to the head of bench or the judge, that can be quite intimidating for people. So there needs to be that independent complaint person, but at the same time this complaints procedure cannot be used as a mechanism to attack the system.

Sure. I think we’re all on the same page. The committee felt the same way and we’ve actually asked the commissioner to come back so we can see what we can do to help and assist, and if there’s anything in the Act that we can change. So this is clearly an area that you are—

It’s a huge area. It’s a very important one. I would suggest that the combination of vexatious litigants and abuse of judicial complaints in order to force judges to recuse themselves—they’re a major cause of delay and cost in litigation in this country. Certainly, if I can say this, Sir David has been working very, very hard on it. Mr Alan Ritchie, his deputy, is working hard on it at various times. I am very grateful to the Ministry of Justice, because I raised it with Mr Bridgman and he made additional resources available. The former dean of the law faculty at Victoria University, Professor Brian Brooks, has been working on some, so it has been all hands to the tiller, but, as you yourself would have known from the number of complaints, there are a lot.

And very few are upheld or they fall outside the jurisdiction. So there’s a lot of—but by law the commissioner has to look at every complaint fully.

Absolutely, because if he doesn’t—well, even if he does, frankly, some people are going to judicially review him, come what may. It is a weapon that is being used by people to screw the system.

At the moment complaints can go direct to the JCC, and on the website there’s a link. They can do it. So it’s quite easy for the public to access. They
can also go to the head of bench. Is that correct? They can write direct to the head of bench, and they can—

Finlayson Yes, but the idea is that when this system was introduced, it was designed—and I think this is why the judges were very much in favour of it initially—as just a filtering system.

Blue Thanks for that. I think the committee will be following that up later this year.

Finlayson I just wonder whether there is an opportunity, once the Law Commission report on courts is out, to look at this question. Well, I know that they’ve addressed vexatious litigants. That’s a big issue. But under the current law it’s very hard to have ones declared vexatious, so there are lots of Albert Haddocks out there. But we do need to do something about having a good look at the judicial complaints legislation to make sure that legitimate complaints are dealt with justly and expeditiously, but a lot of these vexatious ones are dismissed fairly early on in the piece.

Chauvel It’s been 4 years since we had a silk appointments round in New Zealand. What are your plans?

Finlayson The legislation has a category 2. I know that you have particularly strong views about the antediluvian nature of the—

Chauvel But I wouldn’t mind if you wanted to make new appointments pending your attempts to pass the legislation you have on the Order Paper.

Finlayson Oh, that’s certainly helpful, but I would like to think that before the end of the year the legislation will be in place. You could, of course, agree to it and it could sail through.

Chauvel But why on earth wouldn’t you make new appointments in the meantime?

Finlayson It reeks of Fitzgerald v Muldoon to me.

Chauvel No, you could make SC appointments.

Finlayson Oh, I could make SC—I see, not make Q—well, there is actually a legitimate argument about whether they could be made under the royal prerogative anyway, but, given that it’s expressed in legislation, it’s probably best to go down the legislation route.

Chauvel Do you think it’s done any harm to the profession to require people—given that you do think that there’s some merit in the title “Queen’s Counsel”, so you clearly agree that there’s a role for people to be designated leading members of the profession, has it done any harm to effectively preside over a hiatus in appointments for 4 years?
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<td>Finlayson</td>
<td>I have to say I’m not too fussed. The good people are always hunted out. I can think of any number of senior juniors, as they are called, who are doing very senior work. But the point you make is a very fair one—that the sooner we get on with it, the better.</td>
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<td>Chauvel</td>
<td>But, given that it’s had pretty low priority to date, it’s clearly not an issue of high priority for you. Would that be fair?</td>
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<td>Finlayson</td>
<td>Oh, well, given my interactions with the Law Society and the Bar Association, I hear the same things you hear, Mr Chauvel. We all know lawyers would it regard as a very significant piece of legislation.</td>
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<td>Chauvel</td>
<td>Well, I think I was clear with you when you spoke to the—I can’t remember now whether it was this committee or the Regulations Review Committee on this point. You know, there’s the Jack Hodder view that we shouldn’t have any status accorded the Crown—it’s all artificial. I mean, that’s one view. But you’ve taken, clearly, the view that there ought to be a reversion to the old, as you put it, antediluvian system. I just wondered whether you thought it was problematic that we were in a sort of Jurassic hiatus in the meantime?</td>
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<td>Finlayson</td>
<td>I think the rank, it’s nice to have. It’s quite useful internationally, but it’s not the end of the world. But, anyway, the point is well made, and it’s certainly a category 2, so it needs to be jollied along.</td>
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<td>Chauvel</td>
<td>Another question on legislative priorities—the Legislation Bill. One hears from, I think, parliamentary counsel, again in the estimates process, that your intention is to withdraw that bill, combine it with the ACT Party-initiated Regulatory Standards Bill, and return it to the House. First of all, is it correct, and, secondly, do you intend to make any announcement to that effect?</td>
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<td>Finlayson</td>
<td>That is being looked at, although you would understand that any part—and there is some very good material there. Essentially that kind of material has to be apolitical, because otherwise—I think you yourself may have made the point—you just have another administration come along and insert different things. So we have to try and sign up to something that all parties around this table can say yes, that’s an acceptable standard that needs to be referred to in legislation. And I’m working on that. The other thing I’m working on, and maybe it’s an exercise too far, is that when the report of the Law Commission came out, they also talked about addressing various issues in the Interpretation Act. So I’m actually quite keen, while we have this opportunity, to look at some of those issues. If it proves too difficult, we’ll just get the Legislation Bill back into the House. But I can talk to you about that separately.</td>
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<td>Chauvel</td>
<td>Well, I think, given—just to finish the point—it’s a similar point to the silks, isn’t it? You could get the Legislation Bill through tomorrow because there’s consensus around the House on its importance. It updates an arcane</td>
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area of the law relating to delegated legislation, and I think everybody agrees it’s timely. It gives the PCO a proper statutory footing. The Regulatory Standards Bill, as you know, is a very different kettle of fish. It has excited debate across the House. It’s seen as an ideologically driven piece of legislation, as I say, from ACT. So is it really realistic to hope that you could combine the two, and wouldn’t you be better just to get on with the Legislation Bill?

Finlayson

Well, you could well be right, but that’s what I’m exploring at the present time in addition to the Interpretation Act material, which, 13 years on, probably there is some work to be done with interpretation. A couple of matters do need to be addressed there. So if we can tidy those up, well and good. The point is that if we’re to have regulatory standards in legislation, we can’t have ideological ones that are amended every 3, 6, 9, 12 years.

Ngaro

Minister, you’ve had a number of reforms in the last year in your portfolio areas. Could you just explain the reforms in regard to Crown solicitors and the organisation and remuneration?

Finlayson

As I said, the Crown solicitor network is a very old public-private partnership. Although the Crown is constitutionally everywhere, physically it’s not, and so the Crown solicitor network was developed so that, for example, someone would be given the warrant in the Hawke’s Bay to act for the Crown in relation to serious criminal matters. When I first started practising law, you’d go down to court on a Wednesday and Mr Toogood would be down there from Luke Cunningham and Clere dealing, for example, with a whole range of bankruptcy matters and so on. So the networks have grown; it’s a very efficient way of having private providers deal with these important types of cases.

As I said to Mr Chauvel, in recent years, though, the cost of it has expanded and so the challenge for us—and that’s why Mr Hampton has been so active in this area—is to see what we can do to maintain the network, because Mr Spencer, who has been heavily involved in Tainui’s commercial arm, he’s now helping Ngāti Raukawa—a very experienced commercial operator—he took a look at it, said: “Yes, great system, works well, but there have been these cost pressures on it, which have to be addressed.” And that’s what Mr Hampton is doing.

Chauvel

The characterisation of the Crown solicitor network as an efficient PPP is an interesting one. On the defence side, many people thought for many years that having legal aid solicitors in private practice was a very efficient PPP as well, and yet clearly the policy of your Government is to expand quite largely the Government-employed lawyers who will be in the public defenders office. Do you see an inconsistency between the two approaches?

Finlayson

No, I think that the public defender system will never replace private providers and would be entirely inappropriate. But for a lot of the basic stuff—the remands, maybe the pleas and mitigation, some of the more
straightforward criminal defences—it is possible for the PDS to do that work. If a specialist criminal barrister needs to be briefed to do a particular trial, so much the better. So I think it’s a system that can work in hand in hand very well.

Chauvel  So you’d see the PDS only doing very simple matters, rather than attempting complex criminal defence?

Finlayson  Oh, no. Well, I think it depends on the people involved. I think the opportunity for a young practitioner coming out to be blooded in the PDS is there and it’s good: learn the rules of procedure, master the rules of evidence, and so on, and then perhaps move on from there—and I think this has been the pattern, actually—to the criminal Bar. I think they work, and it could well be that a more substantive type of case could be done within the PDS. It depends on the people and the circumstances. The critical thing is to make sure that the accused has good legal representation, because it’s fair to say that there are too many cases that go to the Court of Appeal and the first round of appeal is: “My lawyer was incompetent.”

Calder  Minister, in your summary you mentioned there’d been a plethora of reviews, and some changes are mooted in the Crown Law Office. What, in your view—would you like to elaborate on the more significant changes that you—

Finlayson  Yeah, I’ll ask Mr Hampton to address that, because they are very much operational. I’m interested in the end product, and the fact of the matter is that from time to time cases may not go the way we want—like, for example, yesterday the Supreme Court issue. Two judgments. One where there was a complete and utter victory on behalf of the Crown was the case involving leaky homes in Auckland—the Grange—a huge win for the Crown. I’m not so much interested in, if you like, the legal end of work, because, I have to tell you, Crown Law lawyers are very, very good lawyers, and their work product is superb. It’s the way in which the office is organised.

Hampton  There are really four key areas of focus at the moment. One we’ve already spent quite a lot of time on is the Crown solicitor funding project, which I won’t touch on again. The most immediate other priority is the work that’s under way looking at Crown Law’s structure and, in particular, its corporate and support functions. I can’t really go into too much detail about that, because a proposal has gone out to staff for consultation, and consultation just closed, but it is essentially picking up on the recommendations of the various reviews, particularly the PIF review, and looking at how we can align ourselves in a way that best supports the Government when it comes to providing high-quality legal advice.

The third leg of it is one that the Minister touched on around accommodation. The Government overall has a high priority on better utilising the space that is leased or owned by the Government. It’s one of
the biggest single users of space in Wellington, for example, and so we are working with other agencies to explore what are our options, at least in the future, for Crown Law to reduce the amount of space it uses and therefore save money for Government. Then the fourth area—and Dr Palmer’s probably better to talk about this than I—a lot of the reviews, particularly the Dean-Cochrane review, talked about Crown Law, just looking at the nature of the legal work it does, and so we have a fourth project under way, which Matthew is leading, looking at that area.

Palmer I can say very briefly about that that the Dean-Cochrane review made a number of recommendations about the Cabinet directions, which go to the heart of the role of the Crown Law Office. And we have an internal project, which is sweeping up those recommendations, putting them into a form that the Attorney can consider in due course, and then to be able to consult with his Cabinet colleagues about them.

Chauvel Turning to the Parliamentary Counsel Office, if that’s a good opportunity. A question that arose during the estimates process was whether or not the office could cope with an acting—I’ll use the term loosely—chief executive for, what, a period of 4 years while the incumbent’s in the UK.

Finlayson But hopefully he’ll be back in September, and I’ve got that constantly under review. I actually see some—it’s been quite a useful exchange. Mr Noble is a very fine public servant in both jurisdictions. At the moment he’s working, I think, in the Cabinet Office in London, dealing with issues like succession. So the linkages are still there, but I think that we are—without being oleaginous—very, very lucky to have a deputy in Bill Moore, who has had his entire life in the Public Service, in the Ministry of Justice as a legal adviser and as a very strong and capable deputy. So the short point is I have absolutely no concerns at the current arrangement, but I’m keeping it under review because if, for example, Mr Noble wanted to stay for an extended period, we’d have to take a fresh look at it.

Chauvel You specifically had to get legislation through the House to authorise the current set-up, and I think that was done just before Mr Noble went to the United Kingdom. I mean, would you say, in principle, that this sort of absence of a chief executive for an extended period of time—a number of years—is a thing that we could see in other departments?

Finlayson Well, I think there’s a lot to be said for exchanges from time to time. I don’t think you’d want to make it the norm, but in some circumstances I can see there are positive benefits. And I know, for example, that Briar Gordon spent some time—do you know Briar? She’s, again, a very senior person—

Chauvel Yes, we worked at the Crown Law Office together.

Finlayson Oh, well, there you go. Well, she was in Crown Law and then she went to PCO. She spent some time in London. So I think this cross-fertilisation is a
really good idea, and it can only be to the benefit of both jurisdictions. But, as I say, you wouldn’t want to sort of have people darting and diving off everywhere on a regular basis, because that may not be so clever.

Chauvel So if Mr Noble doesn’t come back in September as anticipated, you’ll review the situation?

Finlayson Correct.

Chauvel Thank you.

Macindoe Minister, I appreciate that Dr Palmer and Mr Hampton have been replaced now by your PCO officials, but we may still also have some overlap between the two topics.

Finlayson No, that’s fine.

Shanks I want to talk about the appointment of judges and what’s your opinion on our pool and what we’re doing to ensure that we’ve got a really well-resourced pool for you to be able to appoint from.

Finlayson Yeah, I was told I wouldn’t—Dr Collins, when he was Solicitor-General, told me I wouldn’t be making that many judges. I think “recommending for appointment” is the correct constitutional term. I think I’ve recommended for appointment about 30 District Court judges, nine High Court judges, six Court of Appeal judges, and two Supreme Court judges, and there are a few further appointments to be made. A lot of people say it’s not transparent. It’s not that the process is not transparent; I think that it’s not known. And I could happily trot through what I do.

Blue Yes.

Finlayson With the District Court, the Chief Judge will say to me: “I have a particular need for a certain number of judges to replace x, y, and z.” And what normally happens is that advertising takes place, people apply, they’re interviewed by a mixture of Ministry of Justice and judicial people, and they come to me with recommendations and I go tick, tick, tick. I can’t think of any situation in recent years where I’ve said: “Certainly not that person.” or “What about that person?” So it’s a system that works very well.

With what they call the superior courts—which is a pejorative term but it simply means the High Court, Court of Appeal, and Supreme Court—what I try and do is consult as widely as I can with the Law Society and the Bar Association at the beginning of the year and with the judges to find out what sort of vacancies could be coming up, and you know because at a certain time there are going to be retirements. When a judge hits the age of 70, he or she is retired, and so then what I do—well, what happened when Dr Cullen was the Attorney was he would phone me and we’d have a chat about these things, and Mr Chauvel and I have had a discussion about that. I’m very conscious that when you’re dealing in a multiparty environment
there are Supreme Court appointments—I mean, the last thing we want is
to get to a situation of the United States Senate Judiciary Committee - type
hearings, but I am always open to see ways in which we can have proper
consultation to ensure that the right candidates are selected. And the Law
Commission report had something to say about that fairly recently.

So what I propose to do—some people have said, Katrina, that it’s all a bit vague, but actually there is a system. It’s operated across administrations
very well. It does involve bringing your opposite numbers in and consulting
on grounds of confidentiality. So what I think could be quite helpful—and,
indeed, I’m working on it—is preparing a paper on it and getting it out there so that people understand the system, and then talk to political parties
in the context of the rewrite of the Judicature Act and District Courts Act
to see whether you have any particular views about it. It must never be a partisan activity, and we’ve been very lucky across administrations that it hasn’t been.

Blue I think there are about 244 judges in New Zealand. Would that be about
the right number?

Finlayson Yes.

Blue Do you think that number’s about right, or too many, or not enough? And
do you have any view on that or are you guided by the head of benches,
really?

Finlayson I have to be ultimately guided by the heads of bench. The Ministry of
Justice was doing some work on District Court judges and told me that
their initial indication was that there were—what was the figure, Charles?

Chauvel Twenty-two too many.

Finlayson I said: “Oh, that seems a bit odd to me, but anyway, continue on with your
work.” I think the real issue is not so much—I think the number is about
right; it’s where they are. For example, if I can use the situation of
Gisborne, which I don’t think has been particularly well served in recent
years, it doesn’t have a resident judge. So judges are flying in from
Auckland, and as a consequence a lot of cases are being remanded and so
on. It’s entirely unsatisfactory, from my point of view. And so the Chief
District Court Judge and I have been working on how we can improve the
situation there. South Auckland is an example of an area where I have
recommended for appointment a number of District Court judges, because
that’s one of the fastest-growing areas. It’s fair to say in Wellington in the
3½ years I’ve been Attorney-General I’ve recommended for appointment
one person in Wellington. So it really is population trends and so on more
than raw numbers of judges, and it’s something I’m working on.

I’m also conscious we bumped the cap up a year or two back. I’d been
receiving a number of complaints from practitioners about the large
number of temporary judges. There’s one barrister of this town who refers
to them, quoting a Scottish law lord, as a cheap and nasty form of justice. So I’m conscious not to have—one has to be mindful of that as well.

But have we got about the right number? Well, my gut feeling is yes. We keep it constantly under review, particularly with some of the changes that have been made by Mr Power when he was Minister of Justice, and just making sure that—obviously we just don’t make them for the fun of it—everyone’s got a job to do.

Calder Minister, what determines the appointment of a temporary judge, and how long would they normally be appointed? Why do you appoint a temporary judge, for instance?

Finlayson Well, in the High Court I made one judge who reached the age of 70 a temporary judge for a year because two High Court judges are currently tied up dealing with the royal commission on the Pike River disaster and also the Christchurch inquiry, and so I needed to have a little bit of cover for that. In the District Court temporary judges—at one stage there were about 45 temporary judges, which I though was unsatisfactory. There was a protocol signed between Dr Cullen and the late former Chief District Court Judge, Judge Johnson, about the circumstances in which they’d serve from 70 to 72, and the idea is that if there is a gap that needs to be filled, there’s a large trial coming up, someone can be called on. Also, some temporary judges have retained their warrants so that they can sit on the Parole Board as panel chairs.

Calder So it's for maintaining access to skill capacity—a reservoir of skill capacity, effectively?

Finlayson Correct.

Calder Thank you.

Blue For clarification, so temporary judges are retired judges, usually?

Finlayson Temporary judges are judges who have either reached the age of 70 and wish to step back—well, they have to—or have served a period of, say someone went on the bench at the age of 43, at 63 they’ve been on for 20 years but they’ll retire as full-time judges and hold a temporary warrant for a period.

Blue OK. Right. Thank you.

Chauvel Just on the issue you raised about the work that the Ministry of Justice did on the ideal number of District Court judges, I think you said they came to you and they said there was this surplus. You said, basically: “Go away and do some more work.” My understanding is they have written back to the Chief District Court Judge maintaining the accuracy of their estimate, notwithstanding the representations made from Her Honour indicating that
there were real problems with the calculations that they’d used. I mean, where is this issue at?

Finlayson Well, you raised the issue. In fact, it was presented in terms that I’d be going around with a machete disposing of judges. It’s constitutionally impossible for me to do that, because judges are appointed, and retire at the age of 70, unless there’s bad behaviour or they’re impeached or something. The reality of the matter is that between now and 2014 there will be about seven judges who reach the age of 70 and therefore statutorily have to retire. I’m actually quite relaxed about the exercise, because I would expect my officials to be giving me advice from the Judicial Appointments Unit on these matters. My task is to ensure that the judiciary is well served, that there are people who are able to do the job to ensure that justice is accorded to everyone in this land who comes before the Queen’s courts, and I am keeping a very close eye on it. I would expect that there would be debate within the office about those sorts of things.

Chauvel So in respect of this issue, you’re happy for justice officials reporting to you to continue their dialogue with the judges on the ideal number of appointments that should be made?

Finlayson Oh, well, I mean, I’m, for example, in a position where I believe that within a relatively short period of time there are going to need to be further appointments in the Greater Auckland area.

Macindoe Minister, we’ve just about run out of time. I wonder if I could ask you—and I’m sorry, this is slightly outside the scope, but in view of another item of business on our agenda today you may be able to assist. You’ll be aware that last night the House considered a bill in the name of Dr Kennedy Graham on the register of judges’ pecuniary interests. I don’t want to get into the issue there, but just to advise you that our committee has now had that bill formally referred to us, and our standard procedure is, of course, to open it up for public submissions.

We are conscious of the fact that the Law Commission is probably towards the end of its review of the Judicature Act and that a report is expected. It’s our view that probably it would be helpful for those who might want to submit on the issue to be aware of the Law Commission’s recommendations before we ask for those submissions to be in. I’m just wondering, can you give us an idea of—do you know of the time frame for when that report is expected and when it might be available for submitters? And we’ll factor that into our deliberations.

Finlayson I think it’s within the next couple of weeks, actually. From what I understand, the report will be finalised and will be available very soon, and then, obviously, the Ministers—the Minister for Courts, the Minister of Justice, and I—will need to have a talk about it and whether one has a courts bill or a District Courts bill and a revamped Judicature Act. And within that there’ll be a range of issues that will need to be looked at. I’ve
heralded vexatious litigants and this issue that’s been adverted to by the Law Commission. So it’s a very important issue, and I thought the debate yesterday raised a number of extremely important issues that will need to be looked at very carefully.

The whole issue of recusal—interestingly enough, there’s no better person to write a report on it, because the president of the Law Commission wrote a paper on recusal of judges or judges stepping back. It’s an issue that often comes up, and it’s surprising—as I understand it—that it’s a question of the theory’s all very good but the practical application of it is not always adhered to. That’s where perhaps things went wrong in the Saxmere litigation—not so much there a question of pecuniary interest disclosure. But they’re very, very important issues, and I think the various speeches captured what needs to be looked at.

Macindoe Thank you for that. I apologise for asking you a question slightly outside your portfolio area, but obviously our committee wants to ensure that we have a sensible framework and time frame to work within. Could I also apologise—I only realised a short time ago that this was actually supposed to start at 10.15. I think we were all of the view that we were starting at 10.20, so I probably kept you all waiting outside a little bit longer than I should have done. I apologise for that, and I hope I haven’t detained you unnecessarily. But thank you very much, Minister, and to all the officials who have been with you. I think it’s been a very wide-ranging and fruitful discussion. We appreciate your time, and we look forward to completing our deliberation on this item.

Finlayson Thank you very much.

**conclusion of evidence**
The Government Administration Committee has examined the 2012/13 Estimates for Vote Parliamentary Service, and recommends that the appropriations in respect of Vote Parliamentary Service for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
# 2012/13 Estimates for Vote Police

Report of the Law and Order Committee

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2012/13 ESTIMATES FOR VOTE POLICE

Vote Police

Recommendation

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Police as set out in Parliamentary Paper B.5, administered by the New Zealand Police, be accepted.

Introduction

The total annual and permanent appropriations sought for Vote Police are $1.619 billion. This is up 0.6 percent on 2011/12’s estimated actual expenditure of $1.477 billion. Of the total vote, 92 percent ($1.486 billion) is for departmental output expenses and 8 percent is allocated to capital expenditure.

Cost pressures

This year the amount sought for departmental outputs has increased by only $8.892 million, from $1.477 billion in 2011/12 to $1.486 billion, although the expected increase in costs facing the Police from inflation is about $24 million. We asked how the Police were coping with increasing financial pressure. The Minister told us that a focus on mobile policing has freed up resources, allowing police to operate more efficiently. The Police have made a commitment to live within baselines for the next three years.

Some of us are concerned that the pressure to operate within existing baselines could result in the closure of some police stations. The Minister disagreed, but said that this was an operational issue for the Police. The Minister’s expectation is that the Police will continue to assess their asset base and methods of policing as part of their normal business.

Staffing

We asked whether the wage negotiations for the collective employment agreement would add to pressure on the Police’s operating budget. As these wage negotiations were in progress at the time of the hearing, the Minister felt a direct answer to the question might prejudice their outcome. However, it was finally acknowledged that wages make up 71 percent of the Police’s annual budget, so any significant movement could affect their operating baseline.

The Police told us that 126 non-sworn positions are expected to be disestablished as a result of a 4 percent planned reduction in non-sworn employees across the country. However, 112 current vacancies will not be filled, so the actual number of staff who will lose their jobs is less than 20. Their roles are in various locations and work areas, including ICT, police headquarters, and the training service centre. We asked whether front-line staff would be expected to do the extra work resulting from the abolition of these positions. The Minister told us that new technology now being used by police will allow paperwork to be done away from the office, and mobile policing using smart devices. The Minister assured us that the level of service was increasing as a result of these changes, rather than decreasing.
Neighbourhood policing
We were interested in the performance and future of neighbourhood policing teams. The Police told us that they have 33 neighbourhood policing teams nationwide, in specifically selected locations. The teams are committed to these areas for three to five years, getting deeply involved in the communities through schools, community groups, and local authorities. Police think the number of teams will rise to 50, and expect a challenge extricating the teams from these communities at the end of the assigned period. The effect of this initiative is reflected in falling rates of crime and repeat victimisation in the areas served by neighbourhood policing teams.

Crime rates
The reduction in recorded crime is encouraging, but some of us wondered if these figures might in fact indicate flaws in the reporting of crime, or a lack of reporting. The commissioner said that a key indicator of a genuine decrease in offending is people’s willingness to report crime; the Police gauge this by the level of public trust and confidence in the Police, which is currently at a record high of 77 percent. The Police focus on crime prevention through neighbourhood policing teams; a more visible presence in the community was also acting as a deterrent to criminals.

The Minister also reported an encouraging reduction (17 per cent) in street racing offences, which the Minister attributed to the three strikes policy. We note that on the day after the hearing, the Minister officiated at the crushing of the first car to be destroyed under this legislation.

Equipment
We were told that the programme being undertaken to put firearms, tasers, and ballistic armour in every police vehicle would cost approximately $3 million. It would mean that all front-line officers would have immediate access to weapons in their vehicles; decisions to deploy them would be based on a graduated risk and need assessment.
Appendix A

Approach to this examination
We met on 20 June and 18 July 2012 to consider Vote Police. Evidence was heard from the Minister of Police, Hon Anne Tolley, and the New Zealand Police, and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Police, Response to standard Estimates questionnaire.

Minister of Police, Response to additional written questions, received 20 June 2012.

Office of the Auditor-General, Briefing on Vote Police, received 20 June 2012.

Vote briefing paper, prepared by committee staff, dated 20 June 2012.
Appendix B

Corrected transcript of hearing of evidence 20 June 2012

Members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Witnesses
Hon Anne Tolley, Minister of Police
Peter Marshall, Commissioner
Mike Bush, Deputy Commissioner
Viv Rickard, Deputy Commissioner
Senior Sergeant Al Campbell

Dean Minister and Commissioner, welcome to the committee. We thank you for appearing before the committee today. Just to let you know that the hearing of evidence will be recorded and transcribed. I understand that you have some introductory comments to make for us, and we have set down an hour for this hearing, and we will move on to Corrections and then SFO. So once again welcome and we look forward to your introductory comments.

Tolley Thank you, Madam Chair. [Introductions] So if I can begin, despite the increasing volume and complexity of policing today, police seeks two simple outcomes, which we set out in the statement of intent—that’s confident, safe and secure communities, and less actual crime and road trauma, both of which result in, of course, fewer victims in our community. Achieving them will call for an increasingly efficient response to crime, a more intense focus on preventing crime, and greater relationships with the more and more diverse communities that make up New Zealand in this 21st century. And I am pleased to report to you today that police are a long way along that path.

Principal measure of police effectiveness is crime statistics. In 2011 we saw the lowest number of recorded offences for 15 years, so we were 4.8 percent lower on top of a reduction of 5.6 percent in 2010, and it is anticipated that recorded crime will continue to fall as the initiatives of the
Policing Excellence change programme and the Prevention First strategy that was outlined to you at the financial estimates review—as they continue to be embedded in business as usual. Look, there are many initiatives at various stages of development and deployment, and we have had some notable successes such as the recent news of a dramatic fall in methamphetamine use as indicated in the latest update on the Government’s Tackling Methamphetamine Action Plan.

I am going to keep my introduction to you today very brief because I thought we would like to focus on drugs, in particular. We have for you a display of a selection of drugs that are found in New Zealand, and a demonstration for you of one of our most valuable tools, drug detection dogs. We thought that was a more graphic way to show you how the police are working. Police are keeping the pressure on drug gangs and just last week we had a success of Operation Foiled in Counties-Manukau, uncovered a huge haul: 311 grams of methamphetamine—street value of over $300,000—$41,000 in cash, two kilograms of cannabis, 420 new psychoactive substance pills, 190 LSD tablets, 6 firearms, and assorted drug paraphernalia, which is a huge achievement.

So I am now going to invite Deputy Commissioner Mike Bush to talk to you about the drugs display that we brought with us, the 6-monthly progress report on Tackling Methamphetamine: An Action Plan, and the use of the Criminal Proceeds (Recovery) Act 2009. Can I also introduce Senior Sergeant Donna Rider, who is attached to the drugs case.

Bush Thank you, Minister. So the purpose of this was to give an illustration of drugs that are commonly used within New Zealand. What we’ll do is we’ll display the case around and we can talk to some of the various drugs. I will repeat, and it won’t be news to you, that apart from alcohol, the most commonly used and abused drug in New Zealand is cannabis, followed by methamphetamine. One of the interesting things is the size and the value of some of this stuff. So you’ll see up here is what we call—[Interruption] So in the corner, your top left hand, is just a little over an ounce of what we call cannabis high-grade, because it’s cannabis bud, worth easily $3,000. The other drug I spoke of was methamphetamine, and if you can see down here there is a small bag of methamphetamine, also known as crystal, also known as ice. There’s about 18 grams in the small white bag at the bottom. Now, the street value price of a small bag like that—it’s about 18 grams—is about $15,000.

Dean You’re kidding!

Tolley You don’t get much for your money.

Bush And that will explain why New Zealand is targeted by organised crime groups. The value of drugs, or the cost of drugs, like this in New Zealand is probably higher than anywhere else in the Western World. We can’t take it
out, unfortunately, Chair, but we can pass it around a little bit so you can get a better look.

Dean: Well, I just want to know which bag is worth $18,000.

Bush: The small one at the bottom.

Dean: The one I can barely see.

Bush: The very small one at the bottom, but we can pass that around so you can see that. But it’s a bag about this big and it’s got about this much product in it. As I say, on the street methamphetamine is about $1,000 a gram.

Tolley: What would you do with a gram?

Bush: You would actually break it down to 10 point bags, so then down to one-tenth of a gram, and that’s how it’s often distributed, and people use it in a point bag.

Dean: And how much for a point bag?

Bush: About $100 if you’re just buying a point—one-tenth of a gram. So it fluctuates anywhere between $600 or $700 up to $1,000 per gram. We have a number of source countries for methamphetamine; as we all know, it is also manufactured here. But if you’re sourcing it from some of the Persian countries, from Iran, for example, if you buy it on the street over there it’s $7 a gram. Over here it might be $700, it might be $600, it might be $1,000. So you can see the obvious market and the obvious potential for organised crime groups around the country to traffic in this commodity, and that’s the one that’s doing the most damage.

Again, as I say, cannabis is the most widely used and damaging. Here we have what’s called hashish, often locally manufactured from cannabis. It’s cannabis oil and comes in little pill bottles. Down the bottom we have GHB—gamma-hydroxybutynol or something similar. In the next one we have just a little over gram bags of cocaine. Obviously, we all know that that is sourced out of South America normally. A small bag like that, if it’s a gram, is about $400 to $500 on the New Zealand market. Do you see that little bag there? You'll be wondering: “Is that what I get for my $400 to $500?” And one of the points around this too is how easy it is to conceal. So a kilogram will come in a bag about this size—and, again, very easy to conceal, and you’re talking several hundred thousand dollars for a commodity about this big.

Next, up here, we have LSD. These sell for—you’ll see they are printed with little pictures on it. Each little square, which is about this big, will cost $35 to $40 on the local market—again, easy to conceal, easy to smuggle, easy to smuggle into the country. When it’s produced to that standard it’s normally imported and produced in Europe, and we have a number of other drugs: home-bake heroin, morphine sulphate tablets, ecstasy—which,
again, the use is on the rise, and they can be up to $80 to $100 for one pill. BZP, another emerging drug in the market, and down here we have heroin, which comes in various quality depending on the source country.

So you might like to show that around a little bit. That bag I’m pointing out is right at the bottom.

Dean  You said BZP is on the rise.

Bush  Yes, it fluctuates. But the popularity is on the rise, I should say, Chair, as opposed to the availability; it does fluctuate.

Tolley  So connected with that, of course, is the proceeds of crime.

Bush  Yes, the Criminal Proceeds (Recovery) Act. Again, as you’ll know, that’s been in existence since 2009. It’s a fantastic tool. All international research and practice will show that one of the best ways to target organised crime figures is to follow the money and to take assets. So we’ve had that Act since 2009. We now have, or the commissioner has, responsibility on behalf of all Government for the mandate to manage our obligations under the Act, so we run it on behalf of others. We have trained a number of people across our organisation. We have what’s called asset recovery units in all of our 12 districts and we have an oversight office here in Wellington that reports through us to the commission.

And just by way of numbers, we’ve had 402 investigations under that Act since 2009. We have targeted about $180 million worth of assets in those 2 years. To date we have actually forfeited through to the Crown about $13.2 million worth of assets. Of course, the process takes some time to go through the courts. But we have another about $86 million currently restrained for forfeiture to the Crown, which is before the courts.

We have a leaflet that we can share with your permission, Chair.

Tolley  Always leave something behind. But that’s got all that information about the criminal proceeds.

Bush  That will give you some of the examples and some of the data around the forfeiture under the Criminal Proceeds Act.

Tolley  Can I now bring in Senior Sergeant Al Campbell and Jay. I think Senior Sergeant Al Campbell is going to come in and have a look at the room. He is going to put something in for the dog to find, and then he’ll bring the dog in and work the room. While he’s doing that—in the 2010-11 year the police dogs attended 40,000 calls and apprehended about 8,000 suspects. The police have 120 dogs. One hundred and ten of those are general duties dogs. Seven are specific for drug detection; three are specific for explosives. They are all trained at the Police Dog Training Centre in Trentham under the Royal New Zealand Police College, and they breed and train dogs for not just the police, but for Corrections, for Customs, and also for aviation.
security. There are a number of dual-purpose dogs, so we have some that are involved in search and rescue, some that are used by the armed offenders squad, some that are used for firearms, and they are, I understand, also training some dogs for detection of cash—the old smell of money—which will come in handy. And also they are expanding their breeding programme to include Labradors and Springers.

So this is Senior Sergeant Al Campbell. You’re going to place that somewhere?

Campbell Yes. I’ve got a sample of methamphetamine, which is pure meth or P, so I’ll put a sample in this little container, which has got a magnetic—I’m just trying to work out where I’m going to put it, where I’m going to get the dog running over everybody.

? I can think of a few places.

Tolley You’ve got a volunteer here.

Campbell This is obviously going to be a fairly short and simple search. I’ll just work out where I can get around the place. I’ll actually just put it under this chair here and I’ll bring the dog around there and so we’ll finally come up to this area here.

Tolley I’d check out some of the people on this side.

Campbell I’ll just leave that there. I’ll just go and get Jay and bring her in.

Tolley I understand that Jay is very excited to visit Parliament.

Dean And we’re very excited to have her too.

Mitchell crime. Actually, I could just ask it now—it’s just a quick question on organised crime.

Dean Yes.

Mitchell Deputy Commissioner, in relation to organised crime, do we see that changing in New Zealand at all? I mean, historically we’ve always had the gangs leading the charge on the distribution of these types of drugs. Do we see that changing?

Bush Yes, the environment is changing with globalisation, but I could talk to that more later if you wish.

Campbell Jay works for minimal pay. A tennis ball is her reward. As soon as she sees this she’ll go and _______. Good girl.

Tolley So when she’s found it, she sits down.
When she finds it, “sit” is the passive response because you don’t want her damaging any property, and she’s just very, very keen to get the ball. She knows by tapping her nose on it that eventually I will give her the reward—yes, good girl, good girl! And her pleasure in life is to just have a tug of war with the ball. Good girl! So it’s a very short demonstration, but you get the idea of how thoroughly the dogs search. With methamphetamine we have to be very thorough, and with a dog when we search a house it certainly speeds up the operation. It’s just one tool to help the other staff in searching for drugs, and it just means that it speeds up the whole operation. Quite often I can go into a house and within 30 seconds I know there’s some drugs in there.

Thank you.

Thank you for that. Just finally, Madam Chair, I’m aware that there are some concerns around property, and I just thought I’d get Deputy Commissioner Rickard to quickly talk about the building programme—the capital programme—and he’s got a leaflet to hand around and then we can get on to questions.

Thank you, Minister. This will be very quick. Really, I just wanted to give you a highlight of our approach to property, so this booklet really just sets out some of our current properties that we’ve built in the last few years. It sets out a little bit in terms of what our look and feel is in the next few years as well. So we’ve have a comprehensive 10-year capital programme. Part of that programme is we have a strategy in terms of how we’ll invest our capital, and part of that is we use an accommodation code to drive the way we design our properties.

So as you can see the properties that we have now are a lot different than the properties that we may have had in the 1960s. We still have some of those quite trusty buildings in, like, Porirua, the Ministry of Works 1960s buildings that at the time were fantastic, they’re just not fit for purpose any more in terms of how we deal with victims. The accommodation code that we have drives the internal look and feel of our buildings and basically we’ve learnt over years how to position our people, where they need to be in terms of their relationship to each other, and how the public access our buildings.

Also you’ll see from the pictures inside that brochure that each building on the outside looks different, and that’s really about regional differences in terms of things. The Rotorua building, which is not pictured there, is a lot different than the Counties-Manukau East building that the Minister opened. We’ve just given you a snapshot of what our building in Christchurch looks like, given we’ve had to move out of our Christchurch premise—we’re still in part of that, but it’s 13 storeys high so this new building really looks after our accommodation needs for the next few years.
So that’s just a quick look and feel for you. They’re very efficient, and the way we build them and design them is quite cheap, but I think we’re getting a good bang for our bucks at the moment in terms of the look and feel of those buildings.

Goff A point of order, Madam Chair. Really interesting—the dog display and the display of drugs. It’s not normally what we do at estimates, as you understand. Could I just foreshadow a motion that we usually have a Minister here for an hour for questions. We’re now 25 minutes into that hour. If need be that we have an extension of time at 11.30 if there are still questions to be answered.

Dean Oh, absolutely.

Tolley I’m not available, but I’m happy to answer any questions if you have some left over.

Dean The arrangement, Phil, in the last meeting was that we have three estimates to hear today and we can be a little bit flexible within that time.

Goff That’s why I thought we could go over and—

Dean So the sooner we get on with it the better.

Faafoi Minister, can I assume that when you were finalising Vote Police for this Budget that you were aware that there was wage negotiations for collective employment agreement to end at the end of this month?

Tolley Yes.

Faafoi Were you made aware of the cost pressures that any increase in those collective employment agreements would put the police operating budget under?

Tolley Yes.

Faafoi Can I ask you what that device was?

Tolley Unfortunately, and I’m not trying to be unhelpful, but we are actually right in the middle of those negotiations at this stage. Formal negotiations have started so it would be totally inappropriate for me or any of the officers here today to make any comments.

Dean I think before you do go down this line of questioning I’m anticipating that I’m not going to allow questions about this, because the Minister is simply unable to answer them. So I think if you can work without that, that’s fine.

Faafoi Speaking generally then, if there is some success from the Police Association to get their members some form of pay increase, that will mean

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that will have to come out of the current budget which has pretty much stayed static compared to last year’s. Is that right?

Tolley The difficulty for me is that I don’t want to prejudice any negotiations, so to even start talking about what might happen or might not happen could prejudice those negotiations. It is just almost impossible for me to answer any of those sorts of questions for you. I’m really sorry, I’m not trying to be unhelpful, but you appreciate formal bargaining has starting, so obviously the budget has been set.

Faafoi OK, then let me put it this way, Minister. If any increase is managed by the Police Association, that would have to come out of current budget, is that right?

Tolley That’s correct.

Faafoi Because there’s been no increase in this year’s budget—

Mitchell Point of order, Madam Chair. I think the point the Minister just made is a fair one: if we start talking about those details then that could prejudice, actually, the negotiations that are going on at the moment.

Dean OK, thank you. I’m keeping a close ear open to this, and I’ve explained to Kris, as has the Minister, the parameters of what this discussion will be, and, Kris, you’re welcome to keep going but within the parameters as we’ve discussed.

Faafoi OK. Sorry, I think you were still answering the question, Minister.

Tolley No, I’m not. I’m not going to make any comment. The budget has been set and the negotiations are in process.

Faafoi So police have to manage whatever outcome out of the wage negotiations out of a police budget that has stayed static?

Tolley The two expectations that I have for the commissioner are that he manage within his budget, and that we increase front-line policing hours, and I’ve been very clear about that from the time I was sworn in.

Faafoi Can I just turn to the commissioner now because there was an email that I received from the Police Association and I just want to make sure that some of the information in it is accurate, because it is out in the public arena now. It is from Greg O’Connor and it was to members of the Police Association that—

Tolley I’m sorry, Madam Chair, but if this is about the negotiations then the commissioner cannot be put in the position of having to answer that. It may well be in the public arena, but the negotiations are not. The commissioner cannot make any comments, and I’ve got to protect him.
Dean OK, thank you very much, and I agree entirely. I think this is an issue where we are in the middle of a wage negotiation and I think it would be improper for this committee to ask questions that might prejudice the outcome of that. So I’m going to go on to the next question.

Ross Minister, in my area one of the interesting changes we’ve seen recently is the neighbourhood policing teams. Can you tell us a bit about how they’re performing, what impacts they’re having, and future plans for neighbourhood policing teams?

Tolley Yes, I’d be delighted. I’m sure—

Bush The commissioner would like to speak to this one.

Marshall Thank you for that question. The short answer is they’re going extremely well. We have 33 neighbourhood policing teams in various locations up and down the country. The locations have been specifically selected because of the issues aligned to those areas, and also the staff have been specifically selected—normally a sergeant and five or six personnel—the important point being that they are committed to that geographical area from anywhere from 3 to 5 years. They have a real mandate to get in, take ownership of those areas in terms of making a difference in terms of victims, in terms of repeat offenders, and actually getting absolutely involved with everybody from the local authorities through to the schools to the community groups, focusing on how they can actually turn the tide in relation to problems. They have been extremely well received: very good feedback from the districts but excellent feedback from the communities. We anticipate the number will go up to approximately 50 and they are making a real difference. I think the big challenge for New Zealand Police is at the end of the time extricating them from those particular communities. Short answer: we’re very impressed.

Ross How are you measuring the impact that they’re having and the success?

Marshall Well, we’re looking at the crime statistics, which are going down generally across the areas in question, which is a big point, and the revictimisation—how many times people are actually being the subject of a revictimisation, because we’ve estimated that if we focus on people who are being revictimised time and time again we can actually reduce up to about 20 percent national crime. It is that important, and that is the big focus. They’re doing wonderful work, those officers.

Tolley I’m very pleased, I have to say, that one has been set up in my own electorate in Gisborne in Kaiti and I’ve already had responses into my office from the community at how delighted they are to have one of those teams operating there.

Clendon With those neighbourhood units would it be fair to say that the longer-term success of those units will depend on the officers, who you’ll want to stay in place for some time, that it depends on you retaining those officers, that
their morale is good, that they feel valued and well rewarded for the work they’re doing?

Marshall Absolutely important. We had to hand-pick the sergeants, hand-pick the staff. I was out talking to the neighbourhood policing teams at Avondale and in west Auckland in recent weeks. They really feel empowered by what they’ve been able to do, but you’re absolutely correct: keep them focused, keep their morale up, and their continuity. The neighbourhood actually identify with these police officers, and the police officers understand the chemistry, if you like, within that and what will make a difference.

Mitchell So, Commissioner, in terms of continuity, because these groups are bigger in size, it doesn’t matter too much if one person rotates out and takes promotion or something like that, you’re going to be able to achieve continuity with the programme.

Marshall Yes, we certainly will, and it’s to be expected that certain people may want a transfer or be promoted. We wouldn’t want to hinder their careers, but the main themes—the progress to date, the continuity is a fundamental cornerstone of those neighbourhood policing teams.

Goff Can you tell the committee what the cut in real terms in the Budget this year will be for the police?

Tolley The police budget has remained the same.

Goff No, no, I’m talking about real terms. That is, the amount that you’ve got in the Budget allocated to police, with the increased costs facing the police deducted from that—I’m talking about real money, not absolute dollars.

Tolley I’m saying to you that the police budget has remained the same and they are required to operate within that.

Goff Do you accept, Minister, that the police budget has gone up by $8.9 million, but in the answers to the questions we’ve got the costs facing the police this year will go up by $24 million, which leaves a deficit of $15 million in policing—the first real cut in the police budget probably for two decades?

Tolley I’m not aware of what figures you’ve got in front of you, but—

Goff Can I help you, Minister?

Tolley No, what I’m saying to you, Mr Goff, is that the reality is that this country is in the middle of a global recession, and the police budget, like many other budgets, has remained the same, and the police are being asked, the same as many other ministries and departments, to make changes to the way that they operate. In many cases they are finding good efficiencies and they are managing within their budget, and that is what we’re asking of them. That’s what hundreds of thousands of New Zealand households are doing.
Let me come back to the question, Minister. Do you accept that if the costs for the police, as answered by you in an answer to the question that I put, are going up by $24 million this year, and the police budget is going up by $8.9 million, there is an effective real cut of $15 million in the police budget this year?

What I’m saying to you—

No, that’s a “yes” or a “no”.

—I’m not going to argue figures with you. What I’m saying to you is—

That’s the point of this committee, Madam Chair. This is an Estimates committee, it is about figures. I’m quoting the Minister’s own figures back to her and I’m asking her a straightforward question. Does that represent a cut in real terms? It’s a “yes” or “no” answer that all of us know.

I would appreciate it if you did the courtesy of allowing the Minister to finish the answer to your questions, then I think we will have good order in this committee.

As long as the answers are in answer to the question, Madam Chair.

Well, I am trying to answer you, Mr Goff. I have no responsibility for how the police meet their budget. That is an operating issue. But like every other ministry, they are required to make efficiencies—

Let me put the question again.

—so they have received the same amount of money.

No, you will do the Minister the courtesy of allowing her to finish the answer.

And in the House the Minister would be required to answer the question asked. Let me put it again. It’s very clear-cut; it’s very straightforward.

I do not accept that there has been a cut to the police budget.

So despite the fact that the police costs, according to your own information, are going up $24 million this year, and you’ve allocated $8.9 million extra, that is not a $15 million cut in real terms?

I am saying to you that the police budget has not been cut. It has received the same amount of money that it received last year, other than carry-forwards.

Yes, but costs have gone up.

Well, that’s life, Mr Goff.
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Dean  Asked and answered. Do you have another question?
Goff  Yes, I have, Madam Chair.
Dean  I'll allow you one more and then we'll move on.
Goff  According to the answer to question 115 that we've set to you here, the number of police staff in the Auckland districts—the four Auckland districts—including the former metropolitan crime and operational support, have gone down by over 100 staff by the end of this financial year and the last year. Auckland is a district where crime has gone up 8.3 percent. Why have staff in Auckland been cut by over 100 when the crime rate in Auckland is increasing?

Tolley  Well, that is an operational issue for the commissioner and if you don't mind I'll ask the commissioner to address that.

Marshall  The staffing in Auckland will not be decreased in the context of where we are going over the next period. It is a situation where we have nearly 12,000 personnel and we run this $1.46 billion annual budget, and we are looking in terms of priorities around the country and that is the situation as far as Auckland is concerned.

Goff  Just clarification of that, Madam Chair. Commissioner, do you accept that from the figures given in answer 115 for this estimates hearing, the total staffing in Auckland already, by the end of this month, will be down more than 100 on last year in the very region where crime has gone up 8.3 percent?

Tolley  Have you got the question?

Goff  Referring to page 49 of the document for this committee: police response to estimates questionnaire.

Tolley  Have you got the answer?

Rickard  115 talks about the budgeted figures, so what’s happened over the year in moving forward is the reality is AMCOS has been split into two, so part of the budget will move in terms of the Organised Financial Crime Agency of New Zealand, so that budget will move across, and any fees that accompany that, and the rest of that goes into the Auckland City. So it's static in terms of—

Goff  But there’s been an overall cut of 100 in the last year?
Rickard  No.
Goff  Well, how can you say that, Deputy Commissioner, when the figures—

Tolley  Because they’re just in a different place.
Goff: Well, I’m looking at Waitematā, Auckland, Counties Manukau, and AMCOS, and when I add the four of those together the staffing for the year ended 30th June 2012 is 100 less than the figures for the previous year in the next column.

Tolley: OK.

Rickard: So just to clarify and repeat my answer, the budget figures are the same, the people remain, but we’ve placed the budget in different places than what they were in the figures you’re looking at in terms of a year.

Goff: This is a column of full-time equivalent constabulary employees.

Rickard: Yes, full-time equivalent budgeted—so the first part of it is the budgeted for—

Goff: These are numbers of employees?

Rickard: Yes, question 115, and you will find that part of that has moved into the service centre in PNHQ, so the numbers are—part of those numbers are in there and part of the numbers are in Auckland City.

Tolley: So it’s just a budgetary device.

Rickard: Yes.

Tolley: The same number of people.

Goff: There’s been no reduction in staff?

Tolley: No.

Goff: So where have the 125 that the commissioner announced were being cut come from?

Rickard: There’s no reduction at all in sworn personnel.

Goff: No, I am talking about overall staffing issues.

Rickard: Overall staffing: I think there are, at this stage, 126 positions that will be disestablished as a result of the 4 percent across the country. Now, we have about 112 vacancies already, which aren’t going to be filled, so the number of non-sworn police employee personnel who will be leaving their positions is less than 20, and they come from a variety of locations up and down the country, whether it be the ICT technology area, whether it be police headquarters, or whether it be the training service centre.

Goff: The total cut in positions is 126 full-time equivalents?

Rickard: For non-sworn personnel at this stage that is the situation, although as I say 112 of those positions have actually not been filled.
Goff  Does that mean the work isn’t being done that would have been done by those 126 individuals or is it being done by sworn officers now?

Tolley  Well, I can answer that. You have to look at this in the context of the changes that the police are making. So in actual fact, particularly around the mobility, using technology, front-line officers are doing a lot of that work themselves, and will continue to do more and more. That’s the whole point of having those police out on the front line, out in our communities much more often. So they’re not having to come back into headquarters, fill in forms, and in some cases have that paperwork duplicated or triplicated by three or four different entries. So they will be able to enter the data into the file out in the field, and that means that there’s some job back in the police station that doesn’t need to be done. So it’s the whole rearranging of the way that the police work that’s giving effect to this and that’s why there are some of those vacancies that have remained unfilled.

Mitchell  Minister, we had a very good presentation on the technology that has been introduced, to the select committee, and so what you’re saying is with that technology now, police out on the road that historically may have to radio back to a police station, they have a non-sworn member to do the work, whether it be querying a person or a vehicle and do those types of checks. That person is really sort of becoming a bit redundant because they’re able to do it with more time out in the field.

Tolley  With that smart device that they’ve got.

Mitchell  There’s not really going to be any loss in service, it’s just that we’re getting smarter with what we’re doing.

Tolley  Actually the services are increasing, first of all by having the police available for more hours, but also being able to get that instant information, and also the instant entry so that file is updated quickly on the spot.

Tisch  We have previously talked about the success of the 0800 Crimestoppers. My question is: how many referrals come through to the police, how many are acted upon, and importantly, how is this funded? So I don’t know who would answer that question. I don’t know where in the Budget—is there a funding allocation for 0800 Crimestoppers?

Bush  I can talk to that. Crimestoppers is not a police agency, although we’re very much in partnership with it, obviously because we are the recipient or the main recipient of the information that comes in. The easiest way to explain the success criteria is we operate on about the 10 percent rule, so we can act on about 10 percent of the information that comes in, and about 10 percent of what we act on results in an arrest, a clearance, a recovery of stolen property, arrests for drug-dealing offences, etc. So it’s about a 10 by 10. The volume is high. I don’t have the exact figures, but it is ever increasing. The uptake within the community training in Crimestoppers is extremely encouraging.
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Tisch  So where do they get their funding from to operate?

Bush  They run as a private enterprise. So whether it’s through local government, whether it’s through the private sector, or some more philanthropic persons, they receive funding, but not from within the New Zealand Police, although we do assist with one person’s salary on a very, very minor basis, but it’s not a New Zealand Police - funded initiative.

Prosser  Within the budgetary constraints that have obviously been touched on and the reallocation of personnel, we’ve heard some pretty encouraging figures about a general downwards trend in recorded crime. Are you confident that this does reflect an actual reduction in crime, or is it connected possibly with under-reporting or maybe the way in which the reporting is done?

Tolley  I think we’re pretty confident that there has been a decrease because we’re seeing it right through the justice pipeline. So you’re seeing a reduction in the court appearances.

Prosser  So the staff at the front line are happy that there is actually a genuine reduction?

Tolley  Yes. And in fact we are encouraging people, with things like the crime reporting line, still encouraging people to report crime and again that’s part of the way that the police are changing the way that they do their business. They rely on that reporting in order to make sure they’ve got the right people in the right places so they are able to direct their resources more efficiently and more effectively.

Bush  Can I add to that Minister?

Tolley  Sure.

Bush  Just one of the key indicators for us on people’s willingness to report crime, because there is always unreported crime—we understand that—but the key determinate for us about how willing and how keen people are to report crime is our trust and confidence and our overall satisfaction figures, which are continuing to climb. At the moment, and the commissioner might talk to our trust and confidence figures being at 77 percent, an all time high, but that’s a good indicator for us as to how prepared, keen, and trusting the public are to report crime.

Mitchell  And on that, with the Prevention First programme that you deploy now, and with the community policing teams, it is actually possible then that that unreported crime could start to be captured more through the community, so you may even see a little rise in reported crime; could that possibly happen?

Bush  You would expect so, and also with crime reporting lines, the better accessibility the public have to us on a personal basis—so when we’ve got within the neighbourhood policing teams nearly 200 extra people out there
in those high-demand neighbourhoods, they’re communicating with people, interacting every day, talking about what crimes are being committed in their neighbourhood. So, in short, yes.

Marshall Also, the concept of the neighbourhood policing teams, the visibility, the presence on the street actually has an effect in stopping certain elements of crime, and that’s an important aspect, and the whole thrust of our approach is prevention first. So we’re no longer waiting for the crime to actually happen. These neighbourhood policing teams, 33 of them, are actually out there to say: “Listen, we’ve got a problem in relation to these people racing up and down the street? How can we sort this out?”, and they nip it in the bud early. So we’re finding its equilibrium is there.

Faafoi I just want to go through some figures that were given to us at the financial review earlier in the year, just to see if they’re still accurate. Around the competency service increments, Deputy Commissioner Rickard said that the cost over the next 4 years we know that figure is around 1.77 percent, and that compounds to around $170 million. Is that still accurate?

Tolley Look, I’m going to step in again, because that is part of the pay structure, and I am really reluctant, when we’re in the middle of formal negotiations, to have any hypotheses, any conjecturing, any discussion around the pay structure. I just don’t think it’s appropriate. I appreciate it’s frustrating.

Dean The Minister made her position very clear, and I have also determined, that questions to do with the pay negotiations are out of order, and the reason they’re out of order is not because the Minister does not wish to speak to them, it’s that people’s pays are going to be affected here, and I would have thought that would be a good enough reason to allow the process to take place. We do have a financial review later in the year, at which point, once the pay negotiations are completed, you will be very welcome to ask questions on what has already happened. But this is a negotiation which is under way involving a number of police personnel, and I think it would be in the interests of police, and indeed all of us, if you respected the wishes of the Minister and of myself, and kept your questions until once the negotiation has taken place.

Faafoi Point of order, Madam Chair. All I’m seeking to do here is to see if testimony that has already been given to this committee at an earlier financial review is still accurate.

Dean And the problem I have with it is that it relates to a negotiation that is under way now, and it is my view, and it is my ruling in this committee, that we do not deal with issues to do with that process that is under way now. So that is what I have determined. So if you want to come back with another question later on—we’re leaving time—that’s fine, but for the moment I’m ruling that out.
Ross  Just a question—we talked a little bit earlier about personnel, nothing to do with pay. Does the organisation measure job satisfaction, staff morale? How’s that tracking? How do the employees feel about the organisation?

Tolley  I'll ask the commissioner, because I do carry out an engagement.

Marshall  Yes, the engagement survey was completed early this year and the engagement index of 73.3 percent for the New Zealand Police compares to the State sector benchmark of 68.4 percent. So we were ahead of the State sector benchmark. It is noteworthy that the New Zealand Police has less engaged staff than the State sector benchmark. There’s been improvement in every section of the survey, with at least seven being significant and substantive. The biggest shifts in area pertain to communication and recognition of staff in terms of the work they’re doing. An increase around the vigilant purpose section has been seen as an endorsement of the New Zealand Police vision moving forward, where we’re going, where we want to be, and that particular aspect, the vision, obtained the highest positive shift of any question, over 8 percent.

So there is a marked difference in previous years to this particular latest engagement survey, which actually sees us just about in the most preferred occupation in New Zealand in relation to the New Zealand Police.

Ross  And what do you put that increase in staff satisfaction down to?

Tolley  I’d say good leadership!

Marshall  Well, a number of things. An important aspect has been the fact that the executive is trimmed down, in terms of numbers. I’ve been absolutely insistent upon the fact that the executive get out into the districts, are out into the areas, are out into the police stations, complemented by the fact that the executive you see before you are actually out with the staff on the streets, working. Whether in the context of the Rugby World Cup, whether it be in the context of working New Year’s Eve on the shifts, we get out on a regular basis, and the staff have actually seized upon this as being an important point. We’ve also listened to the staff. We have provided them access in relation to the Taser, the Glock, the rifle, and the armour. We have actually listened to them in terms of matters such as footwear—very important. We recognise the staff when we have the common touch in relation to what they want on the street, and we make it our business to be very personable, to be up front and out there with them, and that has had a real resonance with them.

There are a number of areas I could talk about, but essentially, success breeds success—last year, the lowest road toll in over 50 years, and the reduction in terms of the crime rate. The staff know that. We have the right supervisors there. I communicate with the staff every fortnight, through a blog environment, and I receive dozens of responses back, knowing that
the commissioner has the common touch, and that is important from my leadership point of view.

Tolley As I say, great leadership, and I get that from the guys on the street. I always stop and talk to them wherever I see them, and they tell me they have the best leadership team. They feel they’ve got the best leadership team they’ve had in years, who understand what it’s like to be a cop on the street.

Ross And I assume you’d be expecting greater productivity through a more engaged, happier workforce going forward?

Tolley Absolutely.

Clendon Commissioner, you mentioned the Tasers that your officers are now getting greater access to. Can you give us an indication of the cost of the increase in what I think you call your fleet of Tasers? You’re upgrading them to these double-barrelled weapons, rather than the single shot ones. Can you tell us the overall cost of that upgrade, and the extra availability?

Marshall I can’t tell you specifically the upgrade, but what I can say is there are many instances where the Taser has been used so effectively. I give the example of a Wellington petrol station there a few weeks ago, where a person had two knives and was coming at the senior sergeant. The Taser was available, and he was immediately arrested.

The options in relation to the lack of Taser would have been potentially far more serious in relation to injury, and the cost in relation to investigations, court cases, coronial inquests, Independent Police Conduct Authority matters would completely overshadow any cost in relation to Tasers. But I might just refer to my colleague, Deputy Commissioner Rickard, without putting him on the spot in terms of the cost of that Taser, or indeed, Mr Bush—whoever’s got the figure.

Bush Well, I can actually talk to the whole programme of work around putting more firearms, more Tasers, more ballistic armour in every police vehicle around the country. That is an investment just shy of $3 million, but what it means is that every front-line officer will have immediate accessibility to an M4 rifle, a Glock pistol, a Taser, OC spray, and ballistic armour in all of their vehicles, and the important thing around this is that they don’t have to seek their supervisor’s or their boss’s permission to deploy with this. The commissioner has given the authority to the staff that where they believe the risk or the need is necessary, the judgment and the decision is theirs, so it’s an investment in our front-line people to make those proper and timely decisions about the deployment of whatever tactic they might need. But it’s a graduated response, so—

Tolley It’s the 10Rs.
The 10Rs is also an important component of how they assess risk in every situation, so the whole programme of work, and including safes in all our front-line vehicles is just shy of $3 million.

Minister, if I go back to the answer you’ve given on question 150—that’s the $24 million in expected increased costs to police this coming year. Does that include or exclude the wage round.

Oh, Phil.

No, no, this is an answer she’s given. I’ve got to know what’s in that answer.

No.

It’s not interfering with the wage round. It’s asking the question whether that’s the all-up-costs they are facing, by estimate, including or excluding the wage round. There is no reason why the Minister can’t answer that question.

Well, I’m ruling that that question is out of order, for the reason that the impact relates to the wage round. Now we’ve had that discussion several times in this committee. What I’m saying to the member—

Point of order, Madam Chair.

If you’ll let me finish. What I’m saying to the member is that there is a wage round under way right now. Any comments any of us, including the chair, members of the committee, the Minister, or the commissioner make may affect that wage round. I personally don’t want to see that happen, because this is a wage round that affects the pay rates for the New Zealand Police.

Point of order.

I’ll hear your point of order.

If it is in order for the Minister to answer this in written form, it’s in order for her to give clarification of what makes that figure up, in oral form. One can’t be out of order if the other is in order, and the committee has accepted and you’ve accepted that written answer.

Thank you for that point of order, but what has changed since that written question was asked and answered is that right now there is a wage negotiation under way. So that is what has changed. That is what is constraining the Minister and that is what is constraining me. I simply don’t think it is fair to the police, who are going to be affected by this wage round, to be having this kind of discussion.

It’s got nothing to do with fairness, to start, Madam Chair. It’s got everything with the Government protecting its position.
Dean  I think it’s got everything to do with fairness to the staff who are going to be affected by the process of this pay round, and so—

Goff  If we’re talking about fairness to staff we’d be talking about fairness in terms of performance pay and cuts to real pay that the Police Association president has complained about.

Dean  That’s fine, but if we’re going to speak to the point of order, and you are soaking up time and it is your time, I’m also noting that, but I am ruling—

Goff  We’ve got another 25 minutes to go, Madam Chair.

Dean  No, no. I am ruling that that line of questioning is out of order, so you are welcome to ask another question.

Goff  Well, I’ll ask the Minister another question. Minister, are you comfortable with the fact that police are examining the closure of police stations across the country and across Auckland in order to make up the savings required by the cuts in real Budget this year?

Tolley  Well, first of all I don’t accept the assertion in that question. But I am comfortable, and I would expect the police to be constantly monitoring their assets, like anyone does. You’ve heard us talk about the different way of delivering policing. Part of that has to be about where they are in communities and what’s the best way for them to be in communities. Now, look, we have lots of discussions. I have this in my own electorate where I have a group of people who would love to see the Opōtiki Police Station manned 24 hours a day. And when I talk to other sections of the community, including the local council, and I say to them: “What would you rather have? A person sitting behind a desk in a building in town all night, or would you rather have police out on the streets when the young people and the hoons are out there causing problems.”, of course they say the latter. So that’s my expectation of the police, that they are constantly balancing what is the best way of delivering good policing in every neighbourhood around New Zealand.

Goff  Minister, if you don’t accept the assumption, do you accept that Superintendent Mike Clement in Auckland, when talking to me about the closure of the Mount Roskill Police Station, said, and I’m quoting from the newspaper here, that “It’s not simply about the Mount Roskill base. The bottom line is to live within the budget.” Are you denying to the committee today that the police will be closing police stations across Auckland, including, I understand, in my area of Mount Roskill, and Balmoral, Point Chevalier, and Blockhouse Bay in order to come within the cuts they have to find?

Mitchell  Point of order, Madam Chair. I think firstly opening and saying that he’s quoting Mike Clement and then going on and saying this is what was reported in the paper, there is a big gap there.
Goff  It’s in quote marks.

Mitchell  I don’t think we should actually be introducing that sort of question in this forum.

Goff  Madam Chair, I could table the paper. The quote is in quote marks.

Mitchell  But it’s a quote from the paper, not from Mike Clement.

Dean  Thank you for that.

Goff  I’ve asked the question. Would you like me to repeat it, Minister?

Dean  I’ll allow the Minister to answer if she wishes, or the commissioner, and then I’m going to go on to our supplementary question from Ian.

Goff  The question was to you, Minister. I asked you whether you were comfortable with the fact that the police are obviously considering the closure of stations in order to come within the budget that they are—

Tolley  No.

Goff  You’re not comfortable with the closure?

Tolley  No, my answer is that I reject that assertion because I do not believe that that’s what the police are doing.

Goff  Will you come back to this committee—

Dean  Last supplementary question, and then I’m going—

Goff  Will you come back to this committee when, according to the police superintendent, there’ll be a decision made next month, and apologise for making the assertion that there won’t be closure of police stations?

Tolley  No, I’m rejecting your assertion that they’re looking at closing police stations in order to meet some, what you call, budget cuts. That’s what I’m rejecting. What I am saying—

Goff  So you’re saying the superintendent is wrong.

Tolley  Well, I’m not sure, and the point of order is made. I don’t believe everything I read in the newspapers—I’m sorry to the media here. But often we don’t get the full story, and I have heard—

Goff  Will you give an assurance; but let me put it the other way. This is—

Dean  I’m sorry to intervene here, asked and answered—

Goff  No, not answered, Madam Chair, and that is the problem.
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Dean Not answered to your satisfaction, but asked and answered, and that’s the reality about being in Opposition, I’m afraid.

Goff Will you give assurance to this committee—let me put it this way, very straightforward. Will you give an assurance to this committee that the police won’t be closing police stations around the country in order to come within the budget savings they’ve got to find because they’ve had a cut in real terms?

Tolley Mr Goff, you know as well as I do that I don’t make those decisions, and the Police Act doesn’t allow me to make those decisions. So I couldn’t give you an assurance because it wouldn’t be worth anything. But I am happy for the commissioner, who does have responsibility, to talk to you about that.

Dean OK, that’s enough.

Goff No, it’s not enough, Madam Chair. It is not enough.

Dean Allow the Minister to finish her answer, and then I’m going to take another question from Ian. Thank you.

Goff I’ll come back to that, Minister.

McKelvie In my electorate we, needless to say, have numerous police stations, quite small ones, Minister. But what I want to know is, is it envisaged—and there’s been a noticeable improvement in police performance, public perception of the police, and public presence of the police in the last few years—given the current economic climate that that will be able to be maintained?

Tolley Yes, and I’ll let the commissioner to speak to that as well. But I think what we’ve been saying is that everything that is involved with Policing Excellence and Prevention First is around seeing a reduction in crime, making sure that we are out on the streets, that we are visible, and in rural areas like yours and mine, the crime reporting line is making an enormous difference. I don’t know about you, but we’ve had a terrible problem with rustling over the last couple of year. The biggest complaint I had from farmers was by the time they discover the stock is missing they’ve got to down tools, drive for an hour and a half into town to the police station to report it, that’s half an hour, three-quarters of an hour, then get back in their car and drive back up the coast. That takes a good part of their day, and they didn’t do it. And so the police quite rightly say: “Well, we don’t know there’s a big problem in rustling, because you haven’t reported it.”

The crime reporting line—they pick up the telephone. In an instant that is recorded, the data is all there and collated. In fact, the Tolaga Bay police have it the very next day. They know exactly where the stock is going from. We’re getting some real results as a result of just making those services much more available to the community. So, yes, we have every confidence
that things are only going to get better, but the commissioner might like to add to that.

Marshall  Well, everything the Minister said, naturally, is absolutely correct. The whole question of keeping the staff out on the street is a cornerstone of what we’re about. For instance, in the Hawke’s Bay, when they come to a particular complaint they will phone it through—Winscribe is the process—the file will be typed up, it will go through to another unit called the CJSU that will complete the prosecution file, so the police officers don’t go anywhere near the police station. It’s the absolute cornerstone in relation to getting the staff out on the street.

Goff  The trouble is if the police station is closed, the public can’t go anywhere near it, either.

Tolley  Well, buildings don’t actually keep people safe. I mean, that’s what we’ve come down to. It’s great having a building there as a police station, and we have thousands of police stations. But it’s the staff working out in the communities that keep our communities safe.

Dean  Can I ask the Minister and the commissioner: would you rather have a policeman or a policewoman sitting behind a desk at a police station, filling out forms, or would you rather have a policeman or a policewoman out on the street, preventing crime?

Tolley  No question for me. I’d rather have them out on the street, any time.

Marshall  The Minister is absolutely correct in that context. We want police officers out on the street, and we find that people are ringing through, reporting. They don’t want to go and queue up and find car-parking spaces, and line up at public counters. That might have a bit of a sentimental, feel-good factor, but the reality is people are using these crime reporting lines and it’s going very well indeed.

Dean  What impact has this changed emphasis on policing had on the moral of the police service themselves?

Marshall  Police officers join the job so they can get out and make a difference with the public, be seen, and they have been freed up. They have been liberated. For a long, long time they’ve been stuck in offices doing a lot of paperwork, with no sort of electronic assistance to the extent that they now have.

Dean  And, look, I can liken it to an electorate MP. We know we can sit in our offices and have people come and see us, but actually if we’re out working in the community we can see a lot more people and have a much better idea of what’s going on in our communities than if we’re sitting in our offices. It’s the same thing.
Speaking of out on the street, can you give us an update on boy racers and the work that is being done in that area? There’s historically been an issue in my area, so I’m quite keen to hear about that work.

I know. I have really good news, because tomorrow we’re going to crush our first car. So, yes, tomorrow morning we’re going out. The really good thing I think that’s happened is that we have seen a reduction in the number of street racing offences. So the fact that we’ve had this “three strikes and you’re crushed” has had an effect—it’s had a big deterrent effect. So the first year we were at a 16 percent reduction, and this year we’ve seen a 17 percent reduction in offences. And I think the crushing of the first car, because it’s taken some time to build those three strikes, will just send that deterrent to the younger ones that are now coming on and show them that this Government means business.

Now these are a tremendous worry to some of our communities, and so we’ve taken this action. And this silly young man who’s having his car crushed tomorrow in fact went out for a fourth time, even after getting his third strike, but we’ll crush his car tomorrow morning.

Are you trying to acquire the new nickname of “Crusher”?

No, I think that’s fairly and squarely in someone else’s domain.

Just quickly, I’m delighted—well, it’s terrible that you have to crush a car, but I’m delighted that you’re going to. Has there been an impact—has Christchurch had an impact on those figures or is that taken into account? You didn’t have your boy racers for a while because there were no streets.

Yes, that’s right. Look I don’t have the figures on me on Christchurch, but we can get you those. Those reduction figures are across the country.

Thank you.

Madam Chair, I don’t want to get myself into a situation where you rule me out of order. But I do want to get some context to the wider issue. So I’ve got three, which I think are relatively simple yes or no questions for the Minister, if she could answer them.

Do wages equate roughly to 70 percent of the operational budget for the police?

Look, I’m not going to answer any questions about wages; I’m sorry.

Oh for God’s sake, that’s absurd.

And I’ll tell you why. Because you’re trying to extrapolate information that could be detrimental to our negotiations, so I’m just not going to answer.
And I’m going to back the Minister up on this again, for the reason that this is a wage negotiation under way. It is impacting on a number of lives, and I don’t want to be sitting in the chair of a committee that has any adverse impact on that. I don’t think it is fair, and I’m not going to allow it. What I am going to say to the member, and I’ve said this before, is when we have a financial review in a few months’ time then we will have every opportunity to rehash what has been with the wage negotiations, but now it is a sensitive issue. It is not in the interests of police.

Point of order, Madam Chair. Did you actually hear what Kris Faafoi asked?

Could we repeat the question? It’s asking for a simple—

No, it isn’t. We are starting to talk figures. I’m sorry; we’re starting to talk figures—

They are publicly available.

That’s right, but I’m just not going to go down that track, so I’m not going to answer.

Madam Chair, the point of order is this. The question was: what percentage of the police budget is taken up in staffing costs? How can an answer to that question in any way whatsoever affect the police negotiations? That is ludicrous, Minister.

Because that’s the first of three questions, and it—

Oh, for Christ’s sake.

We haven’t heard the other two yet

I know what you did in the financial reviews.

Madam Chair, are you upholding your ruling that the Minister not answer that question, because I’m going to take that to the House, because if you stop a Minister answering a straightforward question like that, that has absolutely no impact on the wage negotiations, you bring this committee into contempt.

Actually, I’m refusing to answer it.

Oh well, we’ll put the responsibility on the Minister, where it rightly belongs.

That’s fine. We have a situation in this committee here where we have a determination by the Minister, which is backed up by the chair, that there is a wage negotiation under way right now. The Minister has indicated that she is not willing or able to comment on those matters because it might
adversely impact on those wage negotiations. Now I happen to agree with her, and I agree with her because I do not want to chair a committee which has had an adverse impact on some wage negotiations which impact on the wages and lives—

Goff Madam Chair, you know the answer to that question can’t possibly impact on the wage negotiations. It’s got nothing to do with it, Madam Chair.

Dean Let me finish—of a number of policemen and women in New Zealand, and I’m not going to sit in a committee which is going to allow that to happen. And so I have ruled that those questions are out of order. We now have got—

Goff Point of order—

Dean No, let me finish. So we now have something like—we are going through to 11.46, so we now have 3 minutes to go through a couple of questions. We can use all that time up with this—I’m not going to change my ruling—or else you can have an opportunity to ask the last question that you wanted to ask, and so now I invite you to do that.

Faafoi Point of order, Madam Chair. I’d just like to repeat what the question was. Do wages equate to roughly 70 percent of the police’s operational budget?

Dean OK, and so—

Faafoi I let you finish; can you please let me finish. That does not look in any way forward, taking the police negotiations that are going on at the moment into account. It is a question of fact of what the situation is as it stands. So that in no way, Madam Chair, affects the ability of the Minister to answer that question in the context of negotiations that are currently under way.

Dean So what I am going to invite the member to do is to put that question in writing to the Minister, and I’m going to ask the Minister, as soon as she is able, to provide the member with an answer to that question. But I cannot allow a question to the Minister that relates to the current wage round. It is out of order. So I invite the member to submit that question in writing to the Minister.

Faafoi OK, point of order, Madam Chair.

Dean We now have 2 minutes left.

Faafoi I’m aware of that.

Dean You can use it in points of order—

Faafoi OK. Can I seek another point of order, Madam Chair?

Dean Sure.
Faafoi: I seek leave to ask the following two questions, which in no way will talk about the details of the negotiations in any way.

Dean: OK, but before you do can I just advise you that, yes, you’re welcome to ask them. It is the Minister’s decision on whether she feels she wants to answer them. If not, if it is not deemed to be appropriate and it’s out of order, then I further invite the member to submit those questions in writing and I will ask the Minister to answer them as soon as she is able. So please go ahead.

Faafoi: Given the response to question 1; question 2: are there wage negotiations under way.

Tolley: Yes.

Faafoi: Has the police budget remained static?

Tolley: Yes.

Dean: So we now have 1 minute for the member to ask his question.

Goff: Minister, do you accept that in order to keep within a budget, where costs have gone up, but the budget allocation has not gone up to meet those costs, the police are currently examining the closure of police stations in Auckland and around the country to make up the shortfall?

Tolley: No.

Dean: One minute—you can have a supplementary question if you want.

Goff: OK, it’s to both the Minister and the commissioner. Do you accept that the closure of a police station like Mount Roskill means that people lose their accessibility to their local constables precisely for the reason that the commissioner said. They will now have to go 6 kilometres to Avondale to find parking and to queue up. When I was outside the Mount Roskill Police Station talking—

Tolley: Is this a question or is this a speech?

Goff: Yes, this is a question.

Tolley: Oh, OK, sorry.

Goff: Yes, this is a question. I want you to answer. This question is from the woman who came up to us in front of the police station. She had just been sexually abused or threatened by a person down the road. She came up. We were able to get the local constable to act on that immediately. If you close that station what is that woman, who was riding a bike, going to do about that situation?
It is my understanding, and I have heard the commissioner say it on a number of occasions, that no decisions have been made to close any police stations.

Ah, decisions. Could I ask the commissioner this, then?

Last question.

Are the police considering the closure of police stations anywhere in the country in order to find the savings that you are required to find because you’re $15 million down in real terms—a real effective cut in your budget?

The answer is no.

So it won’t happen?

Thank you very much, and thank you Minister—

Good, I’ll hold you to that, commissioner. Thank you; thank you very much.

Thank you, commissioner and deputy commissioners, for the hearing today.

Conclusion of evidence
2012/13 Estimates for Vote Primary Industries

Report of the Primary Production Committee

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Recommendation

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Primary Industries as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

Introduction

Vote Primary Industries is a new vote from 2012/13. It incorporates previous Votes Agriculture and Forestry, Biosecurity, and Fisheries. The appropriations sought for Vote Primary Industries for 2012/13 are $657.583 million, compared with an estimated $551.937 million, being the combined total of Votes Agriculture and Forestry, Biosecurity, and Fisheries in 2011/12.

Vote Primary Industries includes the following approximate appropriations:

- $148 million for the development and implementation of policy advice
- $142 million for border and domestic biosecurity risk management
- $146 million for contracted forest management and wood production services for Crown forests

The Ministry for Primary Industries also expects to collect $127 million from the sale of logs from Crown forests.

Biosecurity

The Minister stated that biosecurity is one of his top priorities. We note that close to 60 biosecurity jobs in the ministry were disestablished, and the number of dogs working at the border has been reduced; at the time of the hearing, there were no dogs at Wellington Airport. The Minister was asked the reason for the decision to cut the biosecurity budget and front-line services while many risk items continue to cross New Zealand’s border. The ministry has indicated an intention to hire 40 new staff, and the Minister explained that the budget was restructured to reflect demand more accurately. The dog shortage resulted from dog handlers resigning, and the ministry is looking for replacements. The Minister acknowledged that New Zealand is always at risk of incursion, and he believes that the ministry’s biosecurity system is very effective.

We asked whether disestablishing Biosecurity New Zealand would adversely affect the ministry’s ability to respond effectively to biosecurity incursions. The ministry believes, on the contrary, that the disestablishment of Biosecurity New Zealand has been beneficial; it has allowed the ministry to group teams by expertise within the ministry’s structure.
Furthermore, we heard that the size of the ministry allows it to respond to situations comprehensively. Some of us are concerned nevertheless that reduced border security will increase New Zealand’s risk of biosecurity incursion.

We heard that a recent Queensland Fruitfly incursion was a measure of the effectiveness of the ministry’s capacity to respond. Within 12 hours of its capture, ministry staff removed the fly and identified it as a male Queensland Fruitfly. A controlled area was set up surrounding the trap and monitored for two weeks to establish that no breeding population had developed. It was thus established that the ministry had prevented the spread of the Queensland Fruitfly on that occasion by eliminating the trapped specimen.

Import health standards

We heard that any import health standard must be science-based. We are concerned that primary industries are exposed to biosecurity threats if the scientific evidence put forward is not sufficiently proven. For example, an imported pollen which had been approved by the ministry may prove to have been a vector for the Pseudomonas syringae pv. actinidiae (Psa) virus. The ministry accepted that contradictory scientific evidence will often be available, and maintained that scientific evidence supporting import health standards is necessary. We understand that the ministry has recently released the results of an independent review of import requirements and border processes following the Psa outbreak, and plans to implement its recommendations. We intend to monitor the effect of their implementation.

Gazetting marine coastal areas

The Minister believes that the application by New Zealand King Salmon Company Pty Limited to begin salmon farming in Marlborough could greatly benefit the local economy. We are concerned, however, that this application caused an area in Marlborough to be gazetted which was already covered by a spatial plan developed by the local community. Gazetted space in a coastal marine area is put aside space in case it is needed for future treaty settlements. The ministry explained that it has been acting in accordance with its legislative obligation for 20 per cent of all new commercial aquaculture space created after 1 January 2005 to be allocated to Māori, and that gazetting this area does not mean that it has already been allocated for settlement; only that it is set aside for potential use in the future.

Primary Growth Partnership

The Primary Growth Partnership invests in research and innovation programmes for primary industries. Funding allocated for Primary Growth Partnership projects form a significant portion of this vote. We asked whether small funding allocations with less rigorous conditions could be made for smaller sectors that find it difficult to meet the partnership’s requirements. The Minister acknowledged that the partnership’s process is tough, and added that some sectors can also obtain funding from the Sustainable Farming Fund. We are concerned that smaller sectors do not benefit from the Primary Growth Partnership because they find it difficult to meet its funding requirements.

Foreign charter vessels

The Government recently announced that it intends to change the law to require foreign charter vessels operating in New Zealand to fly the New Zealand flag and adhere to local
legislation. The Minister is proposing a four-year transition period, and we asked why implementation of the policy need take so long. We heard that the Minister is unsure about the financial implications for the fishing industry. During consultation on the policy, the ministry also found it difficult to ascertain what the industry’s response would be. The four-year transition has been signalled to allow for potential responses, but we understand the policy may come into force sooner. We congratulate the Minister on this initiative.
Appendix

Approach to this examination

We met on 21 June and 19 July 2012 to consider Vote Primary Industries. Evidence was heard from the Minister for Primary Industries, Hon David Carter, and the Ministry for Primary Industries, and advice received from the Office of the Auditor-General.

Committee members

Shane Ardern (Chairperson)
Steffan Browning
Hon Shane Jones
Colin King
Ian McKelvie
Hon Damien O’Connor
Eric Roy

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for Primary Industries, Response to additional written questions, received 4 July 2012.

Minister for Primary Industries, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Primary Industries, received 18 June 2012.

Vote briefing paper, Vote Primary Industries, prepared by committee staff, dated 18 June 2012.
2012/13 Estimates for Vote Prime Minister and Cabinet

Report of the Government Administration Committee

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2012/13 ESTIMATES FOR VOTE PRIME MINISTER AND CABINET

Vote Prime Minister and Cabinet

Recommendation
The Government Administration Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Prime Minister and Cabinet, administered by the Department of the Prime Minister and Cabinet as set out in Parliamentary Paper B.5, be accepted.

Introduction
In 2012/13 the appropriations sought for Vote Prime Minister and Cabinet are $25.798 million, against an estimated actual spend in 2011/12 of $22.755 million. This increase is due to more money being sought for the Department of the Prime Minister and Cabinet’s departmental output expenses, including additional funding for the CabNet project (an electronic system to support Cabinet processes), establishing a new visitor centre at Government House, establishing the National Cyber Policy Office, and increasing capability in the intelligence groups. We note that the amount of money appropriated for departmental output expenses has increased significantly over the last three years.

CabNet project
The Department of the Prime Minister and Cabinet is developing new computer software to replace the hard-copy Cabinet paper system. The cost of this software is likely to be $6.5 million over the next four financial years. The web-based platform will confer a number of benefits: increased security and efficiency, a more effective audit trail, and an easily accessible repository of Cabinet papers. Highly classified information will not be placed on the system. The department has conducted a cost-benefit analysis of the new system, and told us that there would be savings across the board. We heard that Government agencies should be able to interact with the system without acquiring new software. We are interested in this project, and would like to be kept up to date with its progress.

Intelligence
Over the next year, the department intends to lead the New Zealand intelligence community more strongly. The core intelligence agencies—the New Zealand Security Intelligence Service, the Government Communications Security Bureau, and the National Assessments Bureau—are committed to working together to address threats and risks of many kinds. We were pleased to hear that the agencies recognise that collaboration is imperative. The department’s role is to coordinate and facilitate the activities of the core agencies with the wider intelligence community, including for example the intelligence branches of the defence force, police, and customs service.

In addition to its traditional roles the intelligence community is committed to maintaining New Zealand’s cyber security, an increasingly important focus. Earlier this year the cyber-security policy arm of the Ministry of Social Development was transferred to the department, and the National Cyber Policy Office was established. It will be responsible
for the National Cyber Security Strategy. We note an increase in appropriations in this vote and others to increase the capability of New Zealand's intelligence community to respond to cyber-threats. We look forward to being updated on their performance in this area.

**Emergency response and preparedness**

The department’s security and risk group has three responsibilities regarding emergency response and preparedness: to ensure that agencies are ready to respond; to ensure that Government agencies work together; and to ensure that lessons are learned from incidents. We asked about the lessons drawn from the response to the grounding of the CV *Rena* on the Astrolabe Reef near Tauranga. The department said that public communications during the early part of the response could have been better, as there was a perception of inactivity in spite of the fact that work was continuing. However, we were pleased to hear the view that the speed and effectiveness of the response easily met international standards.

**Canterbury Earthquake Recovery Authority**

We asked about the department’s interaction with CERA. We heard that for the three months following the Canterbury earthquakes the department worked very closely with other departments to coordinate the response and also provided policy advice. But as time has gone on, and with the establishment of CERA to oversee the recovery, the department has reverted to its traditional role of providing advice to the Prime Minister and coordinating Government departments regarding the recovery. The department has a staff member seconded to CERA, and is in regular contact with its chief executive.

**Government House**

Government House has undergone a major conservation project, which was recently completed. The department is now overseeing a project to construct a visitors’ centre at Government House, for which $500,000 is to be appropriated in 2012/13. A visitor centre was separated from the conservation project in order to reduce costs. The centre will be housed in several existing buildings. We heard that this was a cost-effective opportunity to add value to the conservation project, and a way to facilitate public access to Government House. We are pleased with this initiative, and look forward to its completion.

**Departmental survey**

The department is planning to conduct a stakeholder survey later this year. It will consist of qualitative interviews with selected senior public servants and Ministers. We look forward to seeing the results of this survey.

**Prime Minister’s Chief Science Advisor**

The Prime Minister’s Chief Science Adviser, Sir Peter Gluckman, provides strategic and operational advice on science and science policy issues. Vote Prime Minister and Cabinet includes an ex gratia payment to the University of Auckland for continued support of Sir Peter’s research programme during his membership of the Science Advisory Committee. A sum of $218,000 is sought for this purpose in 2012/13. We were interested to hear that Sir Peter also receives a travel allowance and stipend, which are not covered by this appropriation.
Appendix

Approach to this examination
We met on 20 June and 18 July 2012 to consider Vote Prime Minister and Cabinet. Evidence was heard from the Department of Prime Minister and Cabinet, and advice received from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Eric Roy
Holly Walker

Evidence and advice received
We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Prime Minister and Cabinet, received 18 June 2012.

Prime Minister, Response to standard Estimates questionnaire.

Prime Minister, Response to supplementary questions.

Response to additional questions, received 11 July 2012.
2012/13 Estimates for Vote Revenue

Report of the Finance and Expenditure Committee

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Vote Revenue

Recommendation
The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Revenue as set out in Parliamentary Paper B.5, administered by the Inland Revenue Department, be accepted.

Introduction
The appropriations sought for Vote Revenue increase by 22 percent to $6.9 billion in 2012/13 from estimated actual spending in 2011/12 of $5.7 billion.

Over half the appropriations in the vote are for benefits and other unrequited expenses, including KiwiSaver tax credits and kick-start payments, Working for Families tax credits, and child support payments. The total of $3.8 billion for these purposes is just slightly below the previous year’s estimated actual spending. About 10 percent of the vote ($691.9 million) funds the Inland Revenue Department (IRD); these output expenses increase by 4 percent in 2012/13, which includes additional funding for managing and collecting debt. The department’s capital expenditure makes up just 2 percent of the vote. It increases by 60 percent over the previous year, to $104 million, with extra funding for business transformation initiatives, mainframe replacement, and student-loans-related expenditure.

The main change is to the appropriations for non-departmental other expenses, which constitute 34 percent of the vote and cover debt and loan write-offs, write-downs, and impairments. These expenses increase by 104 percent from the 2011/12 level, to $2.3 billion. Although large, this change is not of major significance. It has three main components: the impairment of child support debt increases by $310 million, returning to a normal level after a tidy-up of accounts reduced the amount owing last year; the impairment of student loan debt increases by $304 million after policy changes reduced the impairment expense last year; and an appropriation for the write-down of the fair value of student loans increases by $535 million, reflecting the first full year of this expense since it was transferred to Vote Revenue from Vote Social Development on 1 April 2012.

Focus in 2012/13
In the coming year the department will focus on modernising and improving its systems—a major technology upgrade is planned—and on taxpayer compliance, to try to ensure that the Crown receives all the revenue that is properly due to it. We discuss these work areas below.

Revenue collection efforts
Budget 2012 proposes an extra $78.4 million over four years to boost the IRD’s work on ensuring that taxpayers comply with their obligations. We heard that funding for this purpose in Budget 2010 ($119.3 million over four years) has been producing good results, with about $6.62 collected for every dollar spent. About $350 million has been collected so far from the hidden economy and property transactions. An additional $115.3 million of
tax debt has been collected—a return on each dollar of about $9.50. The department estimates that the resources provided in Budget 2012 will reap about $345 million in revenue.

Another area of work is closing loopholes in an effort to make the tax system as fair as possible. Budget 2012 proposes changes to livestock valuation rules, preventing participants from switching between valuation schemes to close an avenue for avoidance. This is expected to save $184 million over four years. The removal of three tax credits—for income under $9,880, for childcare and housekeepers, and for children’s earnings—will save $117 million over four years.

Other measures include removing the bonus for voluntary student loan repayments, expected to save $43 million over four years, and changing the deductibility rules for mixed-use assets such as holiday homes and boats, which should save $109 million over four years. The department is also consulting the public about salary packages involving non-cash benefits, and expects to decide on measures in the coming year.

Revenue implications of asset sales

We note that the Treasury’s forecasts, in documents such as the Budget Policy Statement 2012 and the Budget Economic and Fiscal Update 2012, indicate that the revenue foregone from dividends and retained earnings after the planned sales of shares under the mixed ownership model is likely to increase the net Government deficit by about $94 million a year. We asked the Minister how he planned to compensate for this forecast loss of revenue. The Minister referred to the programme of revenue collection outlined above, noting that the increase in revenue from better enforcement of existing tax rules, along with the increases in the excise on tobacco and petrol announced in Budget 2012, would amount to over $1.7 billion over five years, or $250–500 million a year. He emphasised that the revenue collection measures do not represent new taxes, but by ensuring that the Crown gets the revenue properly due to it, they help to reduce the likelihood of taxes needing to be increased. Some of us conclude from this that taxes could be lower by $100 million a year in the absence of the proposed asset sales.

Some of us are concerned that incentives for energy companies to minimise tax may increase under mixed ownership, as the social responsibility requirements of SOEs will no longer apply. Some of us also consider that foreign shareholders in mixed ownership companies are likely to make tax collection more difficult for the Government. The Minister said that the Government will continue to focus on finding and closing any gaps in the system, and collecting all the revenue that it is lawfully owed. This will include enforcing existing arrangements for collecting taxes on income earned by overseas interests from New Zealand sources.

Organisational challenges

The IRD’s role has expanded in recent years from simply collecting taxes to include numerous social policy functions, such as management of student loans, child support, Working for Families, and KiwiSaver. The department faces major difficulties adapting to these new roles within the constraints of its archaic information technology systems. With the help of Capgemini consultants, it is developing a business transformation plan for the Government’s consideration later this year, which will include a major technology upgrade.
In the meantime, it must adjust what it tries to achieve to fit its capacity. We acknowledged these constraints with the amendments we recently recommended to the Taxation (Annual Rates, Returns Filing, and Remedial Matters) Bill.

**Information technology upgrade**

The department has had problems for some time with its ageing operating system, which pre-dates the internet and has struggled to cope with increasing demands as the IRD’s role has expanded. Major plans to upgrade the information technology (IT) systems are being developed, for implementation over the next five to ten years. Some of us expressed concern over the vagueness of budgets and timeframes for this important work.

Additional capital expenditure is proposed in 2012/13 ($104 million, compared with $65 million in 2011/12), including about $52 million for investment in IT infrastructure such as mainframe processing capacity. We understand, however, that this is merely an interim upgrade to keep the existing system workable pending decisions on its eventual modification or replacement. The Minister told us that the IRD’s consultants will report shortly with long-term proposals. The Government will then need to take some major decisions about the IT investment needed to achieve the department’s strategic goals. We will follow such decisions with interest, as we recognise how crucial the department’s IT systems are to its operations in managing a large proportion of the Crown’s revenues and transfer payments.

**Online services**

We note that the Government’s objectives for better public services include moving to more digital transactions, and providing more of a “one-stop shop” for the public sector. We asked whether the IRD’s technology is constraining efforts to achieve these goals, since it is now the department which New Zealanders deal with most. The Minister said the department has still made good progress, with a million users registered for online services and half of its transactions now done electronically. A redesign of student loan payment arrangements over the past year had also gone smoothly. Over the next few years there will be a concerted effort to create a one-stop shop, so people will not have to provide the same information repeatedly to different agencies.

We are aware that the removal in 1999 of the requirement to file a return was a step toward paperless efficiency, but it has created some tension as people no longer receive an annual statement of the tax they have paid. The Minister acknowledged this tension, but said the aim is for it to eventually be possible for people to review their tax accounts readily online. In addition to work by the IRD, however, it would require a change in public attitudes, and wide acceptance of electronic media.

**Change of Commissioner**

A new Commissioner of Inland Revenue, Naomi Ferguson, has been appointed and will take up her role in late July. She was formerly a deputy commissioner at IRD, and has worked most recently in a senior role with Her Majesty’s Revenue and Customs in the UK, overseeing a similar transformation process to that on which the IRD has embarked. We thank the outgoing Commissioner, Bob Russell, for his work with the department.
Tax policy options

We asked the Minister whether he had considered alternative tax policies such as a capital gains tax as a means of encouraging growth, supporting exporters, and reducing New Zealand’s balance of payments deficit. The Minister said the Tax Working Group in 2009 had undertaken a robust examination of New Zealand’s tax system, covering a wide range of possible options such as taxes on land and capital gains. Its conclusions had given no strong indication that any of those options was worth pursuing, for various reasons which had been well publicised. The Government concluded that a combination of measures introduced since Budget 2010 would be more effective: changes to depreciation rules and to the treatment of loss-attributing qualifying companies, personal tax changes, the closing of loopholes, and stronger enforcement of compliance. The Minister described the package of changes as the biggest transformation of New Zealand’s tax system since the 1980s. In response to our questions, the Minister told us he did not think the issue of a capital gains tax had been revisited in recent years in any of his discussions with the Minister of Finance, with whom he shares responsibility for tax policy decisions.

Tax revenue projections

We note that the IRD’s estimates of future tax revenue have tended to be less optimistic, but more accurate, than those of the Treasury. Given the uncertain international situation, which led the Reserve Bank to revise its projections downward in its June monetary policy statement, we asked whether the department has also reconsidered its projections since the Budget. We were told that it had not, but that the projections were kept under review throughout the year.

Effective tax rates

We are aware from media reports that the department’s revenue collection measures include targeting wealthy individuals to ensure they are paying their fair share of tax, and that such efforts are expected to net $500 million over 10 years. We sought data about the effective rates of tax paid by wealthy New Zealanders compared with those on middle incomes. We were informed that, using the 2010/11 tax scale, the average tax rate of the high-wealth individuals monitored by IRD was 33.9 percent for their personal income, and 28.2 percent when other taxable income was included, such as that earned through a trust, a PIE, or a company. It was more difficult to calculate an average tax rate for middle-income New Zealanders, but an indicative comparator for someone on an average wage was 17.9 percent. Working for Families entitlements would reduce the average net tax rate to 8.4 percent for a single-earner parent with one child, or 2.3 percent with two children.

It is of interest that such calculations do not capture the extent to which income is not taxed. As the wealthy are more likely to structure their affairs to avoid the tax net, some of us question the fairness of the statutory definition of income. The Minister said that in recent years the IRD has been regularly examining and broadening the definition of income for tax purposes, and will continue to do so. Various measures in Budget 2012 contributed to continuing efforts to minimise opportunities for people to construct their tax affairs to their advantage.

The Minister added that when Working for Families rebates are taken into account, 40 to 50 percent of households effectively pay no net income tax, and roughly 40 to 50 percent of total net income tax is paid by those in the top 10 percent income bracket, suggesting
that the tax burden falls most heavily on the wealthy. It was also worth noting that the tax reductions in 2010 applied mostly to the two lowest income brackets, which covered all income tax-payers.
Appendix A

Approach to this examination

We met on 20 June and 18 and 24 July 2012 to consider Vote Revenue. We heard evidence from the Minister of Revenue, Hon Peter Dunne, and the Department of Inland Revenue. We received advice from the Office of the Auditor-General.

Committee members

Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Dr Nick Smith

Evidence and advice received

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Revenue, prepared by committee staff, dated 20 June 2012.

Minister of Revenue, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Revenue, received 20 June 2012.

Responses to additional questions, received 4 July 2012.
Appendix B

Corrected transcript of hearing of evidence 20 June 2012

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
Mark Mitchell
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Dr Nick Smith
Jonathan Young

Witnesses
Hon Peter Dunne, Minister of Revenue
Bob Russell, Commissioner

McClay Well, Minister Dunne, good morning. Welcome to the Finance and Expenditure Committee. We have estimates Vote Revenue before us today, so thanks for giving us the time. We’ve got until 10 o’clock. I’d like to invite you to maybe make some opening comments, and I’m sure colleagues on both sides of the table will have questions for you.

Dunne Thank you, Mr Chairman. Can I begin by just acknowledging that I have on my right the Commissioner of Inland Revenue, Mr Bob Russell, who I think will be making his final appearance before this committee. Bob’s term as Commissioner concludes next month. On my left I have Mr Struan Little, who is deputy commissioner, policy. I have a supporting cast that includes Giles Southwell, who is our chief financial officer, so they’ll assist me in the answering of any questions.

Can I just make some opening remarks by way of a scene-set, really, for where the department is at and what these estimates are about. I think the first one I’d make is that Inland Revenue is responsible for collecting 77 percent of the tax revenue that the Government requires each year to fund its programme, so it’s a major player in that respect. It administers a number of social policy programmes: the Working for Families tax credits, which see around $2.8 billion paid out to just over 416,000 families a year; the repayment of student loans, we collected just under $700 million in student loan repayments last year; Child Support, $420 million collected last year, and I think from memory...
220,000-odd - plus clients in that respect; and KiwiSaver, where we forwarded $2.9 billion to KiwiSaver providers for the 1.76 million members during the last year.

There have been changes made in terms of our ability to share information with other Government agencies. All of this means that for most New Zealanders Inland Revenue is now the Government agency they have the most frequent contact with throughout the course of the year. But we face some significant challenges. Our first computer system dates from the early 1990s, and while it’s able to meet current and projected future transactions and processing demands it lacks the flexibility to respond to a lot of the changes that have been made in recent years. I can put it as simply as this: when first it was devised it was world leading as a tax collection system. Since that time we have added things like Child Support, Working for Families, student loans, KiwiSaver, and one or two other programmes as well to it. So the system is literally coping under some duress with a number things it was never designed to cope with, and that is causing us some issues for the future.

So we are—it is no secret—looking at a significant technology upgrade. That will be a big focus of our work in the forthcoming year. We’ve had a lot of preliminary work and planning being done. We’re expecting to get the report from consultants shortly about the nature of the business transformation plan. At that point the Government will need to make some significant decisions regarding the way forward, future investment levels, etc. But that’s not to say that we haven’t been active over the last year. For instance, when I spoke to the Social Services Committee about this last week a major—in fact, the most major redesign and reinvigoration of the student loan system since its implementation went live in April without a glitch.

We’ve made the biggest general system changes in the department in the last 10 years. We’re also spending a lot of effort on taxpayer compliance activities. Budget 2010 and Budget 2012 have given the department extra resources to strengthen its compliance activities, and as a result we’re getting around $6.62 back for every dollar invested in that respect. So we’ve got somewhere in the order of $350 million back already from the hidden economy, from the property sector, and we’ve recovered an additional $115.3 million of tax debt, which is actually a return of about $1 for $9.50. We’re estimating that over the next 4 years as a result of the resources contained in Budget 2012 we’ll have a net positive impact in this area of around $345 million.

Finally, in addition to those big-picture things we’re also involved in, through the tax policy function, ensuring that we protect the revenue base, that we streamline it, close down loopholes where they occur and really against the backdrop of trying to make the system as fair as possible. So if you look at Budget 2012, for example, we changed the livestock valuation rules, which had essentially been—not a rort so much, but there was an avenue for avoidance opened up by the fact that participants could opt between schemes as it suited them. That was the subject of widespread public consultation. That will give us a saving of around about $184 million over the forecast period. We’ve
removed three pretty ancient tax credits as part of a programme to look at all of our tax credits and processes, and they will give us another $117 million over the next 4 years. We repealed the student loan voluntary repayment bonus; that will save around $43 million over the next 4 years.

Coming up we’ve got the work that was foreshadowed in last year’s Budget—we’ve been consulting on it and we’ll be implementing shortly—regarding the deductibility of costs on mixed-use assets. That’s baches, launches, and other assets of that nature. We expect to gain $109 million over the next 4 years from that policy. We’re also out discussing at the moment through an issues paper the question of salary trade-off, non-cash benefits, and we’re expecting to make decisions on that later in the year.

So, Mr Chairman, that’s a very high-level overview of what’s a pretty thorough level of activity and a big focus for the next 12 months in terms of modernising and improving our tax system and making sure that we collect all the revenue that is properly due to us.

Cosgrove Minister, good to see you here; we’ve missed you. Could you confirm for us what the increase in the deficit in out-years will be as a result of the asset sales?

Dunne Well, that’s not within my brief to discuss today.

Cosgrove So you can’t confirm that for us?

Dunne Well, it’s not within my brief. I’m not responsible for the managing of the Government’s deficit.

Cosgrove Given that—I’ll help you out—in your own Budget documents and in the BPS it is in the order of $94 million, maybe you might want to check with your colleagues, what additional revenue will you be collecting in order to make up for that deficit?

Dunne Well, I think you heard me indicate just a moment or two ago a significant programme of revenue collection amounting to several hundreds of millions of dollars over the next 4 years. That is part of an overall approach to make sure we collect all the revenue that is properly due, and that we do that vigorously and fairly.

Cosgrove So do you think that New Zealanders are looking forward to being taxed an extra $100 million or hundreds of millions of dollars in order to make up in part for this deficit?

Dunne I think the presumption of your question is false. There are no tax increases involved in these measures. These are all about enforcing existing tax laws, gaining the revenue that is properly due from them, and making sure actually in the long term that taxes are kept low and aren’t being increased frivolously because we aren’t collecting in the first instance the money that we should be.
Cosgrove Given that the BPS documents show that the asset sales will save debt servicing costs of $266 million per annum, yet the revenue that is forgone from dividends from the sale of State-owned assets is $360 million, leaving us in the red by $100 million, do you think that’s a good deal for the taxpayer?

Dunne What I’m saying is that we are collecting the revenue that we think is properly due to the system through better enforcement of laws, through removing tax anomalies that are actually costing us money, through clarifying areas that are currently unclear, all of which is returning a significant amount of additional revenue to the New Zealand Government over the next few years—all of which reduces the likelihood of there needing to be tax increases.

Cosgrove I wouldn’t mind some precision to the answer, because this does go—it is germane to these estimates because it does go: you collect revenue, and your collection of revenue is connected to the Government’s programme. And we now know that the country will be in the red through this deal, of which you are a pivotal vote, possibly you could prevent—

Smith Point of order. We’re here to consider Vote Revenue. We’ve had a very healthy debate with the Minister responsible, both the Hon Tony Ryall and Bill English with respect to the mixed ownership. There are very specific elements of the vote that we’re here consider this morning, and the questions that the member is pursuing are well beyond that. Now, if it’s a question of the revenue that may come from the taxing of those mixed-ownership companies I think that would be within the purview of the questions that it’s appropriate for the Minister. But questions about the contentious issue that’s being debated in the House should be left in the House and we should get on and do our work, which is to scrutinise Vote Revenue.

Parker Mr Chair, the questions that Clayton Cosgrove is putting to the Minister arise from the fact that because of the State asset sales the additional tax revenue that has to be gathered that would not otherwise be needed is $100 million per annum, and it’s perfectly proper for him to ask questions about that additional $100 million of revenue that is needed as a consequence of Mr Dunne voting for this legislation to sell assets and increase the deficit.

Norman Just to reinforce what my colleagues are saying, it’s perfectly legitimate for us to ask the Minister of Revenue about how he’s going to deal with a $100 million hole, whether he’s planning to raise more revenue as a result of the $100 million hole or whether he’s not.

McClay Mr Smith has raised an important point. The questions addressed to the Minister should be as a Minister as part of this vote. Anything that colleagues may wish to know about what he’ll do as an individual when he votes in Parliament should be addressed through Parliament, not here today when he’s here as a Minister.
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You’ve asked questions around this, particularly around whether or not there’ll be a short-falling, and I thing the Minister has gone to address that. So if you have more questions, please carry on.

Cosgrove  Point of order. I’m entitled to speak to this because the point of order was against me. My colleague, David Parker, has made the germane point. The Government has embarked on a programme that will leave a $100 million hole. Mr Dunne, apart from—which I agree are slightly different issues—being the pivotal vote, apart from ducking this issue, is required to actually fill that hole with revenue. It is in order to ask him questions around that. Now, he hasn’t turned up in Parliament, he hasn’t voted, he hasn’t made a speech, and he’s here now and this is the only opportunity we can to scrutinise him.

McClay  You are now out of order. Whether or not he has turned up to Parliament is not for this committee. Actually, you’ve asked questions of the Minister and he’s addressed them as a Minister, and therefore I’ll come back to the Minister—

Dunne  Mr Chairman, I’m happy to answer those, actually. If you look at the forecast period over the next 5 years the revenue measures that I’ve just spoken of, and if you include the tobacco excise and petrol excise increases, amount to a $1.734 billion increase in revenue. So if Mr Cosgrove wants to talk about $100 million a year, by my calculation $1.734 billion over 5 years is far in excess of that, and in fact if one looks at the forecast figures for 2013, 2014, 2015, you’re looking at figures that range from between around $250 million and $500 million per annum.

Cosgrove  So I take it from that—is that the case that the taxes would need to be $100 million less if the asset sales, or the collection of the assets sales, didn’t go ahead?

Dunne  No, I think you’re being frivolous. The point I made in my opening remark—

Parker  How’s that frivolous?

McClay  Please let the Minister answer.

Cosgrove  It’s not your job to say whether my question’s frivolous; your job’s to answer it. It’s about time you did actually start answering some questions on this, Minister.

McClay  Can I have some order, please. Just a moment, Minister. Clayton Cosgrove—Clayton, thank you, we’re going to move on now. We’ll come back to you in a moment. But the reason for this is we need good order in this committee. It’s the chair that decides upon good order. When you ask a question and keep peppering the Minister without getting an answer, that doesn’t lead to good order.

Cosgrove  You’ve tried to shut this debate down—
McClay  I’m not shutting the debate down at all. We’ll come over here and then we’ll come back. You are out of order. Thank you.

Goldsmith  Minister, I wanted to ask you about the broader issue of Better Public Services effort across the whole of the public sector. In result area 9 we’re looking at New Zealand businesses having a one-stop shop for all Government advice and support that they need to run and grow their business, and result area 10 where New Zealanders can complete their transactions with Government easily in a digital environment. Now, those are two things that we’re trying to get towards, and I hear all what you’re saying about the constraints that you’ve got with your IT systems. I’d be interested in knowing just how you’re going to get us towards those two objectives, given the constraints you’ve got.

Dunne  Well, Inland Revenue’s a key part of that Better Public Services group of Ministers and agents who are sort of working at the moment to develop the integrated type of systems that we need to deliver that objective. The transformation project that Inland Revenue is undergoing is really designed to facilitate the delivery of our own services in a much more user-friendly way, and that will then fit into the bigger picture. But if you take the sorts of steps that we’ve been making over the last 12 months—I don’t have the figures immediately in front of me, but someone can help me—we’ve increased dramatically the number of online transactions that have taken place. What is it at the moment?

Russell  We have a million people registered for our online services; we have a quarter of a million people that have registered for voice identification when they call us. There used to be, a couple of years ago, one in four of our transactions were electronic; it’s now half of our transactions are electronic.

Dunne  And when I spoke to Social Services last week I spoke about similar improvements in the number of online interactions with regard to student loan repayment. The changes that we’re looking to make to the Child Support scheme and the legislation that’s currently before the House will again facilitate the engagement of people in meeting their obligations. What all this leads to is the type of joined-up service that you refer to in your question. And the ideal point, over time, will be that there is a single point of entry into the Government system for people. One of the frustrations you hear constantly is: “I’ve already provided that information. I might have given it to social welfare, I might have given it to ACC, or I might have given it to IRD. Why do I have to keep providing it again?” So I think you are going to see, over the next 4 or 5 years, quite a concerted move in this direction, and the changes that we are focusing on are really part of making sure that Inland Revenue, as probably the primary agency in this respect, can deliver those.

Goldsmith  The other area that you are working on, related to that, is this old question of simpler and fairer requirements for individuals in terms of putting out forms. I just wonder—I can understand the logic of not getting everybody to—you know, there’s a large group of people that don’t have to fill out regular forms for IRD. One sort of side issue consequence is that you don’t get an annual
statement necessarily unless you ask for it of just what tax you’re paying and what credit you’re getting, and from a public policy point of view I would have thought it would be useful for people to be reminded of that every year, and so there’s a bit of a tension, I suppose, between being as paperless and as efficient as you can and not requiring people to get involved in filling out forms, but also informing them that “You are actually paying X amount this year”—

Peters What’s this question apropos of?

Goldsmith I’m asking—

Peters But what’s the question apropos of, though, for goodness’ sakes? If we’re going to be a serious committee, and given the last discussion, what is that possibly about?

McCly I think it’s a serious question. Carry on and the Minister will answer it.

Dunne You’re right, the requirement to file a return was abolished in 1999, from memory, and there has been a bit of a tension subsequently because at the moment people needn’t file a return unless they are in particular circumstances, but if they’re seeking a rebate or a refund, and so there is an argument about a lot of opportunity might be lost in that respect. You’ve seen a significant growth in the number of people seeking personal tax summaries and you’ve seen this big growth in this sort of ancillary industry of agents now saying “We can get you your overdue refunds.”

The ambition is to get to the point where all of that can be done online so that the person is able to review their tax account daily, or certainly regularly see where they’re at. They don’t need to be relying on this material being provided either annually or by some external agency. But that process is going to take quite a big step of transformation, not just in terms of technology, but also public attitude, because we have a large number of people, particularly in rural communities, who may not have sufficient access to broadband or technology at this point. A lot of small businesses, for instance, who’ve always done it on the kitchen table on a Saturday evening or a Sunday evening, and changing a lot of those attitudes. But we’re up for that. That’s really got to happen in terms of modernising the system and in terms of the primary question that you asked, in getting back to that.

And, as the Commissioner pointed out before, we’ve already got a million people registered for our online services, so that change is occurring. What we found with the student loans process was that in the end it became very much customer driven. People expect to be able to use these services, so they will drive us to make sure we deliver them that way.

Norman Following on from the discussion earlier, so there’s a $100 million increase in the deficit, the operating balance excluding gains and losses. Your response to that was to say: “Well, we’re increasing taxes in these other areas so that more than covers the $100 million loss as a result of the privatisation programme.”
So is it then accurate to characterise your position as saying: “We’re increasing taxes in other areas in order to cover the hole created by privatisation.”?

Dunne
No, what I said was that we are increasing the collection of taxes that have already been properly levied. There are no new taxes being imposed, but we are certainly making sure that every dollar that is legitimately due, to the greatest extent possible, is collected. And that actually mitigates against the need for tax increases in the future.

Norman
So in terms of looking at the taxes we get out of these companies, have we had an issue in the past of—one of the big issues that’s come up here constantly is tax minimisation and how to reduce tax minimisation. Are we aware of any tax minimisation issues with these companies being privatised? I’m not speaking about any one company.

Dunne
No, and I’m not going to give an answer that will apply to a particular category of companies, for obvious reasons. But in essence our focus has been on where there have been avoidance opportunities established, closing those loopholes as best we can. And there’s been a very proactive policy in that respect. The work that’s been done over the last few years, as I say, returning $6.62 for every dollar we invest is proof positive in that regard.

Norman
Looking at the policy of the Government with regard to privatisation, so we’re moving from companies that I can’t imagine that these four SOEs have got a tax minimisation strategy—they operate under a social responsibility clause—whereas they’re competing against companies that no doubt do, like Contact Energy and so forth. Have you got any advice as to making sure that once these companies go through the privatisation process they don’t engage in serious tax minimisation activity?

Dunne
Well, it’s not so much a question of advice; it’s a question of what action we’ll follow, and what we have done, and whenever instances have been drawn to Inland Revenue’s attention where such circumstances might be being applied, they’ve been followed up. Where there have been clear opportunities under the last two Governments, actually, that I can speak for, where those gaps have been identified they’ve been closed. That will continue to be the policy regardless of what the overall revenue boundaries might be, because our focus is on getting in the revenue that’s properly due to us.

Bennett
Just on that, one of the things that you talked about earlier was the livestock tax, which is a capital gains tax, and that has had loopholes in it and you’ve closed that off. Does that show difficulty in those types of taxes as well—in structuring them?

Dunne
Well, the situation there was you had an unintended consequence where effectively you had two options and what was happening was that people were transferring from one to the other as it suited them. What had always been envisaged was that people would make their bed and lie on it, not sort of
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switch from time to time. So effectively what we’re doing is saying to people
you’ve got to make an election at a particular date and stick with those rules.

But I think what it does highlight is there are always circumstances that arise
where the law is not being followed as intended. And where those situations
arise—and there have been many over the years—we’ve acted. And we’ve
acted in a very particular way. We’ve always gone out there and consulted in
terms of what the intention of the action is, and I just would use the current
work around mixed-use assets as an example. We’ve listened to what the
submissions have shown and then we’ve legislated, and you can think of a
series of things over the years where that process has been followed, and by
and large what it has led to has been a good tax policy outcome, not only more
revenue for the Crown but a more consistent approach to the treatment of
those particular institutions.

Bennett And then you also said that the attempt to get tax revenue from, say, student
loans and that, when people go overseas and that, which is another avenue that
you have, there’s a lot of opportunity—

Dunne Yes, actually the student loan story is a good one. Whereas the rate of return
generally is about $6.20 for every dollar invested, as I indicated before, in the
student loan case it’s up over $12, and that’s against a backdrop when we
started the policy of chasing offshore debtors seriously in around 2010, a lot of
very cautionary advice as to what we might expect to receive. It’s actually been
remarkably successful—in fact, over $20 million so far returned.

Norman I’ll try to be as focused as I can. What I’m trying to get at is have you got any
specific advice—in fact, what I’m hearing is that you don’t have specific advice
about the impact of the privatisation programme in terms of, firstly, how are
you going to fill the $100 million hole; secondly, how you’re going to look at
whether you have further tax minimisation problems once these companies are
privatised; and, thirdly, whether you’ve got any advice about very large foreign
ownership of these companies is going to create the temptation towards tax
minimisation with these companies once the privatisation proceeds.

Dunne Let me try and answer each of those as best I can. Firstly, it is not the role of
the Inland Revenue Department or the Minister to give advice to categories of
taxpayers about how they should meet their tax liabilities. It’s the role of the
Minister and the department to make sure that the law is enforced. In terms
of the specific question, where particular instances become apparent that are
clearly a breach of the law or create a situation that is at the very least
ambiguous they are acted upon. Inland Revenue already has senior account
managers who monitor activities in this respect. That will continue to be the
case. Can you just repeat your final question about offshore interests?

Norman We have often heard here about the difficulties involved in trying to tax
properly offshore owners of major assets, and with the privatisation
programme we’re going to have major overseas owners, if this proceeds. So
have you sought any advice about how you’re going to deal with that?
Dunne Well, the advice would be to take the normal steps that we follow in terms of our existing arrangements for the taxation of income earned by offshore interests from New Zealand sources.

Clark My question is a little bit around collecting what’s due and that way in which the tax projections differ between Treasury and IRD. And, Minister, you’ll know that IRD probably has the prouder record of the two. The Treasury tends to be somewhat optimistic, perhaps—I mean, in the asset sales example they booked the proceeds but they didn’t book the reduction in revenue that might be expected. And, you know, it’s that kind of optimism—bias, perhaps—that is injected in all of their work. But even still, the tax-take dropped from 35 percent to 31 percent over the last 4 years, and in your BIM, your briefing, it was suggested by officials that that was largely the result of revenue changes, and we know that the current understanding of Treasury is that it’s about $12 billion worth of tax cuts across the forecast period, which is a significant cost, obviously.

My question about the projections going forward, and particularly your view of them, is is the Minister of Finance, as he keeps characterising himself as optimistic—is it perhaps not fairer to perhaps characterise him as wildly optimistic or hopelessly optimistic in terms of where those projections go?

Dunne I’m not going to characterise the Minister of Finance. I’m simply going to focus on what are Inland Revenue’s estimates, both in terms of what the department’s activities are going forward, but also what our expectations are, and you can draw your own conclusions.

Clark Can you make some comment about that?

Dunne Well, I think I’ve been doing that for however long I’ve been here, indicating that we’re expecting over the next 5 years, if you take the total picture of what Inland Revenue would be directly responsible for, around $1 billion in additional revenue. If you include the excise increases, that figure increases to around $1.7 billion.

Clark A lot of the changes that have been made, or are to be made, have been characterised as tinkering by Opposition parties, admittedly, and the media—the paper boy tax and so on. Why are you not willing to look at some changes that would begin to address our balance of payments deficit and so on, like proactive, pro-growth tax policies, along the lines of a capital gains tax, for example—things that would really get New Zealand’s economy back on track and address the fundamental question, supporting exporters and so on?

Dunne In 2009-10—in 2009 we established the Tax Working Group. That had a pretty robust examination of the New Zealand tax system and all of the options that were on the table at that stage, including capital gains, including land taxes, all sorts of other things. There was no strong sense from that committee that any of those options was worth pursuing, for a whole variety of reasons, which are well known and are in the public arena. The Government
took the view at that point that the combination of measures that we made regarding the removal of depreciation in the 2010 Budget, changes to the treatment of loss attributing qualifying companies, the personal tax changes, the changes that had flowed from that in terms of what we’ve discussed already this morning—livestock, mixed-use assets, salary sacrifice, the better targeting of resources to chase recalcitrant taxpayers in terms of their responsibilities—all of those were a far more effective way of ensuring that this country gets the revenue that it needs to do its job properly, and in so doing we were also able to bring about the biggest transformation in the tax system since the 1980s. I think that’s hardly tinkering.

Clark You obviously have a great deal of autonomy, in terms of developing tax policy, from the Minister of Finance, and that became obvious on Budget day when he characterised the policies and said that children’s savings would not be taxed, and that, in fact, was incorrect. He obviously wasn’t across the tax changes that he was announcing. To what degree and to what extent do you discuss the future proposed tax changes that you’re making with the Minister of Finance?

Dunne The responsibility for tax policy is a joint one. I meet at least fortnightly with the Minister of Finance and at certain times of the year, obviously, far more frequently with him for a general catch-up, and all major tax policy initiatives are co-signed by both of us, and where necessary pretty intense discussion occurs.

Clark Has he raised with you the possibility of exploring a capital gains tax or other pro-growth tax policies?

Dunne This was part of the consideration at the time of the Tax Working Group that I referred to. Both of us spent a lot of time with that group, both collectively and individually, and the decisions that we reached in forming Budget 2010 reflected our views.

Clark With respect, though, the balance of trade has got worse and is projected to get worse over the fiscal horizon, and it might be that it’s time to revisit that. Is there a plan to revisit those decisions that were made?

Dunne No, there’s been no discussion in the last 2 years that I can recall, certainly not in the last year, about introducing a capital gains tax. The only discussion has been, I guess, some amusement at the Opposition’s policy in that respect.

Barry I’m interested in the transitions that you’re going through at the moment. Your old debt and the move to IT, the fact that you’ve got a new CEO—there’s a lot of changes within the organisation. How’s this impacting on the new programmes that you have planned?

Dunne Well, the new programmes are effectively merged into what our capacity to deliver is. In other words, we’ve been through in the first part of this year a major review of the portfolio in terms of what we can do and what we can’t do. Internally, we’re working through a whole process of engagement with our
2012/13 ESTIMATES FOR VOTE REVENUE

staff through ASE—accelerated solutions environment is the jargon—where we’ve actually—

Cosgrove Sorry, could you say that again.

Dunne Accelerated solutions environment, where we’ve been engaging with them about the process of change that we need to go through in terms of the type of agency we want to be. I said right at the beginning of my remarks that the whole focus of Inland Revenue has changed from being just a tax collection agency to being the agency now where New Zealanders have the most interaction with on an annual basis, and that will continue in the future. So we’re a major deliverer of social policy initiatives as well as the collector of tax.

The new Commissioner, who will take up her role towards the end of July, has been, firstly, she’s a former Deputy Commissioner of Inland Revenue in New Zealand; secondly, for the last 5 to 6 years she’s been working with Her Majesty’s Revenue and Customs in the UK overseeing a pretty similar transformation process to the one we’re about to embark upon. So I’m very confident, looking ahead, that, moving from the basis that Bob Russell and his team have established through to the new environment when the new Commissioner arrives, we will be able to not only see through the transformation process, but also deliver our programmes as seamlessly and effectively as we can. I guess the proof of that pudding is really in the figures I’ve been quoting about our revenue collection rates.

Barry And you’re confident the IT thing can be managed within the time frame.

Dunne It’s a massive task, and we’re not at the point yet of having made decisions about the nature of it, but the intention will be it will be done in bite-sized chunks.

Peters Within a month of the Budget the Reserve Bank was painting a very different picture. What has been your reflection since the Budget on the actual changing circumstances that the Reserve Bank have reflected on, and how is that reflected in your assessments?

Dunne Well, I think the world’s going through probably its greatest economic crisis since the 1930s. We’re in a peculiar position in New Zealand in that we are the most isolated developed country in the world. We rely very much on our capacity to trade, obviously, to survive. We all know that. But we are in a position, I think, as a country where we are essentially observers of what’s happening elsewhere, and, as you will well know, even in the last month more buffeting and shocks in Europe—in fact, this is a virtual daily occurrence. Now, obviously over time that will have to be reflected in terms of the reaction of the New Zealand Government to that situation. But our focus now—and, I think, into the future—will be on assuring that this little ship is as seaworthy as it possibly can be in very troubled waters. Clearly the situation is changing constantly but that doesn’t mean we simply throw in the towel and say that it’s
all too difficult. We’ve got to make sure that New Zealand is as well placed to withstand those shocks as it can be.

Peters Well, look, this is an extraordinarily wide answer.

Dunne Well, it was an extraordinarily wide question.

Peters No, no, that wasn’t the right question I asked you. Did the changed forward expectations of the Reserve Bank give cause to you and your department to reflect on whether your estimates are optimistic or otherwise? I don’t want to hear about what’s going on in Greece or Portugal. We all know about it. It’s not going to have a profound effect, because it’s only about 7 percent of our market. However, it might have an effect in Asia. That’s where I would have thought. Some of your forward estimates might be pared back now. That’s what I’m asking.

Dunne Well, look, there’s a process by which we will review that over the course of the year. But at this particular moment, 1 month after the presentation of the Budget, simply no.

Peters OK, good—the answer’s no. Can I ask you this. You said that there are no new taxes being imposed. Now, in 2006 there was a significant change to the taxation in the racehorse industry and in the breeding industry specifically, and that pertained for 2007, 2008, 2009, and then your department decided it would unilaterally, without a law change, change its interpretation. Is that true or false?

Dunne Well, the department has its own internal rulings and adjudication section that frequently reviews the interpretation of tax rules, tax laws. And the chief tax counsel does make those rulings.

Peters Right, so there have been 11 mediations already on that issue and you’ve lost 10 of them in a row—the first 10. Do you not think that the department’s perhaps being a bit idiotic in carrying on with the 11th mediation?

Dunne Look, I’m not going to comment on that particular detail, because I’m not familiar with that 11th mediation.

Peters Well, are any of your staff here able to help you?

Dunne Well, I’m going to ask them in a moment, but I just make this observation that the fundamental challenge of the department is to collect the revenue that it considers is properly due to it.

Peters Legally, yes—legally.

Dunne That would be the rubric within which those processes were being followed. But if anyone is able to add to that specifically—
Russell  We did discuss this the last time we appeared before the committee, and the department does occasionally—it doesn’t happen frequently—reach a view of the law that’s different from the view that it’s held in the past, and then we’ll pursue that course of action. I’m not currently aware of the particular adjudication case that you’re referring to, and even if I was I wouldn’t be able to comment on it as a specific case.

Peters  Hang on, you’ve had 10 mediations in which you’ve currently failed, and that’s not been brought to your attention? If you had 10 mediations on that law and the department has failed in all 10, wouldn’t such an outcome be brought to your attention?

Russell  We deal with thousands and thousands of cases, sir, and I’m not across every one of them.

Peters  Well, I think 100 percent failure rate would be a case that would be brought to your attention, wouldn’t it? Do you not think that? Somebody’s just being obstructive here, aren’t they?

Russell  No, I don’t believe that we’re just being obstructive.

Peters  Well, hang on, if you have 11 of these cases and the first 10 have gone to mediation and you’ve failed all 10, wouldn’t you think that somebody’s being obstructive in your department and just being bloody-minded with respect to somebody out there who is correctly paying his taxes?

Russell  No, I wouldn’t. I have a high degree of confidence in the integrity of our people.

Peters  So you’ve got confidence in somebody who’s failed 10 mediations in a row—10 out of 10?

Russell  I’m not familiar with the current case you’re talking about. I would be surprised if it’s 10 mediations in a row. I will take a look.

Peters  Well, I would have thought it would be alarming if somebody gave my—

Russell  I presume you’re referring to adjudications, are you?

Peters  Yes, that’s right, but that’s what they go through first.

McClay  If you’re not aware of them you could provide some more information back to the committee, perhaps.

Peters  There are people at the top of your department whose record of performance in the late 1980s and 1990s that went before a commission of inquiry was simply appalling. I want to know why they’re still in the position, those people, and yet the very people that were whistleblowers in the department against what the department was wrongfully doing, again endorsed by the High Court
and others, and all the way to the Court of Appeal, Privy Council as well—my point is—

Smith  Point of order. We are here to consider the 2012—

Peters  Oh, I’m aware of that. Go back to sleep.

McClay  Let him finish, Winston.

Peters  I’m totally aware of that.

Smith  —the 2012-13 estimates, and the member reciting events that may have occurred in the 1980s and 1990s is not the purpose of this financial review.

Peters  If you are patient I’ll tell you what I’m getting to. These people are still employed.

McClay  Actually, I do believe it is in order.

Peters  I’m saying people who failed miserably in a series of hearings where their performance was brought before the court and a high commission and went all the way to the Privy Council in London are still in the job. Those who performed correctly and alerted the department as to what was going on wrongfully— why is one group still employed at the very top of IRD and why have those other people, who I call the rightful whistleblowers, been treated so vindictively by your department?

McClay  Have you any comment to that?

Russell  My only comment would be that we have a very strong code of conduct, that we promote the integrity of the tax system very, I guess, intensively across the department. I am satisfied that all of our officers that are in place are doing their job properly. We do dismiss people from time to time when we think they are not operating in the way that they should be or when there are code of conduct violations. It’s not a frequent occurrence. It does happen. I am very confident in the senior cadre of the department.

Peters  How can you possibly be confident when a court of law and all the way to the Privy Council, and a commission of inquiry, found their performance to be abysmal? They are still being paid for by the taxpayer and employed now in 2012—

McClay  We’ll have some order. Colleagues, we’ll have some order. Winston, direct your question to the Minister, please. I think you’ve made your point very well. We’ll come to David Parker now. You’ve made a good point.

Parker  You made—
McClay  David, before you go on, can I just ask for a little bit of order. We have the Minister before us for another 10 minutes. I ask that we on both sides of the table show a bit of decorum and quiet.

Parker  You made reference to some of the tax collection measures that you’ve embarked upon in recent years and intend to continue. There was a report in the newspaper recently of—I think it was an additional $500 million of tax being collected from some of the wealthiest New Zealanders who weren’t paying their fair taxes. Have you done any assessment of what is the effective rate of tax that’s paid by wealthy New Zealanders compared with middle-income New Zealanders?

Dunne  There is a figure I’ve seen. We simply can’t recall it. I will have to supply that by way of separate answer.

Parker  The reason I ask is, you know, if you’re a middle-income New Zealander you pay tax on effectively all of your income at 33c in the dollar, but because of the statutory definition of income, increases in the wealth of New Zealand’s wealthiest are completely outside the tax net, quite legally. Do you think that’s fair?

Dunne  Well, what we’ve been doing over the last 3 or 4 years, really, is pretty regularly looking at the definition of income for tax purposes, and in many senses that is being broadened, and that will continue to be part of the focus, but I can’t be more specific than that.

Parker  Well, can I suggest that be it in New Zealand or most of the rest of the Western World, it doesn’t seem to be working very well, given the incredible gap that seems to be opening up between the wealthiest sort of 5 percent in the world and the other 95 percent. Isn’t the problem that the definition of income is a statutory one that doesn’t really relate to real economic increases?

Dunne  Well, no, I don’t think that’s the case. I think what you’re perhaps suggesting by stealth is a capital gains tax, which is something that the Government is not going to introduce.

Parker  Well, no, that’s your articulation of what a cure might be, and that would be a partial cure. But isn’t it true that the wealthiest people in New Zealand can construct their affairs quite legally in accordance with the tax Act and pay effectively a lower rate of tax than is paid by middle-income New Zealanders?

Dunne  The capacity for people to construct their tax affairs to their advantage, as you stated, has always been there. What we’ve been about, and continue to be about, is minimising those opportunities to the greatest extent possible, and I draw your attention to the changes that we’ve made with respect to the definition of income in a number of categories, and draw your attention to the work that we’ve done in terms of the property issue. That began under the Labour Government, from memory. I draw your attention to the work that we’re doing through the mixed-use assets changes that we’re looking at. I draw your attention to the work we’ve done with regard to livestock. There are a
number of initiatives that are in place and the work we’re currently consulting on with regard to salary sacrifice—they’re all designed to make sure that those people who perhaps have that capacity are held to account to the greatest extent possible.

Parker I haven’t suggested that any of those measures are wrong, I’m just asking you whether you have done an assessment of what the effective rate of tax is paid by the wealthiest New Zealanders compared with the effective tax rate paid by middle-class New Zealanders.

Dunne What I said to you, I think, earlier on—if I didn’t say it clear enough I’ll repeat it now. I am aware there is some information around aspects of that. I don’t have it right in front of me; I’m happy to provide it to you separately by way of a written answer.

Parker Do you have any plan to investigate what is the effective rate of taxation paid by the wealthiest New Zealanders compared with tax rates that are paid by middle-class New Zealanders?

Dunne The issue, I think, I’ve really just addressed.

Goldsmith Can you confirm—my understanding, and I haven’t got the figures in front of me—that roughly about 40 or 50 percent of households, when you take into account Working for Families, effectively pay no income tax?

Dunne That’s correct.

Goldsmith And—rough figures—around the top 10 percent of income taxpayers pay 40 or 50 percent of income tax. So would you characterise—I’m not sure what David Parker is saying, but do you not accept that there is a very heavy skewing in terms of paying of taxation towards those high incomes?

Dunne In broad terms that’s correct, in terms of where the taxes are paid. Equally, it’s worth noting that in terms of the 2010 tax changes the bulk of the revenue that was forgone as a result of those changes were because of the downward rate adjustments for the bottom two steps.

Cosgrove I’ve got two questions for you, Minister. I want to return to my original question. Do you, in your view as revenue Minister, think it is a good deal for a policy to be put in place such as asset sales, where the deficit—[Interruption] Do you as revenue Minister think it is a good deal for taxpayers when an asset sales policy effectively increases the deficit by $94 million a year?

Dunne I’m not trying to dodge the question, but I heard you say: “Do you think it’s a good deal,” and then there was an interruption to my left.

McClay Could you please ask it again.

Smith Point of order. I heard the question, and the question is out of order.
Cosgrove  Are you the chairman?

Smith  No, I’m raising a point of order. My point of order is quite simply that the member’s question is about the debate that’s going on in the Parliament right now about the mixed-ownership policy. The member must direct his questions at things that relate to Vote Revenue, and it was not.

Cosgrove  And that’s a loss of revenue and I’m entitled to answer it.

McClay  So largely he’s asked him as Minister of Revenue. So ask the question again and we’ll see if the Minister can answer it. It’s fine if he feels he can’t or doesn’t believe it’s within the estimates. He doesn’t have to answer it.

Cosgrove  My first of two questions is this. Do you think it is a good deal for a policy such as asset sales, which in itself increases the deficit by $94 million per year?

Dunne  Well, the Minister of Revenue doesn’t have a view on particular policies. The Minister of Revenue concentrates on making sure we get the revenue that is properly due to the Crown.

Cosgrove  My final question is: Minister, are you looking forward to your place in history as the man whose one vote sold New Zealanders out?

McClay  That question is out of order, because this is the Minister of Revenue we have before us. It is now 10 o’clock. Minister, thank you for your time.

Peters  One question. Look, you’ve been around politics for a while. Do you really think you need Nick Smith to help you when you should answer questions?

McClay  Now, without a point of order I rule that one out of order. Minister, thank you for your time, to your officials. There were a few questions you said you’ll respond to us.

**conclusion of evidence**
2012/13 Estimates for Vote Science and Innovation

Report of the Education and Science Committee

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Vote Science and Innovation

Recommendation
The Education and Science Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Science and Innovation as set out in Parliamentary Paper B.5, administered by the Ministry of Science and Innovation, be accepted.

Introduction
The appropriations sought for Vote Science and Innovation increase to $833.354 million in 2012/13 from an estimated actual for 2011/12 of $776.456 million. Hon Steven Joyce, the Minister of Science and Innovation, remains the Minister responsible for the appropriations within the vote.

Vote Science and Innovation is administered by the Ministry of Science and Innovation. On 24 April 2012, the Government announced its intention to establish the Ministry of Business, Innovation and Employment from 1 July 2012, bringing together the functions of the Department of Labour, the Ministry of Economic Development, the Ministry of Science and Innovation, and the Department of Building and Housing. Vote Science and Innovation will remain an independent appropriation within the new ministry.

Postdoctoral fellowships
We are aware of the importance of postdoctoral fellowships in reaching the government’s goals in science and innovation. Some members expressed a concern at a potential 40 percent drop in funding for postdoctoral fellowships since 2006, and asked the Minister if there are any plans to increase funding in this area. The Minister said he could not agree or disagree with the alleged 40 percent figure, as one of the main challenges the issue was that it was anecdotal, and lacked consistent data. However, he indicated that he has instructed officials to investigate what postgraduate fellowship funding occurs in a broader range of various science and innovation budgets. The Minister agreed that the number of postgraduate fellowships had not increased much; however, the sector needs to source more reliable data, to allow the ministry to have a clear understanding of trends in funding. The Minister said that science and innovation funding can be piecemeal, so ensuring that all funds are tracked requires care. Science and innovation funding falls across several portfolios and work is currently being carried out to track postgraduate fellowship funding. The Minister said he believed that it was important to understand the issue before attempting to solve it, and that this work is under way at present. The Minister agreed that an increase in postdoctoral fellowships is desirable to ensure that New Zealand is achieving its science and innovation goals.

Overseas opportunities for postgraduates
We noted that some postgraduate students leave New Zealand to take up opportunities overseas upon graduation. The Minister told us that he considers international experience is a positive for postgraduate students. However, he warned that a shortage of graduates
and graduate positions in industry contributes to a wider problem where scientists fail to convert their skills into viable business ideas. We agree with the Minister that the Ministry of Science and Innovation should work to make the transition from study into industry easier for graduates with higher degrees.

**Performance measurement**

We were interested in the Minister’s views on how to measure performance across such a diverse sector. The Minister suggested that there are various ways to measure an increase in performance from spending, including looking at employment outcomes in the science sector, the size of innovative firms and their contribution to the economy, and considering scientific publishing and patent data. The Ministry of Science and Innovation is currently preparing a report, *The Second Tier of Measurement*, on the management and the performance of the science sector. This is due to be completed by the end of the 2012 calendar year. The chief executive of the Ministry of Science and Innovation is hoping that this will provide a more comprehensive perspective on the science sector.

There are a large number of non-departmental appropriations within Vote Science and Innovation. We asked whether the science sector is funded using an approach whereby the sector is funded with appropriations to a number of different entities and priorities, or whether a smaller number of larger priorities are selected. The Minister explained that he believes it will be a blend of both models. The National Science Challenge enables an open discussion about the challenges New Zealand faces and how the Ministry of Science and Innovation can address them. Work is also being done to produce a Government Statement of Science Priorities, which will provide direction for all expenditure on science, not just the funds allocated under Vote Science and Innovation.

**Advanced Technology Institute**

We heard about a new appropriation in the 2012/13 Budget to transform Industrial Research Limited into the Advanced Technology Institute, which will focus new technologies for the high-tech manufacturing and services sector. We inquired about how the institute would be funded, and how it would share projects with different universities, Crown research institutes, and industry. The Minister said that there would be elements of core Crown Research Institute funding, combined with industry funding. The Minister confirmed that relationships with engineering schools will be important, citing Industrial Research Limited. The Minister noted that the Advanced Technology Institute must ensure that it does not duplicate existing funding. It was also noted that the Advanced Technology Institute will contain an increased number of business development people to interface between business and science. The Minister noted that this aspect of the institute was in the design phase and had not yet been finalised.

We asked the Minister’s views on how successful the New Zealand grant scheme funding system has been. The chief executive of the Ministry of Science and Innovation informed us that in its current form it is not running as well as intended. The ministry has indicated it will be changed substantially to allow small to medium-sized enterprises to have greater access to research and development expertise. In addition to the change in the voucher system, the Advanced Technology Institute will employ business development experts in an effort to improve access to advice for small and medium-sized enterprises, and generally make the science sector more accessible to business. We note additional announcements
regarding the Advanced Technology Institute have been made since the Minister was heard by the committee.
Appendix

**Approach to this examination**

We met on 20 June, 18 July, and 24 July 2012 to consider the 2012/13 Estimates for Vote Science and Innovation. Evidence was heard from the Minister of Science and Innovation, Hon Steven Joyce, and the Ministry of Science and Innovation, and advice received from the Office of the Auditor-General.

**Committee members**

Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

**Evidence and advice received**

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Science and Innovation, received 20 June 2012.

Minister of Science and Innovation, Response to standard Estimates questionnaire.

Response to additional questions, received 20 June 2012.

Response to additional questions, received 17 July 2012.

Vote briefing paper, prepared by committee staff, dated 31 May 2012.
2012/13 Estimates for Vote Senior Citizens

Report of the Social Services Committee

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Vote Senior Citizens

Recommendation
The Social Services Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Senior Citizens as set out in Parliamentary Paper B.5, administered by the Ministry of Social Development, be accepted.

Introduction
Vote Senior Citizens funds the Office for Senior Citizens, which is part of the Ministry of Social Development. The office supports the Minister for Senior Citizens, promotes the rights and interests of older people, and is responsible for the New Zealand Positive Aging Strategy.

The amount sought for 2012/13 is $1.016 million, which is a $19,000 decrease from the amount sought in 2011/12 because of the vote’s share of the efficiency savings set by the Government for the Ministry of Social Development. The reduction amount forecast will increase to $22,000 in 2013/14 and $25,000 in 2014/15 and outyears.

Policy advice and accountability
Policy advice on senior citizens is now provided through Vote Social Development. Some of us noted that information on policy advice was still on the Office for Senior Citizens’ website; however, we were told that this information had been updated and moved to the Ministry of Social Development’s website. The office’s website will be decommissioned in July 2012 and visitors redirected to the ministry’s website.

Some of us are concerned about accountability in the vote. The Minister said that her priorities and how she intends to deliver on them are set out in the Ministry of Social Development’s statement of intent for 2012–2015, and that she can be held to account against that public document. We were also interested in synergies between this portfolio, the Minister’s community and voluntary sector portfolio, and her associate health portfolio. The Minister mentioned a pilot in Napier to bring together older members of the community to help prevent social isolation, and harnessing voluntary-sector skills and knowledge to help older people to reengage with the community. We look forward to hearing further positive outcomes as a result of a sharing of resources and knowledge across the portfolios.

The Carers’ Strategy
The Minister acknowledged the good work that has been done under the Carers’ Strategy since its inception in 2008 to support carers and recognise their vast contribution. The strategy was developed jointly by government agencies and a network of over 40 non-government organisations called the New Zealand Carers Alliance. The Minister noted that a more “joined-up” approach is being taken by government agencies to supporting carers, and we look forward to the strategic plan that should be complete by the end of the year.
Elder abuse and neglect

Public awareness of elder abuse is important because prevention is a community responsibility. The Minister noted that elder abuse is not apparent simply in the physical sense; it can be, for example, older people being taken advantage of by a family member asking for cheques to be signed for them. A factor in elder abuse is social isolation, and the Minister acknowledged the work of SeniorNet, a training network of older people teaching and learning about technology for use and enjoyment in their everyday lives. She also acknowledged the work of the 24 Elder Abuse and Neglect Prevention Services across the country.

We also heard that older Māori and Pacific people have access to Te Oranga Kaumatua Disability Support Services Trust and TOA Pacific respectively, to accommodate their cultural perspectives. We support efforts to raise awareness and reduce the incidence of elder abuse in New Zealand. Some of us suggested that a coordinated plan be put in place for government agencies and communities to assist with such efforts.

SuperGold card

The SuperGold card was launched in 2007. At the time of the hearing, there were more than 590,000 cardholders and 5,801 participating business outlets nationwide. We are pleased that the cards no longer have an expiry date, apart from those that are combined with community services cards.

The Minister also mentioned that she had set a target in May of doubling the number of businesses supporting the programme. We note that she reported on 13 July 2012 that this goal has been exceeded with 3,600 participating businesses, representing 7,900 outlets nationwide, now offering discounts to older New Zealanders. Two-thirds of the new businesses are from outside New Zealand’s main centres, fulfilling a further goal of the recruitment drive, which was to increase the number of participating businesses in provincial and rural areas.

The Minister noted improvements to the website to make it easier for cardholders to find out where they can use their cards, and that reciprocal arrangements with Australia were being finalised to enable cardholders to take advantage of benefits there.
Appendix

Approach to this examination

We met on 20 June and 18 July 2012 to consider Vote Senior Citizens. Evidence was heard from the Minister for Senior Citizens, Hon Jo Goodhew, and the Ministry of Social Development, and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Senior Citizens, dated 20 June 2012.

Minister for Senior Citizens, Response to standard Estimates questionnaire, received 25 May 2012.

Minister for Senior Citizens, Response to questions 1–116, received 29 June 2012.

Minister for Senior Citizens, Response to second set of questions 1–13, received 29 June 2012.

Vote briefing paper, Vote Senior Citizens, prepared by committee staff, dated 7 June 2012.
The Law and Order Committee has examined the 2012/13 Estimates for Vote Serious Fraud and recommends that the appropriations in respect of Vote Serious Fraud for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Jacqui Dean
Chairperson
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Recommendation
The Social Services Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Social Development as set out in Parliamentary Paper B.5, administered by the Ministry of Social Development, be accepted.

Introduction
Vote Social Development is administered by the Ministry of Social Development. Hon Paula Bennett, the Minister for Social Development and the Minister of Youth Affairs, is responsible for most of the appropriations in the vote, but the Minister for Disability Issues, Hon Tariana Turia, the Minister of Health, Hon Tony Ryall, the Minister of State Services, Hon Jonathan Coleman, and the Minister of Revenue, Hon Peter Dunne, are each responsible for various output expenses within the vote. The appropriations sought in 2012/13 total $21.638 billion, a slight increase from the estimated actual expenditure in 2011/12 of $21.549 billion.

Welfare reform
Part of the Government’s reasoning for targeting 16- and 17-year-olds in its efforts to reform social welfare is that approximately 10,000 young people each year go on to a benefit of some kind when they turn 18. They are likely to stay on benefits for a long time, and to have limited education and lower income levels later in life. The Social Security (Youth Support and Work Focus) Amendment Bill, which is currently before the House, will introduce a new system of income support for young people called the Youth Package. This system will provide support for 16- and 17-year-olds, and seeks to reduce the likelihood of their taking up a benefit when they turn 18; and it will strengthen the work availability expectations and work preparation requirements for sole parents, widows, women alone, and partners of people receiving a main benefit. The information technology for the package will cost $17.15 million initially, with an additional $440,000 per year in operating costs.

The Minister said that $287.5 million was being provided to fund the implementation of the bill, $81 million of it new funding. The total cost is estimated at $520 million, while the reforms are forecast to generate $1 billion in savings over four years. We queried official figures estimating the number of domestic purposes benefit recipients at about 110,700 by 2015, when in 2008/09 there were 101,100 recipients. The Minister said that the figures quoted were old and irrelevant as there would not be a domestic purposes benefit in the future. She noted that the Treasury figures cannot include the welfare reforms until the legislation has been passed.

There has been much publicity about the Minister’s intention to provide financial assistance to beneficiaries for contraception. The Minister said she felt some women’s contraception choices were limited by the cost of some forms of contraception that are not
subsidised. She said that use of the assistance is voluntary, and intended to raise awareness of the forms of contraception available.

The Minister said she believed the welfare reforms would “dramatically” reduce the inequality gap. As final policy decisions about welfare reforms signalled by the Government have not yet been taken, costs in 2012/13 and outyears are still uncertain.

**Benefit statistics**

At the end of May 2012, there were 317,000 people receiving a benefit, down 3,557 since the end of April 2012 and down 10,646 since May 2011. In response to concerns that although total benefit numbers were down, the number of people who are unemployed was actually trending upwards, the Minister noted that the number changed due to the way some categories are reported—for example, the number of “neets”, or those “not in employment, education, or training”, had increased because carers are now included.

**Future Focus**

Future Focus is a package of reforms that re-balances obligations and incentives for those on a benefit of some kind. It came into effect in September 2010 and is based on the Government’s belief that those who can work should. One of the reforms is that those on the unemployment benefit have to reapply after 52 weeks. This has seen over 14,000 benefits cancelled following reapplication. Of that number, over half did not complete their reapplication and almost 3,800 had found work. The Minister told us that there have been an estimated $29 million of savings from that policy change alone.

Some of us were concerned that the difference between the number of people who have ceased to receive the domestic purposes benefit as a result of the reforms—19,400—and the number who have come on to the benefit in the same period is negligible. The Minister said, however, that the number of domestic purposes benefit recipients who are also in part-time work had increased.

**Investment approach**

The Minister said that an “investment approach” is a fundamental part of the Government’s welfare reforms. She said that traditionally Work and Income focused mainly on those who receive the unemployment benefit, rather than those in other benefit groups, such as the domestic purposes benefit or the sickness benefit, whose recipients are most at risk of long-term welfare dependency. The new approach will target interventions at an individual’s likelihood of being dependent on welfare in the long term, to help recipients of all benefits to get off welfare earlier. Some of us questioned whether this approach had been reflected in the Government’s first round of reforms, given that some of those on the domestic purposes benefit will only experience additional work testing as a result of this legislation.

**Child, Youth and Family**

Notifications to Child, Youth and Family have increased 140 percent over the last six years. This figure includes notifications from teachers, which have increased as a result of changes such as an 0800 number for teachers. Some of us are concerned that the increase in notifications was not matched with additional social workers to act upon them, and that
most notified cases were being dealt with by non-government organisations, not by Child, Youth and Family. The Minister said that about a third of notifications required further action, and that she is still discussing best practice for dealing with notifications with the police and Child, Youth and Family. Most notifications require community intervention, rather than action by Child, Youth and Family. The Minister acknowledged the differential response model introduced by the previous Labour Government. We intend to monitor progress on the response model.

**Social workers in schools and DHBs**

The Minister mentioned an election-year promise to recruit social workers into district health boards, and low-decile schools. Child, Youth and Family have so far filled 48 of the 96 new DHB positions and are on track to meet the target by June 2013. The Minister is confident that plans to contract non-government organisations to recruit trained social workers to help deliver the expanded programme are robust. About 150 social workers will be going into schools across the country.

**Working with non-government organisations**

The Minister said that much work is being done on the contracting of non-government organisations to find gaps and overlaps, and improve the way the social services sector serves communities. We were pleased to hear that an additional $13 million is being invested in social services in Canterbury for extra support such as counselling.

**Youth unemployment**

The Minister told us she was particularly pleased that youth unemployment statistics are down from 23,500 in January 2010 to approximately 13,000. We were pleased to hear that the Government is devoting “huge resources” to remedying youth unemployment. More than 11,000 young people have participated in Job Ops, a subsidy of $5,000 to employers for every young person hired in an entry-level position for six months. As at 20 June 2012, 85.7 percent of those young people were not receiving a benefit. More than 5,000 young people have participated in Community Max, which funds work in communities by youth, and at 20 June 2012, 76.1 percent of these young people were not in receipt of a current benefit. Both schemes have been running since August 2009.

**Families Commission**

The Families Commission is to undergo a major restructure, with a reduction in commissioners from seven to one and a refocus of the commission’s purpose. The Minister’s vision is for the Families Commission to become a source of best practice advice, commissioning and holding relevant research. An academic board will also be established, headed by the Chief Science Advisor, Sir Peter Gluckman, to oversee social services research. Some of us are concerned at the potential impact of these changes on the provision of high-quality research about families. We intend to monitor the progress of the restructure.

**Welfare fraud**

Associate Minister for Social Development Hon Chester Borrows told us that the Government intends to get tougher on welfare fraud. The Ministry of Social Development is owed about $1 billion, mainly in small loans of less than $1,000. Some of what is owed is
overpayments, and the ministry is matching data with six government agencies, including the Accident Compensation Corporation, the Department of Corrections, and the Inland Revenue Department, to pursue debt from overpayments and fraud.

There is also an 0800 number for reporting suspected welfare fraud. In 2011, 17,800 allegations of welfare fraud were received. We heard about an extreme instance of a person who created 127 identities in a bid to defraud the welfare system. The Associate Minister said that the way other jurisdictions detect fraud was being studied. We support this work and hope to see it reduce the prevalence of welfare fraud in New Zealand.

**Sexual abuse and domestic violence**

Some of us are concerned at the small proportion of women on the Future Focus programme accessing the work-testing exemption, which is available to those who have experienced domestic violence. The Minister acknowledged that it is “tricky” to manage the collection of such information, but noted that family violence experts are employed at most Work and Income offices.

**Student loans**

The Minister of Revenue said that StudyLink and the Inland Revenue Department have a jointly branded webpage for student loans so that borrowers have access to relevant and complete information and services about their borrowing. This project represents the largest changes to student loans since 1992. The department has also launched a series of mobile applications, for purposes such as updating contact information and bank account details. We support the use of advances in technology and the success with which they have been implemented by the department and StudyLink.

The Minister was pleased to report that $12.20 is obtained for every dollar invested in identifying and contacting borrowers living overseas. We heard that although the average repayment time for New Zealand-based borrowers is five years after graduation, for overseas-based borrowers it is closer to 14 years. The department has worked to make it easier for overseas borrowers to enter into repayment arrangements with the department. Some of us were concerned that there was more work going into recovering overseas debt from student loan borrowers than those who owe child support in New Zealand but live overseas. The Minister disagreed with that statement, and said that the department was following very similar approaches in both cases.

We discussed policy changes removing eligibility for postgraduate students and students in long-term programmes. The student allowance can be paid for up to 200 weeks only per student. We were told that students with an exemption approved for study that starts before 1 January 2013 will continue to be eligible, and that students with a partner or a child or children can continue to receive a student allowance for up to one year, until 31 December 2013, or until they use up their 200-week lifetime entitlement to student allowance, whichever comes first. Those students whose student allowance started in 2012 and finishes next year will continue to be eligible until the end of that period, and those who apply for a student allowance in 2013 for an enrolment period that started in 2012 will not be affected.
Appendix

Approach to this examination

We met on 13 June and 18 July 2012 to consider Vote Social Development. Evidence was heard from the Minister for Social Development and the Minister of Youth Affairs, Hon Paula Bennett, Associate Minister for Social Development Hon Chester Borrows, the Minister of Revenue, Hon Peter Dunne, and the Minister for Disability Issues, Hon Tariana Turia, and the Ministry of Social Development and the Inland Revenue Department, and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for Disability Issues, Response to standard Estimates questionnaire, received 25 May 2012.

Minister for Social Development, Output plan, received 11 July 2012.

Minister for Social Development, Presentation, received 13 June 2012.

Minister for Social Development, Response to standard Estimates questionnaire, received 25 May 2012.

Minister for Social Development, Response to questions received 12 June and 11 July 2012.

Minister for Social Development, Quarterly report Jan–March 2012, received 11 July 2012.

Minister for Social Development, Quarterly report July–September 2011, received 11 July 2012.

Minister for Social Development, Quarterly report October–December 2011, received 11 July 2012.
Minister of Revenue, Response to standard Estimates questionnaire, received 25 May 2012.

Office of the Auditor-General, Briefing on Vote Social Development, received 13 June 2012.

Vote briefing paper, Vote Social Development, prepared by committee staff, dated 30 May 2012.
The Government Administration Committee has examined the 2012/13 Estimates for Vote Sport and Recreation, and recommends that the appropriations in respect of Vote Sport and Recreation for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote State Services, and recommends that the appropriations in respect of Vote State Services for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2012/13 Estimates for Vote Statistics and recommends that the appropriations in respect of Vote Statistics for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
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Vote Tertiary Education

Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Tertiary Education as set out in Parliamentary Paper B.5, administered by the Ministry of Education, be accepted.

Introduction

The appropriations sought for Vote Tertiary Education increase to $2.82 billion in 2012/13 from an estimated actual for 2011/12 of $2.722 billion. Vote Tertiary Education was introduced in 2011/12; the appropriations for tertiary and international education were previously included in Vote Education.

Christchurch rebuilding

We heard that the Government has provided $42 million to help provide trades training, in anticipation of rebuilding work in Christchurch. We were told that only $7 million of this fund had been spent so far. The Minister noted a significant lift in enrolments and places at industry training polytechnics and private training establishments, in Christchurch and around New Zealand. The Minister also reported approaches from organisations seeking to spend some of the fund on trades training; some of these had been rejected, as their funding requests related to projects that were already under way before the first earthquake. The Minister told us that he did not feel that funding tertiary institutions to continue to provide established training was the best use of Crown funds. We heard that while the Minister supports funding trades training, the ministry is constrained by limited demand from potential students and cannot compel people into certain trades.

We also heard that various organisations, including the Ministry of Social Development, the Tertiary Education Commission, the Ministry of Education, and the employment area of the Department of Labour were engaging in skills brokerage. They are seeking to match employment and trades training opportunities with people who are looking for work, concentrating particularly on the 87,000 young people who not in employment, education, or training. We noted that this is difficult, as employers are reluctant to take on new employees, or train new apprentices due to continuing uncertainty around insurance payments and continuing seismic activity. The Minister agreed that this uncertainty can make it difficult to time the commencement of rebuilding. He said an alliance of infrastructure companies has encouraged people into training, with the commitment that employers will provide work for them when the rebuilding starts.

Youth Guarantee scheme

We inquired about the Youth Guarantee scheme, which allows 16- and 17-year-olds to study free of charge for one year in hands-on programmes. We heard that there are no criteria for assessing which students would benefit from the alternative form of learning that the scheme encourages; the scheme relies on self-selection by students.
We also heard that broadening the subjects available to students studying at NCEA level 2 to include courses relating to employment in the primary sector or construction has encouraged more students to engage at school. Some members were concerned about possible barriers to the promotion of the Youth Guarantee Initiative by mainstream schools due to competition for student funding. A member asked if any work was being done around a wider provision of the dual funding model currently in use at the Manukau Institute of Technology. The Secretary of Education confirmed that discussions have happened regarding how to develop a sustainable funding system that supports this. She also confirmed that the ministry had been doing some consultation with the sector on different funding approaches.

**Education pathways**

We are concerned that some students are selecting education pathways that are unlikely to lead to employment, or do not meet skills shortages. The Minister said that changes being made in the provider sector are aimed to help students match their qualifications with demand from employers for particular skills. The ministry is collecting information from employers on probable needs for skilled people over the next 10 years. The new Ministry of Business, Innovation and Employment will be responsible for transmitting this information to students, their families, and education providers.

A pilot scheme is also under way to estimate the probable post-study incomes of graduates with specific degrees, so that future students can factor this into their degree choices. We also heard about a current review of careers advice in the education system, and the provision by such services of information about skills shortages.

On being asked whether Adult Community Education fitted appropriately within the Tertiary Education funding, the Minister said that ideally it was.

**Changes to student allowances and student loans**

We note the Government’s announcement of changes to eligibility for student allowances to a maximum of 200 weeks of university study. We heard that about 5,000 students would be affected by this change, but that most would qualify for other forms of assistance such as the accommodation supplement. The budget also signalled changes to the repayment rate for student loans, which will increase from 10 cents in the dollar to 12 cents from 1 April 2013. Some members were concerned about the gender impact of these changes, since female graduates typically earn less than males. The Minister said that performance changes have already taken effect, such as halting a student’s access to student loans if they fail more than 50 percent of their courses in a specified period.

**Performance Based Research Funding**

We asked about the increase in appropriations for the Performance Based Research Fund, which is budgeted to increase to $300 million a year by 2016. Some of us felt that the funding criteria had caused perverse outcomes. There were also adverse consequences from aspects of the funding system, including the complex requirements for submitting a portfolio to apply for funding, and the inability for researchers to retain their PBRF scores upon leaving their academic professions, for example to join the private sector. The Minister did have a concern that there could be too much of an emphasis on publishing papers, and getting them cited. A review of the fund this year is expected to result in
changes that will address some of the issues we raised. The review will consider whether there are better indicators of the effectiveness of researchers. It will also focus on encouraging a free flow of people between academic institutes and the private sector. The Minister told us it is important that the review strike a balance between making the process of applying for funding simpler and ensuring accountability for its use.
Appendix

**Approach to this examination**

We met on 20 June, 18 July and 24 July 2012 to consider the 2012/13 Estimates for Vote Tertiary Education. Evidence was heard from the Minister of Tertiary Education, Hon Steven Joyce, and the Ministry of Education, and advice received from the Office of the Auditor-General.

**Committee members**

Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

**Evidence and advice received**

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Tertiary Education, received 20 June 2012.

Minister of Tertiary Education, Response to standard Estimates questionnaire.

Response to additional questions, received 20 June 2012.

Response to additional questions, received 17 July 2012.

Vote briefing paper, prepared by committee staff, dated 31 May 2012.
2012/13 Estimates for Vote Tourism

Report of the Commerce Committee

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**Vote Tourism**

**Recommendation**

The Commerce Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Tourism as set out in Parliamentary Paper B.5, administered by the Ministry of Economic Development, be accepted.

**Introduction**

The appropriations sought for Vote Tourism decrease 12 percent to $105.026 million in 2012/13 from an estimated actual for 2011/12 of $119.724 million.

The Associate Minister of Tourism told us that 92,000 permanent jobs had been created in the tourism sector in New Zealand.

**National Cycleway**

Six of the 19 trails in the National Cycleway project have now been opened, the first in 2010. It is intended that all 19 trails and the Otago Rail Trail will be open to the public by 2013. For 2012/13, $12.1 million has been transferred from the expired National Cycleway Fund multi-year appropriation to establish the National Cycleway Fund—Extension appropriation for the completion of cycleway trails. The Associate Minister told us that the original funding for construction was intended to be paid toward the end of the last fiscal year, but there were inevitable delays, such as issues with local communities and the use of conservation and private land. The Associate Minister reported many articles being written overseas about the National Cycleway project, and said that this exposure would be supplemented by digital marketing.

We asked how the success of the National Cycleway project could be judged. The Associate Minister could not say how many businesses had been created as a result of the initiative, but said he had personally seen business in Hawke’s Bay grow as a result of the cycleway. He told us also that substantial benefits to domestic tourism would arise from the cycleways.

We asked whether there were any plans to extend the 18 planned trails or build any additional trails. The Associate Minister told us that local communities had already funded a further $30 million to build more expensive sections of the tracks than the Government was prepared to fund.

**Job creation**

We asked about the difference between the 70 permanent jobs reportedly created so far by the project, the Prime Minister’s statement that 500 jobs per year would arise from the project, and the 4,000 jobs the Prime Minister had said would result from the project’s completion. The Associate Minister told us that 734 people so far had been employed—“they are part-time and jobs going forward”—in the construction of the National Cycleway project. Some of us were concerned that the Minister made no reference and gave no
statistics pertaining to the creation of full-time jobs as a direct or indirect result of the ongoing construction of the cycleway. Some of us also asked the Minister whether these jobs were permanent jobs. He could not provide us with any specific number going forward, nor could he provide us with any specific number of businesses that had been created as a result of the cycleway. He told us that two new businesses had been created within his own region, and the increase in cycle sales was “huge”. Some of us noted, however, that the Minister’s evidence was anecdotal. After extensive questioning it was evident to some of us that although the Minister said the projected number of jobs would not change, he could provide no definitive or even anecdotal evidence of permanent job creation. He told us that it would take some time to build the necessary trails and infrastructure.

The chief executive of the New Zealand Tourism Board said that existing cycleways have demonstrated that they can generate business; if the model is replicated, significant numbers of new jobs could result. Jobs would gradually develop as private businesses take advantage of the opportunities presented by the trails, as seen in the development of the Otago Rail Trail. The New Zealand Tourism Board told us that the board would report next year on the medium-term results in areas such as jobs and tourist expenditure.

**International tourism strategies**

We asked whether there were any plans to attract more tourists from India. The New Zealand Tourism Board told us that a lack of direct air services between New Zealand and India limited growth in Indian tourist numbers. The board has established a partnership with Jetstar to provide a route between Auckland and Singapore, which has assisted to some extent.

The Associate Minister told us that the free-trade agreement between New Zealand and China had been important in attracting more tourists from China, and that a review of this market was in progress. Many visitors from China come under the Approved Destination Status arrangement with the Chinese Government, which allows Chinese tourists to visit a country in an approved tour group, although these visitors tended to stay less time and spend less than comparable visitors. The Associate Minister told us that such travellers could obtain a visa in about three days, whereas visas for independent travellers from China could take several weeks.

We asked what strategy the board was using to encourage Chinese visitors to travel beyond Auckland. The chief executive said the board needed to work with travel agents in China to encourage them to sell longer holidays entirely in New Zealand. Another factor was the availability of flights. China Southern now flies daily from Guangzhou to Auckland.

We asked what the New Zealand Tourism Board was doing to help Chinese tourists overcome the language barrier. The chief executive agreed that language was an obstacle to increasing independent travel from China, and said the board was working on it. The Associate Minister observed that social media were increasingly useful in driving tourism.

**Large events**

We asked whether large events, potentially sponsored by companies such as China Southern Airlines, could be used to draw international visitors to New Zealand. The
Associate Minister agreed that large events helped to draw tourism, and explained that the Ministry of Economic Development administers the Major Events Development Fund specifically for this purpose. Events such as the upcoming Winter Festival and World Masters Games would also bring significant numbers of visitors.

Rugby World Cup 2011 tournament

We asked what had been learned from the experience of hosting the Rugby World Cup 2011 tournament. The Ministry of Economic Development was currently undertaking a comprehensive review of the tournament and its impact on New Zealand. The Associate Minister told us that projected visitor numbers of 85,000 were exceeded and reached approximately 133,000.
Appendix A

Approach to this examination
We met on 21 June and 19 July 2012 to consider Vote Tourism. Evidence was heard from the Associate Minister of Tourism, Hon Chris Tremain, the New Zealand Tourism Board, and the Ministry of Economic Development, and advice was received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Chester Borrows
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Tourism, Responses to additional questions, received 12 July 2012.

Minister of Tourism, Response to standard Estimates questionnaire.

Minister of Tourism, Response to supplementary questions 1–116, received 19 June 2012.

Office of the Auditor-General, Briefing on Vote Tourism, received 19 June 2012.

Vote briefing paper, prepared by committee staff, dated 15 June 2012.
Corrected transcript of hearing of evidence on 21 June 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mark Mitchell
Dr Jian Yang

Witnesses
Hon Chris Tremain, Associate Minister of Tourism
Kevin Bowler, Chief Executive, Tourism New Zealand
Liz MacPherson
Peter Ellis, Research and Evaluation Manager

Tremain [Introductions] Thanks for the opportunity to meet before you. Just at a high level, a few comments, and then open the floor to as many and as wide questions as you want.

Vote Tourism—got a strong vision for tourism going forward. We want to see New Zealand positioned as a world-class destination. It’s a big part of our economy, as you’d all know—$6.9 billion direct contribution to GDP; a big part of the nation’s economy. The budget, $105 million, is similar to the last year’s, and 83.8 million of that going specifically into marketing of the nation through Tourism New Zealand. So that’s all good.

Visitor arrivals—quite a changing market out there between some of our more traditional markets and some of our—the newer markets. You can see in that slide there, 23 percent growth in China and slight—well, 5.1 percent growth in Australia—and some of our more traditional markets—Germany, Korea, Japan—back, so we’re obviously changing focus there in terms of our tourism numbers. In terms of overall growth, continuing to grow slightly. You’ll see on one of the slides there obviously quite a big rise last year with the Rugby World Cup, which was to be expected. Very successful tournament, with good numbers through, ahead of what we were expecting—sort of 133,000 versus sort of 85,000—so that was good. But overall the trend growth there is not strong, but positive, which is good. The key thing to focus on is that the change in markets—and you’ll see, again, China growing strongly, and you’ll see that reflected through the Tourism New Zealand strategy, where we are reflecting a change in our
own strategy to focus on the markets that matter going forward. See a big slide there from a ______12:20:42 and again, that slide for China—that growth out of China—which is where we’re very focused.

In terms of our strategy going forward, a very strong one driven by the ministry and Tourism New Zealand—a 3-year strategy prioritising, firstly, on markets and sectors for growth, which I’ve spoken to already, focusing on the market preferences and conversions. So that’s been clear about which markets within, say, China and Australia that we’re targeting, and then working with our partners to strengthen and grow travel trade sellers; expanding our inbound air capacity, which we are continuing to do; and increasing marketing reach and effectiveness; and, lastly, the leveraging events.

So just to sort of wrap it up in the last couple of minutes here, the key focus for us going forward—Australia, China, and the US—with still a focus on the UK and Germany. In terms of prioritisation, the United States, France, South-east Asia—big focuses—and Kevin’s here if you want detail on the actual marketing plans we’re putting into those markets. He can speak well to that. You’ll see, obviously, youth travel, cruise, and business events are key focuses there.

The new opportunities. You know, we’ve had the Rugby World Cup—great opportunity for the country—so what next? Well, we see The Hobbit as being a big initiative for us going forward. While it won’t create the spike in visitors like we saw with the Rugby World Cup, it will create strong brand attention in the market place going forward, which is going to be superb and help to drive tourism numbers down here, which is great. I won’t touch more on the preference conversion. We’ve got a strong strategy there, and it’s really digitally focused about getting out into the market and converting people who show interest in New Zealand coming here. We’re working strongly with our partners. I think the big take-away there is that, even though we’ve got the budget of $105 million - odd there, Kevin and his team have got partner funding coming in of $25 million, which has been a superb achievement in bolstering up our—sort of adding one to one and making three, often, has been the case.

In terms of leveraging events, yep, The Hobbit’s going to be a big focus for us going forward. You can certainly ask Kevin any of the questions about how we are going to leverage that specifically. I think that’s an exciting project. The premiere’s here; we’ve still got the trailers on the DVD that’s being shot as we speak; so—exciting.

Just lastly, I think the three items I’ve just touched on—we are reviewing the China market as we speak. It’s about how do we drive additional value out of China. Traditionally, we’ve had good growth in numbers, but we need to now start focusing on the value and driving better value out of the market.
Second area of focus is obviously—Clayton, this will be of interest to you—is how we focus on Christchurch and how we’re, you know, accepting where Christchurch is at now and the impediment of a drop in accommodation—how do we get on top of that and start growing the accommodation in there, and really driving increased growth back into the Christchurch market.

So that’s a big focus for the ministry going forward, and obviously, just lastly, we’re excited by the roll-out of the New Zealand cycle trail. It’s been successful throughout New Zealand. It’s been exciting to open those trails and to see growth in the numbers coming through there. So I think it’s a huge opportunity for New Zealand going forward.

Mr Chair—short and sweet—the floor is yours.

Tremain Yeah, sure.

Cosgrove Tell me, how do you—you say it’s a success. How do you judge success?

Tremain Well, on a personal level I can judge it just by the—what is engendered in the likes of my own community up in Hawke’s Bay. We’ve rolled out the cycleway. I’ve opened two parts of that now, and what we’ve seen is specifically businesses growing as a result of it, which I think is hugely successful.

Cosgrove So how many businesses—

Tremain Takaro cycle trails, which has started in Bayview—wonderful little business that is growing high-value tourism—

Cosgrove That’s one. How many businesses overall makes it (inaudible)

Tremain Fish Bike is another—

Cosgrove That’s two.

Tremain That’s the second one. There’s a number of the—you can go to any of the cycling businesses in Napier right now and talk to them specifically. I’d challenge you to go and do that and ask, have they seen a growth in cycle sales. It’s huge.
Cosgrove: That’s great—that’s Napier. In terms of the overall business creation, so how many businesses have been created since this was launched?

Tremain: Oh, I can’t tell you the specific numbers of businesses that have been created—

Cosgrove: Why not? But how do you—

Tremain: —but there has been significant—

Cosgrove: No, hang on. You’ve answered the question—appreciate that.

Tremain: Every time, Clayton, I’ve gone into a—

Cosgrove: No, you’ve answered the question—no, he said he couldn’t judge it. So the next question—

Young: Let him answer.

Cosgrove: He did. He said he didn’t have the figure.

Tremain: I couldn’t tell you a specific number.

Cosgrove: Well, my question then is, how can you judge success—how many jobs have been created as a result of the cycleway?

Tremain: Well, there’s been 734 people employed in the construction of it so far.

Cosgrove: Permanent jobs?

Tremain: They are part time and jobs going forward.

Cosgrove: Oh, I mean permanent jobs?

Tremain: In terms of the total number of jobs that are being created, I don’t have a specific number going forward.

Cosgrove: OK, well, here’s the problem, though, just a minute—here’s the problem. You have said to us—I presume you’d define success as job creation, yes? Business creation?

Tremain: I define it as business creation and on a range of levels, certainly.

Cosgrove: But jobs creation?

Tremain: Job creation is one of them.

Cosgrove: Business creation?

Tremain: Business creation is another.
Cosgrove: Well, given that you don’t have any figures for—[ Interruption] Hang on, hang on—easy. Given that you don’t have any figures for how many businesses have been created nationwide; given you don’t have any figures for permanent jobs, I can give you a figure. It was sourced from your own area and reported in the Herald—70 to date, permanent jobs. Your Prime Minister trumpeted 4,000 a few years ago now. So you can’t tell us how many businesses, you can’t tell us how many permanent jobs, so how on earth are you going to judge success? Because it hasn’t been a success.

Tremain: It has been a success, though, on any measure—

Cosgrove: Well, we’ve got two businesses in Napier that are going gangbusters—I accept your word on that. But apart from that?

Tremain: Well, I’ve said there’s a lot more than just those two businesses. If you go to any of those other cycle shops in Napier, and I challenge you to do that—

Cosgrove: But how many? Let’s go outside the wonderful city of Napier. How many businesses in—

Tremain: Look, in each of the locations that I’ve had the privilege to go and open trails in, and there’s only been one other at this point in time that I’ve opened, the community support for this project has been substantial. It’s been fantastic—

Cosgrove: That’s great—that’s motherhood and apple pie.

Tremain: —and the opportunity—like, I spoke to the mayors when I was up in the Hauraki. They were excited by the opportunity in terms of not only domestic but international tourist growth. When I was down in Queenstown—and this trail hasn’t even been opened—speaking to tourists down there, saying to me specifically: “Minister, this is an opportunity where we’re going to trial this trail, and we’re going to come back.” The opportunities for repeat business are huge.

Cosgrove: OK, OK, I’m with you—kumbaya! Wouldn’t you think, though, Minister—

Tremain: Oh, you can come and sing at one of the openings, mate!

Cosgrove: Wouldn’t you think, Minister, that the taxpayer would judge success—right—and don’t you think you owe it to the taxpayer—look, the Prime Minister trumpeted 4,000 jobs. You’re nowhere near that. You’ve got 70—the only figure that we’ve got publicly available sourced from your own department, is seven-zero—right? You can’t give us a figure on jobs—

Tremain: Let me put it—

Cosgrove: —hang on, let me finish—nor can you give us a figure from businesses. So how are we to judge success?
Tremain: Firstly, we’ve only opened seven trails to date, of 18, right?

Cosgrove: I’m coming to that.

Tremain: Yeah, OK—good. I’m looking forward to it. So we are early in the process. There’s a heap more to open as we go forward.

Cosgrove: When?

Tremain: Between 2012 and 2013. The aim is that all 18, plus the Otago rail trail, which is joined as the 19th, will be part of the scheme.

Cosgrove: What was the original target?

Tremain: We are doing a review of the wider success of it once all those trails are opened. Now, it’s like any business you start off. You don’t immediately go to 4,000 jobs overnight. Anyone who’s started a business knows that. It starts any you build with incremental growth. That’s what happens.

Young: Minister, can I just ask a supp on his line of questioning, and we’ll come back. For example, I’ve got family members who have gone across to Europe specifically to ride, to do cycle trails—things like that. So you would expect that we would have tourists coming here, that this would be something that they would want to do, and so the benefit of what they’re doing is not just in cycle shops, but it’s got to be right across the market.

Tremain: Yeah, I think that’s where the real opportunity is—

Cosgrove: I’d just like to know how many.

Tremain: Am I able to answer, Mr Cosgrove?

Cosgrove: Absolutely.

Tremain: I think the opportunity is going to grow significantly. One of Tourism New Zealand’s strategies is bringing in writers from around the world to showcase the New Zealand tourism product. We’re increasingly seeing that given the cycling space and seeing significant volumes—numbers of articles that are being written overseas about this. The strategy is to attach digital marketing to that, to convert people who are in that market. Would you like to make a comment on that?

Bowler: Yeah, I don’t think it fully answers the question, but if you look at the jobs around the Otago rail trail, you get a sense for what the business opportunities are for a more mature product. That product’s been available now for about a decade and a number of food and beverage, transport and tour-type organisations operate around that very successfully. So if we’re able to replicate that success, I’d be pretty confident to see quite a lot of job creation.
Lotu-Iiga Obviously jobs and employment have been, you know, the important factors, and you’ve talked about hundreds across this country. We don’t know the exact figure, but there’s hundreds across this country. But in terms of usage, I mean, it’s also—the cycle trail has all these other positive benefits: health benefits, tourism benefits. I mean, can you just talk about those and what we’re getting for the cycle trail? It’s not just about people working on it.

Tremain Look, I mean, there are significant domestic benefits to this, as well, in terms of you only have to look at the numbers of seniors that are going out there and using the trail now. I think of the domestic tourism that will flow from it, as well—seniors who use the trail and then go to trial other ones around the world. But coming back to the jobs thing: look, this is early days. There’s no doubt about that. We’ve only opened a third of the trails to date. So, as Kevin said, the model—any business that you start from scratch, it takes a while to build the growth, to build the knowledge in the wider international market. We’ve got this wonderful asset here, and I’m confident that over time we will reach those numbers.

Cosgrove When was it launched?

Tremain When was it launched?

Cosgrove Not the exact date—it was early—

Tremain The first trail? Well, the Otago rail trail’s been open for some time. They’ve only just agreed to come on board. When was the first one opened, do you know?

Witness St James trail the year before last.

Tremain The year before last, yeah.

Young So out of the 18 great rides that are there, beyond that is there a plan to extend those, or get a number more great rides?

Tremain Well, the original budget was $50 million, right? But I think the exciting part of it is that local communities have also stumped up $30 million. So they clearly see value in this. Local communities wouldn’t have stumped up that sort of money if they didn’t. They’ve been able to pitch the opportunity they’ve seen at the Otago rail trail, seen the value that that’s built for that community, and even some of the initial soundings we’re getting from some of the more remote trails, it’s reinvigorating some of the rural areas of New Zealand. Pubs that were closed are being reopened for cafes and potential accommodation. That’s the sort of, you know, economic development opportunity that it brings, but it will take time; I accept that.

Cosgrove How much time, given that the Prime Minister—
Tremain: Oh, any business that I’ve started, Clayton, you set goals and you go after those goals. We’ve got another 2 years to open all the trails, OK? And then, as Kevin’s pointed out, the Otago rail trail has taken some time to build up to a full model. I think it’s going to take us some time to get to—

Cosgrove: So have you revised your job projections?

Tremain: No.

Cosgrove: You still think you’ll hit 4,000 permanent jobs?

Tremain: Over time, I think we will.

Cosgrove: Over how much time?

Tremain: It’ll take time to build the trails—

Cosgrove: Minister, I compare your time frame to what the Prime Minister said from—

Tremain: It’s going take time for us to build the trails, to open them all up, to build strong governance across the whole network, and to continue to—

Cosgrove: What was the original target for the funding agreements—[Interruption] I haven’t finished yet. You have three or four supplementaries. What was the original time frame for the fully funding of the target agreements and payment of grants? I know you’ve got 18—the target is 18 by 2012-13. What was the original target? Because we can’t find it.

Tremain: I believe that the opening of the trails was 2012-13. That was the goal. I don’t think there was ever a goal of when we would get to 4,000 jobs.

Cosgrove: Sorry, the payment of—the funding agreements and payment of grants. There is a target, I’m told, of 2012-13 for 18—

Tremain: If you look to the appropriations, Mr Cosgrove, you’ll see a further $12 million of the national cycleway fund in that appropriation for this financial year, through to 30 June 2013. So the balance of the $50 million, I understand, has been spent towards that at this point in time.

Cosgrove: My question was—sorry, with respect—what was the original target for the funding agreements and paying of grants?

MacPherson: We were expecting the original funding agreements to be drawn down towards the end of last fiscal year, but, as you can appreciate, the Minister’s explained this was a construction project and there are inevitable delays. There are also issues to do with the local communities, and as a consequence—

Cosgrove: So why set the original target? Was that not factored in?
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Tremain Actually, let me add to that. The building of a cycleway is not a simple project. I mean, taking it through conservation estate, taking it through private land—it takes time.

Cosgrove I accept that, but—accepting that, you would have set a target appropriate, presumably? I accept what you’re saying; I’m not disputing it, but presumably, given all that, you would have set an appropriate target. So what went wrong?

Tremain Oh, I guess we all set targets about different things and we actually genuinely go after those targets—

Cosgrove Like catching up to Australia, yeah!

Bakshi Minister, you just mentioned that you are targeting the Asian market, and there’s growth in the Asian market. You can see that the partnership—the capacity in the Indian market has achieved what was targeted: 30,000. Are there any plans to grow that market, first of all? And the second thing—the huge number of Chinese coming to New Zealand. What is Tourism doing to assist them for their language barrier?

Tremain The Chinese market has clearly been a strong growth market for us, which has been fantastic. I think in light of the fall in growth in some of our more traditional markets, you know, we’ve got to be thankful that we’ve had this free-trade agreement, which has led to the opportunities in tourism out of China. I think the key thing, though, is that a large amount of the growth out of China had come to through the ADS market, which is essentially—they purchase quite a cheap booking out of China. A lot of the Chinese tourists are fed through the shopping organisations, and it hasn’t meant that we’ve got the value out of that market that we could have or possibly should have. So there’s a China market review going on as we speak. I’ll get my team to discuss that, or add to that, briefly to see how we get more value out of that Chinese market. I think the exciting thing there is the FIT market, which is the free, independent travellers, which we’re seeing a growth of. One of the difficulties they’ve had is in getting a visa in the same time frame that the ADS traveller has, so ADS travellers have their visa turned round in 3 days, whereas an FIT traveller’s taken 3 to 4 weeks, and it’s been lower cost there. So I think—there’s a big focus on turning that round, and increasing the value, but also the opportunity. Kevin was just recently up in China just briefly—high value. Maybe you can talk to that, Kevin?

Bowler Sure. Perhaps I could just respond a little bit on India first. I mean, one of the challenges for India is no direct air services. What we have done is we have been able to establish a partnership with Jetstar to provide a new service between Singapore and Auckland, and that’s the main transport approach to New Zealand for Indian visitors. And that’s starting to pay some dividends, because there was a lot of congestion on the Singapore Airlines service, at the time when a lot of Indians wanted to travel—just
sort of the March, April, May time of the year—so that’s assisted with India. In terms of China, we acknowledge that language is a big challenge for our Chinese visitors. It’s a barrier to growing the FIT segment of the market, and it’s one of a number of things we’re looking at in terms of how we can improve the length of stay, more mono visitors from China. As the Minister was saying, a lot of the Chinese arrivals at the moment are coming on ADS field destination trips, so they’re really buying a holiday in Australia and they’re getting 2 extra days in New Zealand at the end. We would very much like to encourage more single destination visits, longer length of stay, and that’s where we think the opportunity sits—and language would be one of the things we’d need to overcome as a country.

Cunliffe A supplementary back on the cycleways—I mean, one separate one. Does the original jobs estimate of 4,000 still stand; if so, when will they be created, now that you’re a couple of years down the track with the build; and, if not, what is the current jobs estimate?

Tremain Well, my understanding is that the target still stands. What we’re dealing with here, Mr Cunliffe, is a range of private businesses who are working, building on the opportunities that are presented them with looking at growth. And just take the Otago rail trail as an example, which took 10 years to get to the level that it did—

Cunliffe With respect, if the Government is letting contracts, won’t it be in touch with those businesses and be receiving from them some information about their build plans, timing, and employment level?

Tremain You’re mixing the case here. The contract has been for building the trail, not building the private businesses beside it. They don’t get any sort of subsidy to build their private accommodation or their cafe.

Cunliffe Are you surveying, Minister?

Tremain We are doing a review as we speak—

MacPherson I’ll ask Peter Ellis, who’s the research and evaluation manager at Tourism to talk about our evaluation plans here.

Ellis Yeah, sure. We’re just in the start-up phase at the moment for our planning and evaluation, which will report some time next year on the more medium-term outcomes for the indirect benefits (inaudible) not just construction—what is happening in terms of jobs; expenditure around the trails, overall. We’ll also be putting in place at that time the longer-term monitoring and evaluation framework for future years, because there’s obviously 5, 10, 15-year impacts for this sort of thing. And we’ll be using a range of methods. We’ll be putting some new questions on our international visitors survey, so we can identify the people who are using the trails. We’ll be looking at electronic transactions in the areas around the trails, counting people using the trails, surveying businesses, and the like.
Cunliffe So, respectfully, why was this evaluation and monitoring not put in place at the time that the original programme was announced, and, given that there was no such monitoring programme, can I ask you, as the analyst, what was the basis of the jobs estimate of 4,000?

Tremain The analysis wasn’t put in place right from the word go. It takes time, as we’ve seen, to build 18 cycleways. They don’t just happen—I mean, it takes years.

Young I’ve got a supplementary, around the $30 million of partnering contribution—so where is that money being spent?

Tremain Well, most of the applications for building the cycleways have come from local councils or local authorities, so in many instances they proposed trails that were more expensive than the bid that the New Zealand Government was being prepared—so there’s been partnering throughout the trials. I can specifically cite, well, Queenstown, for instance, where a wonderful group of people down there have got the private sector involved. They’ve built bridges—swing bridges—and tracks that we would never have been able to produce on our own as a Government. So the partner funding has been fantastic. And what I think that will do is it’ll bind the community to those cycle trails for many, many years to come as, over time, we build more tourism numbers, more jobs, more businesses that benefit from those trails.

Cosgrove Isn’t it true—how long have these cycleways been in existence—putting Otago aside; the one you’ve built—how many are in existence; how long have they been in existence?

Tremain Well, the first one, I think we were told, was opened just—

Witness St James.

Tremain —St James—back in 2010.

Cosgrove Well, that’s interesting, because isn’t it true that your Government predicted that, on the construction, there would follow 500 jobs per year?

Tremain I don’t believe that was predicted.

Cosgrove OK, well, let me read you a quote from 27 July 2009—

Young Where’s it from?

Cosgrove I’m getting to it—taihoa.

Young It’s from a newspaper, by the—

Cosgrove No, it’s not from a newspaper quote, actually.

Young Is it on a website?
Cosgrove  No, it’s on the National Party website, in the name of the Prime Minister, if you’d like—where he’s quoted as saying there’ll be 500 jobs per year created.

Tremain  Incremental jobs—incremental jobs.

Cosgrove  Oh, it’s incremental?

Tremain  Yeah.

Cosgrove  Yeah, that’s right. So why have we got—

Tremain  Oh, look, we’re confident we can reach those—

Cosgrove  No, excuse me, excuse me—

Tremain  —targets over time. I think it’s going to be one of the best tourism initiatives that this country has ever invested in and—

Cosgrove  Yeah, that’s great—hallelujah, kumbaya!

Tremain  Well, let me ask—do you think—

Cosgrove  No, no, I ask the questions.

Tremain  Will you be pulling them up and taking that money back from those communities?

Lotu-Iiga  Let him answer.

Cosgrove  No, no—he has answered. You’ve said that’s an incremental target. The Prime Minister said that there would be 500 jobs per year. You’ve created—this is presumably almost per cycleway, because the numbers calculate out, you know, seven fives—so where are the 500 jobs?

Tremain  Well, 500 jobs per year incrementally would take us well over—

Cosgrove  You didn’t say—

Tremain  —it would take us well over 4,000 in the time frame that I’ve just suggested. It would be more like over 10 years, it’d be 5,000. Well—

Cosgrove  I’m just quoting from your boss. Is your boss wrong?

Tremain  I’m saying I’m confident that we will achieve those targets over time.

Young  And I think that that’s the answer we’ve had several times now.

Cosgrove  Thanks for the commentary. I’ve got one other question—

Young  One other question and then go to Sam Lotu-Iiga.
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Cosgrove —and it is on behalf of Rino Tirikatene who—

Cunliffe Muzzled.

Cosgrove —has been muzzled and not been able to ask a question. The question is—

Tremain He’s welcome to ask a question.

Cosgrove —in respect of the—

Young He’s not a member of our committee.

Cosgrove Oh, I know, but he’s a member of Parliament.

Tremain I can see him!

Lotu-Iiga He shouldn’t even be sitting there.

Cosgrove Yes, he should be, because I asked the Chair.

Young You’re wasting your time.

Cosgrove Well, no, no—tell him to taihoa. The Chinese market—the advice is that the Chinese tourists generally stay for what, about 3 days in Auckland—and I’m told many stay at Skycity; I don’t know whether that’s sort of loosely connected to anything the Government’s doing—but they tend not to travel around many of the regions. So what’s the plan to get them out of Auckland, get them round maybe on the cycleway or ways, spending money around the regions? Where’s the strategy in respect of that, given it’s a big market?

Tremain I think I addressed that pretty significantly when I spoke to Kanwaljit Bakshi, but, yeah, we understand entirely that the value level out of the Chinese market could be improved. We accept that large growth has come out of the ADS shopping-type tourism, and that has driven the 3-day shopping opportunities in and out of New Zealand. So we’ve got a significant review going on in that market now, about how we grow the FIT market, which is the market you’re talking about—that free, independent traveller market—who come and stay for much longer than 3 days.

Cosgrove A strategy?

Tremain Oh, definitely. Kevin has recently been up in China, just recently, looking at the high-value market and how—talk to him, yeah.

Bowler Let me firstly say I acknowledge this is an absolute issue for us, but it’s also an issue for other markets around the world—Canada, the United States, Australia are experiencing the same thing. It’s also interesting to look at how markets, particularly Asian markets, how their travel develops. So 25 years ago we experienced the same thing from Japan. We’ve gone through a cycle from Korea, as well, where the initial visitors travel in organised
groups. They don’t tend to stay very long. They go to Australia and New Zealand—so we are in a cyclic process. What we’re thinking about—and we’re working across Government and the private sector to think about, what interventions can we make now to exhilarate that cycle, to try and get us—I didn’t mean the word “cycle”—to—

Cosgrove Get them cycling!

Bowler —to get us to the point where we’ve got more mono visitors more quickly, because they’re the ones that are going to stay longer and spend a whole week in New Zealand, and intrinsically there’s more value in those visitors. I think one of the work streams that we definitely need to address is visas—making sure that the group visa and the free, independent traveller visa are more equivalent in terms of their availability and cost. We know that we need to make sure that the supply chain is fuelled with mono product in China, because if a person walks into a travel agency in Shanghai today, they will be channelled towards a dual destination holiday. We need to try to work on strategies to get those travel sellers to sell what we think Chinese actually want.

Cosgrove The question is, what are those strategies?

Bowler Well, immigration is a key one. Working with the travel trade in China to educate them on a mono holiday, and make sure they’ve got the product to sell, and that they’re incentivised to sell. Working with airlines to make sure the connectivity is in place, so one of the big wins in the last 12 months was China Southern flying to New Zealand, now daily from Guangzhou to Auckland

Tremain And they make a significant investment in their own domestic market in filling those flights, so that’s a—they’ve lifted the strategy there significantly.

Bowler So I’m the first person to say there’s no silver bullet. We’re facing the same challenge all of our other markets around the world are, and this is a cycle. It will improve, but we’re trying to work on strategies to exhilarate the improvements so that we get the best of it.

Tremain A good example is in the digital spaces and more in the South-east Asian market. Malaysia is working with some opinion leaders—so the likes of—

Bowler (Inaudible)

Tremain (Inaudible), yeah. There’s a number that they use and you’ve got significant numbers that follow them on blogs and Twitter—and using that as an opportunity to get into those markets.

Young And modern media.

Tremain Yeah.
Lotu-Iiga Just turning to a subject close to your heart—World Cup, Rugby World Cup last year. Obviously a success. What are the key learnings that you got from the World Cup in terms of major events, obviously, but also in terms of our—

Tremain Our win?

Lotu-Iiga Yeah, our win—for a change—and also in terms of, you know, going forward what the impact is on our economy?

Tremain I'll just make a couple of wider statements. Right now MED are engaged in a wider review of the Rugby World Cup and its impact on New Zealand. It created a significant spike in tourism numbers over that period. We projected 85,000 and ended up with something around the 133,000 level. The spend—an additional $220 million to $340 million spend was significant, and it did help to grow our economy. So I’m comfortable the MED review will look on a wider basis at the success of it, but you know, echoing Mr Cosgrove’s thoughts, I mean, the win was a stunner.

Cosgrove All your own work.

Tremain I can’t take too much, apart from the work in the Parliamentary Rugby Team, which we managed to win that cup, as well.

Yang I’m just wondering whether it’s possible for New Zealand to organise some big event like a wine festival, and use that kind of opportunity to promote New Zealand and attract more tourists. Of course, we have many movies—The Lord of the Rings and The Hobbit—these are very helpful, but can we initiate some particular events, I mean just as a rough idea, but it’s possible we could get sponsors from, for example, Chinese Southern Airlines. They might sponsor some events, and then we’d have more Chinese tourists—these kinds of initiatives.

Tremain We’re always open to ideas, Dr Yang. We have a major events budget through the Ministry of Economic Development that is staffed in to support those ideas. We’ve seen a range of major events over the last number of years, which we’ve supported as a country, and which have resulted in significant increases in tourism numbers. We’ve got a couple of big ones—

MacPherson We’ve got the Winter Festival—

Tremain The Winter Festival coming up, but there’s the—what’s the upcoming senior games? The—

MacPherson The World Masters.

Tremain The World Masters Games is on our—about to come. That brings something like 25,000—it’s huge. So, yes, the answer to that question is, we must continue to focus on that, I think. New Zealand will continue to be a
country that they’ll want to come and visit, and if we can attach that to an event, great stuff.

Cosgrove Minister, just finally, I’ve got some information requests—so I don’t expect you to provide it now—but, you know, with the line of questioning around the flagship policy of the cycleway. Would your department—could you provide us specifically the number of permanent jobs—permanent; not part time, sort of an hour here, an hour there—the number of permanent jobs, using the Prime Minister’s criteria, created to date—

MacPherson This is on the construction?

Cosgrove —yeah, and if there are any other permanent jobs—and I’m sure you could source, given that, you know, you could ring up every local member of Parliament—the Minister’s got intricate knowledge of his own patch; he’s got two businesses created—the number of businesses that have been created as a direct result of this cycleway. If you provide that in writing to the committee, I think it’d be—fill us full of that excitement that the Minister was talking about.

Tremain And, obviously, that you’re full of, as well.

Young And possibly, also around that whole area, you made some comments about the analysis that you’re going to develop there—some background on that and also some background on the Otago wine trail. That would just help fill out that.

Cosgrove And also the projections that you presumably have going forward as to the timing of jobs and business creation—the numbers thereof—going forward over the life of this magnificent project.

Tremain Fantastic. I wouldn’t want to pre-empt the wider review that’s being undertaken by Peter, so—

Cosgrove No, no, but you’ll have that data now.

Tremain —we’ll be in a much better position once that has been undertaken.

Cosgrove We’re not asking for the future data; we’re asking for data you hold now, and I’m sure you’d hold a lot of it. If you didn’t hold it, there’d be some questions as to why.

Cunliffe And just in respect of a broader take on that, given that tourism has just been announced as no longer being our No. 1 export earner, I’m just wondering whether you can provide to this committee in writing broader estimates of future job creation and revenue projections for the sector, and if you have any regional breakdowns of that.

Tremain I think—I mean, it’s been not just announced that it’s not the No. 1 earner. That’s been quite some time.
Cosgrove  This isn’t the centrepiece of the economic revival.
Young    No, it’s been in the top four.
Lotu-Iiga Yes, there’s been agriculture, forestry, oil and gas.
Cunliffe  No, it’s claimed to be not the No. 1—new numbers out today.
Tremain  No, no, no. I think you’re a bit behind the times there, Mr Cunliffe.
Cunliffe  No, no—go and have a look at your emails.
Tremain  Ninety-two thousand jobs—I can give you the information right now.
Cunliffe  Go and look at your emails, Minister.
Lotu-Iiga Can I get a request? Not just for full-time jobs—can you get all jobs created?
Cosgrove  I said permanent jobs—permanent jobs.
Lotu-Iiga  No—
Cosgrove  But I agree—
Lotu-Iiga  No, *(inaudible)*
Cosgrove  Yeah, that’s full time now.
Lotu-Iiga  *(Inaudible)* part time—
Cosgrove  Yeah, as well.
Lotu-Iiga  That’s all jobs, yeah.
Young    Well, I’ve already asked for that in terms of the wider picture. Thank you very much.

*conclusion of evidence*
2012/13 Estimates for Vote Transport

Report of the Transport and Industrial Relations Committee

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Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Transport as set out in Parliamentary Paper B.5, administered by the Ministry of Transport, be accepted.

Introduction

The total appropriations, excluding multi-year appropriations, sought for Vote Transport in 2012/13 have increased slightly to $3.834 billion, from an estimated actual of $3.767 billion in 2011/12. Significant changes relate to the expiry at 30 June 2012 of the appropriations for Wellington rail infrastructure and the National Land Transport Fund borrowing facility for short-term advances; the transfer of a loan from KiwiRail to Auckland Council for the Auckland Electric Multiple Unit package; the disestablishment of the appropriation for Motor Vehicle Registration fees, which are now to be treated as New Zealand Transport Agency third-party revenue rather than non-tax revenue of the Crown; and no appropriation in 2012/13 for the reinstatement of Canterbury roading because of uncertainty about costs.

Roading network

Although the Budget Policy Statement anticipates a gap over the next ten years between revenue from road-user charges and planned expenditure, the Minister believes that factors contributing to this forecast (such as fuel prices) are likely to change before decisions need to be made.

Local roads

We asked the Minister about reports that many councils believe Government funding for the repair and maintenance of local roads has been reduced, and, in particular, that this would cause problems for Southland, as it has a large network of local roads compared with its population, such that about 80 percent of its rates funding goes to local roads. The Minister said that, at least in the case of Southland, increases in the cost of maintaining local roads reflected an increase in economic activity and land values, and thus the rating base available to the council.

The ministry said that the New Zealand Transport Agency has been working with local government in the Road Maintenance Task Force on effective asset management and getting better value from expenditure on local roads.

Roads of national significance

The Minister told us that the roads of national significance were progressing according to plan. He believes that multiple networks are needed for a resilient transport system, and said that parts of the country where roads of national significance are contributing to the strength of the transport network are attracting major investment. For example, he
mentioned Fonterra’s decision to build a large drying plant at Darfield, where there is a rail link to Lyttelton, and a fast and direct alternative will be available when the Christchurch southern motorway project (one of the roads of national significance) is completed.

**Rail network**

**KiwiRail turnaround**

We noted the importance of the rail network to a diverse, resilient transport system, and asked about the progress of the KiwiRail turnaround plan. We heard that KiwiRail’s network has been upgraded, and new wagons and containers purchased. Freight revenue increased in 2011 from $298.4 million to $330 million, while KiwiRail’s earnings before interest, tax, depreciation, and amortisation increased by 35 percent. While margins are thin, the Minister said he is very happy with reports on the turnaround plan, and believes KiwiRail’s annual profitability is increasing.

The Minister told us that there had been an encouraging response to a request for proposals to take over the Hillside railway workshops in Dunedin. He said that the workshops have capabilities which, while no longer applicable to the New Zealand rail network, were of value and not otherwise available in New Zealand.

**Capital Connection**

We asked the Minister for his opinion of the way the extension of TranzMetro’s Wellington commuter service to Waikanae had affected the viability of the TranzScenic Capital Connection commuter service from Palmerston North to Wellington. The Minister explained that the Capital Connection’s viability may depend on subsidies of about $2,770 per passenger per year. For the service to be viable, it would need to attract more passengers from Palmerston North.

**Gisborne line**

We noted that when slips closed State Highway 2 in the Waioeka Gorge between Opotiki and Gisborne, work was immediately commenced to reopen the road, at a cost of between $6 million and $10 million, but when the railway line between Napier and Gisborne was damaged, with an estimated repair cost of $4 million to $5 million, that part of the line was suspended pending a decision. The Minister told us that the estimate had related to reopening the line, and further capital spending would be required to ensure that it stayed open, for which there did not appear to be a business case. The issue was being examined in detail, however, to ensure that the final decision was fully justifiable.

**Public transport**

We heard that the Minister had recently announced a new Public Transport Operating Model, a collaborative arrangement between service operators, local Government, and central Government. He expects that Auckland will benefit from the new model in the next couple of years, while other regions will take longer to see improvement.

We noted that despite recent growth in public transport patronage, particularly in Auckland, investment in public transport infrastructure through the National Land Transport Fund will decline over the next three years. The Minister did not agree that the
overall amount spent on public transport infrastructure had been reduced, however, because public transport will benefit from general investment in transport infrastructure.

**Vehicle licensing**

The Government is considering reform of vehicle licensing to reduce administration costs and encourage compliance. We heard that at any one time about $50 million in registration fees is outstanding (mostly due to late payment, rather than non-payment). Warrant of fitness requirements are also being reviewed. New standards for imported second-hand vehicles, and better tyres and roads, are considered to have reduced the need for six-monthly warrants. Industry stakeholders are being consulted about the revenue implications for businesses that issue warrants, with a view to avoiding sudden change; a public discussion document is also planned before any legislation is introduced into the House.

**Open skies**

Open skies is an international policy concept whereby “freedoms of the air”, are granted through air transport agreements between nations, facilitating international travel. The Minister said that negotiations towards an agreement had been concluded with China and Japan, and were under way with Brazil and Colombia. New Zealand is also seeking to enter agreements with Vietnam, Thailand, Indonesia, Brazil, Argentina, Peru, and Uruguay.
Appendix A

Approach to this examination
We met on 21 June and 19 July 2012 to consider Vote Transport. Evidence was heard from the Minister of Transport, Hon Gerry Brownlee, and the Ministry of Transport, and advice received from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received
We considered the following evidence and advice during this examination:

Minister of Transport, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Transport, received 19 June 2012.

Responses to additional questions, received 19 June and 3 and 17 July 2012.

Vote briefing paper, prepared by committee staff, dated 21 June 2012.
Appendix B

Corrected transcript of hearing of evidence 21 June 2012

Members
David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Julie Anne Genter
Melissa Lee
Andrew Little
Jami-Lee Ross
Scott Simpson
Phil Twyford

Witnesses
Hon Gerry Brownlee, Minister of Transport

Ministry of Transport
Martin Matthews, Chief Executive
Andrew Jackson, Deputy Chief Executive
Gareth Chaplin, General Manager Financial and Economic Performance

Bennett Thank you, Minister. We appreciate your time in coming to the select committee this morning. We have an hour, until 11.15. So if you want to just give us a brief introduction, and then we will open up for questions.

Brownlee Thank you for the opportunity. Can I introduce Martin Matthews, chief executive of the department; Andrew Jackson, who is the deputy chief executive. Behind me there is Mike James, Gareth Chaplin, Bruce Johnson, Pam Madgwick, and Fiona Macmaster, all who have roles that are significant in the transport ministry and are available to answer questions if you have them.

I will just begin by saying the Government firmly believes that transport is very important for the growth of the New Zealand economy and for societal benefits that come with good transport services. In that context, the portfolio looks after 11,000 kilometres of State highway, about 80,000 kilometres of local roads, seven international airports, 28 regional airports that have scheduled services, 4,000 kilometres of rail tracks, and 14 exporting sea ports as well. So quite a diverse range of activity. And the department also overseas four entities of the State as well that have significant roles in transport.
Our thrust in trying to improve the potential for transport to add to economic growth and to improve just generally life in society is focused on the four areas of, firstly, better regulation; secondly, well-targeted investments; third, opening markets to air services; and, fourth, keeping our roads safe and making our roads safer for people to drive on. Some of that would extend, too, into some of the standards around vehicles for safety as well.

Better regulation: we are reforming a number of areas in the legislation through regulation. I just want to talk briefly about the project we’ve got on vehicle licensing. There are about 14 million transactions every year when it comes to warrants of fitness, registration of vehicles, or the certificates of fitness for transport service licensed operators. They are a significant impost financially but also the frequency of those requirements I think does need to be questioned as the vehicle fleet has become much safer. Those costs are not insignificant on the current frequency with which they are required to be delivered.

Alongside regulation we are also interested in very direct investment in the transport sector, and $36 billion is being invested in the National Land Transport Fund over the next 10 years. In addition to this there’s the Government’s investment of $2.3 billion in rail, and my focus is making sure that there is also the necessary investment in place to see Christchurch recover, that we do get the roads of national significance programme substantially completed in the time line that’s set out, the KiwiRail Turnaround Plan does see KiwiRail turn round and become a self-sustaining commercial entity, and I am also, in that regard, having a look at the case for a sea port at Clifford Bay, as well.

International air links are very important for a country that is as isolated as New Zealand, so we’re taking pretty much an open-skies approach to that, and we have negotiations going on in focused areas of east China and South America. Some good progress has been made with Japan and China in recent times, and numerous negotiations are taking place with Brazil, French Polynesia, and various other countries inside South America. We think creating those opportunities is going to be particularly good for us. I’d make the point that in May, perhaps ahead of the full extent of the new China air services agreement being introduced—but, certainly, indicating a degree of marketing in China—the tourist numbers were 57 percent up on 2005 for that month; similarly, 46 percent up for Japan. Those are two very encouraging stats that indicate we’re on the right track there.

On the safer roads, the Safer Journeys programme is continuing. It’s in the hands of my Associate Minister, the Hon Simon Bridges. But we have raised the driving age from 15 to 16, introduced that zero alcohol limit for people under 20, are making the test for restricted drivers harder, and making sure that they can actually drive in a range of conditions is important as well. We’re introducing the alcohol interlocks for people who are on their second conviction for drink-driving, and recently changed the
right-hand rule, which seems to have gone pretty well. We have in 2011 seen the lowest number of deaths on our roads for quite some years, but it’s still, I think, sobering to note that if we had the loss of 284 people in one event, there’d be just a national outcry. It would be a total tragedy, and the country would come to quite a significant standstill. So that number of people unnecessarily dying on our roads each year is something we have to continue focusing on.

We also have a big commitment to public transport. In the next 3-year period we’ll be spending $630 million on public transport operational subsidies. That works out, on an annual basis, to around about $68 per head of population, per annum, and you can add to that a further $5 a year for the SuperGold card, which is substantially a transport subsidy contribution, and $290 million for public transport infrastructure—that’s bus, ferry, and integrated ticketing programmes. Over the next 3 years we’ll see a lot of that come together. It’s part of a public transport commitment that sees around about 11 percent of expenditure from the National Land Transport Fund go into public transport over the next 10 years—expected to be in the order of $3.62 billion, approaching $4 billion.

We have, in addition to that, funding to metro rail, which is $1.6 billion in Auckland, a smaller amount here in Wellington. And also a commitment to rail freight, which is going to see another $750 million, which while it’s not public transport, its use of mass transit means that public convenience on roads is enhanced by that volume coming off the roads.

We are on track with the roads of national significance. There are a number of those in construction at the present time. At least three are in construction and we have another one that is due to be consented, and two others that are on the books ready to go to consent. So that work is progressing quite well, and we would expect to complete most of that work in the 10-year time frame that the Government set out at this point.

I’m not sure what else you want to hear from me particularly at the moment, but I’m very keen to answer your questions. One of the big challenges that sits in front of us is the response to the Auckland Plan. Transport is an extremely important part of that plan. We have given a draft of that, which I can’t provide to the committee, to the Auckland City Council, so that they can consider that and see what negotiations need to be had ahead of its completion. It’s the Government’s intention that on 21 July that would be released by both the Prime Minister and the Mayor of Auckland as part of the wider Auckland Plan.

With those comments I think I might close, and I’m happy to take your questions.

Bennett Thank you very much, Minister. We appreciate that very full introduction detailing a lot of the priorities and the wide scope of work that you have to
Twyford Thank you, Minister, for coming along. I know you’ve got a lot on your plate. I want to talk about local roads first. We’ve heard Lawrence Yule in recent days saying that many councils are cutting their budgets because of what he describes as real cuts to the funding of repair and maintenance of local roads; Frana Cardno from the Southland District Council saying that 3.5 percent annual inflation on roading inputs means that the funding levels for the next 3 years amount to an 11 percent reduction in real terms in Southland, which has got the biggest network of local roads in the country. Are you concerned about that?

Brownlee Well, I think one of the things that you have to look at is the capacity for any particular rating base to meet its needs around local roads. You pick out Southland where they have, as you rightly say, 80 percent of their rates funding goes into those roads. They have a huge network. It was largely built in the days when New Zealand built a dairy factory on every square mile in order to be able to get horse and cart transport, and then kept on expanding those roads. Now, you wouldn’t want to see any reduction in that, obviously, but it does place huge burdens on those rate bases. While they are the worst in the country—well, the most burdened in the country—they are not alone in that. From our perspective, the money that’s committed to the maintenance of roads is running at about 4 percent ahead of what was planned in the National Land Transport Plan, so it’s a bit hard to see exactly where they’re coming from on those things. Without having had any direct representation from Frana and her council on that, I really can’t comment further.

Twyford Do you accept that a 2.3 percent funding increase, when you stack that up against annual inflation and steep increases in roading inputs, and the fact that many councils, like Southland, because of, for instance, changing land use patterns—conversion to dairy—have got a massive number of heavy trucks on the road now, amounts to really significant real cuts? I mean, do you accept that?

Brownlee Well, you’re asking us to increase a level of funding without recognising that their rating base is significantly improved as well. When you’ve got that sort of activity going down, particularly in Southland, where you’ve got very significant land use occurring, you’ve also got very big property price escalation, and as a consequence you’ve got a much stronger rating base. So I don’t think the problem is any more exacerbated on what has been a difficult situation for a council that sits isolated from any large population base, and disconnected in that regard, with 80 percent of its commitment going into roads.

Twyford Geoff Dangerfield acknowledged the other day that because of the flat-lining funding for local roads, inevitably there would be some areas where service would be reduced, and, as Lawrence Yule has said, that means that
maintenance and repair on local roads is not going to happen in some places. That raises real questions about asset management, doesn’t it? Local roads are a major national asset. If we’re not going to repair and maintain them adequately now, aren’t we simply pushing that cost off to future generations? And is that sensible asset management?

Brownlee If these were roads that were in dense population areas, I think that might be something you could suggest, but from my own experience on a local body, I can remember the difficulties we had over maintaining a road that had 4 kilometres of seal on it with one residential property on the end of it. Throughout Southland and many other parts of New Zealand—

Twyford Bill English’s house, was it?

Brownlee No, no, it was on Banks Peninsula as it happens. But that’s going to be a problem that councils throughout New Zealand have. It goes back to what I said before. I wouldn’t want to make any comments suggesting there should be some rationalisation of roading networks—far from it. But if you’re going to constantly look at benefit-cost ratios to attack roading projects, you can’t use the reverse of that argument to say more money should go into roads that have very few users.

Twyford I suppose the argument that people in Southland and elsewhere are making is that you justify the roads of national significance by saying that they are about economic growth and our export economy, and what the people in Southland say is that our export economy starts at the farm gate, and you’re crowding out the rest of the transport budget by funding these massive peri-urban motorway projects while you’re undermining and neglecting the local roads that actually carry our export products from the farm gate to the port.

Brownlee Well, that’s not true, of course. The local roads carry some of it, but not the bulk of it by any manner of means.

Twyford Finally from me on this, has there been any work done quantifying the cost of the reduction in maintenance and repair of local roads? Have you done any work quantifying that?

Brownlee I’ll ask my department to answer that, but nothing has been presented to me at the moment to suggest the problem is on the scale that Frana has suggested. Lawrence has made contract about their position, and we’re certainly going to have some discussions with him in the next short while. Martin, you might want to have a go.

Matthews No, the ministry hasn’t. Many of these questions really relate to sort of operational decisions that the Transport Agency itself makes. But I would make the point that the Transport Agency has been working with local government through the Road Maintenance Task Force, because part of the question is around more effective asset management and whether or not
there are opportunities to get better value out of the spend we’re getting, and that is an area that has been an area of focus.

Ross

Good morning, Minister. You recently made some announcements in the public transport area, namely the new Public Transport Operating Model. Can you talk to us about why the Government took that decision and the need for it?

Brownlee

It was a collaborative arrangement between the operators, the regions, and the Government. The intention there is that everyone gets a fairer go out of the whole system. So you’ve got a place like Auckland where there’s been no tenders in place since 2005. Wellington is the same. So they do need to have better certainty about ongoing price, cost, etc. What I’m pleased about with that is it’s been a very collaborative process, and there was widespread agreement and, indeed, support for it when it was announced. I suspect that when you get those situations that’s why they generally don’t get such a big run in a media sense.

Ross

And are we expecting any immediate gains to come from those changes?

Brownlee

I would think Auckland particularly might see some gains out of that in the next 1 to 2 years. Other regions will take longer. As the model itself becomes bedded in, there will be some swings and roundabouts in some places, but generally the acceptance of the model by the operators and the regional councils themselves I think augurs pretty well for a positive future.

Twyford

Sure. Snapper and integrated ticketing in Auckland. You told the New Zealand Herald last month that if NZ Bus didn’t meet its November 30 deadline, that they would be off the run and that they could lose their $70 million in annual operating subsidies. We read this morning from board papers from Auckland Transport that NZ Bus will now not meet the November 30 deadline for the bus operation. What are you intending to do about that?

Brownlee

Well, that’s news to me right now. But what I would say is that, firstly, this process has been a long one. There’s been a tender process involved. There’s been a contract let. If New Zealand Bus wants to continue being part of the deal, then they need to meet the requirements of it. It’s pretty simple. And if they don’t, then I’d suggest that Auckland Transport start making arrangements for alternatives on those routes from the day that they drop out of the system.

Twyford

The taxpayer’s got a lot of skin in the game as well as the Auckland ratepayer.

Brownlee

The taxpayer’s not about to be held up to ransom by a bus company.

Twyford

But as Minister, and given your comments last month, what are you going to do about it?
Brownlee As I say, this is the first I’ve learnt of it. I have had no formal advice of that. But my position is not going to change. We’ll obviously have to start talking to Auckland Transport about how they fill that gap when it’s obviously going to now occur.

Twyford What would be the implications of taking off the bus operator in Auckland that has overwhelming dominance in that market? I think it runs something like 650 buses in Auckland. Is it practical to think they could be taken off the run?

Brownlee Well, they didn’t win the contract, and they haven’t been able to persuade people that their system is the one that people should go with. If they are wanting to use their commercial dominance to get people to overturn a proper tender process, they’re talking to the wrong crowd. Clearly, there’s time yet to sort out something. I’m actually surprised at their intransigence. I think it’s somewhat remarkable to think that they would be able to use the threat of having their vehicles off the road to get an overturn in what has been a proper commercial process. What I’d also say is it seems incredibly surprising to me that the owners of that company would be saying to their shareholders: “We’re about to take 650 buses off the road. They’ll be sitting there doing nothing, and we think that’s a good thing.”

Twyford Have you received any advice about legal action against NZ Bus for the delays?

Brownlee No.

Twyford And do you think that, in hindsight, it was sensible to allow NZ Bus to roll out Snapper in Auckland before the integrated ticketing was set up?

Brownlee I can’t be responsible for what previous Ministers—

Bennett This is the estimates.

Twyford It has a big bearing on the future, though.

Brownlee Yes, I know but—

Bennett Scott Simpson

Simpson Minister, thanks for your presentation. I had an opportunity in the House last week to ask you a question about the vehicle licensing reform, and you’ve made mention of it again this morning. I wondered if you or the officials could give us a bit of an insight into the numbers and the rationale behind it, because I was staggered to learn that there were—did you mention 14 million transactions? It strikes me that there’s a very good argument there that most of the public probably weren’t aware of for reform in this area.
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Brownlee  I think the thing that strikes me is that you currently get a warrant of fitness on your vehicle every 6 months, and if you have a new vehicle you only get it annually, for 5 years. Over the last decade the vehicle fleet in New Zealand has reduced in its age quite considerably, and we’ve got new standards in place for the import of second-hand vehicles now at the 2005 Japan standard. Quite clearly, if you just look at something like fuel consumption, that’s having a marked effect on the vehicle fleet, and what you can be reasonably certain of is that as the quality of roads has improved also and the quality of tyres on roads, the need for that 6-month warrant is, I think, starting to decline. So what we’re looking at is whether or not you have a system that might be graduated according to the age of the vehicle. You also have a lot of people who own classic cars and who might run them on the road for 3 or 4 hours in any 6-month period but still have to meet that $50 or $60 cost to get a warrant each time. So we’re looking at that from that point of view.

Vehicle licensing—that’s our registration—is $4.4 million a year. We’d like to see simpler ways of doing that, to take some of the cost. Most of the cost recovered through that belongs to ACC, so we’ve got to have a bit of a look at that. There’s around about $280 million a year paid in those warrant of fitness inspection fees. It’s quite a chunk to come out of the pockets of people. We don’t want to put businesses out of business, but I think there are other focuses that they can take on.

Simpson  On that point, because we have the current regime, it obviously employs a lot of people and there’s quite a big industry sector built up around vehicle relicensing, what sort of process going forward for public consultation, sector consultation, and a time frame? I’d be interested to know if you’ve got that sort of detail.

Brownlee  As to the time frame it’s better to get the officials to answer that. Gareth Chaplin is the man for that.

Chaplin  The time frame for that is that we’re running through a consultation process at the moment. So there are regular workshops that are being held with key industry stakeholders. That’s ongoing right at the moment. We’re taking advice to Ministers. We’re targeting July for that. If they are comfortable with the kind of options and proposals that start to emerge, the idea is that Minister Brownlee will be able to produce a public discussion document possibly in September this year, with a view to running a normal consultation process around that. Potentially, if there is an appetite for change, if there are benefits that can be actually captured from changing the way we currently run the systems, then potentially legislation could be introduced to the House either late this year or early next.

Brownlee  The thing that sparked me down this track to have a look at this stuff was a briefing from, I think, NZTA, in which there was a side comment about the number of vehicle registrations unpaid on any given day in New Zealand. So vehicles operating on the road with registration not paid is about $50
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million. That’s not an inconsiderable amount of money when you consider the overall demands we’ve got.

Simpson Is that a static—has that gone up or down?

Brownlee It’s static. So there’s three of us sitting here, we’re all part of the $50 million today. Tomorrow he goes and gets his, and someone else jumps in, so it’s still 50—it’s roughly that number.

Simpson Is there a big percentage of non-registrations? Is that changing?

Brownlee Not across the whole vehicle fleet, no.

Simpson So we get compliance at a pretty high level.

Matthews One of the issues, Minister, that we have with the compliance, though, is that people don’t always pay on time. So one of the issues we’ll be exploring is how do we create stronger incentives for people to pay on time, because it’s essentially revenue we don’t have.

Simpson And there’s a technology mix in there, too, I would assume.

Brownlee That’s right, and that’s a bit unclear at the moment as to how you actually do that.

Twyford Minister, we are seeing some pretty extraordinary growth in public transport patronage, particularly in Auckland. I note that the recent passenger figures in Auckland show 71 million passenger trips over the last 12 months, which is an increase of 8.7 percent. The Northern Busway has been incredibly successful with a 12.3 percent increase in May on the previous May. Public transport patronage in Auckland’s grown by almost a third over the past 4 years, and I wonder, in light of that growth, whether you think that the investment set out in the recent funding indications in public transport infrastructure, whether you think that projected investment is sufficient, given that we were looking at about $90 million per year in the 2009-2012 period, and that’s been cut back to a range of $20 million to $60 million a year in the GPS for 2012-15. That seems a strange disconnect.

Brownlee Well, I’m not so sure. I think the funding is adequate at the present time. It’s a considerable amount of funding, given that 84 percent of all personal journeys taken in New Zealand are taken on-road, in a car. At the present time the amount of money that’s going to public transport, at somewhere between $168 and $175 per head of population per year—outside of any capital commitment—is, I think, a very significant amount. The idea of that subsidy in the first place is to ensure services are there that will fill up. So all those numbers are doing is indicating that the subsidy is of value in some places, and that’s good, because eventually we would like those services to be completely self-funded.
You’re getting substantial year-on-year increases in public transport patronage, and yet you’ve cut the investment in public transport infrastructure for this coming 3-year period. Isn’t that a contradiction?

I think it’s hard to say that we’re making cuts when we’re spending so much money.

But, hang on, your documents show a $90 million a year average over the previous 3-year period—for public transport infrastructure, I’m talking about, not services. But in this coming 3-year period there’s a $20 million to $60 million range in the GPS. That’s a cut, isn’t it?

Well, yes, but I mean, if our intention is that these services become self-sufficient, that’s what you’d expect. But I’m happy to have Mr Matthews make a comment on that.

Look, I think that the difficulty in focusing on the numbers in the GPS—that is the money out of the National Land Transport Fund—is that it doesn’t take account of the very significant capital investments that the Crown is making outside of the fund. So the $1.6 billion being invested in Auckland rail upgrades—

Most of that’s a loan, isn’t it?

—and the $500 million or so being invested in Wellington, so there are very significant capital investments being made in rail infrastructure for public transport purposes.

But, hang on, I have to correct you: the $1.6 billion is not courtesy of central government. A large part of that is the Auckland ratepayer, and it’s a loan for the EMUs that will be paid for by the Auckland ratepayer.

$1.1 billion of that investment is in relation to network upgrades funded by the Crown. The Crown will, through the National Land Transport Fund public transport services funding, pay half of the cost of those loans. So, just to be very clear, even though the loan funding for the trains is a cost that appears to be an Auckland cost, at least half of it will be borne out of the National Land Transport Fund.

Interest costs, that’s right.

Related to that, what is the logic of bus-based public transport projects not being funded by NZTA when they’re clearly reducing congestion, in the case, say, of the Northern Busway, which is currently taking the equivalent of two lanes of traffic off the Auckland Harbour Bridge every morning. Yet similar bus-based public transport projects in terms of the capital expenditure can’t be supported by NZTA. Isn’t that a strange inconsistency?
Brownlee No, I don’t think so, because they have a range of criteria that they look at for those subsidies, and Auckland clearly meets those, whereas other places may not. But the subsidies on the passengers remain in place, so I don’t think there’s an inconsistency there.

Twyford But road-based capital projects that reduce congestion can be funded by NZTA but bus-based public transport—

Brownlee Yes, they can be.

Twyford —cannot be.

Brownlee Hang on a minute. The funding for those road-based projects comes from road-user charges and excise. The buses themselves pay road-user charges, and so I don’t think there’s an inconsistency there, at all.

Twyford I suppose the other question that arises out of this is that 9 out of the last 12 months, traffic volumes on the State highway network have fallen compared with the same year before. When you put that alongside the growth in public transport, why are you continuing to spend so much money on motorways and the roads of national significance when traffic volumes are stagnant or falling? In fact, they’ve been stagnant or falling for most of the last 9 years, and yet you’re starving public transport infrastructure of funds when public transport passenger volumes have been steeply increasing.

Brownlee When you’ve got a massive capital programme, as we have for public transport, and the very significant annual per head of population public transport subsidy, it’s not a reasonable thing to say that public transport is being starved. When it comes to roads of national significance the real point is that ever since Roman times the deal has been you build them and they will come. That is just an undeniable fact at any road you look at in New Zealand, or anywhere else in the world, for that matter. The final point I’d make is that buses do have to run on roads, and trying to get a more efficient transport system does require that you have good-quality roads.

Twyford Minister—

Brownlee No, hang on. We’re straying dangerously into policy territory here, for you, because if your policy is not to build roads, and to rely on public transport in the future, you are not talking about export growth in our economy.

Twyford Minister, why don’t you apply the Roman principle to modern public transport projects? Wouldn’t that be a good idea too?

Brownlee Well, we do encourage a lot of people to walk wherever they can. I walk to work myself.

Twyford With the congestion in Auckland they’re going to have to start walking to work.
Brownlee  Well, I don’t think we should make flippant comments about that. I mean, the reality is that the roads of national significance are roads that we believe will add significantly to the capacity for the New Zealand economy to grow in the future, and that’s a rightful thing for a Government to do.

Genter  Please can I have a follow-up question, Mr Chair? I’ve been signalling that I’d like a follow-up question for the past 20 minutes. Could I please have one now?

Brownlee  Maybe he doesn’t know the signal.

Genter  Minister, thank you so much for your presentation, and thank you, Mr Chair. Just on that, I was curious about—the allocation of the GPS, I’ve noted—sorry, so many questions; they’re all coming to me at once.

Bennett  One at a time.

Genter  Yes, I’ve got to ask one at a time.

Brownlee  Why don’t we wait and come back to you!

Genter  About 40 percent of the GPS over the next 10 years is going to the roads of national significance, and you’ve said that you believe that that’s going to be really good for New Zealand’s export economy. I’m wondering what analysis and investigation was done before you identified those projects, to say that those were going to be the best use of money to get the best outcome for the New Zealand economy. I’ve asked a couple of times. I’ve tried to get the documents from the ministry. I’d be really keen to take a look at them.

Brownlee  Well, look, I’m sure that either Mr Matthews or Mr Jackson will want to make a comment, but I just put this to you, though. If you take the southern motorway in Christchurch, which is now under construction, we’ve determined that as a road of national significance. It’s been talked about in Canterbury probably for 20 years. At some point it either had to be a go or a no-go. Now, we decided to push the button on it, and it is well down the track for completion. Since that decision has been made, you’ve seen Fonterra make a decision to build at Darfield what will be the biggest drying plant in New Zealand, and quite possibly one of the biggest in the world. That is going to have to be fed by production from the land, obviously. We couple that up—before we go off on too many tangents—with the work of the Land and Water Forum and the need for better water storage in Canterbury. That’s another issue, but the decision by Fonterra to make that massive investment is not only because they can get rail into Lyttelton but also because they have a very fast, very direct land transport alternative as well.

Genter  Right, but, I mean, wouldn’t any transport project that achieved greater connectivity, whether it was public transport based, or rail based, or road based—wouldn’t all of that have influences on how people make decisions,
businesses and farms, and wouldn’t it be better if we knew that we were choosing the most low-cost alternatives to achieve those benefits of reduced travel time or—

Brownlee What I’m trying to illustrate is that if you do want to have resilient transport systems, you have to have multiple networks, and that’s what we’re building.

Genter So when, for example, earlier you were talking about subsidies for public transport, isn’t it the case that because ratepayers, all of those people, are covering half the cost of local roads—and they carry more than 50 percent of the vehicle kilometres travelled in the country; and out of the total trips, probably less than 5 percent of the trips are actually using the routes that are going to be the roads of national significance—within the roading budget itself there’s massive cross-subsidies between road users driving on local roads, driving around Auckland, to spend money on new capital expenditure on big projects? So in a way, actually, the roads of national significance aren’t user-pays, because we’re collecting the fuel taxes and the road-user charges from local roads and from roads in Auckland, and spending it on projects that are only ever going to be used by a small percentage of the total trips.

Brownlee No, I don’t agree with that. In a network sense, the roads of national significance are much more appropriately funded by users than is the case with public transport.

Genter But how could that be the case? If 50 percent of the vehicle kilometres travelled on any given day are carried by local roads, and 50 percent of those are paid for by ratepayers, then the fuel taxes and the road-user charges being paid by people driving on those local roads are being used to spend on a few new motorways that only carry less than 5 percent of the total trips on a daily basis?

Brownlee Well, it’s the network concept, and local roads are of little use if they don’t have connectivity to other parts of the country.

Genter But the same would be said of the State highway network. You have to get from the farm gate to the State highway network, right?

Brownlee I don’t know.

Genter I mean, the farm isn’t on the State highway, so if you’re putting 40 percent of the money into—the point I’m trying to raise is perhaps your officials could come back to us with some analysis of exactly what percentage of road-user trips are going to be carried by the roads of national significance, because the analysis I’ve done using NZTA data says that it’s less than 5 percent. So it’s actually a kind of cross-subsidy.

Brownlee Julie Anne, I’m sure that they’ll provide whatever they are able, but in the end there is quite a substantial political difference here in our thinking. And our thinking is that the best future for New Zealand and New Zealanders is
to have improved income, and looking at everything, most things that we
would like to do to improve that income, there are people who say: “No,
don’t do it.” The fact is that we are going to see our export industry
improve. The road that I just spoke of has already seen a very big
investment decision made, and go a bit further down to south of Dunsandel
and there is similar investment being made by another dairy company there.
You know, throughout New Zealand where these roads are built you’ll see
these sorts of things occur. It’s a matter of who gets there first. I think this
is a good programme, a very appropriate investment programme for growth
in the economy. Growth in the economy ultimately means New Zealanders
live better.

Bennett Just first to the officials on that request: we’re dealing with estimates going
forward, OK, so policy things around percentages of roads being used by—
we don’t expect you’d be able to answer that to the extent that I think Julie
Anne expects, due to it being a part of an estimates process.

Genter We’ve seen in the 4-year Budget Policy Statement that there’s an anticipated
funding gap between revenue coming in from road-user charges, and the
planned expenditure over the next 10 years. So I’m wondering what the
Minister’s plan is to pay for any funding gaps that arise. Is it going to be
reducing or slowing down expenditure on the land transport programme, or
is it raising fuel taxes and road-user charges, or will it be borrowing or
involving some kind of private investment?

Brownlee Well, the first point is that that forecast is revised quarterly, and so you look
at what is going to happen with those particular revenue streams. One of
the interesting things is that even today we’ve seen the petrol price, diesel
price fall. That would probably have the effect of raising revenue over the
next quarter. The excise is applied at the time that the fuel arrives in New
Zealand. So the frequency with which those deliveries are made is
determined by the demand that’s put on it. The demand will fluctuate—

Genter But isn’t the reason the petrol price is falling is because economic growth is
low and the New Zealand dollar is high, and those are—

Brownlee No, no, believe me, the petrol price is not affected by economic growth in
New Zealand.

Genter No, no, but it is affected globally by the global economic situation, which
will affect growth in New Zealand, and that also—

Brownlee I don’t think that’s the case. The one thing that’s affecting the international
oil price at the moment is the greater security around the supply of it, and
indeed, increased discovery.

Genter Well, that’s not what they said on the radio this morning—the energy
consultant.

Brownlee But you don’t want to listen to Radio New Zealand every morning.
The increased income process for the part of the country that I live in is very much dependent on rail, because most of our export goods from the West Coast go through rail, which Richard Seddon in a far-sighted manner put in in the very early days. It has served us well. I am interested in the comments that you made about the KiwiRail Turnaround. Could you enlarge on that a little, or could your officials just help us as to how that is working out?

I'll get Andrew to make some comments on that. From my perspective, the reports I’ve seen, I’m very happy about that. I think their annual profitability is on the rise, and you’ve got to measure that, of course, against the fact that they’ve had both some loan write-offs and a very big capital commitment going into that business. But I think their focus is in the right place. They do intend to move a lot more freight on the rail, and so far it appears to be on track. But Andrew will make a comment.

I’ve got a few figures here that we’ve got. They’ve got 535 new wagons and over 260 containers, and they’ve upgraded their network. So they’ve already made significant investments. And part of the KiwiRail Turnaround Plan was based upon those that might use it seeing that there were significant investments in the network and the amount of stock, so they’d have confidence to use it, and they are seeing that. And we’re seeing real changes as a consequence. So KiwiRail’s EBITDA—the earnings before interest, tax, depreciation and amortisation—was up by 35 percent on the previous year. So it’s a significant improvement.

What was that 35 percent figure again?

35 percent increase on the previous year—

What’s the dollar figure?

So the freight revenue has gone up from $298.4 million to $330 million in 2011.

What is the EBITDA in dollar terms?

I don’t know the EBITDA in dollar terms. I know the percentage increase.

If the margins are small anyway, going up 35 percent is not going to be much at all. It’s relevant to the capital injections that you’re making to KiwiRail. But carry on with answering Chris’s question and I’ll come back to it.

Chris, are you finished?

Yes. Thanks very much.

Did you have a supplementary?
Little: Yes, just on that, I mean, you say the EBITDA has gone up 35 percent. That’s pretty meaningless in dollar terms, given that there are these planned capital injections into KiwiRail, and the consequence of that is, of course, the return has to be greater by KiwiRail to the Government as the owner and shareholder of it. So I would be interested to know what the margins are looking like and how viable it is that KiwiRail is going to be able to provide the returns to the Government to justify the capital injection that it’s making as part of its turnaround.

Brownlee: I’d just make the first point, which is that the Government picked up and continued the commitment to capital injection. And there were choices at that time because the programme hadn’t started. But in the end you’ve got an asset there that’s worth having a crack at, effectively. Martin Matthews wants to make some comments. We can provide you with the figures we’ve got on that. I think the important point is that you’re raising the question of how is the EBITDA calculated, or what’s factored in—

Little: No, no, what it is, what the dollar value is. Because if the margins are very thin at the moment, and—

Brownlee: They are thin.

Little: Yes. In light of that—and I don’t think there is any question about supporting the ongoing capital injection—the real question is going to be in its current form what the viability of KiwiRail is without ongoing commitments from the Government. That is the question.

Brownlee: In broad terms what we’re trying to do, as the capital commitment programme winds down or comes to its planned final points, the expectation is that coming in the other direction will be the earnings capacity of KiwiRail. There have been some very, very good things, though. Since that programme started, and particularly since the second tranche of it was paid over, a big company like Freightways, for example, without a particularly strong contract with KiwiRail, has built on their own land down on the port facility here a very big cargo-handling terminal, demonstrating that they’ve got a total interlink now with KiwiRail’s capacity to move freight from Auckland to Picton, across the strait, and into Wellington, where you can distribute to the lower North Island, or—I’m getting myself mixed up—go across the strait and head into the South Island. So seeing a sort of an increase in that type of liaison with people, I think, is very, very strong—very positive, I should say. In some cases, though, you’ve got to be careful that the capital injection into KiwiRail doesn’t end up effectively being a subsidy on the business operations of the private sector. And that’s a bit of a balancing act.

Little: I suppose what I’m getting to is I wonder if that can be avoided. One more question: the asset write-offs that were foreshadowed by KiwiRail last year, I think, how much of that relates to the workshops that are in Dunedin or Woburn, because of the loss of engineering capability?
Brownlee: I don’t know if anyone else here can answer that. I can’t, but what I can say is that in the case of Hillside there’s been the request for proposal for who might like to take it over. They have been remarkably encouraging, because those old workshops have gear in them that, you know, you can’t find easily anywhere else. So their applications beyond just the servicing of a rail network is quite considerable. So we’re pretty optimistic about what’s going to happen there.

Little: More’s the pity for losing that.

Brownlee: Except, to be fair, if you’re going into a different sort of casting operation that’s not related to your rail, there’s a question about whether you should be in it. If we’re trying to get KiwiRail to be a commercial entity, then they do have to stick to core business, and some of, as I say, the gear, the equipment, and the processes that you can achieve in those workshops is not particularly applicable to a rail network these days.

Twyford: Regional rail, and a couple of questions that are really about what I think is a sort of fragmentation of our transport system, and really asking whether we are getting good, rational decisions that are in the interests of the whole transport system and the whole community. The first is about the Capital Connection. You’ll know that the effect of one of metro rail’s services competing with the Capital Connection coming through Waikanae—taking Waikanae passengers off the Capital Connection, and pushing it over the limit of into sort of non-viability. That seems to me to be a crazy situation where you’ve got two publicly owned transport providers, KiwiRail and metro rail, competing against each other on one commuter service, and the effect of it is to make the Capital Connection unviable economically. And NZTA seems unable to do anything about that. It seems unable to either fund it, even though it funds other commuter rail services, and, worse than that, it seems unable to get the parties around the table to try to work out a cooperative solution that would allow the Capital Connection to keep operating. Doesn’t that seem crazy to you?

Brownlee: Well, the hard numbers are that the total subsidies on that line, the Capital Connection, for individual commutes works out about $2,770-something a year per passenger. So it’s very significant. I’m not fully aware of why that has never really flown as a commuter service, but the case that you’re outlining would suggest to me that there is a big case for some very severe local government amalgamation here in the lower North Island. Clearly, you wouldn’t get that sort of competition if everyone, as you say, was at the table.

Twyford: But this is the failure of KiwiRail, and NZTA, and the metro rail service, so it’s local government, central government, and KiwiRail. Why can’t you get them around the table to work out a solution that would keep that service running?
Brownlee: What you’re saying is that KiwiRail should divert a lot of the time that we’ve got them trying to put into becoming more commercial into flogging what looks like to be a pretty dead horse to me. How you get people to get on a train and go from Palmerston North to Wellington, I don’t know what more can be done.

Twyford: The other example that I think is interesting at the moment is the Gisborne to Napier rail line. KiwiRail seems to be agonising over spending, I think, what is reported as a maximum of $4 million to reopen the line, and yet the Waioeka Gorge doesn’t seem to be subject to anything like the same level of agony. NZTA plunged right into reopening the gorge road, and the published estimates seem to be between $6 million and $10 million to reopen the line. Now, isn’t this an obvious example of the double standard between rail and road?

Brownlee: No, I don’t think so.

Twyford: Why?

Brownlee: The roads—this is the Manawatū Gorge you’re talking about.

Twyford: No. The Waioeka Gorge.

Brownlee: Waioeka Gorge, OK. Well, I’m not sure what the volumes are on that. I don’t have them off the top of my head. But in the case of the Gisborne railway line, there’s been no rushing to a decision there. I’ve asked for all of the inputs that should be considered going forward on that. So if you say, well, if you close the railway line—firstly, could the railway line be more viable than it is at the moment? Because it’s a loss-maker for KiwiRail. The question then was if KiwiRail ran the 3-metre high, high-volume containers, then things would look a lot better. KiwiRail was running them for 2 months prior to the event, and there was a lot more volume going in it. What I can’t see is a picture of that volume increasing beyond where it had got to.

Now, there’ll be those who argue that that is the case, but that requires those who are arguing to change their current business plans and take transport, for some months of the year at least, off the road, indicating that it’s not an annual increase, it’s going to be a seasonal one. So there are those sort of things that you have to consider. Outside of that, we’re also considering the accessibility of that part of the country as well. And then the repair job, if it was—I think they’ve actually said somewhere between $4 million and $5 million. I don’t see that as huge to get it open, but to keep it open, because it’s still got to be subject to the same sort of potential weather conditions, there would be a much more substantial capital investment required to protect that rail line.

Twyford: But why is it taking so long to make that decision?
Well, I'll have to tell you quite bluntly that all the information paints a bleak picture for the future of the line, and what I'm doing is making sure that we don't miss anything on the way through. So it's not a matter of trying to prolong it or otherwise; it's just that I want to be absolutely certain that when we get to a position, it is a completely defendable position.

Moving from local to international, I was very interested to hear from your presentation about the increasing numbers visiting. I think China was 57 percent and Japan was 46 percent. I think it's really important for our country in terms of tourism numbers, and trade, and whatever, but I'm interested—what is this open skies? I don't know what the Government is actually doing, but what are we doing to increase the international market?

Open skies is basically just a statement that we welcome airlines coming to New Zealand and bringing their passengers with them, obviously. There's a schedule of rights that you can have. So you can either just go from one place to the other, and that's, what do they call it, the first schedule, you might say—the first freedom, that's right. Freedoms of landing. Then you can have an arrangement where you can fly from your country into another country, and then on to another one. Then you can have arrangements where you may not be domiciled in a country but you can fly from that country to another country, or from that country to another country and another country, and so on. So they have this schedule of freedoms that are out there. We take the view that actually we're pretty open to whatever arrangements people might want to put in front of us, and enter negotiations on that basis.

At the moment we've have concluded negotiations with China and Japan. We're in negotiations with Brazil and Colombia—Colombia, is that a good one? We've got Viet Nam, Thailand, Indonesia, Brazil, Argentina, Peru, and Uruguay also in the mix. We see New Zealand's position relative to China and South America as being very, very interesting. What we're told is that if you fly from, say, Beijing, if you fly west and go through London, down through the United States and into Sao Paulo or somewhere, or even if you can go direct—I don't think you can, I think it's a bit far—once you go into the United States the border issues are so great that your inconvenience around travel takes out a lot of time. So a flight between Beijing—or Shanghai—Auckland, and Sao Paulo is around about 6 hours shorter than it would be going through the United States.

Thank you very much, members. We've come to time now. Thank you very much, Minister. We appreciate your time, and your officials' time. Thank you.

Thank you very much for the opportunity to be here.

conclusion of evidence
2012/13 Estimates for Vote Treaty Negotiations

Report of the Māori Affairs Committee

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Vote Treaty Negotiations

Recommendation

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Treaty Negotiations as set out in Parliamentary Paper B.5, administered by the Ministry of Justice, be accepted.

Our approach, our membership, the evidence and advice received, and a transcript of our hearing of evidence are contained in the appendices to this report.
Appendix A

Approach to this examination
We met on 18 July 2012 to consider Vote Treaty Negotiations. Evidence was heard from the Minister of Treaty Negotiations, Hon Christopher Finlayson, and the Office of Treaty Settlements, and advice received from the Office of the Auditor-General.

Committee members
Hon Tau Henare (Chairperson)
Te Ururoa Flavell
Hone Harawira
Brendan Horan
Hon Parekura Horomia
Katrina Shanks
Rino Tirikatene
Metiria Turei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Evidence and advice received
We considered the following evidence and advice during this examination:

Briefing paper, prepared by committee staff, dated 25 June 2012.

Office of the Auditor-General, Briefing on Vote Treaty Negotiations, received 27 June 2012.

Minister of Treaty Negotiations, Response to standard Estimates questionnaire.
Appendix B

Corrected transcript of hearing of evidence 18 July 2012

Members
Hon Tau Henare (Chairperson)
Hone Harawira
Brendan Horan
Hon Parekura Horomia
Denise Roche
Katrina Shanks
Rino Tirakatene
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Witness
Hon Christopher Finlayson, Minister for Treaty of Waitangi Negotiations

Henare
Minister, it is lovely to see you again on such a beautiful morning. Thank you for bringing the weather. You know the rules. I don’t know—how long have we got? One hour. So it’s all yours, and we may or may not ask questions after this.

Finlayson
At this time, of course, we think of Georgina’s loss. Rino, you mentioned to me yesterday, in a few days it’s the first anniversary of Whetu’s passing, and I would be very grateful if you would pass on to Denis and the family my best wishes. There are so many others that we need to recall at this time.

But I want to begin by thanking this committee for the wonderful work you’ve done over the last few years. The work output of this select committee, I think, would be greater than for any other select committee. You’re dealing with technical, sometimes difficult, pieces of legislation, and the way in which there’s multi-partisan cooperation—and I include, Brendan, your party in this, and Denise—is greatly appreciated, because with the changes to the Standing Orders and the way that we can get the legislation through the House without shortcuts is of huge significance to the iwi with whom I deal, and it enables them to move into the post-
settlement stage that much quicker. So tomorrow, of course, we’ve got another example of it, but I publicly thank you for the huge role that you are playing in settling these historical claims.

Let me begin by saying that the 2014 goal is aspirational. It was never a deadline. It is sometimes said to be a deadline; that is wrong. You cannot have deadlines in this important work of Government, but it is aspirational, and it reflects the Government’s commitment to iwi, hapū, and whānau to deal with these claims justly, and to effect just and durable settlements as quickly as possible. And we are committed to maintaining that momentum, because of the huge benefits that settlements bring to iwi. Of course, there are economic benefits; they are there for folk to see, but also helpful, strong cultural and social benefits.

So, for example, I think the record of administrations over the years of giving effect to settlements has had a very good effect, for example, on regional development. If you take Ngā Rauru Kitahi o Taranaki, they signed a deed of settlement, and they have increased their $31 million financial redress to $43 million. Ngāi Tahu signed their deed of settlement in November 1997, legislated for in 1998, $170 million, now $600 million in assets. I remember that day in Kaikoura. Never would I have imagined in 1997 the hugely significant role that that iwi is playing in the rebuilding of Christchurch, for example, and Nicky Wagner and Rino would know more about that than I would. Tainui have grown their asset base from $170 million to about $650 million, providing dividends to the iwi of around $10 million a year, and providing employment to a large number of people, over 1,300 employees at the retail development, The Base. I could go on and on, but they are just examples of the way in which iwi have seized on settlements, have grown their asset bases, and are doing great things all around the country. So they bring benefits to all New Zealanders, and that is why people want settlements just as quickly as possible. It doesn’t matter where the negotiations take place. Last week I was out visiting Chatham and Pitt, and there’s a real desire on the part of Ngāti Mūtunga and Moriori to get their settlement. They recognise the benefits to those islands of just and durable settlements.

Achieving those goals is going to be hard and challenging. I’m running a negotiations process not a German railway, and you can’t say that things will be done at a particular time. Things that will complicate it will, of course, be litigation. Probably most of you are aware of the decision of the High Court; Justice Clifford released his decision, for example, in the Wakatū litigation just a couple of weeks ago. I have actually signed deeds of settlement with Kurahaupō iwi. I’ve initialled the deeds of settlement with the Tainui-Taranaki iwi, but I’m not in a position to sign those until that litigation is concluded. The Crown won in the High Court. We’re waiting for the expiry of the appeal period to determine whether we can move ahead. But if we can, then the benefits to the northern South Island are enormous, and the benefits to this committee will be enormous too, because you’ll be receiving a 433-page bill.
There is a lot of public scrutiny, but success depends on everyone working together as a whole, Government departments working together as a whole. I acknowledge the work of various Government departments—for example, the Department of Conservation. They are working very positively with the Office of Treaty Settlements. Other departments are adopting a “we’re all in this together” kind of approach to get on with things and, of course, I have already mentioned the huge, important role of the Parliament in all of this. So I am keen in the next 12 months to maintain this momentum. There’s a lot of work that is, if you like, 80 to 90 percent there, and it is, without being disrespectful, wanting to close the deals, get the deeds over the line, get them legislated.

Over the next 12 months there is going to be a real focus on Tāmaki Mākaurau. I am very pleased with the fact that every iwi has now initialled the collective deed, which deals with the maunga, and that’s quite an exciting co-governance regime, which is going to be introduced there. We’ve signed deeds of settlement with Ngāti Whātu o Ōrakei. You are just about ready to send that back to the House. Ngāti Manuhiri, the same—

Henare  That’s on the agenda.

Finlayson  Oh, well done. Well, I’ll be short. Get on with it! Ngāti Whātu o Kaipara is another example. So there’s really good work being done in the Tāmaki, and I pay tribute to the team at OTS and to Mike Dreaver, the chief Crown negotiator. A couple of weeks ago the second big push is in the Tauranga area. I’ve signed a deed of settlement on behalf of the Crown with Ngāti Ranginui. We’re progressing the Tauranga Moana negotiations. Of course, Ngāi Te Rangi, Ngāti Pūkenga are also in negotiations. I went to Owae marae at Waitara in 2009 and said how good it would be if we could get negotiations with Te Atiawa, Taranaki, and Ngā Ruahine under way. I went back a year later and on the 150th anniversary of the start of the land wars signed terms of negotiation with Taranaki and Te Atiawa. We are now heavily involved in negotiations with those iwi, and that’s a real priority for me. We’re heavily involved in negotiations with Ngāi Tūhoe, and with Whanganui. Fifty years ago there was the great Whanganui River case in the Court of Appeal, and it’s high time that that was settled. Te Tokutoru, Rangitāne o Manawatu, Ngāti Korokī Kahukura. I was in Rotorua just a few days ago dealing with cap issues in the CNI. So I’m involved in a great number of negotiations. More and more people are keen to get involved in negotiations. Ngāti Maniapoto can’t wait to get going, Tūwharetoa—so there’s a lot of work on, and I hope to keep you a very busy select committee.

As well as that, I’m dealing with issues that smooth the process. The land bank issues remain large, but I am pleased to report to the committee that very positive progress has been made in the last couple of years. I’m mindful of the fact that there was that programme on television a year or two back, for example, on Tokanui hospital. I’m keen to move on that. I actually went and visited Tokanui hospital, and if we completed the
demolition of those buildings, Ngāti Maniapoto could even just rent the properties on a peppercorn rental, for all I care. There are two dairy farms there, beautiful land, and there’s enough room for two dairy farms. So if we could deal with those sorts of issues and get assets to iwi who are in negotiation. I don’t care if they get them early, on a rental basis, until the settlements are completed so that they can start to use them for their own benefit. I’m also doing a lot of work on the structures, post-settlement governance entities. To my way of thinking, often there are far too many interminable pettifogging debates on matters of detail about “Well, can we have a charitable trust, or can we have it in an incorporated society?”.

Government’s policy on those matters is very clear, and I aim to encourage people to cut through a lot of the legal stuff, cut to the chase: this is the Government policy, this is why it is, and try to cut down a lot of that unnecessary, interminable debating so that folk can form their PSGEs sooner rather than later. So once again, thank you for the tremendous work you’re doing. I expect that there will be a very busy few months ahead of me, and I’m very happy to answer any questions.

I omitted to say that a number of my colleagues from the Office of Treaty Settlements are here. To my right is Mr Galvin, who took over from Paul James. He is the Director of the Office of Treaty Settlements, and other staff are supporting me, should your incisive questions get too difficult.

Henare Can I welcome the New Zealand Business and Parliament Trust. Those are the people who have specifically come to watch Minister Finlayson—all his groupies. Any questions?

Upston Morena, Minister. Obviously, having been quite close to a settlement in my own electorate with Raukawa, you see first hand just how important it is to the iwi to get the process through. I appreciate all the comments that you’ve made about how big the job is, and that it’s an aspirational goal, not a deadline. What are some of the other ways that that process can be sped up in terms of getting through more? I know you’ve mentioned some, such as the land bank, but are there other areas that you and your team are working on so that we can kind of get a few more through?

Finlayson Yes, well I think that’s an excellent question, and the immediate one that comes to mind is earlier engagement on overlapping claims. Contrary to what some people might think—well, you of course would know this—you can’t draw lines in the sand; iwi aren’t hermetically sealed behind particular boundaries. There’ll always be overlapping claims. We initialled, actually, with Ngāti Raukawa in October or November last year, but dealing with the overlapping claims with Waikato Tainui, Ngāti Korokī Kahukura, some of the Tauranga iwi, Maniapoto, coming down to Tūwharetoa, that took much longer than I expected, and so I think one lesson of the Raukawa negotiation is early and solid engagement. Often it has to be done iwi, iwi, and the Crown can’t get in the way. But I see resolution of overlapping claims as something that if we get on to a bit more efficiently in the future,
some of the delays may not be quite as bad as they were in that case. And I think Raukawa did acknowledge that, as well.

Horomia  Kia ora, Minister. Can I commend you on all your effort being around you, some of those settlements, and welcome to Galvin and co. It’s been a great—

Henare  Sounds like a law firm.

Horomia  The relativity clause, Minister. There are funds put aside in 2011 of $133 million. It seems to be way off from the expectation. Are there any other imaginative ways like the use of assets of one of ours to top that up, or is there a move towards—well, I suppose the iwi may realise as a reasonable offer, because they’re both high performance, as you see, they’ve jumped from where they started to where they are now. What’s the process, and where are we at with the relativity clause?

Finlayson  Well, the clauses are there, and I think the best thing to do is to play with a straight bat when they’re triggered. It should be borne in mind, and it’s often not borne in mind, just what the rationale for them was, all those years ago, when Waikato-Tainui was, as it were, first out of the blocks. At that time, of course, there was the fiscal cap and the billion dollars in 1994—was it?

Galvin  Yes.

Finlayson  And they said: “Right, well, we’re prepared to settle, and their share was 17 percent of the $1 billion, and if it went over that, then they were to be recompensed. And the same applied to the Ngāi Tahu deed. They were second, as it were, out of the blocks. So as settlements have been occurring, the 1994 $1 billion mark gets ever closer, and I think I said last year it would be triggered very soon, and that remains the case. And then, I think, the Government acts according to the contract. We are talking to those iwi and I wouldn’t want to disclose too much, if anything, quite frankly, about what we are talking about, but that would hardly be the most earth-shattering piece of news known to man or woman.

Horomia  Just one more from me. Can you elaborate on your statement in relation to PSGEs and the structures after the settlement, because it is an area of interest, and there is a lot of shenanigans unnecessarily going on, and I’d just like to—

Finlayson  Yeah, well, a lot of people try to debate, for example, well, should we have a charitable trust. But with charitable trusts, they have to be, obviously, for charitable, well-established purposes, and then ultimately if the trust was wound up, it wouldn’t go to members, it would go to charitable purposes. So Governments of various hues over the years have said no, as if that kind of PSGE is unsatisfactory. With companies and with incorporated societies there are issues of the membership of them, and of course it may not necessarily fit in with the membership of an iwi. And so we’ve settled on a
particular form of post-governance entity, which we believe satisfies the aims of transparency and making sure that all members of the iwi are beneficiaries. So, with the greatest of respect, lawyers can come and raise the fanciest arguments they like, at $400 an hour, but it’s not going to get very—I beg your pardon?

Horomia $680.

Finlayson $680. Well, it’s gone up since I practised. I was never an over-charger. But, you know, I think that—[Interruption] But those kinds of hourly rates, arguing stuff that’s never going to be accepted, let me say publicly, it’s a monumental waste of time. And it doesn’t do the beneficiaries of the iwi—and they’re the ones, frankly, I’m more concerned about than monthly targets for various law firms—it doesn’t do them any good.

Shanks I would like to talk about the land bank for a moment. I think for the first time in a long time we’ve seen the land bank properties being managed really well. What’s the process you go through when a something goes into a land bank? Obviously, there’s been quite a big change.

Finlayson Yes, well, take for example—Mr Young sitting next to you has more than a passing interest in this particular one.—some years ago decisions were made, I think by the previous Government, to close schools in rural Taranaki, a number of them. So a decision was made, they were looked at, would they qualify for inclusion in the land bank, and so those properties were land-banked, bearing in mind that the iwi within whose rohe those schools are, Taranaki, and Ngā Ruahine around the coast, don’t have a lot of land in the land bank available for commercial settlement with them. So they go into the land bank. The passage of time means that the properties start to rot and get into a very bad state, and so, frankly, it’s insulting to iwi that we say: ‘Well, there’s that property available to you,”—riddled with asbestos, riddles with rats, in a very bad state. And so, for example, what we’ve done in Whanganui is there were houses empty. There was a property that could be used by the iwi for a gymnasium. I took the attitude “Well, take it now. Pay some rent. It’s all going to be sorted out in the wash.” But it’s only when you go to a place like Tokanui hospital, just south of Otorohanga on the way to the coast, that you just see what an almighty mess was left. It was like the Marie Celeste. There are beds still there. Just walked out. It’s as though people just got up and walked out. And so those sorts of things really do need to be dealt with fairly rigorously, and so that’s the way in which you do it. But I’m all in favour, particularly if iwi have their PSGEs, and provided they’re not railroaded or seen to be railroaded into making early decisions, because sometimes people aren’t, but if they want to, to make an early decision, get the properties, and they can, as I say, pay a peppercorn rental and we can sort it out later on.

Wall Kia ora, Mr Chair, Thank you, Minister. I actually want to start by saying it’s been a pleasure to be a permanent member of this select committee, and I just want to thank you for the leadership that you’ve shown in terms of the
whole Treaty settlement area. I think the narrative that you’ve talked about this morning is a really positive one in terms of our country and moving forward. Unfortunately, I don’t think we necessarily have that view in our society, but it’s been really good working with you and the team, and I want to thank the staff as well.

I guess, what I want to bring up is just about the numbers, really. So we’re saying 2014 isn’t realistic for full and final settlement, I guess. When will that be? What are the actual numbers of settlements that need to be resolved before this whole area is finished? And then we can look at post treaty—the relationship that the Crown has with Māori.

Finlayson Yes, I would say there are about another 60. I believe, and this is not a deadline, that if we all do our bit, then all iwi who are willing and able to should have agreements in principle by 2014. Now, moving from an agreement in principle to deed of settlement, admittedly, can take some time—sometimes it takes far too long—and then legislation taking over after that. But I would have thought there will be some people who, frankly, don’t want to settle. They just don’t believing in the system. That’s fine—respect their position, disagree with it, but that’s fine; leave them to it. And there are one or two challenges out there. You would hear on the news from time to time about Ngā Puhi, which presents particular, shall we say, interesting challenges, but I have to say—

Henare Be careful.

Finlayson I was just about to interpolate, and say your brother-in-law is doing God’s work. But that’s my firm belief—that knowing what I know about where people are and where they want to be, that’s what I consider to be a realistic, mature assessment of the position.

Tirakatene Kia ora, Minister. I’d just like to endorse all the remarks from my colleagues here in terms of your work, and also in terms of Te Tai Tonga, progress with the top of the South, Chatham Islands, and here in Wellington, so I commend you for all your work. My question is in relation to the loan funding that Ngāti Whātua is getting as part of their settlement, which is like a new appropriation. Is this type of feature going to be repeated in terms of future settlements? So I guess in the past it’s been the Crown transferring assets to iwi, and now it’s changing around, where the Crown’s lending money to iwi to purchase Crown assets back. I’m just wanting to get a bit more background as to why this type of transactional type of arrangement, and what’s going to happen in the future?

Finlayson Excellent question. It’s not something that I’d necessarily—it’s not to say that it’s unorthodox, but it’s not orthodox, if you see the distinction. What happened there, and some history is needed, is that that iwi had signed an agreement in principle with the Crown in 2006, and then there was a flurry of activity in the tribunal, and then a new way of looking at Tāmaki was reached in 2009, and so this was seen to be, in this instance, the best way to
help Ngāti Whātua over the line with its deed of settlement. But I wouldn’t see that kind of mechanism being used—one never says never—but I wouldn’t preclude it again, but I would think it highly unlikely. There are more orthodox ways of doing it.

Young Minister, I wonder if you can give us an update on the Marine and Coastal Area (Takutai Moana) Act?

Finlayson Yes, I had some very interesting news last week that the citizens initiated referendum petition had failed. They said they were 50,000 short. I thought that would make a very good Tui advertisement, frankly. I think they were a lot more than that. In fact, as I said, I think they had more excuses than they had signatures. So that is now behind us. I actually think that we are now moving to a position. I have particular moral obligations to Ngāti Porou, you’ll be pleased to know, because their legislation has been wallowing at the end of the Order Paper for some years. In an act of sort of statesmanship you’d expect from Apirana Mahuika, he said: “Right, while the review’s taking place we’ll have a look at it, we’ll wait.” So I’m negotiating with them at the moment. Ngāti Pāhauwera were another group that were prepared to stand to one side. They have their deed of historical settlement, but starting to talk to them as well.

And so what we’re doing is that a lot of work is going in to providing chapter and verse of the sorts of things that iwi, or the relevant claimant group—it’s not just iwi—may be expected to show. If it’s possible to negotiate, fine, otherwise it’s a case of “see you in court”. A lot of hue and cry was made by various people about sneaky behind-the-doors deals with dangerously pro-iwi Ministers, and all that sort of tripe. The reality of the matter is that in any litigation situation the right of the people to go to court is there, but if there can be a negotiation to shorten litigation, or stop litigation, of course that can happen. So we’re just batting that through now. It’s not the end of the world. I think we’ve reached a good space, and I’m looking forward, particularly with Ngāti Porou, to concluding a deal, because they have been very statesmanlike, and they’ve been waiting a long time.

Wall I’ve just got one more question, and it is specifically about what happened in the Ngāti Whātua settlement. But I just wondered, the conversations between the Crown and local governments about land and possible land that can be used in the settlement process, is that an area that the OTS is looking at?

Finlayson Yes, I’ve always, particularly when dealing with co-governance regimes over rivers, for example, and natural resources, adopted an approach of early engagement. Regional councils and district councils have been very good, actually. I was a bit surprised at the way that all panned out, because I think people may have possibly turned Nelsonian eyes to it for whatever political reason, but I think we’ve got to a pretty good space now. There was a misreading of the judgment of Justice Anderson in relation to the Narrow
Neck land, but, look, I think we've got to a pretty good space, and I think people are increasingly realising that it's not going to be the end of the world. I faced down a pretty fiery meeting in Devonport. It shocked me really. I thought they were so placid, but there we go. I think they'll find that a world-class city like Auckland needs iwi like Ngāti Whātua working with them.

Wagner  Just going back to the Marine and Coastal Area Act, at a practical level, how is that fitting in with the Office of Treaty Settlements managing the administration and—

Finlayson  Well, the unit is now part of the Office of Treaty Settlements. Let me give you an example—there are no secrets. Ngāti Maniapoto are very keen, and I hope in 2013 to begin negotiations over their historic grievances with them. But they will also want to raise some marine and coastal issues at that time. So they could be an example of one where their agreement is a composite marine and coastal and historical one. Take Ngāti Porou, for example. We signed the deal with Ngāti Porou at the end of 2010. Their marine and coastal negotiation now follows, so it’s a sequential one. In the far north, with Te Hiku, Te Rarawa, of course we’re getting very close to signing the deed. It’s been initialled. I would expect that their marine and coastal one will follow on at some stage. They too have been waiting for some time.

Wagner  Working well?

Finlayson  I’m sure there’ll be the occasional hiccup. It’s in the nature of things that there will be, but I think it will sort itself out.

Henare  On that note, Minister, it is the highlight of our year, getting you along, and we look forward to working with you over the next 12 months, and seeing you in 12 months’ time. Thank you very much.

**Conclusion of evidence**
2012/13 Estimates for Vote Veterans' Affairs—Defence Force, and Vote Veterans' Affairs—Social Development

Report of the Foreign Affairs, Defence and Trade Committee

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Vote Veterans’ Affairs—Defence Force, and Vote Veterans’ Affairs—Social Development

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2013 for Vote Veterans’ Affairs—Defence Force, administered by the New Zealand Defence Force, and Vote Veterans’ Affairs—Social Development, administered by the Ministry of Social Development, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Veterans’ Affairs—Defence Force in 2012/13 decrease slightly to $157.293 million from the previous year’s estimated spending of $161.298 million, largely because fewer veterans are receiving a War Disablement Pension. The appropriations sought for Veterans’ Affairs—Social Development in 2012/13 total $172.152 million, against the 2011/12 estimated spending $176.933 million. Most of this vote is for the payment and processing of veterans’ pensions, so will decrease as the population of veterans declines.

War Disablement Pension coverage

Vote Veterans’ Affairs—Defence Force includes $4.9 million1 of new funding to extend pension coverage to veterans of ten additional military deployments, entitling an estimated 1,097 veterans who served in the Middle East, Africa, South-East Asia and other regions since 1979 to a War Disablement Pension for any resultant disability.

Commemorations

The Minister of Veterans’ Affairs outlined the support available from Veterans’ Affairs New Zealand to help veterans attend commemorations of conflicts in which they had participated. Recent events attended by veterans with Government assistance include Anzac Day services at Gallipoli, commemorations of the 70th anniversary of the Battle of Singapore, and the recent unveiling of a memorial in London to the aircrews of Bomber Command. A delegation of 32 Royal New Zealand Air Force veterans who travelled to the Bomber Command commemoration on an RNZAF aircraft were fully funded and assisted by Veterans’ Affairs.

We asked why Veterans’ Affairs did not extend financial support for Royal Air Force veterans who are now resident in New Zealand to attend the Bomber Command memorial unveiling. The Minister told us travel support to London had been limited to veterans who had served in the RNZAF, and noted that veterans who had served with other countries

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would be able to attend services in New Zealand commemorating the service of Bomber Command aircrews.

The 70th anniversary of the Battle of El Alamein is approaching, and we expressed concern about the safety of New Zealanders attending commemorations in Egypt. The Minister told us that he was aware of the potential risks, and the Ministry of Foreign Affairs and Trade has been assessing the security situation and assisting Veterans’ Affairs with planning for New Zealand’s involvement in the commemorations. While there are some concerns about the logistics of staging a large commemoration ceremony in the small town of El Alamein, the Minister said that Veterans’ Affairs is aware of the challenges and has planned accordingly. Accommodation has already been booked for the veterans and support staff who are attending.

The Minister said that MFAT could still advise cancelling the veterans’ travel if there are safety issues. The New Zealand Police and the national security planning team from the Department of the Prime Minister and Cabinet are also monitoring the security situation.

We asked if the planned cuts to military bands would affect future commemorations. The Minister told us that ceremonies that had already been planned would not be affected.

**Processing of claims**

The Minister told us that Veterans’ Affairs had achieved a dramatic improvement in its service since 2008. This was achieved by various means. Veterans can call a specialised enquiry line, which last year received 52,000 calls. Veterans’ Affairs has also improved its communication with veterans. Case managers now work in the community, and meet individual veterans regularly. We were pleased to hear that surveys of veterans indicate a high level of satisfaction with the service delivered by Veterans’ Affairs.

The claims process for services, entitlements, and benefits to veterans has been streamlined, eliminating a backlog of nearly 12,000 claims and reducing waiting times for claims processing from six months to two months. We asked if the waiting time could be improved further, but were told that external factors such as waiting for medical assessments contributed to the current delays. The Minister hopes that a planned upgrade of the organisation’s information technology system will streamline the claims process further.

**Review of War Pensions Act**

The Law Commission reviewed the War Pensions Act 1954 and published a report on its findings in June 2010. The report made 170 recommendations and proposed changes to the pensions system, including support for veterans who cannot work because of service-related injuries, wider eligibility for the Veteran’s Pension and Surviving Spouse Pension, and more support for the families of New Zealand Defence Force personnel and veterans. We asked why the Government’s response to the report was taking so long, and heard that the Government is still reviewing the report and costing the recommended changes. The Minister told us that this is a long process as up to 12 government departments could be affected, and the proposed changes are likely to require new legislation. We hope the Government’s response to the review of the Act is completed soon.
2012/13 ESTIMATES FOR VOTE VETERANS’ AFFAIRS

Returned and Services’ Association

We were interested in Veterans’ Affairs’ relationship with the Royal New Zealand Returned and Services’ Association. In 2008, Veterans’ Affairs made a one-off appropriation to the RSA of $1 million, which was paid out in four instalments. The RSA used the funding for its welfare work with veterans, offering assistance and support in the community. Veterans’ Affairs works with the RSA to ensure that it gives veterans accurate advice and information regarding their entitlement to Government support.
Appendix

Approach to this examination

We met on 28 June and 19 July 2012 to consider Vote Veterans’ Affairs—Defence Force and Vote Veterans’ Affairs—Social Development. Evidence was heard from the Minister of Veterans’ Affairs, Hon Nathan Guy, Veterans’ Affairs New Zealand, and the Ministry of Social Development. Advice was received from the Office of the Auditor-General.

Committee members

John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
Su’a William Sio
Lindsay Tisch

Evidence and advice received

We considered the following evidence and advice during this examination:

Vote Veterans’ Affairs—Defence Force

Office of the Auditor-General, Briefing on Vote Veterans’ Affairs—Defence Force, received 28 June 2012.

Minister of Veterans’ Affairs, Response to standard Estimates questionnaire.

Minister of Veterans’ Affairs, response to additional questions, received 16 July 2012.

Vote Veterans’ Affairs—Social Development

Office of the Auditor-General, Briefing on Vote Veterans’ Affairs—Social Development, received 28 June 2012.

Minister of Veterans’ Affairs, Response to standard Estimates questionnaire.

Minister of Defence, response to additional questions, received 16 July 2012.

Vote briefing paper, prepared by committee staff, dated 12 June 2012.
The Government Administration Committee has examined the 2012/13 Estimates for Vote Women’s Affairs and recommends that the appropriations in respect of Vote Women’s Affairs for the year ending 30 June 2013, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson